I-69 Section 5: Bloomington to Martinsville

Initial Financial Plan 2013 - DRAFT

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Submitted to:
Federal Highway Administration

Submitted by:
Indiana Department of Transportation

In conjunction with:
Indiana Finance Authority

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Chapter 1. Introduction

INTRODUCTION

This document presents the Initial Financial Plan (IFP) for Section 5 of the I-69 Project (the Project or the I-69 Project), including current cost estimates, expenditure data through State Fiscal Year (SFY) 2013, the current schedule for delivering the Project, and the financial analyses developed for the Project. This IFP has been prepared generally in accordance with FHWA's Financial Plans Guidance.

PROJECT OVERVIEW

The I-69 Evansville to Indianapolis corridor received a Tier 1 Record of Decision in 2004 which divided the 142 mile corridor into six sections of independent utility. Section 5 of the I-69 corridor follows SR 37 extending from southwest of Bloomington near Victor Pike to SR 39, south of Martinsville, Indiana. I-69 Section 5 (the Project) utilizes SR 37, currently a partially access controlled four-lane divided highway, to be improved to a fully access controlled freeway. The Indiana Department of Transportation (INDOT) prepared and the Federal Highway Administration (FHWA) approved the I-69 Section 5 Tier 2 Final Environmental Impact Statement (FEIS) and the Record of Decision selecting refined preferred alternative 8 for the Project. Refined preferred alternative 8 provides for construction of an urban six-lane section from the southern terminus of the Project, south of the Fullerton Pike interchange, to the Sample Road Interchange. I-69 north of Sample Road Interchange will follow a rural 4-lane section to the northern project terminus.

PROJECT SPONSOR

The State of Indiana is the Project Sponsor for Section 5 of the I-69 Project. The project will be procured and managed by a partnership between the Indiana Finance Authority (IFA) and the Indiana Department of Transportation (INDOT).

PROJECT DETAIL

The Project begins at State Road 37 in Bloomington, IN and extends north approximately 21 miles to SR 39 in Martinsville, IN. The Project extends through Monroe and Morgan Counties, Indiana, with the majority of the Project being in Monroe County. The purpose of the Project, as well as the broader I-69 project, is to strengthen the transportation network in the State, support economic development in the region and complete the portion of the broader I-69 project between Evansville and Indianapolis.

PROJECT APPROACH

INDOT plans to develop I-69 Section 5 as a Public-Private Partnership (P3) project. The project sponsors (IFA and INDOT) will solicit proposals for the design, build, finance, operation and maintenance of the Project. This financial plan reflects the costs as estimated in the August 2013 Cost Estimate Review (with an adjustment for utility estimates January, 2014) and will be updated with the bids of the selected developer after financial close.

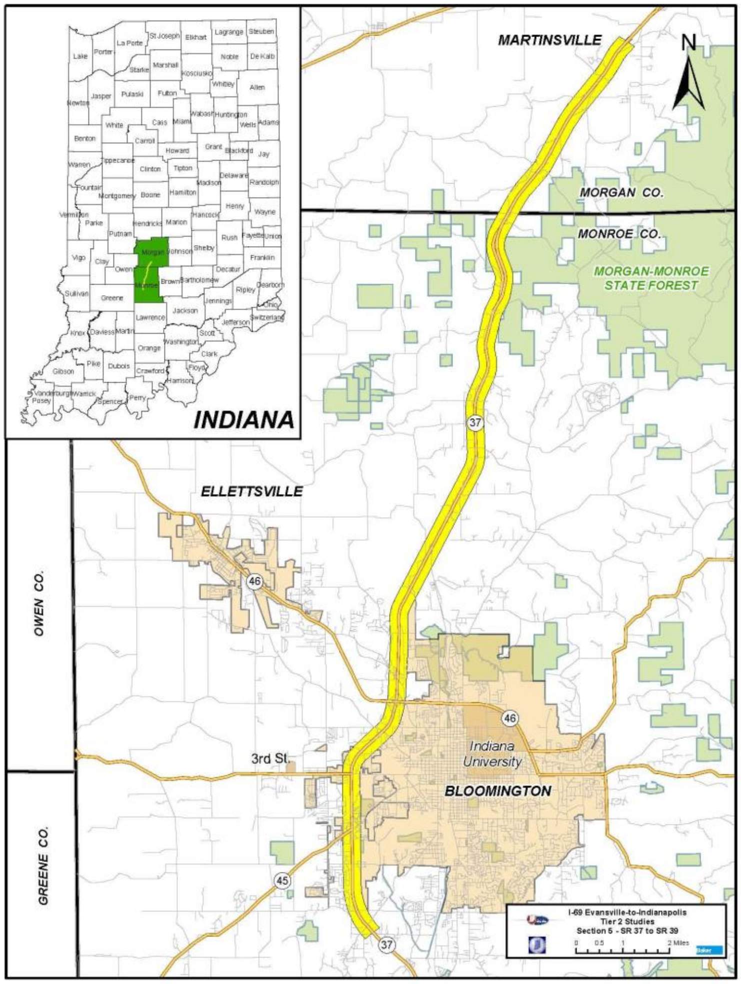

Figure 1-1 – I-69 Section 5 Corridor Map

PROJECT HISTORY

Briefly, SIU 3 of the National Corridor is the Evansville to Indianapolis project in Indiana. In March 2004, the Federal Highway Administration (FHWA) issued a Tier 1 Record of Decision (ROD) for the Evansville to Indianapolis section of I-69. The Tier 1 ROD selected a "corridor" - that is, a band generally 2,000 feet in width, but narrower in some places and broader in others - for I-69 between Evansville and Indianapolis. In addition, the Tier 1 ROD divided the Evansville to Indianapolis project into six separate sections for more detailed Tier 2 studies. Sections 1-3 are constructed and open to traffic. Section 4 located from US 231 to SR 37 south of Bloomington is currently under construction. Section 5 has received its FEIS and Record of Decision. Section 6 from south of Martinsville to Indianapolis is undergoing environmental studies. Section 5 is the second section from the north; it extends from SR 37 southwest of Bloomington to SR 39 in Martinsville. This financial plan focuses on Section 5.

