



Oregon

Tina Kotek, Governor

Oregon Transportation Commission

Office of the Director, MS 11

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DATE: November 20, 2024

TO: Oregon Transportation Commission

FROM: Kristopher W. Strickler
Director

SUBJECT: Agenda Item F – Urban Mobility Strategy Finance Plan Update

Requested Action:

Approve an updated conceptual plan to close the funding gap for the Urban Mobility Strategy.

Background:

In May and June 2024 the Oregon Transportation Commission (OTC) discussed the funding gap for elements of the Urban Mobility Strategy (UMS) and options to close that funding gap. Multiple factors require ODOT to secure additional resources to move UMS projects forward, including:

- Higher costs for the I-205 Abernethy Bridge project and the loss of expected tolling revenue have created a significant funding gap on this project.
- The I-5 Rose Quarter Improvements Project lacks sufficient funding to complete the project or even to begin construction in 2025.

The Commission took action to close this gap:

- The Commission approved transferring \$100 million from the I-405 Fremont Bridge painting project to close a portion of the funding gap on I-205 Abernethy. This was effectuated in the August Statewide Transportation Improvement Program (STIP) amendment.
- In May the Commission agreed to provide up to \$250 million from the \$30 million per year UMO set-aside from HB 2017 to match up to \$750 million in federal INFRA grant funding for the I-5 Rose Quarter. This funding would come from shifting HB 2017 Urban Mobility Strategy funds from I-205 Abernethy back to the Rose Quarter as originally intended.
- In June the Commission approved a conceptual finance plan that would close the remaining gap on I-205 Abernethy through issuance of additional Highway User Tax Revenue bonds that would be repaid by HB 2017 Bridge and Seismic funds otherwise programmed to projects in the STIP.

At the time, ODOT pledged to return to the OTC to complete work on the finance plan once the outcome of the INFRA grant for Rose Quarter was known. Events since June have provided ODOT greater clarity on funding for both I-205 and Rose Quarter.

I-205 Abernethy

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ODOT has been working closely with Kiewit, the project contractor, to reach a settlement of existing claims to move the project forward to completion expeditiously. ODOT secured this settlement in November, which requires adding funding to the project's budget; ODOT is requesting this in a STIP amendment that will be considered separately from this finance plan. Based on this settlement, ODOT now estimates the project's total cost to be \$815 million, including preliminary engineering, construction, and a separate contract for soil stabilization needed for seismic resilience. This does not include pricing a number of known risks that have been identified by ODOT and the contractor, particularly risks associated with work on an aging bridge. Additional funding needed to cover these higher costs would come from Highway User Tax Revenue bonds repaid by HB 2017 Bridge and Seismic funds, which would reduce funding for projects in the STIP Bridge program for the next 25 years.

I-5 Rose Quarter

ODOT did not receive the federal INFRA grant and the project's currently available funding of \$608 million is not sufficient to begin construction in 2025. Absent additional funding, the earliest construction could begin on the initial portion of the highway cover, funded by the Reconnecting Communities and Neighborhoods (RCN) grant, would be 2027.

ODOT will present the Commission an option for adding \$250 million to the funding for Rose Quarter to move to construction on significant elements of the project beginning in 2025 and expand upon the construction funded by the RCN grant. Adding this funding would allow ODOT to:

- Build the full southbound auxiliary lane and shoulder from I-405 to the Morrison Bridge exit.
- Extend an initial portion of the northbound auxiliary lane and shoulder under the highway cover.
- Extend the initial, central portion of highway cover to be built with the RCN grant and lower the highway to its finished profile and final pavement under the constructed portion of the highway cover.
- Complete bridge work in the southern project area, construct stormwater facilities near I-405, and construct sign bridges & Intelligent Transportation Systems.

An investment of this size would reduce the funding gap for the project, and beginning construction in 2025 would lock in pricing and prevent continued cost escalation of these elements.

The additional funding for Rose Quarter would come from shifting HB 2017 Urban Mobility Strategy funds from I-205 Abernethy back to the Rose Quarter project, for which they were originally intended. The funding gap on Abernethy would grow, requiring ODOT to issue Highway User Tax Revenue bonds repaid by HB 2017 Bridge and Seismic funds. This will have impacts to projects that would otherwise be funded from the state's Bridge program for the next 25 years.

