



Date: November 20, 2023

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From: Joe Cortright, No More Freeways

RE: Interstate Bridge Project Grant Application: Benefit Cost Errors

No More Freeways is writing to ask that Federal Highway Administration (FHWA) take no further action to advance the proposed Interstate Bridge Project until it has made the necessary determination, as provided in its own regulations, that funding for the project is effective, as indicated by a valid benefit-cost analysis.

The Oregon Department of Transportation (ODOT) and Washington State Department of Transportation have submitted an application to the FHWA requesting \$xxxxx in federal funds for the Interstate Bridge Replacement Project

As you know, federal law requires that FHWA determine that any project receiving funds under the INFRA law must demonstrate cost-effectiveness. As the federal statute creating INFRA ([23 U.S.C. 117](#) (g) (2) provides:



(g) Project Requirements.-The Secretary may select a project described under this section (other than subsection (e)) for funding under this section only if the Secretary determines that-

...

(2) the project will be cost effective,

The Oregon Department of Transportation has submitted a Benefit-Cost Analysis purporting to show that the proposed project is cost-effective.

No More Freeways has prepared a detailed evaluation of the IBR Benefit Cost Analysis. This evaluation shows that the material submitted by ODOT and WSDOT is replete with errors, and does not comply with USDOT guidance for the preparation of such studies.

A correct evaluation of this project shows that its costs exceed its benefits by a wide margin. What this means is that the proposed freeway widening is not cost-effective; not only is it not something that qualifies for federal funding, it also is a demonstrably wasteful, value-destroying expenditure of public funds. The amount of money that the federal government, the States of Oregon and Washington, and highway users would pay in tolls, exceeds by a factor of more than two the actual economic benefits that would accrue to a subset of highway users. This is a project that would make us worse off economically--exactly the kind of project that the cost-effectiveness standard is established to prevent.

City Observatory's analysis of the IBR Benefit-Cost Study shows that it is riddled with errors and unsubstantiated claims. It dramatically understates the actual cost of the project, both by mis-stating initial capital costs, and by entirely omitting operation and maintenance and periodic capital costs. The construction period is under-estimated, which likely understates capital costs, and over-states benefits. In addition, the study also omits the toll charges paid by road users from its definition of project costs, in clear violation of federal benefit-cost guidelines. In addition, the IBR BCA study dramatically inflates estimated benefits. It uses an incorrect occupancy estimate to inflate the number of travelers benefiting from the project. It offers, without substantiation, claims that the improved reliability and congestion cost savings, over and above time savings. The ODOT analysis also presents inflated estimates of safety benefits, based on an incomplete and un-documented crash analysis. In addition, ODOT's study fails to separately present the benefits and costs of the project's tolling and capacity expansion components, and omits an analysis of the distribution of benefits and costs among different demographic groups.

Inasmuch as each of these errors either understates costs or overstates benefits, they falsely exaggerate the economic value of this project and collectively constitute an attempted fraud by the project applicants in seeking federal funds. If the applicants submitted a true and correct



estimate of benefits and costs, the project would not qualify for federal funding. The errors in this benefit cost analysis constitute a violation of 18 U.S.C. 1020 reads as follows:

"Whoever, being an officer, agent, or employee of the United States, or of any State or Territory, or whoever, whether a person, association, firm, or corporation, knowingly makes any false statement, false representation, or false report as to the character, quality, quantity, or cost of the material used or to be used, or the quantity or quality of the work performed or to be performed, or the cost thereof in connection with the submission of plans, maps, specifications, contracts, or costs of construction on any highway or related project submitted for approval to the Secretary of Transportation; or Whoever knowingly makes any false statement, false representation, false report or false claim with respect to the character, quality, quantity, or cost of any work performed or to be performed, or materials furnished or to be furnished, in connection with the construction of any highway or related project approved by the Secretary of Transportation; or Whoever knowingly makes any false statement or false representation as to material fact in any statement, certificate, or report submitted pursuant to provisions of the Federal-aid Roads Act approved July 1, 1916, (39 Stat. 355), as amended and supplemented; Shall be fined under this title or imprisoned not more than 5 years or both."

Benefits are overstated

ODOT and WSDOT claim that the present value of benefits from the IBR project amount to more than \$4 billion; nearly all of these benefits are attributed to travel time savings, congestion cost reductions and seismic resilience, and reduced crash losses. ODOT's estimates of both travel related savings and crash reductions lack documentation.

Travel Benefits: The IBR BCA claims that the project will produce \$2.4 billion in travel time benefits. ODOT's estimates are plagued with errors and a lack of documentation

- Travel benefits are miniscule to individual travelers--averaging about 20 seconds in a typical five-mile trip, according to the BCA. These savings are imperceptible to individual travelers and are likely to be of no significant economic value.
- The estimates use the wrong value for peak hour vehicle occupancy, exaggerating peak travelers by 13 percent.
- The project fails to document the diversion of traffic to I-205 as a result of charging tolls on I-5; this will cause longer trips for 33,000 diverted vehicles per day, and will increase congestion and travel times for the 220,000 persons crossing the I-205 bridge. These



costs will largely offset the travel time savings purported to accrue to travelers in the project area.