A full discussion of the Project History can be found in the Draft EIS or the FEIS, found on the internet at this address http://www.i69indyevn.org/

Project Implementation - Management and Oversight

The State of Indiana is the Project Sponsor for the Project and intends to manage and deliver the project jointly between the Indiana Department of Transportation (INDOT) and the Indiana Finance Authority (IFA). The following is additional detail on the roles and responsibilities of various parties.

- **INDOT and IFA**

  INDOT and IFA, supported by their Technical Team (described below), will be responsible for all aspects of the I-69 Section 5 contract.

- **Chief Legal Advisor**

  The Chief Legal Advisor will supplement and assist state personnel with shortlisting of potential developers, contract language, and contract negotiations and will work under the direction of IFA. The contract is known as the Public-Private Agreement (PPA).

- **Technical Procurement Advisor**

  The Technical Procurement Advisor will supplement and assist state personnel with technical provisions, design review, contract administration, construction inspection, and quality control and quality assurance activities and will work under the direction of INDOT.

- **P3 Financial Advisor**

  The Public-Private Partnership (P3) Financial Advisor will supplement and assist state personnel with financial issues associated with Developer selection, financing, cash flow, and project financial close.

- **Section 5 Developer**

  IFA and INDOT issued a final Request For Proposals (RFP) in October 2013 for a developer to design, construct, and finance Section 5 of the I-69 Project, and operate and maintain portions thereof.

- **Standing Advisory Teams**

  There are several standing advisory teams with specific historical and environmental functions that also serve as information outlets. These advisory teams have varying duties which include providing recommendations during development of contract provisions regarding design of the Project; providing feedback on plans with the specific needs of the communities in mind as well as the region at large.

Chapter 2. Project Cost Estimate

INTRODUCTION

This chapter provides a detailed description of Project cost elements and current cost estimates in year-of-expenditure dollars for each element. This chapter also summarizes the costs incurred to date since the original Notice of Intent was published in the Federal Register and provides detail on key cost-related assumptions.

CURRENT COST ESTIMATES

The current total estimated cost for the Project is $406.7* million, based on 2012 dollar estimates included within the August 2013 Cost Estimate Review. This cost estimate:

(i) reflects updated estimates prepared in 2013 by the Cost Estimate Review process,

(ii) (ii) includes the most current project phasing and anticipated schedule, and

(iii) (iii) and is updated for actual expenditures incurred by INDOT in FY2013

The Draft EIS provided a wide range of alternatives with varying cost estimates. Using Refined Preferred Alternative 8 and Minimal Impact Design Criteria, the costs for the project have been reduced. Further cost savings are anticipated as the procurement proceeds.

Table 2-1 provides an overview of Project costs, broken down by project component and section. The estimates are presented in year-of-expenditure dollars and incorporate reasonable inflation estimates, as described further below.

*Revised to reflect increased utility estimates January, 2014

Table 2-1. Project Cost Estimate – by Project Phase

Total Project Costs in Year of Expenditure Dollars (in $ millions)	
I-69 Section 5	**Total Cost**
PE & Final Design	$20.2
Right of Way	48.25
Construction	258.6
Utility Relocations	55.0*
Mitigation Costs	11.7
CEI, Administration & Program Costs	13.0
PROJECT TOTAL	**$406.7**

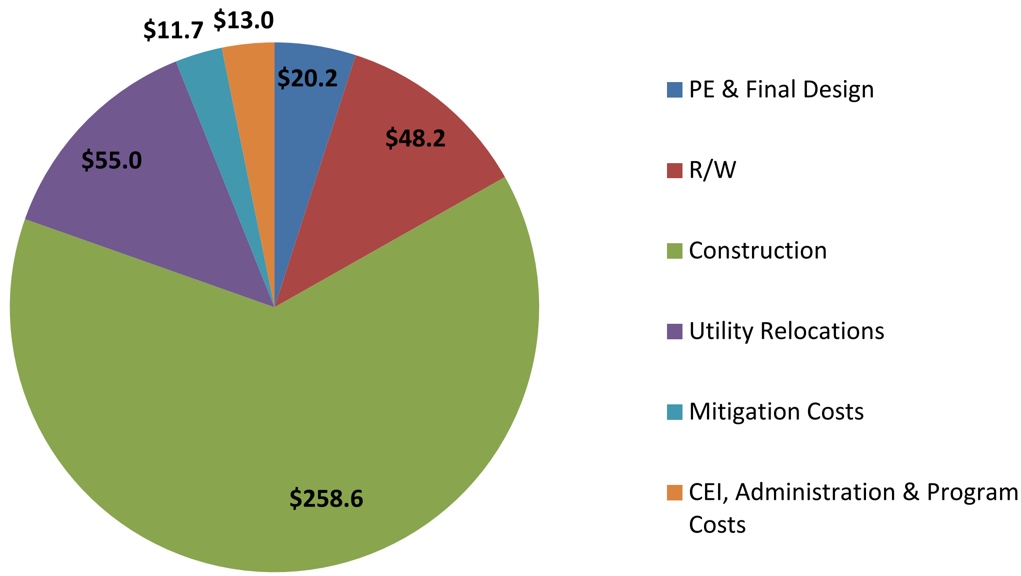

Figure 2-1. Project Cost Estimate – by Project Phase
****Utility Costs revised January 2014 to reflect utility company estimates***

INFLATION ASSUMPTIONS AND COST ESTIMATING METHODOLOGY

Inflation Assumptions

For the purpose of this Initial Financial Plan, the following inflation assumptions have been applied:

Project Year Inflation Rate
2014: 2.5%
2015: 2.5%
2016: 2.5%
2017 & after: 2.5%

These inflation rates reflect calendar year rates that were then applied on a prorated basis to monthly expenditure forecasts. These assumptions are based on the Cost Estimate Review.