Outcomes

ODOT seeks Commission feedback and approval on two items.

- Direction on additional investments for the I-5 Rose Quarter.

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- Approval of an updated Urban Mobility Strategy finance plan that lays out the additional amounts of Highway User Tax Revenue Bonds needed.

If the Commission approves additional funding for I-5 Rose Quarter, ODOT will return with a STIP amendment to officially add these resources so the project can move to a construction start in 2025.

Attachments:

- Attachment 01 – Urban Mobility Strategy Finance Plan Updated (December 2024)

Urban Mobility Strategy Finance Plan Update

December 2024

Introduction

In June 2023 the Oregon Transportation Commission approved a finance plan for the Urban Mobility Strategy at the direction of Governor Tina Kotek after she directed ODOT to delay the collection of tolls until 2026. The finance plan laid out the available resources for the UMS in light of this decision, allocated available funding among projects to meet key milestones, estimated remaining funding gaps for each project, and offered potential funding sources to close these gaps and complete the projects.

In the nearly one year since approval of this initial plan, a number of major factors have impacted the original plan approved by the Commission.

- In March 2024, Governor Kotek directed ODOT to stand down on tolling for the time being by canceling the Regional Mobility Pricing Project, transferring toll collections for the Interstate Bridge Replacement Program to WSDOT, and indefinitely pausing work on the I-205 Tolling Project. This will lead to substantial reductions in expenditures compared to the funding allocated to tolling in the UMS Finance Plan but will also eliminate \$385 million in projected funding from tolls on I-205.
- The estimated cost to complete construction of the I-205 Abernethy Bridge Project, which is already under construction, has increased for a number of reasons, including structural engineering elements, unanticipated project changes, delay, escalation and risk for a multi-year project.
- The I-5 Rose Quarter received a \$450 million Reconnecting Communities and Neighborhoods (RCN) grant from the U.S. Department of Transportation, allowing the project to expand its scope of work to complete design on the main construction package and construct an initial portion (but not all) of the highway cover that will help knit back together the Albina neighborhood that was torn apart by the original construction of the Interstate through a thriving Black community. ODOT is developing plans to get this portion of the project under construction and is developing options for adding elements if additional funding is provided.

The net effect of these impacts is that there is a shortfall in the funding needed to complete the I-205 Abernethy Bridge, and also an opportunity to get the Rose Quarter under construction if additional funding can be identified.

This December 2024 update to the UMS Finance Plan approved by the OTC in June 2024 is designed to provide a path forward to closing the I-205 Abernethy Bridge funding gap now that the project's current cost estimate is known; it also offers the option to provide funding to the I-5 Rose Quarter to start construction in 2025. This document is designed as a conceptual finance plan to help frame up the Commission's decisions around allocation of funding. All figures in this document are estimates as of December 2024 and subject to change as actual project costs and expenditures are updated with

additional time. Similarly, the available funding from HB 2017 Urban Mobility Strategy bonds is subject to significant uncertainty, and the timing of expenditures and cash flow needs that will determine bond sales timing and debt service amounts for each year into the future will be determined as projects move forward. ODOT also maintains a more in-depth operational finance plan for the UMS projects that tracks expenditures and funding needs by quarter, which is used to determine the timing of bond issuance.

Program Funding

Since the June 2023 UMS Finance Plan, a number of factors have changed the amount of funding available for the UMS.

- The decision to halt tolling on I-205 has reduced estimated resources for the I-205 Abernethy Bridge by \$385 million.
- The \$450 million RCN grant for the Rose Quarter has opened up new opportunities to make progress on a critical project.
- In June the OTC approved a proposal to redirect \$100 million of Bridge program funds from the I-405 Fremont Bridge to the Abernethy Bridge.

With all these changes, the UMS has \$1.267 billion in total resources available.

