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November 18, 2016

VIA E-MAIL – paul.baumer@dot.gov

RE: Application for Private Activity Bond Allocation for the Fargo-Moorhead Flood Diversion Project

Mr. Paul Baumer
Office of Infrastructure Finance and Innovation
Office of the Secretary
U.S. Department of Transportation
W84-229
1200 New Jersey Avenue, S.E.
Washington, D.C. 20590
VIA E-MAIL – paul.baumer@dot.gov

Dear Mr. Baumer:

The Fargo-Moorhead Flood Diversion Authority (the “Authority”) is pleased to submit the enclosed CONFIDENTIAL DRAFT of our Application for Private Activity Bonds (“PABs”) Allocation for the Metro Flood Diversion Project (the “Project”) for your initial review and comments.

The Project will be a part of a comprehensive effort, including work with the U.S. Army Corps of Engineers, to protect the communities of Fargo, ND and Moorhead, MN and their surrounding counties from floods which today threaten the livelihoods of thousands of people. The Project, through a combination of dams and a channel, will allow for the diversion of floodwaters from the Red River of the North and other rivers in the region to keep these places safe, and strengthen their economies. A key element of the overall Project goals is the development of resilient transportation infrastructure. In conjunction with the channel and dam, several key pieces of surface transportation infrastructure must be constructed, leading the Authority to seek a PABs allocation under the USDOT program.

City of Fargo
Tim Mahoney
Dave Piepkorn
Tony Grindberg

City of Moorhead
Del Rae Williams
Nancy Otto
Chuck Henderickson

Cass County
Darrell Vanyo, *Chair*
Ken Pawluk
Mary Scherling
Mike Thorstad
(City of West Fargo)

Clay County
Kevin Campbell
Grant Weyland

**Cass County Joint
Water Resource District**
Rodger Olson

The Project will be delivered through a number of different mechanisms, but a key part of it will involve a design build finance operate maintain (“DBFOM”) public-private partnership (“P3”) structure. The Project’s procurement for this P3 contract began in 2016, and is expected to reach financial close in early 2018. The Authority expects that the P3 Developer will finance the Project through a combination of PABs, equity contributions and other debt sources. Capital costs eligible for PABs are preliminarily estimated to be approximately \$232 million, and with a 10% contingency, we are requesting an allocation of \$255 million in USDOT PABs.

The Authority looks forward to discussing this draft application and any questions you may have at your convenience.

The contact person for the Project and the Authority’s PABs allocation application is:

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Ohnstad Twichell, P.C.
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West Fargo, North Dakota 58078-0458
Telephone: 701-282-3249
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General Counsel & Bond Counsel to the Authority

We look forward to working with you to deliver this project for the people of Fargo, Moorhead and their surrounding counties.

Sincerely,



Michael J. Redlinger
Co-Executive Director
Metro Flood Diversion Authority

1. **Amount of Allocation Requested:** \$255,000,000
2. **Proposed Date of Bond Issuance:** January 2018
3. **Date of Inducement by the Bond Issuer:** Proposed January 2018
4. **Draft Bond Counsel Opinion Letter:** The Metro Flood Diversion Authority (the “Authority”) anticipates that bond counsel will be prepared to deliver the standard final tax and validity opinion at the time of the closing of the bond issue. A form of such opinion is attached as Appendix A.
5. **Financing/Development Team Information:**
Issuer: Public Finance Authority (Madison, Wisconsin)
Underwriter: Selected by Borrower
Bond Counsel: Ohnstad Twichell, P.C., West Fargo, North Dakota
Financial Advisor: Selected by Borrower
Borrower: To be determined through Authority’s competitive procurement of a Developer (see below Section 6).
6. **Borrower Information:** A Request for Qualifications (“RFQ”) was issued on July 14, 2016, in which proposers will be required to submit and describe, among other matters, their qualifications to serve as the Developer for this project. Teams will submit statements of qualification to Design, Build, Finance, Operate, and Maintain (“DBFOM”) the Project (further described below) for a defined period, currently anticipated to be Design and Construction plus 30 years of operation and maintenance. During the RFQ, the Authority will assess and confirm the adequacy of the experience of each team’s submission, from which a subset were shortlisted. The shortlisted teams will then respond to an RFP and a contract award will be based on the proposal which best meets the evaluation criteria following submissions of proposals. It is anticipated that a special purpose vehicle incorporated and capitalized by the selected proposer team (referred to in this application as the “Developer”) will be the borrower, and the Authority is submitting this application on behalf of the future Developer as ultimate borrower.