Cost Estimating Methodology

Current cost estimates have been developed by the General Engineering Consultant, in conjunction with INDOT and FHWA. The cost estimates were developed by breaking down the Project into the six major sections plus an "Other Costs" category and, further, into nine major elements. The methodology for each element is further described below.

Table 2-2. Cost Estimating Methodology

Cost Elements
Engineering and Design
Preliminary and final engineering design services. Final engineering will be part of the alternative delivery contracts for the I-69 Section 5. Engineering and design cost estimates are currently estimated at 7.5% of the construction cost estimate.
Design Program Management
Cost to state for services of the GEC during the design phase and miscellaneous departmental program management costs. Program Management estimates are based on currently negotiated contracts and estimates that cover the currently planned Project schedule.
Construction Administration and Inspection
All construction and program management, administration, and inspection activities during the construction phase of the Project. Construction Administration and Inspection costs are estimated at 5% of the construction cost estimate.
Construction
Estimated cost of construction. Construction estimates reflect current prices inflated for year of expenditure utilizing a large alternative delivery contract.
Construction Contingency
Contingency to cover additional construction services in the event unforeseen circumstances arise that result in additional cost. Construction contingency estimates are based on the level of engineering undertaken to date for each Project section. Contingency factors have been developed based on the August 2013 FHWA Cost Estimate Review that assessed the likelihood and potential cost of various major project risk items using a monte-carlo simulation to evaluate the overall potential cost impact. Contingencies have been adjusted to match the recommended 70th percentile cost estimate from the August 2013 FHWA Cost Estimate Review.
Utilities
All public and private project-related utility relocation and new utility construction. Costs include those related to telephone, electric, gas, fiber optics, water, sewer, TV cable, and storm drainage and are based on the most up-to-date cost information available.
Right of Way Acquisition
Appraisals, administration, management, and acquisition of required right of way. Costs include completed and anticipated right of way acquisition and are based on the most up-to-date market information available.

Cost Elements
Enhancements
Various Project-related commitments as identified in the Record of Decision. This includes fixed dollar commitments made for mitigation for impacts to a 4f facility (as agreed to by the jurisdictional authority) and various other NEPA commitments.
Mitigation
Implementation of mitigation of sensitive impacts. This includes costs for such items education for the historic landscape districts associated with the limestone industry, wetland, stream and forest creation and preservation.

Tables 2-3 show the breakdown of costs for the Project annually by Project component and section, respectively.

Table 2-3. Project Budget by Phase, By fiscal year

(Year-of-Expenditure $, millions)

Detailed Budget ($YOE)	2013 & Prior*	2014	2015	2016	2017	Total
PE & Final Design	14.3	5.9				20.2
Right of Way	0.7	12.6	34.9			48.2
Construction	0.1		51.7	103.4	103.4	258.6
Utility Relocations		5.8	34.2	15.0		55.0
Mitigation Costs		5.8	5.9			11.7
CEI, Admin, Program			2.6	5.2	5.2	13.0
TOTAL	15.1	30.1	129.3	123.6	108.6	406.7

** Represents actual costs incurred to date through FY2013*

PROJECT EXPENDITURES

As shown in Table 2-3, approximately $15.1 million is estimated to have been expended on the Project through the end of SFY 2013. Expenditures in future years are summarized in the table as well.

Note that FY2014- FY2017 expenditures are estimated project costs and do not reflect actual state or federal expenditures expected in such years.

Table 2-4. I-69 Section 5 Expenditures by State Fiscal Year

(Year-of-Expenditure $, in millions)

SFY	Total
2013 & prior	15.1
2014	30.1
2015	129.3
2016	123.6
2017	108.6
TOTAL	406.7

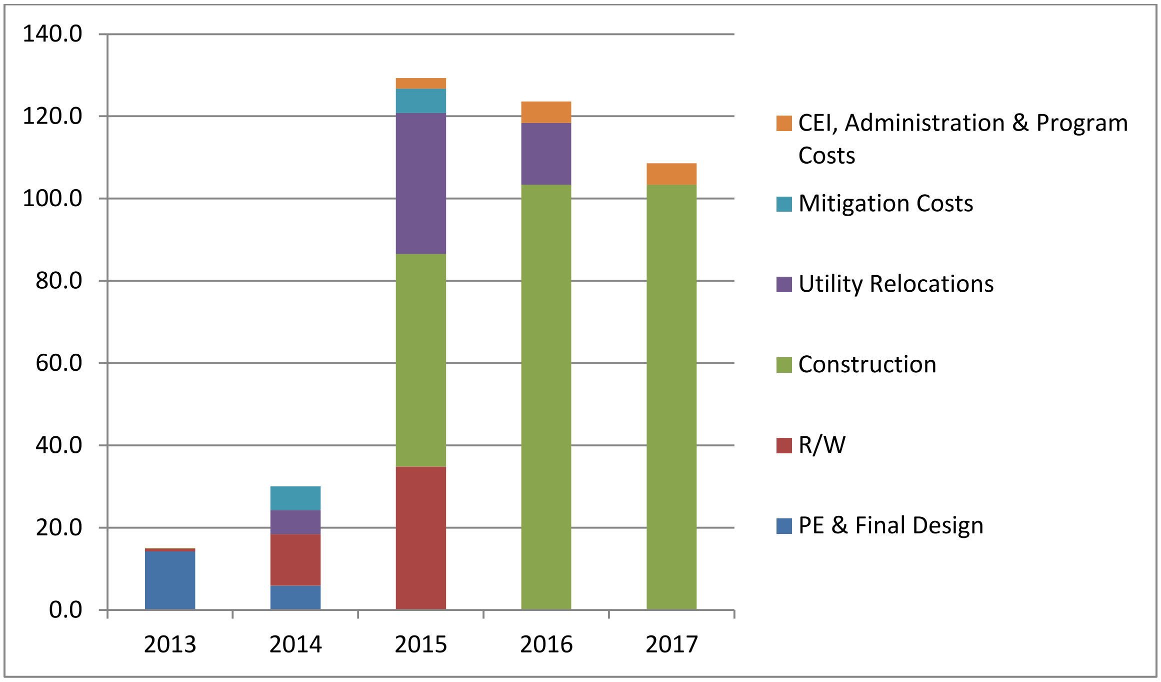

Figure 2-2. I-69 Section 5 Expenditures by State Fiscal Year
Note that this does not include O & M costs