Table 1: Total Resources for UMS After June 2024 Update

Revenue Sources	Amount	Notes
HB 2017 UMS	\$560	Bond proceeds and cash from the \$30 million annual set-aside of HB 2017 funds. Originally directed by HB 2017 to Rose Quarter; HB 3055 in 2021 allowed for use on other elements of the UMS.
Other Federal/ State/Local	\$257	Includes a variety of federal, state and local revenue sources, including \$100 million approved by OTC to transfer from I-405 Fremont to I-205 Abernethy in June 2024.
Federal Competitive Grants	\$450	Reconnecting Communities and Neighborhoods Grant for I-5 Rose Quarter.
I-205 Tolls	\$0	Tolling revenue is no longer included in UMS Finance Plan.
Total Resources	\$1,267	

Note: All dollar figures throughout this document are in millions of dollars.

The revenue estimate from cash and bonds from the \$30 million allocation to the UMS from HB 2017 remains unchanged, though it has elements of uncertainty. ODOT has sold the first tranche of bonds backed by these resources, totaling about \$240 million in net proceeds, and expects a second sale in the 2025-2027 biennium, with the timing dependent on cash flow needs and other factors. The total resources available from HB 2017 will depend on key details of financing, including bond interest rates and maturities, as well as when the bonds are sold; ODOT will continue to receive cash from this allocation until funds are fully dedicated to debt service payments after the second tranche of bonds is sold.

Project Costs and Expenditures

Since June 2023 a number of changes have occurred that impact expected costs and expenditures for the UMS projects.

Tolling

The original UMS Finance Plan allocated \$263 million to implement tolling, including costs of developing and constructing tolling infrastructure on I-205 and I-5 and building the back office and customer service center necessary to collect tolls. Due to cancellation of the RMPP, pausing tolling on I-205, and transferring toll collection on IBR to the Washington State Department of Transportation, ODOT now anticipates spending about \$70 million on tolling across three toll projects, presenting savings of approximately \$193 million. The net loss of I-205 toll revenue due to the pause on tolling is about \$192 million.

I-205 Abernethy Bridge

The total cost of completing the I-205 Abernethy Bridge project is currently estimated at \$815 million. This includes the anticipated total cost of three elements.

- Preliminary engineering for the I-205 corridor improvements.
- I-205 Abernethy Bridge construction (currently underway).
- Soil stabilization necessary for seismic resilience on the I-205 Abernethy Bridge.

ODOT anticipates completing the base construction project by the end of 2026, with soil stabilization work likely to begin in 2027 under a separate contract.

The 2023 UMS Finance Plan projected a total cost of the I-205 Abernethy Project of \$662 million; the June 2024 update estimated \$750 million. Drivers of the higher cost include:

- Structural engineering elements, including additional steel reinforcement for existing bridge cross beams, additional structural steel fabrication and materials, reconciling as-built conditions vs. contract plans, delay related to changes during construction, and additional engineering.
- Unanticipated project changes, including additional underground storage tanks, blast caps, soundwall panel changes, and environmental permit required changes.

This current estimate of \$815 million does not include the likely price of additional risks that have been identified by the project team, so ODOT will return to update the Commission on the total cost of the project as risks are either addressed or become real. Additional funding will be likely be needed to address these risks and will be requested as needed in future STIP amendments to be approved by the Commission.

I-5 Rose Quarter

The 2023 UMS Finance Plan provided the I-5 Rose Quarter an allocation of \$158 million from HB 2017 funds and other state, federal and local funds. This allocation allows ODOT to complete design of the three early work packages (formerly known as early work packages A, B and C), reach 30% design of the

main construction package and prepare for property acquisitions needed for construction. However, this funding will not allow the project to start construction.

The \$450 million federal RCN grant, awarded in March 2024, will fund design completion (including right of way acquisitions and utility relocations) and construction of an initial portion of the highway cover, which will be forward compatible with the construction of the remainder of the highway cover and I-5 mainline improvements. The grant did not fund the proposed bicycle/pedestrian bridge over I-5, the project's auxiliary lanes and shoulders, the I-5 southbound off-ramp relocation, nor multimodal street improvements. Grant funding is secured, with the design funding available now and construction funding to become available in advance of construction, now that ODOT has completed a grant agreement with the Federal Highway Administration. Construction on the RCN portion of the project is anticipated to begin by 2027.