7. Project Description:

Background/Overview

The Fargo, ND-Moorhead, MN Metropolitan Area is situated on the Red River of the North and suffers high risk of flood. Spring snowmelt causes high river stages, but summer rainfall can also cause significant flooding. Since 1900, the Red River has exceeded "major flood stage" designation 16 times, with eight of those major floods occurring since 2000. The Flood of Record (estimated to be a 50-year event) was recorded in 2009 and required significant emergency measures to prevent widespread damage to properties and transportation infrastructure. Substantial financial and human resources were required to construct emergency levees and other emergency measures, severely disrupting local businesses, traffic and the daily lives of local residents. Although emergency measures have been successful in the past, each major flood involves a high risk of a catastrophic failure, which could result in over \$10 billion in damages and loss of life. Businesses, residents, Federal agencies and local and state governments each contribute to the flood fight, rescue and clean-up efforts in the Fargo-Moorhead Metropolitan Area.

The communities of Fargo, ND and Moorhead, MN along with Cass County, ND, Clay County, MN, and the Cass County Joint Water Resources District established the Metro Flood Diversion Authority with the goal reducing flood risk and damages for floods up to and exceeding a 100-year flood for the stakeholder communities and counties by building and operating a flood diversion channel along the Red River of the North. The Authority and its members worked with the US Army Corps of Engineers ("USACE") to develop the FM Metro Flood Risk Management Feasibility Study for the flood diversion channel project (the "Comprehensive Project"). In July of 2016, the Authority granted authorization for the Diversion Channel and Associated Infrastructure Work Package (the "Project") of the Fargo-Moorhead Metropolitan Area Flood Risk Management Project (the "Comprehensive Project") to be procured as a design, build, finance, operate and maintain ("DBFOM") public-private partnership ("P3").

The Comprehensive Project consists of an embankment (dam), with upstream water staging/storage and a downstream diversion channel. The Comprehensive Project is being delivered using a "Split Delivery Model", with the Authority responsible for delivering the Project and the United States Army Corps of Engineers ("USACE") responsible for delivering the Southern Embankment and Associated Infrastructure ("SEAI") and Mitigation and Associated Infrastructure ("MAI"), either directly or as work-in-kind by the Authority.

Scope/Location

The Project's scope includes the 30-mile Diversion Channel, the Diversion Channel outlet, the Inflow Design Flood Line of Protection ("IDF Line of Protection"), two pairs of interstate bridges (east and west-bound I-94 and north and south-bound I-29), 11 county road bridges or crossings, four railroad bridges, two aqueducts (Sheyenne River and Maple River), ten drain inlets, and two drop structures that direct the flow of the Lower Rush River and the Rush River into the Diversion Channel, as well as recreation features, including mixed use trails, and mitigation of environmental impacts. The depth and width of the Diversion Channel will depend on the Developer's final design, but the Authority estimates that the Diversion Channel will be approximately 20ft deep and 200 to 300ft wide at the bottom.

The Diversion Channel alignment begins in the vicinity of the intersection of Cass County roads CR 16 and CR 17, and extends west and north around several North Dakota cities, including the City of Horace, the City of Fargo, the City of West Fargo and the City of Harwood. The Diversion Channel discharges into the Red River of the North (the "Red River") north of the confluence of the Red River and the Sheyenne River near the City of Georgetown, Minnesota. The Diversion Channel crosses the Sheyenne River, the Maple River, the Lower Rush River and the Rush River, interstates I-94 and I-29, numerous county and township roads and the BNSF Railway ("BNSF") in four locations along its 30-mile path.

The Authority will own the Diversion Channel, the affected counties and townships will own their bridges and roads, and BNSF will own its four crossings. The Developer will be required to design, build, finance, operate and maintain all non-Army Corps of Engineers assets for a period from financial close until approximately 30 years after substantial completion.

While the Project scope includes a variety of uses of funds, certain Project elements involving surface transportation would qualify as eligible uses under the language of the USDOT PABs allocation authorizing legislation. These specific uses of funds, namely the railroad and roadway bridges and the recreational trail facility along the channel, constitute the entirety of the allocation request and are broken out from the overall Project scope in Table 1.

Table 1: Project Funding Uses

Use	Estimated Amount (Year of Expenditure \$)
Diversion Channel and Hydraulic Structures	628,000,000
Railroad Bridges	48,000,000
Roadway Bridges	135,000,000
Recreation Facilities and Mixed Use Trails	37,000,000
Other Developer's Costs	58,000,000
Total Capital Costs	906,000,000

Table 2 outlines the basis for the USDOT PABs allocation request and the specific facility costs treated as eligible in the calculation of the requested allocation.

Table 2: Eligible Costs for USDOT PABs

Use	Amount (Year of Expenditure USD)
Railroad Bridges	48,000,000
Roadway Bridges	135,000,000
Recreational Facilities and Mixed Use Trails	37,000,000
Other Developer's Costs Attributable to Surface Transportation (Pro-rata)	12,000,000
Total Surface Transportation Uses	232,000,000
10% Contingency	23,000,000
Total PABs Allocation Request	255,000,000

Purpose and Benefits

- The Red River of the North has exceeded flood stage in 49 of the past 110 years, including every year from 1993 through 2011, and again in 2013.
- A 500-year event would flood nearly all of Fargo along with large portions of Moorhead and West Fargo. For reference, the 2009 flood was considered a 50-year event when the gage peaked at 40.8 feet in Fargo.
- An extreme flood event, like those experienced in the recent past in Bismarck, Grand Forks and Minot, could lead to more than \$10 billion in damages to the Fargo-Moorhead area.