Operations and Maintenance Costs

Updates to the Financial Plan will account for reasonably anticipated operations and maintenance costs as part of the design, build, finance, operate and maintain award at financial close. These costs include routine operations and maintenance expenditures and major maintenance requirements.

The O&M cost estimates were developed by INDOT. The primary estimating methodology used was mathematical scaling from other comparable projects and facilities. The physical aspects of comparable projects, relying on a ratio with specific restrictions of magnitude, were used to extrapolate a cost estimate. Under the provisions of the Public-Private Agreement (PPA), availability payment reductions may be imposed on the developer if operating and maintenance performance standards are not met. Additionally, the contract includes quality standards that must be met when the Project is handed back to the Project Sponsor at the end of the PPA term.

Chapter 3. Implementation Plan

INTRODUCTION

This chapter provides information on the planned implementation schedule for the Project. It also provides additional information regarding the allocation of implementation responsibilities and a summary of the necessary permits and approvals.

PROJECT SCHEDULE OVERVIEW

The current Project schedule is based on delivery of the Project under an availability payment concession. The Project is expected to be complete by the Fall of 2016 (*see Figure 3-1 and Figure 3-2*).

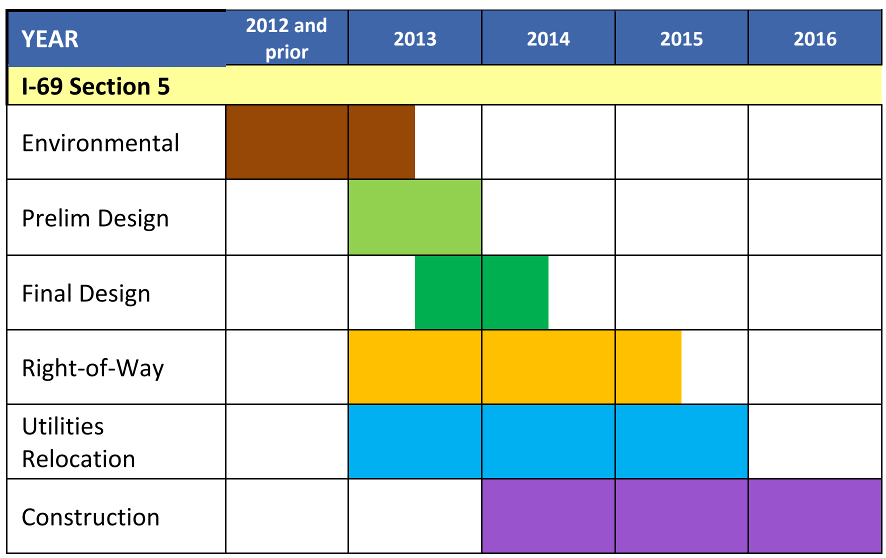

Figure 3-1. Project Schedule Overview

The State of Indiana anticipates awarding a construction contract in the spring of Calendar Year 2014, as shown in the procurement schedules in the Project Delivery discussion below. The Record of Decision was received in August 2013, and the level of completed design by the Final RFP is approximately 10% complete. ROW acquisition will be initiated during the Summer of 2013 and will be completed on or before July 2015 with a parcel acquisition schedule included in the Final RFP.

PROJECT DELIVERY

The State of Indiana has evaluated various alternative contracting methods permitted under current Indiana law. Such alternative delivery models are expected to enhance the feasibility of the Project through accelerated project delivery; avoidance of inflation costs; the infusion of additional sources of financing; and the transfer of various risks to the private sector, such as construction risk, and/or long-term operating and maintenance risks. As a result, Section 5 of the I-69 Project is being procured as an availability payment concession. Figure 3-2 provides the current procurement schedules for each component.

Procurement Schedule

Scheduled Item	**Dates**
Issue Request for Qualifications	**May 23, 2013**
SOQ Due Date	**July 9, 2013**
Anticipated Announcement of Short-listed Proposers	**July 30, 2013**
Circulate Draft of RFP to Short-listed Proposals	**July 2013**
Issue final RFP	**October 15, 2013**
Proposal Due Date	**January 21, 2014**
Award and execution of PPA (Commercial Close)	**March 2014**
Financial Close	**June 2014**
Substantial Completion	**October 31, 2016**

Figure 3-2. Procurement Schedule

PERMITS AND APPROVALS

The Federal Highway Administration issued a Record of Decision selecting the preferred alternative as Refined Preferred Alternative 8 in August 2013. All permitting activity will be carried out in accordance with the FEIS and ROD.

The RFP for final design and construction includes provisions to ensure compliance with all NEPA commitments that are included in the FEIS, the ROD, the Section 106 First Amended MOA and the karst MOA. The State of Indiana will apply for permits with key federal regulatory agencies. The private design-builders will apply for a number of other necessary local,state and federal permits. The permits and notifications required by the FEIS are outlined in Table 3-1.