Even with this grant, the Rose Quarter faces a significant funding gap of about \$1.3 billion, based on the project's high-end estimate of \$1.9 billion. This is in part because UMS funds originally dedicated to Rose Quarter by HB 2017 were set aside for I-205 Abernethy and implementation of tolling after passage of HB 3055 to move the construction-ready I-205 Abernethy bridge project forward and jumpstart work on tolling. ODOT intended to repay these funds borrowed from Rose Quarter after selling bonds backed by toll revenue. This plan has been complicated by the cost increases required to complete the Abernethy Bridge and the loss of projected tolling revenue.

In May the OTC agreed to contingently allocate up to \$250 million in HB 2017 funds to match an INFRA grant request of up to \$750 million. This funding would have closed a significant portion of the project's funding gap and allowed construction to begin in 2025, but ODOT did not receive this grant. However, ODOT has developed an option to allocate an additional \$250 million to the Rose Quarter that would fund the following elements, with construction able to start in 2025 if funding is provided in December and to expand upon the construction funded by the RCN grant.

- Build the full southbound auxiliary lane and shoulder from I-405 to the Morrison Bridge exit.
- Extend an initial portion of the northbound auxiliary lane and shoulder under the highway cover.
- Extend the initial, central portion of highway cover built with RCN grant, and lower the highway to its finished profile and final pavement under the constructed portion of the highway cover.
- Complete bridge work in the southern project area, construct stormwater facilities near I-405, and construct sign bridges & Intelligent Transportation Systems.

These improvements would have significant value, both in terms of providing a significant improvement to traffic flow and safety on I-5 (with the most robust improvements in the southbound direction) and also in extending the highway cover to north of Broadway.

If the Commission approves the additional \$250 million for Rose Quarter construction, the following elements of the project would remain to be funded:

- Completing the highway cover between Flint and Broadway

- Constructing the Hancock crossing (as part of the completed highway cover between Flint and Broadway)
- Completing multimodal local street improvements outside of RCN-funded highway cover area
- Constructing the pedestrian and bicycle bridge
- Completing the northbound auxiliary lane and shoulder (between the Broadway on-ramp and the Greeley off-ramp and between the I-84 on-ramp and Weidler off-ramp)
- Relocating the I-5 southbound off-ramp and new flyover structure

Based on the project cost range of \$1.5 to \$1.9 billion, the project's remaining costs would be approximately \$650 million to \$1.05 billion. The Urban Mobility Office will update and validate the Rose Quarter cost estimate, including this identified funding gap, in coordination with the Federal Highway Administration in spring of 2025.

Closing the Urban Mobility Strategy Funding Gap

With higher costs and reduced revenues available to complete the I-205 Abernethy Bridge Project, ODOT faces the need to close the immediate funding gap for that project to ensure completion. A plan to close this gap needs to be developed in the near future, as ODOT does not have the cash on hand to spend hundreds of millions of dollars on UMS projects over the next few years without a funding source.

ODOT has covered expenditures prior to toll revenue coming available in 2026 through short-term borrowing using a commercial paper program. ODOT has taken out about \$280 million in commercial paper, which the agency originally planned to pay back using toll revenue. Plans for additional commercial paper draws against the program's total cap of \$500 million are temporarily on hold now that tolling isn't available as a repayment source. ODOT may need additional short-term borrowing from our commercial paper program or other sources to meet cash flow needs for I-205 construction costs prior to selling bonds to pay off the short-term borrowing. Taking out additional short-term debt requires identifying a replacement revenue source to pay back this short-term debt.

Table 2 shows the funds allocated to each UMS project in the June 2024 UMS Finance Plan Update, as well as a base update for December 2024 based on new cost estimates of I-205 Abernethy, tolling, and short-term financing. It also offers the option of providing the Rose Quarter an additional \$250 million of HB 2017 UMS funds to start construction in 2025. Under any of these scenarios, the funding gap would be covered using proceeds from Highway User Tax Revenue (HUTR) bonds backed by ODOT's HB 2017 Bridge and Seismic State Highway Fund revenues. If the Commission chooses to provide the additional funding for Rose Quarter, funding from the HB 2017 Urban Mobility Strategy funds would be shifted from I-205 Abernethy back to Rose Quarter, requiring the sale of more bonds backed by Bridge/Seismic funds.