- The FM Diversion would protect the local economy, which generates \$4.35 billion in annual non-farming wages and over \$2.77 billion in annual taxable sales along with \$14 billion in property value.
- The FM Diversion would protect 1 in 5 of all North Dakotans.

Fargo-Moorhead is a major health, educational, cultural, and commercial center serving southeastern North Dakota and west-central Minnesota. The area is significantly prone to flooding.

A 500-year event would flood nearly the entire city of Fargo and a large portion of the city of Moorhead, as well as a major portion of West Fargo and several surrounding communities in the area. The Red River has exceeded flood stage in 49 of the past 110 years, and every year from 1993 through 2011. Average annual flood damages are estimated at over \$194.8 million.

The residents of Fargo-Moorhead have been successful at preventing significant damages during past flood events by constructing emergency levees along large portions of the Red River. However, constructing the emergency levees takes significant financial and human resources, causes business and traffic disruptions, and is taxing to the social fabric of the communities. Although the emergency levees have been successful in the past, there is a high risk of a catastrophic failure which would result in significant damages and loss of life to the area, and would severely disrupt the transportation network in the region, including the north-south movement of goods and people. Also, the past success of emergency levees has created a false sense of security in some who may not appreciate the risks of flooding.

Significant costs are incurred during emergency flood fighting efforts. During large flood events, people in Fargo and Moorhead build as many as 80 miles of emergency levees through town in an effort to retain flood waters. Businesses, residents, federal agencies, local and state governments, as well as humanitarian organizations such as the Red Cross and Salvation Army all contribute to the flood fight, rescue and clean-up efforts.

By undertaking the Project, Fargo-Moorhead will significantly reduce the chance of flooding, limiting damage caused by flooding to homes, businesses and the regional transportation network. Appendix D includes maps illustrating the expected impact the Project in the event of 100-year flood event.

8. **Project Schedule:** Currently, the Authority expects to begin construction following the completion of the procurement schedule and financial close, specified in Table 3 below. Construction is expected to be complete within 6 years of financial close.

Table 3: Procurement Schedule

Milestone	Date
RFQ issued	July 14, 2016
SOQ Due Date	September 14, 2016
Shortlist announced	October 13, 2016
First Draft RFP issued	December 2016
Proposals due	September 2017
Successful Proposer announced	October 2017
Financial Close	Early 2018

9. **Financial Structure:** A preliminary financial structure is outlined in Appendix B. The Authority anticipates that some or all Proposers will include PABs as a source of financing in their financial plan submittals. Other sources of debt capital may include senior taxable commercial bank loans, senior taxable bond debt, and/or a subordinated loan from equity investors. This request, however, assumes that the Developer will maximize the use of PABs for eligible costs and utilize a combination of equity and other debt.
10. **Description of Title 23/49 funding received by the project:** The Project’s transportation assets have received significant federal funds from Title 23 sources, mainly through the state’s formula funding for Cass County’s system of County Roads and through North Dakota Department of Transportation’s maintenance of its interstate highways.

In proximity to the Project, affected Cass County Roads have been recently maintained or repaired using federal Title 23 funds, much due to post flood maintenance from 2009, 2010, and 2011 on the following roads:

Road	Year	Project	Federal
Cass County Road 31	2009	Flood damage repairs	Federal formula funds used
	2010	Flood damage repairs	Federal formula funds used
	2011	Flood damage repairs	Federal formula funds used
Cass County Road 81	2009	Flood damage repairs	Federal formula funds used
	2010	Flood damage repairs	Federal formula funds used
	2011	Flood damage repairs	Federal formula funds used
Cass County Road 32	2009	Flood damage repairs	Federal formula funds used
	2010	Flood damage repairs	Federal formula funds used

	2011	Flood damage repairs	Federal formula funds used
Cass County Road 22	2009	Flood damage repairs	Federal formula funds used
	2011	Flood damage repairs	Federal formula funds used
Cass County Road 20	2009	Flood damage repairs	Federal formula funds used
	2010	Flood damage repairs	Federal formula funds used
	2011	Flood damage repairs	Federal formula funds used
Cass County Road 10	2008	Repaving (SC-0930)	\$1,021,935
	2008	Repaving (SU-8-992)	\$385,470
	2010	Flood damage repairs	Federal formula funds used
Cass County Road 14	2006	Repaving (SC-0946)	\$1,758,009
	2009	Flood damage repairs	Federal formula funds used
	2010	Flood damage repairs	Federal formula funds used
Cass County Road 16/17	2009	Flood damage repairs	Federal formula funds used
	2010	Flood damage repairs	Federal formula funds used

In addition, both Interstate Highway 29 and Interstate Highway 94 have undergone significant maintenance work, using nearly \$20 million over the past two years in the vicinity of the project. Recent maintenance projects that received federal Title 23 funding for maintenance work in proximity to the project:

