



I-69 Section 5

State Budget Committee Meeting

July 6, 2017

Presented by:

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Purpose of Budget Committee Review



- IC 8-15.5-5-6.1 (a)(5) and (b) require that the issuance of bonds to provide funding to complete the I-69 Section 5 project must be submitted to Budget Committee for review
- This legislation was passed in HEA 1002 – 2017



Bond Issuance



- Proposed IFA Financing – Next Steps
 - IFA issues Bond Anticipation Note (BAN) in late July 2017
 - Use of BAN allows for speed of execution of settlement documents so IFA/INDOT can gain full release of the Bondholders and officially take over the Project
 - BAN proceeds will be used to payoff the outstanding Private Activity Bonds (PABs) of the Developer (approximately \$240M)
 - IFA will take out BAN with long term fixed rate Highway Revenue Bonds
 - IFA issues Highway Revenue Bonds (HRBs) in September 2017
 - Payoff the BAN
 - Finance the remaining Project costs
 - Financial strength of the State will allow the IFA to issue lower interest rate HRBs (expected to be AA+) versus the Developer PABs (originally rated BBB-)



Bond Issuance



- Financial modeling shows the following:
 - State will save money as compared to original P3 agreement (more detail later on next slide)
 - Risk being shifted back to the State is acceptable since over half of the Project is complete and many risks have already been identified



P3 vs State Control Cost Analysis



Cost- Assuming P3 to completion

- **Costs**
 - Net Present Value (NPV) of Availability Payments (AP's) to be made for 35 years after completion
 - AP's include debt service cost, Operations & Maintenance, Lifecycle and profit for developer
 - Milestone Payments during construction

- **Calculation**

NPV AP's	\$510m
Milestones	<u>\$80m</u>
Total	\$590m

Cost- Assuming State Completion of Project

- **Costs**
 - INDOT Costs
 - Includes cost to complete funding
 - NPV of debt service cost
 - NPV O&M/ Lifecycle
 - Budgeted State Contribution
 - Originally budgeted for Milestones
 - Developer Contribution- Cash Inflow

- **Calculation**

INDOT Costs	\$212m
NPV of Debt Service	\$191m
NPV O&M/ Lifecycle	\$129m
Budgeted State Contribution	\$80m
MINUS: Developer Contribution	<u>(\$50m)</u>
Total	\$562m



Operational Control



- IFA has been working hand-in-hand with INDOT preparing for State control of the Project
 - Walsh Construction II, LLC (Walsh) has been retained as consultant on the Project until the IFA achieves financial close on the settlement agreement
- INDOT plans on taking the following actions:
 - Resolving any claims related to the Developer / Design-Builder
 - Terminating and negotiating new contracts for all subcontractors
 - After financial close, Walsh will serve as construction manager for the Project
 - INDOT will have full responsibility for O&M and lifecycle costs on the Project



Background Information



- History of I-69 Section 5
- Steps taken in 2017



History of I-69 Section 5



Indiana Finance Authority

I-69 Development Partners
(Developer)

- IFA's contractual relationship is with I-69 Development Partners through the PPA to deliver the Project
- Developer subsequently contracted with Isolux Corsan, LLC (Design-Builder) to construct the Project

Isolux Corsan, LLC
(Design-Builder)



History of I-69 Section 5



- I-69 Section 5 Project (Project) was procured as a Public Private Partnership (P3)
 - Procurement began in 2013
 - IFA entered into Public Private Agreement (PPA) with I-69 Development Partners (Developer) on April 8, 2014
 - Financial Close- July 2014
 - Developer's Private Activity Bonds (PABs)- Closed July 23, 2014
 - IFA as Conduit Issuer
 - PABs **issued** on behalf of Developer and do not affect the State of Indiana's credit rating
 - Par Amount- \$243,845,000
 - Final Maturity- September 1, 2046



History of I-69 Section 5



- IFA/INDOT Financial Role
 - IFA/INDOT would make two types of payments:
 - Milestone Payments:
 - Payments made to Developer for achieving certain milestones during construction.
 - Payments reduced finance costs of Developer and decreased Availability Payments.
 - Availability Payments (AP's):
 - Payments made to Developer for 35 years once Project was complete and available for use
 - AP's were to be used by Developer for:
 - Debt service cost of PABs
 - Operations & Maintenance (O&M)
 - Lifecycle cost
- Ongoing issues with Developer and Design-Builder
 - Subcontractors not paid timely, leading to temporary work stoppage
 - Delays in construction timeline
 - Notices of non-performance filed against Developer



Steps taken in 2017



- As it became increasingly clear that additional steps would have to be taken to complete the Project, the IFA and INDOT explored available options to finish the Project
- Termination of the PPA was strongly considered in late 2016 and early 2017 as we closely monitored the situation, but was determined to not be ripe because:
 - Termination would have led to increased costs through claims and litigation
 - Parties were still committed to complete Section 5
 - Did not yet have the statutory framework in place that came from HEA 1002 – 2017 that led to effective dissolution of the contract
- In February 2017, the IFA entered into a Memorandum of Understanding (MOU) with Developer and Design-Builder to inject additional capital into the Project and resolve disputes.



Steps taken in 2017



- By the end of March 2017, IFA became aware that the Design-Builder had increasing financial difficulties and would not be able to fulfill their financial commitment under the MOU.
- The IFA then sought legislative amendments that, in the event the PPA was terminated, authorized the use of Highway Revenue Bonds (HRBs) for the purpose of completing the Project. (HEA 1002-2017, P.L. 218-2017)
 - Before issuing HRBs, the IFA is required to submit such plan of action to the State Budget Committee for review (IC 8-15.5-5-6.1(b))
- Due to the increasing financial difficulties, the Developer and Bondholders were now interested in a negotiated termination of the contract



Steps taken in 2017



- Steps being negotiated to achieve desired action:
 - Negotiate a settlement agreement with both Developer and the Bondholders of the PABs in order to terminate the PPA.
 - IFA/INDOT planning the necessary steps to take control of the Project and to ensure work continued uninterrupted with the goal of completing the Project as fast as possible