As shown here, the impact to the Bridge/Seismic program differs based on the scenario, with approximately \$18 million in annual debt service needed under the base scenario and up to about \$35 million needed under the scenario that invests \$250 million in the Rose Quarter.

Table 2: Estimated Funds Needed For UMS Projects

Project	June 2024 Update	December 2024 Update Base	December 2024 + RQ Construction
I-205 Abernethy	\$750	\$815	\$815
I-5 Rose Quarter	\$608	\$608	\$858
I-5 Boone Bridge	\$4	\$4	\$4
Tolling	\$73	\$70	\$70
Short Term Financing Costs	\$36	\$15	\$15
Total Funds Needed	\$1,471	\$1,512	\$1,762
Total Resources	\$1,267	\$1,267	\$1,267
Funding Gap	\$(204)	\$(245)	\$(495)
Annual Debt Service	\$15	\$18	\$35

Additional bonds would need to be sold if the cost of I-205 Abernethy increases, as is expected based on the identified known risks. ODOT may also choose to sell additional bonds to cover cost escalation on other HB 2017 projects, such as the OR 22 Center Street Bridge, which faces a significant shortfall. Bonds would likely be issued in multiple tranches starting in the 2025-2027 biennium when funds are needed to pay project expenses. Legislative authorization for these bonds would be required in the 2025 bond bill.

Funding to pay back these bonds would be drawn from bridge projects statewide that are programmed in the 2024-2027 STIP or would be programmed in future STIPs. The bonds would likely be paid off in about 25 years from their date of issuance. Because all of the bonds will not be sold for several years, impacts to the Bridge program would likely be relatively small in the 2024-2027 STIP—likely in the range of \$45-50 million-- though ODOT would likely need to cancel or delay some projects. ODOT will return to OTC for actions to cancel or delay projects in the 2024-2027 STIP once we have greater insight into the amount of bonds to be issued, the timing of bond sales, and debt service amounts. The full impact would hit the 2027-2030 STIP after all the bonds are issued, but projects have not yet been programmed in this STIP. In the 2027-2030 STIP, the Bridge Program funding is \$272 million total and an estimated \$105 million will go towards debt service. For future STIP cycles, debt service will be a line item in the program budget and there will be less money available for delivering other projects.

Depending on the timing of long-term bond sales, these options may require additional short-term borrowing through the commercial paper program to meet immediate cash flow needs on I-205, and this borrowing comes with financing costs. To avoid the use of short-term financing, and its associated costs, ODOT may elect to move up the sale of the legislatively-authorized HB 2017 UMS bonds to meet immediate cash flow needs. However, it should be noted that moving up the issuance of HB 2017 bonds will reduce the total resources available from HB 2017 UMS funding in two ways:

- ODOT generates about \$1 million in additional cashflow each month from the portion of the funding that is not yet being paid in debt service; and

- The longer ODOT is able to wait to sell the remaining portion of UMS bonds, the more proceeds it can generate. Conversely, the sooner ODOT sells the remaining portion, the less proceeds it can generate.

While ODOT has strong credit ratings from rating agencies—including a AAA rating from S&P—the issuance of additional debt against existing State Highway Funds without additional revenue enhancements, combined with the projected decline in the gas tax and the agency’s funding challenges, could lead to a rating downgrade or other negative guidance from the rating agencies that could increase the agency’s cost of borrowing.

Funding Needed to Complete the Urban Mobility Strategy Projects

While closing the short-term funding gap for the I-205 Abernethy Bridge project is urgent and critical, it is also important to lay out options for completing other unfunded work in the UMS, including:

- Construction of the full I-5 Rose Quarter, including completing the auxiliary lanes and shoulders to address the traffic bottleneck and safety issues, as well as constructing the remainder of the highway cover, the multimodal local street improvements, and the relocation of the I-5 southbound off-ramp.
- Construction of I-205 Phase 2, which includes the missing lane between Stafford Road and the Abernethy Bridge as well as bridge investments for seismic resilience through the southern end of the corridor. Further design work on this project was put on indefinite hold in 2023 when tolling was delayed; additional funding is needed to complete environmental review, design and undertake construction.
- Replacement of the I-5 Boone Bridge for seismic resilience and congestion relief. This project has only undertaken preliminary planning and requires funding to complete environmental review, design and enter construction.