Road	Year	Project	Amount
I-29	2009	Repaving/Crossovers	\$9,945,000
	2010	Repaving/Fencing/Walk	\$23,073,000
	2012	Crossovers	\$865,000
	2015	Repaving	\$23,145,000
	2016	Reconstruction	\$20,551,000
I-94	2009	Structural ramp work	\$10,241,000
	2010	Chip seal/lighting	\$1,811,000
	2014	Micro-surfacing	\$984,000
	2016	Concrete pavement repair	\$737,000

11. Project Readiness: The Authority, through the procurement process, will assess the capacity of teams to initiate and complete the Project. In October 2016, the Authority shortlisted four teams and invited them to submit Proposals in response to an RFP. The RFP will include detailed technical and financial requirements based on preliminary design and engineering. The Authority's award of the Project to a selected Developer is anticipated late 2017, followed by commercial close then financial close in early 2018 and construction start.

A detailed listing of Project progress towards authorizations, coordination and permits is included in Appendix C.

Under penalties of perjury, I declare that I have examined this document and, to the best of my knowledge and belief, the document contains all the relevant facts relating to the document, and such facts are true, correct, and complete.



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Or, feel free to contact:

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Appendix A: Draft Bond Counsel Opinion Letter

[ISSUE DATE]

BOND OPINION

****DRAFT****¹

\$ _____ PUBLIC FINANCE AUTHORITY, TRANSPORTATION
INFRASTRUCTURE AND SURFACE FREIGHT REVENUE BONDS
(FARGO-MOORHEAD DIVERSION PROJECT) SERIES 201_

[An Opinion in substantially the following form will be delivered by Ohnstad Twichell, P.C., upon delivery of the Bonds, assuming no material change in facts or law and subject to change upon finalizing the plan of finance]

Ladies and Gentleman,

We have acted as Bond Counsel to the Public Finance Authority, Wisconsin (the "Issuer"), of its Transportation Infrastructure and Surface Freight Revenue Bonds (Fargo-Moorhead Diversion Project), Series 201_, dated as of _____, 201_, in the total principal amount of \$ _____ (the "Bonds"). The Bonds are being issued for the purpose of providing funds to pay a portion of the cost of the design and construction of the transportation elements of the Fargo Moorhead Diversion Project, as more particularly described in the Trust Agreement dated as of _____, 201_ (the "Trust Agreement"), between the Issuer, and the [TRUSTEE], as Trustee (the "Trustee"). The Bonds are being issued for the purposes of (a) making a loan to [DEVELOPER] (the "Borrower") to be used by the Borrower to finance a portion of the cost of the design and construction of the transportation elements of the Fargo Moorhead Diversion Project, (b) [paying capitalized interest on the Bonds, and (c)] paying the costs of the issuance of the Bonds, all as provided in the (i) Trust Agreement, (ii) the Loan Agreement, dated as of _____, 201_ (the "Loan Agreement") between the Issuer and the Borrower, and (iii) the Project Agreement, dated _____, 201_, between the Metro Flood Diversion Authority (the "Diversion Authority") and the Borrower.

We have examined the law, such certified proceedings and other papers as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon representations contained in such certified proceedings, other certifications of public officials furnished to us without undertaking to verify the same by independent investigation, including the legal opinion of counsel for the Issuer as to the status and authority of the Issuer.

¹ Preliminary and subject to change.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material relating to the Bonds (except to the extent, if any, stated in the official statement) and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the official statement).

Based on the foregoing, we are of the opinion that under existing law:

1. The Diversion Authority is a political subdivision of the State of North Dakota and is validly existing and in good standing under the constitution and laws of the State of North Dakota.
2. The Diversion Authority has jurisdiction to undertake the Project, and the execution, delivery, and performance of any and all documents establishing the Project are within the Diversion Authority's power, have been duly authorized by all necessary action, and require no action by or in respect of, or filing with, any governmental body, agency, or official that has not been accomplished.
3. The execution, delivery, and performance of the Project Agreement between the Diversion Authority and the Developer for the Project is within the Diversion Authority's power, has been duly authorized by all necessary action, and require no action by or in respect of, or filing with, any governmental body, agency, or official that has not been accomplished.
4. The Issuer is a political subdivision of the State of Wisconsin and is validly existing and in good standing under the constitution and laws of the State of Wisconsin.
5. The Bonds have been duly authorized, executed and delivered by the Issuer. The Bonds, the Loan Agreement and Trust Agreement are legal, valid, binding and enforceable in accordance with their respective terms. However, the rights of the owner if the Bonds and the enforceability of the Bonds may be limited by the application of bankruptcy, insolvency, reorganization, moratorium and other similar laws with respect to creditors' rights generally and by application of general principles of equity.
6. The Bonds constitute special obligations of the Issuer, and the principal of and interest and any premium on the Bonds (collectively, "debt service") are payable solely from the Pledged Revenue (as defined in the Trust Agreement) pledged and assigned by the Indenture to secure that payment. The Bonds and the payment of debt service are not secured by an obligation or pledge of any moneys raised by taxation under taken by the Issuer, and the Bonds do not represent or constitute a debt or pledge of the full faith and credit of the issuer.
7. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended from time to time (the "Code"), except for any interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code

and is excluded, to the same extent, from both gross income and net income for State of North Dakota and State of Wisconsin income tax purposes. Interest on the Bonds is treated as an item of tax preference under Section 57 of the Code of purposes of the alternative minimum tax imposed on individuals and corporations.