Table 3-1. Required Permits or Notifications

Agency	Permit/Notification(1)
U.S. Army Corps of Engineers	Section 404 Permit for Discharge of Dredged or Fill Material into Waters of the United States
Federal Aviation Administration	Tall Structure Permit FAA Form 7460-1 Notice of Proposed Construction or Alteration for a crane
Indiana Department of Environmental Management	Isolated wetland permit
United States Environmental Protection Agency	Class 5 Injection Well Permit
Indiana Department of Environmental Management	Section 401 Water Quality Certification
Indiana Department of Environmental Management	Rule 5 National Pollution Discharge Elimination System
Indiana Department of Natural Resources	Construction in a Floodway Permit

(1) Note: not all permits/notifications apply to all sections of the Project.

Chapter 4. Financing and Revenues

INTRODUCTION

This chapter discusses the financial plan for the Project. Specifically, it presents the available and committed funding required to complete the Project, including state transportation and federal-aid formula funds, and federal discretionary fund. A discussion of risks associated with funding availability also is included.

FINANCIAL PLAN OVERVIEW

This financing plan may differ slightly from the Cost Estimate Review given differing terms that IFA/INDOT believe a developer will achieve vis-à-vis current approaches in the Public-Private Partnership market; however, the discrepancies overall are not material and are ultimately based on the same forecasts developed by INDOT and INDOT's technical advisor for the Project.

This Initial Financial Plan reflects the planned funding and finance strategy by which the Project will be financed through a combination of private equity and debt which will be repaid through a combination of conventional state and federal transportation program funds.

Notwithstanding the capital structure articulated in this pro-forma finance plan, any future finance plan for the Project could include a number of financing instruments, including private sector equity, and a combination of debt securities including senior taxable debt, tax-exempt Private Activity Bonds (PABs), subordinated debt and / or privately placed restricted securities. Implicit in this finance plan is the assumption that senior debt will achieve an 'Investment Grade' rating.

The Project Sponsor has developed a financial plan that recognizes the limitations on conventional state and federal transportation funding and finds the right balance of funding alternatives to meet the following goals:

- Ensuring Indiana's financial obligations to the Project are manageable;
- Ensuring that the Project delivers value to Indiana, taxpayers, project partners, and end users through the lowest feasible Project cost;
- Seeking private sector innovation and efficiencies and encouraging design solutions that respond to environmental concerns, permits, and commitments in the FEIS/ROD;
- Developing the Project in a safe manner that supports congestion management and economic growth for the region;
- Ensuring the Project is constructed within a time period that meets or exceeds final completion target dates; and
- Transparently engaging the public and minimizing disruptions to existing traffic, local businesses, and local communities.

The alternative delivery method selected by Indiana has the potential of further reducing Project costs and enhancing the overall Project finance strategy. Such cost savings will be reflected in future updates to the Financial Plan. Importantly, INDOT and IFA, together with their financial advisor and technical advisor, have developed a pro forma financial plan that provides a certain view of how a private developer may deliver and finance this Project. Ultimately the financial plan will reflect what the preferred developer will propose based on their respective view, as well as their lender and/or underwriter's view, of the Project.

PROCUREMENT APPROACH AND FINANCING

The Project will be procured using an availability payment design-build-finance-operate-maintain (DBFOM) procurement model through a Public Private Agreement (PPA). Under this model, IFA will make a series of "availability payments" to a developer as consideration for the developer designing and constructing a facility and, following substantial completion thereof, keeping the facility open and available to users in accordance with the performance standards set in the PPA over a 35 year operating period. In addition, IFA will contribute milestone payments of up to $60 million in the aggregate, during the construction period, subject to final Project terms.

The finance plan for the Project will reflect a typical P3 project financing whereby the cash flows payable to the developer will secure the senior lien obligations and provide a return for the private sector equity investment.

On May 23, 2013, IFA and INDOT issued a Request for Qualifications (RFQ) for the Project. In response to the RFQ, Statements of Qualifications (SOQs) were received on July 9, 2013. Shortly thereafter, a draft Request for Proposals (RFP) was issued to the shortlisted proposers. The final RFP was issued in October 2013 and award and execution of the PPA will be in March 2014.

The responses to the Request for Proposals for the Project will include a detailed project development plan as well as a finance plan. In preparing their proposals, proposers will be making their own evaluations of the economics of the Project while developing a responsive financing approach. IFA and its advisors have performed a preliminary analysis of the suitability of Private Activity Bonds (PABs) for the Project and have concluded that it is likely proposers may wish to include PABs as a source of financing in their finance plans. To this end, IFA sought and USDOT has provided, a preliminary allocation of $400 million in PABs that may be, but is not obligated to be, used by a developer in its financing plan.

A combination of state and federal funds will be used to make Milestone Payments and availability payments. INDOT and IFA will budget for availability payments using INDOT and IFA's state appropriation determined by the Indiana General Assembly. The sources of federal funds used to support the availability payments are anticipated to be from the National Highway Performance Program (NHPP),. It is anticipated that the developer will utilize a combination of debt and equity to finance initial construction prior to receipt of the Milestone Payments and APs from the IFA.

The Initial Financial Plan has been developed based on recent market precedent and current market conditions. The plan has been developed on a pro-forma basis in advance of the selection of a developer. Upon selection of a developer, the developer's plan of finance will be used to finalize the financial structure for the Project which may include tax-exempt PABs, taxable bond debt or taxable bank debt, in addition to developer equity.

At this stage, the Initial Plan of Finance is based on tax exempt Private Activity Bonds and a contribution of public funds by IFA together with developer equity.

STATE TRANSPORTATION AND FEDERAL-AID FORMULA FUNDING

Indiana has historically used federal-aid resources for the Project and has committed specific funding from their respective near-term federal-aid highway funding programs, as described further below.

Federal-aid formula funds provided to the Project have been and will continue to be matched by a combination of state funds. Indiana has a demonstrated track record of meeting their state match obligations with a variety of state funding sources, including state-imposed fuel taxes and a variety of transportation-related fees.

