

# THE BOND BUYER

## Virginia Breaks Ground on Its Largest Infrastructure Project

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Virginia is moving forward with its largest-ever infrastructure project, bucking a trend developing in other areas of the U.S. where capital funding is being cut amid the coronavirus pandemic.

Officials from the Old Dominion State broke ground on the long-planned \$3.8 billion Hampton Roads Bridge-Tunnel Expansion Oct. 29. It will widen a 10-mile stretch of Interstate 64 that link Hampton and Norfolk across the Hampton Roads to six lanes from four lanes, and add two new, two-lane subsea tunnels to the existing bridge and tunnel.

*The Hampton Roads Bridge-Tunnel sees more than 100,000 vehicles at peak times creating severe congestion; Virginia hopes to ease that problem with a major expansion project.*

*Virginia DOT*

More than 100,000 vehicles use the bridge and tunnel during peak travel periods, creating severe congestion even today as the region deals with the coronavirus that causes COVID-19, according to state officials.

“For too long, traffic in the Hampton Roads region has bottlenecked at the tunnel,” Gov. Ralph Northam said on the day of groundbreaking. “Folks in this region deserve an easier, more reliable commute. This is the largest project in our history and it will ensure that people can move around faster [and] that commerce flows more easily.”

The Hampton Roads Transportation Accountability Commission [issued](#) \$614.6 million of tax exempt, 40-year, senior-lien revenue bonds on Oct. 6, its third financing for the mega project since 2018. The bonds are rated Aa2 by Moody's Investors Service and AA by S&P Global Ratings, both with stable outlooks.

The commission's plan of finance calls for spending cash and issuing bonds annually through 2026. The design-build project is expected to be completed in 2025.

Virginia's decision to move forward with such an expensive project at a time when stimulus and jobs are needed is heartening, experts say, as it comes while many local and state governments see expenses rising to fight the coronavirus.

"It's very encouraging that Virginia is going ahead with this even though they've trimmed back on some other projects closer to the Washington, D.C. area," said William Glasgall, senior vice president and director of state and local initiatives at The Volcker Alliance.

"The fact that a lot of the funding is based on dedicated revenues and not on legislative appropriations is very encouraging for any investor," Glasgall continued. "That highway is just as close to a monopoly as you want. There's no free route essentially."

The HRTAC will pay \$3.55 billion of the bridge and tunnel expansion cost, using debt and cash. Between \$345 million and \$575 million is expected to come from toll revenue bonds, according to the official statement for the October sale.

The commission funds its program with a motor vehicle fuels sales tax at a rate of 7.6 cents per gallon on gasoline and gasohol, 7.7 cents per gallon on diesel, and a 0.7% retail sales and use tax collected in the cities and counties that are members.

The tax on fuels is subject to annual adjustment in accordance with the Consumer Price Index starting July 1, 2021.

The Virginia Department of Transportation plans to contribute \$108.5 million from its budget and another \$200 million from a separate VDOT program. Federal funds are also being sought, according to VDOT.

At a time when there has been gridlock in Congress and the White House over additional federal stimulus funding and passing an infrastructure bill, municipal bond analyst Joseph Krist said Virginia's mega transportation project shows "the kind of thinking that should characterize government.

"Doing this project in the midst of the pandemic will reflect the kinds of investments and job generators that projects like this could be," Krist told The Bond Buyer. "During times of diminished economic conditions, the project is of the sort that is tailor made to produce at least a local stimulus.

"That's a good example of the many positive impacts public capital investment can produce," he added.

Krist also said Virginia's project benefits from being planned and funded in a pre-pandemic universe.

Alison Black, senior vice president and chief economist for the American Road & Transportation Builders Association, said in [LinkedIn blog post](#) Oct. 2 that state and local government transportation contracting is slowing down due to the pandemic's impact on state and local finances.

"The value of contract awards, a leading indicator of future market activity, was strong up to the July 1 start of the fiscal year in 46 states," Black wrote. "Award values dropped to \$13.3 billion in July and August from \$19.2 billion in 2019.

Black said a slowdown was expected given declining user fees and other transportation-related revenues. By Oct. 1, she said, at least 18 states and 25 local governments or transportation authorities announced more than \$10.9 billion in project delays or cancellations due to budget shortfalls.

As the country emerges from the pandemic-induced recession, U.S. state infrastructure spending is likely to be disrupted further, S&P said in a comment Oct. 29.

"One consequence of continuing travel restrictions instituted to control the spread of the virus is that billions of dollars in transportation-related revenues, which typically fund long-term capital plans, are at risk of falling short of pre-pandemic levels, possibly for several years," said S&P analyst Timothy W. Little.

As the country begins to recover from the recession, which Little said was even more severe than the Great Recession, S&P said it sees a growing risk that there will be continued underinvestment in infrastructure.

Despite the economic downturn, Virginia officials say congestion remains high on the Hampton Roads Bridge-Tunnel, supporting the need to move forward with the expansion project.



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The original westbound Hampton Roads Bridge-Tunnel opened Nov. 1, 1957. It is a 3.5-mile bridge and two, 2-lane immersed tube tunnels connecting artificial islands with trestle bridges to shore. The eastbound tunnel opened in November 1976.

The Hampton Roads Transportation Accountability Commission was created as a political subdivision of the state in 2014 to manage the Hampton Roads Transportation Fund for the region. HRTAC replaced the Hampton Roads Transportation Planning Organization.

The commission's voting members represent 10 cities and four counties in the Hampton Roads region of southeastern Virginia, as well as five members of the state General Assembly. Ex-officio members represent VDOT, the Commonwealth Transportation Board, the Virginia Department of Rail and Public Transportation and the Virginia Port Authority.

As one of its first acts, the HRTAC included a Hampton Roads crossing study in its list of priority projects, leading to the development of a supplemental environmental impact statement to evaluate options for the bridge-tunnel expansion.

In December 2016, the Commonwealth Transportation Board approved the preferred route and completed environmental studies. The Federal Highway Administration issued a record of decision approving the project in June 2017.

The state initially planned to use a public-private partnership, but later determined that a design-build model was more suitable using local, state and federal public funding.

VDOT issued a request for qualifications from firms interested in building the project in December 2017.

In February 2019, VDOT selected Hampton Roads Connector Partners as the best value proposer, a Dragados USA-led design-build team that includes lead contractor HDR, lead designer Mott MacDonald, Flatiron Constructors, Vinci Construction, and the French construction company Dodin Campenon Bernard.

The state of Virginia [signed financing and comprehensive agreements](#) with the HRTAC in April 2019 formally establishing the funding plan, although the commission began financially supporting the expansion project with \$500 million of revenue bonds issued in February 2018.

The commission also issued \$414.3 million of bond anticipation notes in December 2019. The BANs mature July 1, 2022, and will be taken out with a loan under the federal Transportation Infrastructure Finance and Innovation Act.

HRTAC Executive Director Kevin Page couldn't immediately be reached for comment about the need to move ahead with the expansion.

Page told the publication Transport Topics on Monday that despite complications arising from the COVID-19 pandemic and downturn, congestion remains a problem.

"Like any other major metropolitan region with high population centers, we do suffer from the commonplace backup and congestion," Page [told Transport Topics](#). "One thing that COVID has done for us is proven that the congestion at the Hampton Roads Bridge-Tunnel has sustained even through COVID. [It] further emphasizes the need to do this project."