Though excluded from gross income, interest on the Bonds is subject to federal taxation for certain types of taxpayers and certain income taxes, including, without limitation, taxation to the extent it is included as part of (a) effectively connected earnings and profits of a foreign corporation for purposes of the branch profits tax on dividend equivalent amounts, (b) excess net passive income of an S Corporation which has Subchapter C earnings and profits, or (c) minimum effectively connected net investment income of a foreign insurance company. Interest on the Bonds is also taken into account for federal income tax purposes, including, without implied limitation (a) reducing loss reserve deductions of property and casualty insurance companies, (b) reducing interest expense deductions of financial institutions, and (c) causing certain taxpayers to include in gross income a portion of social security benefits and railroad retirement benefits. Ownership of the Bonds may result in other collateral federal income tax consequences to certain taxpayers. We express no opinion as to any of such consequences.

We express no opinion and make no representation as to any other tax consequence regarding the Bonds, except as set forth above.

In giving the foregoing opinions with respect to the treatment of the interest on the Bonds and the status of the Bonds under Federal tax laws, we have assumed and relied upon compliance by the Issuer and Borrower with their respective covenants contained in the Transcript and upon the accuracy and completeness, which we have not independently verified, of the representations and certifications of the Issuers, the Borrower and others contained in the Transcript. Failure to comply with certain requirements with respect to the Bonds subsequent to the Issuance of the Bonds may cause interest thereon to be included in the gross income for federal income tax purposes, in some cases retroactively to the date of the issuance of the Bonds.

The opinions set forth herein are based upon existing law which is subject to change. It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity. We do not undertake to advise you of matters which may come to our attention subject to the date hereof which may affect our legal opinions expressed herein.

OHNSTAD TWICHELL, P.C.

BY: _____
John T. Shockley
A Shareholder

Appendix B: Preliminary Financial Plan

A. Introduction

The Comprehensive Project will use different means of delivery for different facilities. With regards to US Department of Transportation Private Activity Bonds (“PABs”), the Authority is applying specifically on behalf of a potential Developer for the P3 portion of the Comprehensive Project. This portion (the “Project”) consists of the delivery of a flood diversion channel and its associated infrastructure through a DBFOM Project Agreement with a P3 Developer. The channel connects to the southern embankment, constructed through the USACE and a variety of other facilities constructed by the City of Fargo and the Metro Flood Diversion Authority (the “Authority”).

Respondents to the Project RFP will be required to submit a detailed financial plan that the Authority will evaluate as part of the procurement. A selected Developer will then execute the Project Agreement and seek a financial close, which the Authority anticipates will include an issuance of PABs. At this point, no Developer has been selected and the Authority and its advisors have developed a Preliminary Financial Plan for this application using current estimates of capital costs, operations and maintenance costs, debt terms and required rates of return for equity sources, among other assumptions. As a result, the financial structure outlined in the Developer’s proposal to the Authority as part of the procurement may be different from the Preliminary Financial Plan outlined below.

Over the course of the Project Agreement term, the Authority will compensate the Developer through two major means: Milestone Payments during construction and Availability Payments during operations. For the purposes of the preliminary financial plan, approximately 60% of the total capital cost will be funded from Milestone Payments to the Developer during construction until, and approximately \$400m as long term P3 Developer financing.

To fund construction, the Authority expects the Developer to provide both equity capital and debt, which may come in the form of PABs and/or other debt sources. As the Project is, first and foremost, a flood diversion project, there are certain costs that are ineligible for USDOT PABs. In the Authority’s analysis of the approximately \$900 million in Project construction costs, it has identified some \$232 million in PABs eligible costs. These costs consist of the construction of county road and interstate highway bridges as well as railroad bridges and recreational multi-use paths along the channel. The Authority has assumed the Developer will use both equity and other sources of debt to meet the total private financing requirement. The Authority expects that the Developer’s ability to issue tax-exempt PABs debt will enhance their proposals through lower overall costs of long-term financing. In terms of overall capital structure, the Authority’s estimated financial plan has assumed a conservative 87.5% debt and 12.5% equity capital funding structure for the long-term financing provided by the Developer. Equity investment is assumed to be funded and drawn last and secured through a letter of credit.

B. Sources and Uses During Construction

Under the current project schedule, the Authority will complete the procurement process and the Developer achieve financial close in Q1 2018, with issuance of approximately \$232 million in PABs. The requested allocation for PABs of \$255 million has been sized to include a 10% contingency above current estimated eligible costs, in case of cost or interest rate movements.