Based on expectations regarding the availability of federal funding, as well as expectations regarding the availability of corresponding state transportation funds, an estimated $406.7 million of federal-aid highway formula and state transportation funds is reasonably expected to be available to the Project (*see Table 4-1*). This includes $15.1 million of federal and state funds estimated to have been expended through state fiscal year 2013.

Table 4-1. I-69 Section 5 Federal and State Conventional Funding
(in millions)

Detailed Budget ($YOE)	Thru 2013		2014	2015	2016	2017		Total
State Funding	3.6		6	25.9	24.7	21.7		
Federal Formula Funding	8.7		24.1	103.4	98.9	86.9		
Federal Discretionary Funding[5]	2.8							
Total	15.1		30.1	129.3	123.6	108.6		406.7

To support the I-69 Section 5 procurement, INDOT intends to commit a total of $60 million in federal and conventional state funds through state fiscal year 2017. This includes three anticipated payments totaling $60 million to fund the Milestone Payments. In addition, INDOT intends to commit $48.2 million for right of way and $11.7 million for environmental mitigation.

It is anticipated that future funds will come from the National Highway Performance Program funding category, although the commitment of specific funding categories of federal funding is subject to adjustment based on the recently authorized federal surface transportation program, MAP-21, and the related funding categories.

Milestone/Availability Payments

Upon the developer achieving substantial completion of I-69 Section 5, to the extent that the road is open and available for service, availability payments will commence. The availability payments will be funded with a combination of state and federal funds appropriated by INDOT on a biennial basis, as described in further detail below. Availability payments will commence upon achievement of substantial completion and continue during operations. Availability payments will be unitary and fixed payments subject to an adjustment for inflation based on a predetermined index. Should the Project not be available for a period of time or not operated in the manner prescribed in the PPA, then all or a portion of an availability payment may be withheld.

IFA also intends to make a series of Milestone Payments to the developer upon completion of certain construction milestones. It is anticipated that the Milestone Payments will funded with a combination of state and federal funds appropriated by INDOT on biennial basis, as discussed in further detail below.

In order to fund the Milestone Payments and APs, IFA intends to enter into a master agreement and use agreement with INDOT under which INDOT will agree to fund milestone and availability payments as part of its budget. In addition to being reflected in INDOT & IFA's internal budget and financial control systems, all anticipated funding amounts are reflected in the fiscally-constrained 2014-2017 Statewide Transportation Improvement Program (STIP), as well as the Bloomington/Monroe County Metropolitan Planning Organization (MPO) 2014-2017 Transportation Improvement Program (TIP).

FEDERAL DISCRETIONARY FUNDING

In addition to Federal-aid formula funds, Indiana has previously secured $2,761,101.09 in discretionary funding from the Federal Highway Trust Fund and General Appropriations as earmarks for the Project. The discretionary funds received for the Project have been expended on major investment and environmental studies, design and engineering costs, right of way acquisition, and oversight and project management, and are included in the figures above. Please refer to the Project Addendum for the proposed FHWA participation rates with regards to Project funding.

FINANCING STRATEGY

The final financing strategy, or combination of financing approaches, will depend on market circumstances at the time of financial close and the finance plan of the developer that is ultimately selected to develop the Project. IFA and INDOT, however, has developed preliminary financing plans based on currently available project data and market circumstances. To the extent that additional data becomes available or market circumstances change, the financial plan will be updated to account for these changes.

As discussed above, the Project is expected to be financed by a developer with a combination of private activity bonds or commercial bank financing, and developer equity. Under the planned funding approach, the IFA will make Milestone Payments during construction and APs during the operations period of the Project.

ASSUMPTIONS, RISKS, AND MITIGATIONS

The funding available for the Project will be subject to risks that cannot be fully known at this time. The following is a summary of potential risks that may affect the financing of the Project and the Project Sponsor's assessment of mitigating factors:

Availability of state and federal revenue sources beyond those currently committed to the Project: Indiana has demonstrated a strong commitment to ensuring the Project is delivered. This commitment is demonstrated through the investment $15.1 million of funds to date on Section 5. Indiana believes that it is reasonable to assume that future state and federal funds will be made available to fund the Project as detailed in this Initial Financial Plan.

Fixed availability payments: The Project will be procured using an AP DBFOM procurement model through a PPA. Under this model, IFA will make a series of annual fixed “availability payments” to a developer as consideration for the developer designing and constructing a facility. The availability payments will be a fixed price and escalated annually for inflation. Should the Project not be available for a period of time or not operated in the manner prescribed in the PPA, then all or a portion of an availability payment may be withheld. As a result, the risk of construction or operating cost increases transfers from INDOT to the private developer.

Chapter 5. Project Cash Flow

INTRODUCTION

This chapter provides an estimated annual construction cash flow schedule for the Project and an overview of the planned sources of funds.

ESTIMATED SOURCES AND USES OF FUNDING

An indicative summary of the sources and uses of funds is shown in the table below. This summary reflects IFA's view of the financing structure and IFA fully anticipates the developer will develop a plan of finance based on their respective view of the Project's economics.

Sources of funds for the Project is currently anticipated to be entirely financed through PABs, public funds contribution, private equity investment and interest earned on these proceeds. The preliminary financial structure for the Project includes two tranches of PABs – a short term tranche that will be repaid by the developer with milestone payments proceeds and a long term tranche that will be repaid by the developer with availability payment proceeds. The following sources of funds will fund construction and other development costs. The sizing of each facility will be subject to agreement by the developer and IFA. This approach is identical to IFA's indicative financial plan outlined in its application to USDOT for the $400 million requested for the preliminary PABs allocation.