The total cost of I-5 Rose Quarter, I-205 Improvements (both Abernethy Bridge and Phase 2), and I-5 Boone Bridge totals an estimated \$4.3 billion, with a \$3.1 billion funding gap, as shown in Table 3.

The Commission, Legislature, and ODOT have a variety of methods to seek to close this gap.

- **Additional funding in the STIP.** The Oregon Transportation Commission could dedicate additional funding from discretionary resources in the Statewide Transportation Improvement Program (STIP). However, these funds are already allocated among programs through 2030, with no additional funding dedicated to UMS projects. What’s more, discretionary resources are increasingly constrained due to the need to fund the ADA program and other programs required under law: in the 2027-2030 STIP the Commission had less than \$100 million in discretionary resources to allocate among programs, and many areas including Fix-It and Public and Active Transportation took cuts.

Table 3: Project Funding Gaps

Project	Notes	Cost (High)	Available Funding*	Funding Gap*
I-5 Rose Quarter	Cost estimate will be updated in 2025. Available funding includes the RCN grant and previously allocated funding. Does not include \$250 million proposed for project construction.	\$1,900	\$608	\$(1,292)
I-205 Abernethy	Incorporates additional costs as noted above. Available funds includes all remaining HB 2017 funds.	\$815	\$570	\$(245)
I-205 Phase 2	Updated to assume project construction begins in 2031.	\$800	\$0	\$(800)
I-5 Boone Bridge	Cost estimate has not been updated since 2023 finance plan. A new cost estimate range will be developed in late 2024.	\$725	\$4	\$(721)
Total		\$4,300	\$1,182	\$(3,058)
*Based on December 2024 base funding scenario, with all remaining HB 2017 UMS funds dedicated to Abernethy. **Estimated annual debt service on 25 year Highway User Tax Revenue bonds, rounded to nearest \$10 million. ***Increase in the statewide fuels tax along with complementary weight-mile tax to pay debt service, rounded to nearest penny.		Annual Debt Service**		\$210-240
		Fuels Tax Equivalent***		9-11 cents/gallon

- Federal discretionary grants.** In the last year major highway projects in the Portland metro region have secured over \$2.5 billion in federal discretionary funding available under the Infrastructure Investment and Jobs Act. In addition to the Rose Quarter's \$450 million RCN grant, the Interstate Bridge Replacement secured a \$600 million MEGA grant and a \$1.5 billion Bridge Investment Program grant. ODOT intends to continue seeking other federal grants for the UMS projects—particularly the Rose Quarter. However, ODOT did not receive an INFRA grant for Rose Quarter, and INFRA grants have now been awarded through 2026, when the Infrastructure Investment and Jobs Act expires. Funding for discretionary grant programs beyond that timeframe are dependent on congressional action to reauthorize the IJA, which could be challenging given a significant shortfall in user fee revenue flowing into the Highway Trust Fund. UMS projects may be eligible to receive other grants, though most are likely to be much more modest in size than those received to date.
- Additional statewide tax revenue.** Additional statewide tax revenue could be dedicated to the UMS projects. Generating \$3 billion in bond proceeds to close the funding gap would require about \$215 million in annual funding for debt service, which amounts to a statewide gas tax increase of nearly 10 cents per gallon, along with complementary weight-mile tax revenue.
- Regional funding.** A portion of the UMS funding gap could be raised through transportation taxes and fees within the Portland metro region, as was originally contemplated as part of HB 2017; this option was set aside in favor of tolling.

- **Tolling revenue.** While implementation of tolling has been paused, it remains an option if other funding sources are unable to close the gap and policymakers wish to complete major congestion relief projects.

Completing these three major projects will likely require some combination of multiple of the above funding sources rather than relying on a single source.