Based upon current estimates, the Authority anticipates providing approximately \$655 million in Milestone Payments during construction to the selected Developer upon achievement of specified milestones. The exact schedule of when Milestone Payments are paid will be determined during the procurement, however for the purposes of the Preliminary Financial Plan, the Authority has modeled three payments – two during construction, and one upon Substantial Completion.

The table below outlines the Authority's current estimates of the Developer's sources and uses of funds during the construction of the Project.

Annual Sources and Uses of Funds								
(Preliminary)								
<i>USD millions, year of expenditure</i>	2018	2019	2020	2021	2022	2023	2024	Total
Sources of Funds								
Milestones Received	-	-	320.0	167.3	167.3	-	-	654.5
Construction Subsidy	-	-	-	-	-	-	-	-
Interest Earnings During Construction	1.9	3.9	4.8	6.1	5.1	3.1	0.5	25.4
Private Activity Bonds	231.6	-	-	-	-	-	-	231.6
Other Long-term Debt	96.2	-	-	-	-	-	-	96.2
Equity	-	-	-	-	-	-	46.8	46.8
<i>Total Sources</i>	329.7	3.9	324.8	173.3	172.4	3.1	47.3	1,054.5
Uses of Funds								
Construction + Design Costs	39.7	57.5	116.7	203.6	206.9	175.2	106.3	906.0
Interest During Construction	7.5	15.0	15.0	15.0	15.0	15.0	15.0	97.7
Funding of Reserves	-	-	-	-	-	-	13.0	13.0
Debt Establishment Fees	1.6	-	-	-	-	-	-	1.6
Taxes during Construction	1.5	0.4	0.7	3.5	5.5	4.4	2.5	18.5
Equity LC Fees	1.4	2.8	2.8	2.8	2.8	2.8	2.2	17.6
<i>Total Uses</i>	51.8	75.8	135.2	224.9	230.3	197.5	138.9	1,054.5

C. Project Cash Flows During Operations

Once the Developer has completed construction, the Authority will make monthly Availability Payments to the Developer, contingent upon performance of the facilities as outlined and agreed to by the Developer in the Project Agreement. If elements of the Project do not meet performance standards or are deemed non-compliant, the Authority will make appropriate

deductions to Availability Payments, such that the Developer will have adequate incentive to maintain the Project's facilities throughout the term of the Project Agreement. As there is no revenue directly derived from the operations of the Project, the sole source of ongoing funds to the Developer are the Availability Payments from the Authority.

Availability Payments are expected to be secured by potential property tax levies from an Assessment District created for this Project, but are expected to be funded by the Authority from sales tax revenues. The Authority has been allocated 1½ cents in sales taxes dedicated to infrastructure and flood control (1 cent from the City of Fargo plus ½ cent from Cass County) that it will use to make repay public and private debt obligations, including payments to the Developer. In the event that sales taxes are inadequate to meet flood control project obligations in any period, there would be an assessment on the properties within the Assessment District to supplement sales taxes.

The Authority expects that the Developer's PABs would be structured such that repayment of these debts would begin after construction has been completed and the Authority begins paying Availability Payments. Revenues from these Availability Payments are expected to generate sufficient cash flow after paying all operating and maintenance expenses to cover debt service on both PABs and the other debt source(s). Under the Preliminary Financial Model, cash flows available for debt service are enough to provide a minimum 1.25x debt service coverage ratio while repaying all debt prior to the completion of the Project Agreement term.

The Project will require routine maintenance of the channel, roads and bridges and recreational facilities, as well as minimal operating expenses. Overall, annual O&M costs are expected to be approximately \$4 million at the beginning of operations, escalating with inflation. Availability Payments were modeled at \$26 million annually, also growing with inflation and targeting an 11% after-tax equity IRR. The following table shows yearly cash flows for the Developer under this Preliminary Financial Plan.

Appendix C: Project Authorizations, Coordination and Permitting

1. Federal Authorizations and Appropriations

- 1.1 The Comprehensive Project has received the following Federal authorizations and appropriations:
- (a) the authorization for the Comprehensive Project by the US Congress through Section 7002(2) of the Water Resources Reform and Development Act of 2014 (WRRDA); and
 - (b) the appropriation of funding on February 9, 2016 as authorized by the FY 2016 Energy and Water Development and Related Agencies Appropriations Act (Public Law 114-113).
 - (c) Numerous allocations of North Dakota DOT Title 23 funding to Cass County Roads and Interstate Highways 29 and 94.

2. Construction Permit

- 2.1 The North Dakota State Water Commission has agreed to a phased approach to providing construction permits (required pursuant to N.D.C.C. § 61-16.1-38) for the Comprehensive Project. The Authority received the first such construction permit on July 8, 2016 with respect to the diversion inlet structure, which is a portion of the Southern Embankment and Associated Infrastructure (SEAI). Plans and specifications must be completed by a professional engineer registered in North Dakota. The Developer will be responsible for preparing and compiling all necessary documentation for construction permit applications with respect to the Project.