Table 5-1. Estimated Project Sources and Uses of Funds through Construction

Sources and Uses of Funds During Construction($ millions Year-of-Expenditure)		
Sources of Funds		
Equity	$40.6	11.4%
PABs Financing	$312.6	87.6%
Interest	$3.6	1.0%
Total	**$356.8**	**100%**
Uses of Funds		
Construction Costs	$273.7	76.7%
Net Transfers to reserve accounts	$29.0	8.1%
Financing costs – expensed	$16.8	4.7%
Financing costs – capitalized	$37.3	10.5%
Total	**$356.8**	**100%**

Note: Sources and uses table does not include INDOT retained development costs and is reflective of the indicative developer bid on the Project.

CASH MANAGEMENT TECHNIQUES

For Project funding expected to be contributed from state and federal sources, Indiana intends to utilize available cash management techniques to manage the timing of cash needs against the availability of federal and state funds.

For any funding that is provided from bond proceeds, appropriate oversight mechanisms will be put in place through the requirements of the legal documents. These may include controls over disbursement of proceeds for construction and annual reporting requirements.

FINANCING COSTS

The exact financing costs will be further known as the financings progress towards implementation and this section of the financial plan will be updated accordingly. Greater detail will be available once financial close is reached for the individual financings for I-69 Section 5.

PROJECTED CASH FLOWS

Future plans will include a table summarizing the anticipated annual cash outlays for the Project. This table does not reflect the cash flow timing effects of the various financing mechanisms but rather the underlying Project expenditures. More specific cash flow schedules will continue to be developed as the Project progresses towards financial close and the exact financing structure is known. The table is not included in the initial plan to retain a competitive bidding nature of the public-private partnership but will be updated at financial close.

Chapter 6. Risk Identification and Other Factors

INTRODUCTION

This chapter addresses a number of important factors that could affect the Project and, in particular, the financial plan for the Project. These risks fall under one or more of the following categories: Project Cost, Project Schedule, Financing, Procurement. Significant consideration has been given to identifying risks and potential mitigation measures, and this chapter outlines these factors. Additionally, this chapter addresses the impact of the state's financial contribution to the Project on its respective statewide transportation program.

PROJECT COST RISKS AND MITIGATION STRATEGIES

The following factors have been identified as possible reasons for cost overruns. Additional detail can be found in the Cost Estimate Review document prepared by the Project Sponsor and the Federal Highway Administration in 2013. Utility estimates were revised in January 2014, and are subject to final roadway design. Plans for Utility relocation are not yet available and remain estimates.

Table 6-1. Project Cost – Risks and Mitigation Strategies

Risk	Mitigation Strategy
Original Cost Estimates	
The risk that original cost estimates are lower than bids received.	Recent US design-build and public-private partnership experience indicates that competition may result in aggressive bids below the state sponsor's estimates. Should that prove not to be the case, however, the state will revise its financial plans accordingly, including the possible inclusion of additional state and federal funding. It is the expectation of the Project Sponsor that the planned procurement approach will help to accelerate project delivery and, in turn, reduce costs.
Inflation	
Highway construction inflation has been very volatile over the past several years and could significantly increase the cost of the Project.	Reasonable inflationary assumptions based on recent and historical trends in construction inflation have been included in current cost estimates. These estimates take into account current low commodity prices and relatively high unemployment rates which are expected to result in favorable contract pricing. While petroleum prices have are an inflationary risk, both a design-build and an availability payment concession structure, as contemplated by the state, helps transfer much of this risk from the public to the private sector design-builder or concessionaire.
Contingency	
The amount of contingency factored into Project cost estimates may be insufficient to cover unexpected costs or cost increases.	A design-build or availability payment concession structure helps transfer much of this risk from the public to the private sector design-builder or concessionaire.
Cost Overruns During Construction	
Cost overruns after start of construction could result in insufficient upfront funds to complete the Project.	A design-build or availability payment concession structure (with guaranteed maximum price contracts) helps transfer much of this risk from the public to the private sector design-builder or concessionaire.

Project Schedule Risks and Mitigation Strategies

The following risks have been identified as those that may affect Project schedule and, therefore, the ability of the Project Sponsor to deliver the Project on a timely basis.

Table 6-2. Project Schedule – Risks and Mitigation Strategies

Risk	Mitigation Strategy
Litigation	
Lawsuits filed within the statutory protest period may result in significant delays to the start of construction and expose the Project to additional inflationary costs.	To mitigate the potential impacts of future litigation that could cause schedule delays and cost escalation, risk and mitigation measures were addressed in the Environmental Impact Statement (EIS). INDOT intends to adhere to the recommendations outlined in the EIS and conditions of each federal approval received to construct the project.
Permits and Approvals	
Delays in the receipt of permits and approvals may delay the start of construction.	The state has initiated activities necessary to secure major permits The developer will assume responsibility to obtain all other permit approvals Compliance will be the developer's responsibility and will be addressed directly in the relevant contract documents. The state has a track record of success in acquiring similar permits.
ROW Acquisition	
A large number of ROW parcels will need to be acquired for the Project and variances in cost and time forecasts may impact both Project cost and schedule.	The state has identified the potential properties to be acquired and is proceeding with acquisitions. Significant ROW has already been purchased, but acquisition will not be completed prior to contract award. A project ROW acquisition schedule will be maintained and updated throughout the process.
Unanticipated Site Conditions	
Unanticipated geotechnical conditions could be encountered, potentially delaying the schedule or increasing costs. Much of the Project includes Karst geology, with caves, sinkholes, and underground streams that are especially sensitive to groundwater pollution.	Extensive analysis was undertaken as part of the FEIS process. Additionally, geotechnical investigations have been conducted on the Project, and preliminary results do not indicate any significant problems.
Endangered Species	
If endangered species (e.g., Indiana bat, mussels, etc.) are encountered, construction work may be disrupted, leading to schedule delays and/or additional costs.	Mitigation is an established process that minimizes delay with dedicated staffing to address surprise findings. Similar mitigation has been used on four previous corridor projects successfully to avoid construction delays.
Hazardous Materials	
Both known and unknown hazardous materials could delay the Project and/or lead to additional costs.	Extensive analysis was undertaken as part of the FEIS process. Additionally, investigations have been conducted on identified sites and preliminary results do not indicate any significant problems.