Resiliency Benefits: The IBR BCA claims savings for lives lost in a potential earthquake, savings on the cost of a replacement bridge, and added savings in traveler delay in the event that the bridges collapse in an earthquake. All these estimates are exaggerated, including probability of a major seismic event, likelihood of collapse, fatality rate in the event of a seismic event, number of persons on the bridge at the time of an event, the cost of replacing the bridge, and the scale of added travel that would result from traffic disruption if the bridge collapses.

Safety Benefits: The IBR BCA claims that the project will reduce crashes on I-5 and will produce benefits with a present value of approximately \$million. ODOT asserts that it has used the ISATe model to predict a xx percent decline in crashes in the project area. Also, it has not documented what features of the project produce the supposed ISATe benefits, and it has failed to calibrate the ISATe model for I-5, and the ISATe methodology can't be used to accurately compute crash reduction on highways with ramp-metering, which I-5 has.

Costs are understated

IBR BCA and WSDOT claim that the present value of the initial capital costs of this project are \$2.7 billion. That is a significant understatement. The project's construction cost, according to other IBR BCA and WSDOT documents is as much as \$7.5 billion. BR BCA's failure to comprehensively account for project costs violates federal benefit cost guidance which requires that costs include "the full cost of the project. . . regardless of who bears the burden . . . including state local and private partners . . ." The higher amount in the "sources" estimate than the "uses" estimate reflects the fact that IBR BCA may collect more in tolls than the present value of the project.

Costs Exceed Benefits by a Wide Margin

After we correct IBR BCA's study for under-counted costs, and unsubstantiated benefit claims, the project's benefit-cost ratio falls to dramatically less than one, which is the minimum standard for meeting the statutory requirement that the project be cost-effective. Our corrected estimates show that the actual cost of the project ranges as high as \$5 billion. The actual benefits of the project, are roughly \$2 billion. This means that the project has a benefit-cost ratio of between 0.4 and 0.3, well below the minimum threshold of 1.0. The correct analysis shows that the I-5 Bridge Replacement project is a value-destroying endeavor: it costs users and taxpayers far more than it provides to the public in benefits. It is not cost-effective, and should not be approved by FHWA.



Failing to disaggregate benefits and ignoring distributional impacts

Federal regulations require that a benefit-analysis separately report the benefits and costs of independent elements of a project. This is to prevent a prospective applicant from combining an ineligible project (with costs that exceed benefits) with an eligible project (with a positive benefit-cost ratio) in order to get a larger amount of federal funds. The IBR project consists of at least two elements with independent utility: a plan to toll I-5, and the proposed widening of the highway, intersections and approaches. Nearly all of the travel time benefits associated with the project result from tolling, according to IBR BCA's own analysis. Appraised separately, the tolling would have a far more favorable benefit-cost ratio than the highway expansion. To comply with federal requirements, IBR BCA should produce separate benefit cost estimates for each component of the project.

Federal regulations strongly encourage applicants to examine the distribution of benefits and costs among different segments of the population. IBR BCA included no distributional analysis in its benefit-cost study. Nearly all of the travel time, and congestion reduction benefits accrue to peak hour travelers. Yet a majority of the the cost of tolls are likely to be paid by travelers who use the I-5 during off-peak hours; these off-peak travelers get no travel time benefits. In effect, they are made worse off: they have to pay a toll even though they get no better service than under the no-build scenario.

Possible Fraudulent Claim

Moreover, the systematic and consistent nature of the omissions and false assumptions presented in the ODOT application serve to represent an unqualified project as qualified for federal funding. These materially false statements constitute a fraudulent attempt to qualify a project for federal funds for which it is not eligible. This matter should be submitted to the USDOT Inspector General to determine whether the applicants have violated the terms of 18 U.S.C. 1020, by submitting materially false information in application for federal highway construction funds.

Conflict of Interest

It is concerning that the benefit-cost analysis is prepared by a private sector contractor with a direct financial interest in the construction of the IBR. The Benefit-Cost Narrative report indicates that the report was "Prepared by WSP." Financial records obtained from the IBR project pursuant to a public records request show that WSP has current contracts to perform paid work on the Interstate Bridge Replacement Project valued at \$76,282,807.03. In the event that federal funding is not forthcoming, it is unlikely that the project will proceed, and WSP will lose this lucrative source of income. WSP is not, and cannot be, an independent and objective evaluator of the benefits and costs of this project. It has a blatant conflict of interest, which is



not disclosed. The US DOT should disregard the Benefit-Cost Analysis, and insist on the preparation of a benefit-cost analysis by a firm with no financial interest in the Interstate Bridge Project, and which is selected by a process that assures that the contractor has no present or future interest in the project or in the outcome of the benefit cost analysis.

Conclusion

After correcting IBR BCA's study for these errors, understated and omitted costs, and exaggerated or unjustified claims of benefits the benefit cost ratio for the proposed project falls to well below 1. ***This means that the project does not comply with the statutory requirement that it be cost effective. More concretely, this means that in economic terms this is a wasteful, value-destroying project:*** roughly speaking it costs \$2.50 to deliver just \$1 in value to users of the facility.

No More Freeways calls on FHWA to carefully examine the benefit-cost ratio of this project, and to reject the proposed application for federal funds.

Attachment: *City Observatory Analysis of IBR Benefit Cost Study*