3. Environmental Permitting Status

- 3.1 The Authority and the US Army Corps of Engineers (USACE) have obtained the following major environmental approvals and permits required to enable the Project to achieve Financial Close:
- 3.1.1 The Federal Final Environmental Impact Statement (FEIS), Chief of Engineers Report and Federal Record of Decision;
 - 3.1.2 the Supplemental Environmental Assessment and the Finding of No Significant Impact in respect of the Supplemental Environmental Assessment, issued on September 19, 2013; and
 - 3.1.3 the Minnesota Final Environmental Impact Statement and the Minnesota Record of Decision.
- 3.2 Respondents should note that the State of North Dakota does not require a state environmental impact statement because a Federal environmental impact statement has been completed.

4. Land Acquisition Status

- 4.1 The proposed project site covering the indicative alignment and footprint requires the acquisition of all, or part, of 372 parcels of land. The parcels will be acquired by Cass County Joint Water Resource District (CCJWRD) on behalf of the Authority through a combination of fee title and temporary construction easements. CCJWRD has the right to acquire land through eminent domain, if necessary, throughout the project site area.
- 4.2 It is not currently anticipated that the Developer will be required to acquire or provide any portion of the project site, except to the extent the Developer requires access to right-of-way other than the 372 parcels of land identified by the Authority.

5. Geotechnical Investigation

The Authority's local design consultant, Houston-Moore Group, and USACE have performed geotechnical investigations on the proposed Project Site, including the Diversion Channel alignment and the location of many proposed associated structures.

6. Utility Investigation

The Authority and USACE have identified known utilities crossing the proposed Project Site. These utilities include a gas line, several electrical transmission lines and numerous small water and communication lines.

7. Hazardous Material Investigation

7.1 USACE conducted Phase 1 Environmental Site Assessments (ESAs) in 2010, 2012 and 2016 covering the proposed project site.

7.2 The Phase 1 ESAs identified a limited number of recognized environmental conditions (RECs), including "junk vehicles", railroad crossings (polyhydroalkanoates, metals), above ground storage tanks and underground storage tanks. The majority of the RECs identified are common to small agricultural and rural residential settings and should not pose a significant risk if handled properly.

7.3 A limited Phase 2 ESA soil investigation has been recommended for the locations of the RECs to determine if any hazardous, toxic and radioactive waste is present.

8. Cultural Investigation

The Authority and USACE conducted Phase 1 cultural investigations on the proposed Project Site and submitted the resulting cultural investigation reports to the North Dakota State Historic Preservation Office, which has accepted the reports. The Authority and USACE have also conducted Phase 2 investigations, where warranted, based on the Phase 1 investigations.

9. Third-Party Interfaces

9.1 North Dakota Department of Transportation (NDDOT) Coordination

9.1.1 The proposed Project Site encompasses certain properties on which NDDOT maintains infrastructure, including overpasses, portions of interstates and other related infrastructure. Specifically, the Project will require:

9.1.1.1 I-29, which runs south to north from Kansas City, Missouri, to the Canadian border near Pembina, North Dakota, to be altered at approximately mile marker 76; and

9.1.1.2 I-94, which runs east to west from Port Huron, Michigan to Billings, Montana, to be altered between mile markers 342 and 343.

9.1.2 The Authority intends to enter into a memorandum of understanding with NDDOT, which will outline the relationship between, and the responsibilities of, the Authority and NDDOT for the Project

9.2 Railroad Coordination

Table 3 identifies the railroad crossings within the proposed project site. The Authority intends to enter into a memorandum of understanding with both BNSF and the Red River Valley & Western Railroad Company prior to issuing the RFP, which will outline such parties' responsibilities associated with the Project.

Table 3. Railroad Crossings Within Project Limits

Railroad	Location	Intersects Project Footprint		
BNSF	Fargo-Grand Forks Line (BN030)	Harwood Sections 17 and 20	Township,	ND
BNSF	Fargo-Nolan Line (BN050)	Raymond Section 14	Township,	ND
BNSF	Fargo-Minot Line (BN0036, BN076, BN0061 & BN059)	Mapleton Section 3	Township,	ND
BNSF/Red River Valley & Western Railroad Company	Horace-Edgeley Line (RV087, RV055 & RV091)	Warren Sections 24 and 25	Township,	ND

