July 17, 2007

Doug Tindall
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Oregon Department of Transportation
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Dear Doug,

Thank you for your letter dated May 21st 2007.

As you correctly state the Oregon Transportation Improvement Group's (OTIG) Milestone One Report, presented to the Oregon Transportation Commission on December 10, 2006 canvasses a wide variety of different options for the financing of the Newberg - Dundee Bypass Project, but at the request of the stakeholders did not provide any clear recommendations in order to allow the community to form their own views on the appropriate way forward.

The fundamental challenges of supporting the Project through tolling revenue are:

- In order to fully support the Project's capital and operating costs, the majority of the 34,000 Average Annual Daily Traffic (AADT) using Highway 99W in 2006 would need to pay a commercially reasonable toll of approximately $2 per vehicle in 2006 dollars.
- The traffic forecasts show that on average only 24% of the traffic in the corridor would choose to use the Bypass if they had to pay a toll of just $1 (the revenue maximizing toll) compared to the option of driving for free on Highway 99W. This is because the travel time savings offered by the Bypass, except in the most peak periods of congestion, are insufficient to encourage most people to pay a toll. The revenues generated in this case are barely sufficient to pay for the operating costs of the Bypass and leave a very large funding gap in construction costs.

The Bypass is not commercially self-supporting therefore as long as there is a viable free alternative on Highway 99W. This situation is likely to continue for a long time until congestion levels become so intolerable for most of the day that more people are prepared to pay to use the Bypass.

This is a significant problem for the local community, especially as 48% of traffic on Highway 99W is "pass through traffic", which has no reason to visit Newberg or Dundee other than Highway 99W passes through the towns.
It was for this reason that the idea of corridor tolling was introduced to try to ensure that this traffic, plus the additional 30% of traffic which is not trips made by the residents of the towns, pay a toll to reflect the benefits which they obtain from the Bypass. As you state in your letter, despite significant public consultation and efforts to ensure the fairness of any corridor tolling mechanism this is not viable from a political perspective in the foreseeable future.

It also has some remaining commercial challenges. If only pass through traffic is tolled, then the toll rate would need to be $4 per trip in 2006 dollars. Alternatively at a more commercially reasonable toll of $2 there would be a funding gap in excess of $200 million.

The only alternative to some level of corridor tolling would be to discourage use of Highway 99W by traffic which has no need to drive into the towns by other means. Like corridor tolling, this has numerous political and, potentially, legal challenges. The most realistic scenario would involve downtown revitalization measures in Newberg and Dundee which improved local traffic patterns but made through trips slower and less direct. This would move more traffic onto the Bypass even with a toll. However at realistic levels of traffic control, this would be unlikely to dramatically alter the commercial viability of the Bypass.

The final opportunity would be to reduce costs. As you are aware, both OTIG and ODOT’s experts believe that the capital cost of the project is very high relative to the transportation benefits it brings and have worked together to find ways to reduce costs. Further cost reduction is dependent on scope changes to the project and likely revisions to the NEPA process. Cost reductions associated with significant deferments and changes to the project could significantly reduce the funding gap and potentially eliminate it entirely when combined with revenue enhancement measures described above. A summary description of the cost reduction opportunity is attached to this letter.

Regrettably therefore, if as you indicate, there is no source of external Federal, State or municipal funding available to support any funding gap, then OTIG has reached the conclusion that the project is not financially feasible on a self supporting basis.

OTIG would be very happy to continue to assist ODOT in progressing the project if there are opportunities to revisit the corridor tolling or construction issues discussed above. We also believe that we have demonstrated the benefits involvement of a private partner can bring, even if ODOT identifies significant sources of public funding to support the project.

Given the foregoing we believe that it would be appropriate for OTIG and ODOT to elect to terminate the Newberg-Dundee Pre-Development Agreement in accordance with Section 13.2.1 (b).

Should circumstances change at any time in the future, we would be very happy to revisit our extensive work on this project and assist ODOT and the local communities in solving their traffic management challenges.

We would like to thank both ODOT and the many representatives of the local communities who were generous with their time and expertise in assisting us with our analysis over the past two years.

Yours sincerely,
Oregon Transportation Improvement Group

Nicholas Hann
Project Manager

Attachment 1 enclosed
ATTACHMENT ONE: Overview of Cost Reduction

Since our meeting on Hatch Mott on behalf of OTIG have been preparing a “Start Over” cost estimate, i.e. a construction cost estimate that does not attempt to work within the constraints of the ODOT/NEPA defined project, but attempts to present a minimum acceptable configuration for the facility. Some of the changes would not effect the NEPA process – they delay but do not eliminate certain items that can added at a later time, e.g. delay of the Dundee interchange; other changes may not directly impact the NEPA process but may impact agreements that they have made to certain groups, e.g. use of bridges or culverts; and some changes would most definitely affect the process but with some determination from ODOT should not entail significant delay, e.g. horizontal and vertical alignment.

The major basic assumptions that we have made include:

1. Two lanes will be built at the beginning with full compatibility for future widening to four lanes.
2. The highway will still be fully accessible as a bypass but all interior interchanges will be deferred.
3. The Newberg Dundee interchange will be realigned to the North to miss the large gulley to the South thereby eliminating the need for several major structures.
4. Context sensitive solutions will be cost effective, i.e. built into not added to the project.
5. Noise barriers will be placed on one side only. When the facility is widened, they will be fully placed.
6. Cut and fill will be balanced. The cut will be only enough to provide necessary fill. This will be done to satisfy requirements of a 70 mph design speed but will entail more of a rolling “parkway” like ride. With less cut, less geotextile fabric will be needed.
7. Mainline Bridges and Culverts: All mainline bridges and culverts over local roads or natural obstacles will be two lanes. The matching two lanes will be built when the bridge is widened. Where the new highway is in close proximity to either 99W or the railroad, bridges and culverts will be placed such that type and length are equal to or better than the current conditions. There are 8 different scenarios that we considered. Some examples are: if there is a bridge on the bypass and a bridge on 99W, the bypass bridge will be 1.25 times the length of the 99W bridge; if there is no bridge on 99W and a bridge on the bypass, the bypass bridge will be changed to a culvert. (Should a bridge or culvert be placed on 99W or the RR in the future, we may agree to do the same to the bypass.)
8. Overcrossing Bridges: The median width of the mainline will be minimized and the length of overcrossings will only span the two mainline lanes. The design will allow the bridge to be doubled in length when the two deferred lanes are added.
9. Due to the magnitude and type of changes assumed, the contingency has been increased from 20% to 40%. This can obviously be reviewed further and may allow for further cost reduction.

The cost estimate derived from these and other more minor assumptions is approximately $220 m excluding the cost of ROW. The calculations and some of the assumptions (such as the viability of balancing cut and fill) have not been fully checked but we feel that the number is somewhat stable at this time, and most probably under the breakeven point of ~ $250 m. So, while the changes are significant, this new number does have the potential of eliminating the funding gap.