Schedule Coordination	
Due to the size and complexity of the Project, poor project scheduling and coordination could delay the Project schedule.	A design-build or availability payment concession structure helps transfer much of this risk from the public to the private sector design-builder or concessionaire.
Maintenance of Traffic	
Traffic impacts and loss of access could adversely affect communities/businesses, negatively impacting support for project.	A detailed maintenance of traffic (MOT) plan will be required of the Developer. Commitments to the community will be included in the project requirements, such as no two streets cross the project shall be closed at the same time. Additional coordination with local projects and ongoing stakeholders is required as well.

FINANCING RISKS AND MITIGATION STRATEGIES

The following risks may negatively affect the Project Sponsor's ability to finance the Project cost-effectively and operate and maintain the Project over time. For each risk, this table provides a summary of potential mitigation strategies.

Table 6-3. Financing and Revenue – Risks and Mitigation Strategies

Risk	Mitigation Strategy
Availability of State and Federal Funding	
The state has identified and committed various levels of conventional funding for the Project within the timeframe of its budget planning cycle. Funding beyond this period is subject to appropriation risk.	Within procedural limitations, the state has demonstrated a strong commitment to ensuring that the Project is delivered given the investment of funds to date. INDOT has included the Project in its internal budgeting and financial control systems at the requisite funding levels. On a biannual basis, the IFA will provide INDOT an annual budget which details the amount of funds to be appropriated by INDOT to meet annual payment requirements under the PPA. In addition, all anticipated funding amounts will be reflected in Indiana's fiscally-constrained Statewide Transportation Improvement Program (STIP) and the FY 2014-2017 Transportation Improvement Program (TIP) for the metropolitan region.
Capital Market Access	
Capital market volatility could limit access to financing and/or increase financing costs.	The developer will be responsible for providing financing. The selected developer will have a demonstrated track record of securing capital market financings for availability payment concession projects. Commonly, developers include interest rate hedging interest to protect against variable rates over the long-term. Additionally, the PPA provides protection to the developer for changes in base interest rates prior to financial close, such that fluctuation in the capital markets does not adversely impact the successful financial close of the Project.

Availability of Federal Financing Tools	
Uncertainty surrounding the availability of federal financing via the TIFIA program will have an impact on the risk level of the finance plan for the Project.	TIFIA assistance is not anticipated in this project. In the event that the Project Sponsor pursues and is unsuccessful in securing federal TIFIA assistance, the Project Sponsor must ensure the viability of the finance plan without such assistance. The current finance plan is not dependent on a TIFIA allocation, although such an allocation would lessen dependence on certain state and federal funds described herein.
Uncertainty surrounding the availability of federal highway funding could limit access to future discretionary funding (e.g., TIGER).	The state will continue to identify and, as appropriate, pursue additional federal discretionary funds that may become available to the Project. This may include funds made available under subsequent phases of the Transportation Investment Generating Economic Recovery (TIGER) discretionary grant program and other federal discretionary funds made available through the recent authorization of the federal surface transportation program, MAP-21.
Viability of Private Activity Bonds	
Potential difficulty in raising PAB financing in a timely manner could delay the project and/or increase costs.	Securing a PABs allocation decreases financing costs and, therefore, lessens the amount of federal and state funds required for the Project. In the event that the final PABS allocation is unsuccessful, the Project Sponsor must ensure the viability of the finance plan without such assistance. Alternative finance plans have been identified and include commercial bank debt or taxable bond debt.

PROCUREMENT RISKS AND MITIGATION STRATEGIES

The following risks may affect the Project Sponsor's ability to implement the Project due to risks associated with the procurement of the I-69 Section 5 through an availability payment (AP) design-build-finance-operate-maintain (DBFOM) procurement model through a Public Private Agreement (PPA).

Table 6-4. Procurement – Risks and Mitigation Strategies

Risk	Mitigation Strategy
Delay in Procurement	
The state does not receive affordable bids or are not able to reach commercial or financial close on the procurement.	An agreement is being developed to address the risks associated with not receiving affordable bids or not achieving commercial or financial close.

IMPACT ON STATEWIDE TRANSPORTATION PROGRAM

The state has made specific commitments to the completion of the Project. Based on expectations of federal funding availability, as well as expectations regarding the availability of corresponding state transportation funds, the Project Sponsor believes the federal-aid highway formula, federal discretionary, and state transportation funds identified in this Initial Financial Plan are reasonably expected to be available, and without adverse impacts on the State's overall transportation program or other funding commitments.

Indiana has provided for substantial funding for the Project through a combination of state and federal funding, including the Project in the state's capital program. Indiana will continue to make specific financial commitments to the Project based on its standard budget procedures and in accordance with the State's Transportation Plan, which takes into account the needs of the overall transportation program and other projects throughout the State. INDOT and IFA are using the biennium appropriations for Availability Payments to

show that Indiana is budgeting these appropriations out of INDOT's Capital Program. INDOT estimates that these future payments will be 19% of its capital program. To date, funding for the Project from INDOT federal authorizations (2013 and prior) has been 0.8% of the National Highway System Funds and 0.05% National Highway Performance Program. Approximately 0.01_% of INDOT "Lease Proceeds" have been used for I-69 Section 5. In addition to being reflected in internal budget and financial control systems, all anticipated funding amounts are reflected in the 2014-2017 Statewide Transportation Improvement Program (STIP), as well as the Bloomington/Monroe County Metropolitan Planning Organization (MPO) 2014-2017 Transportation Improvement Program (TIP).

FUTURE UPDATES

The effective date for this Initial Finance Plan is August, 2013 revised for an updated Utility estimate in January, 2014. Future annual updates will be submitted to FHWA for approval within 90 days of the effective date, or by October 30 each year.