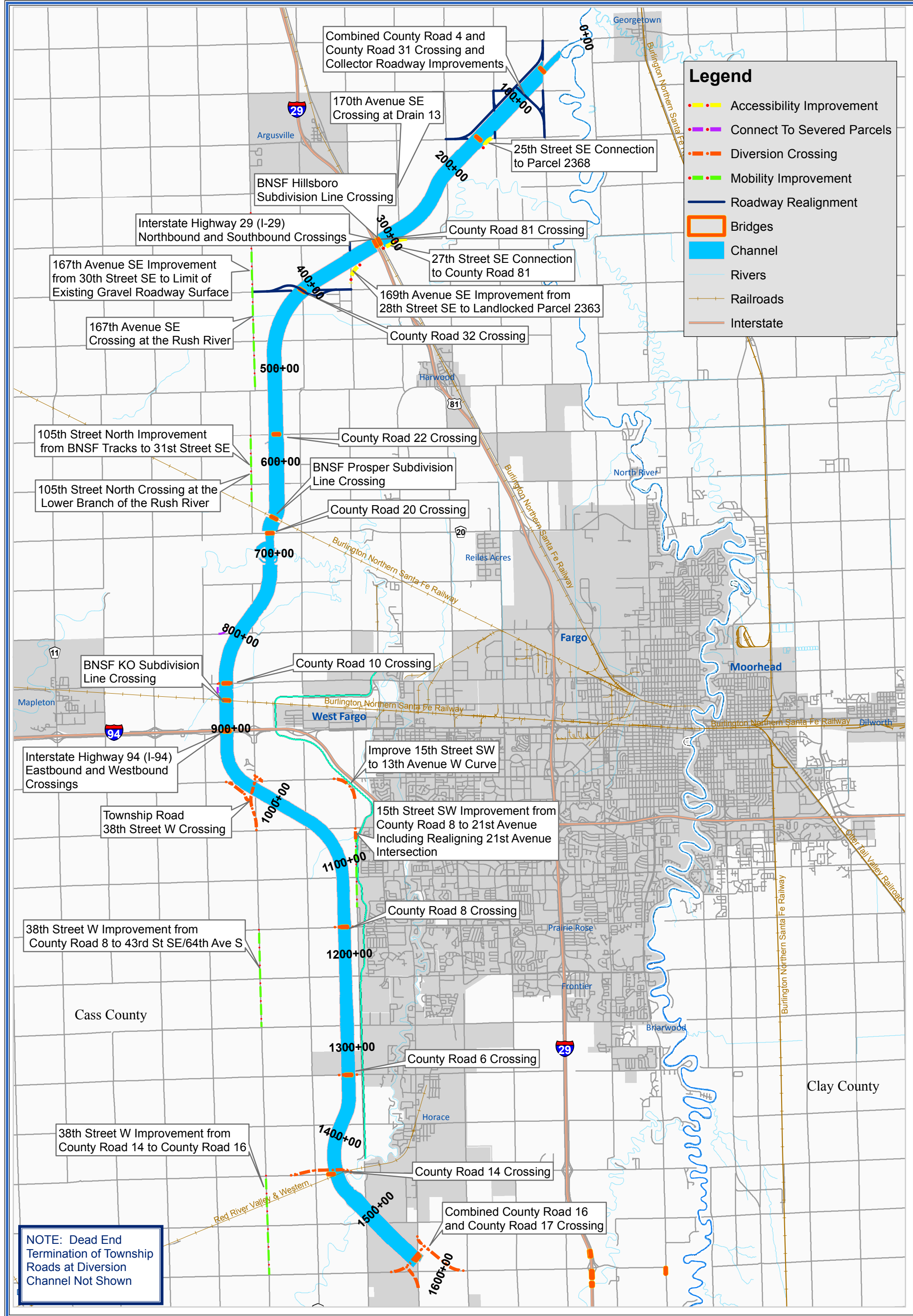
9.3 CCJWRD Coordination

- 9.3.1 Construction of the Project will impact real property and water infrastructure (such as ponds, basins and above and below ground drains) owned and operated by the water resource districts that are members of the Cass County Joint Water Resource District. These water resource districts include the Maple River Water Resource District, the North Cass Water Resource District, the Rush River Water Resource District and the Southeast Cass Water Resource District.
- 9.3.2 The Authority intends to enter into either one memorandum of understanding with the CCJWRD or a separate memorandum of understanding with each of the Cass County water resource districts. In each case, the memorandum of understanding will outline the parties' obligations to cooperate regarding the Project's impacts on drainage and existing water infrastructure and future activities.

9.4 Utilities Coordination

- 9.4.1 The proposed Project Site encompasses properties across which 15 companies or political subdivisions have a total of 101 easements, rights-of-way and other non-fee property interests. The companies holding relevant utility easements include Centurylink, Cass County Electric, Minnkota Power, Cass Rural Water, Magellen, Western Area Power Administration, Midcontinent, Cenex, Dakota Carrier Network, Xcel Energy, Sprint, AT&T, NuStar Energy and Otter Tail Power Co.
- 9.4.2 The Authority intends to enter into a memorandum of understanding with each of these utility companies, which will outline the relationship between, and the responsibilities of, the Authority and the respective utility company for the Project.

Appendix D: Project Maps



Disclaimer
 Maps are for graphical purposes only. They do not represent a legal survey. While every effort has been made to ensure that these data are accurate and reliable, The Diversion Authority does not guarantee the accuracy of the information, and waives any warranty or guarantee of any kind, express or implied. The data involved in the project is continuously refined and revised; you should not rely on this information for technical purposes or accuracy.



DCAI Project Elements
Transportation

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