The Honorable William M. Beck
708 Caroline Street, Fredericksburg, Virginia, 22401, 540 287-4296

Dr. Ronald D. Utt
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August 3, 2010

Mr. Sean T. Connaughton
Office of the Secretary of Transportation
Patrick Henry Building, 3rd Floor
1111 East Broad Street
Richmond, VA 23219

Dear Secretary Connaughton:

We are writing to urge you not to approve, or commit public funds to, the *Celebrate Virginia* interchange on I-95 that has been proposed by the Fredericksburg Area Metropolitan Planning Organization (FAMPO), the City of Fredericksburg, the developers/owners of the *Celebrate Virginia* property, and the subsidized businesses that would benefit financially from its construction. We are also asking you to discourage members of Virginia's congressional delegation from including a federal earmark – as the developer is attempting to do -- for the interchange and for the related toll road in any upcoming appropriations or highway reauthorization legislation. As you know, such earmarks do not represent new money to the state but are simply carved out of Virginia's annual formula allocation from the federal highway trust fund and, thus, cause an equal reduction in the discretionary funds available to the Virginia Department of Transportation (VDOT).

Largely Benefits Unsuccessful Development. Although FAMPO's current rationale for the interchange is expressed as a congestion-relieving investment to divert vehicular traffic from the sometimes congested US Route 3 at I-95 exit 130 to a new, approximately 3.5 mile long, toll-road that will connect to US Route 3 at the intersection with Gordon Road, in fact the alleged congestion-relieving benefits of this massive, costly and disruptive new interchange project are nothing more than a contrivance to resuscitate an unsuccessful commercial real estate development project that has floundered since the city approved it in 1998. While presented by FAMPO and city officials as a congestion-relieving measure, rather than as a costly taxpayer subsidy to one of Virginia's wealthiest real estate developers, there is ample reason to believe that the narrow congestion relieving benefits may be more modest than estimated.

Efforts to obtain approval for, and acquire the public funds to build, this interchange date back at least to the late 1990s when the Fredericksburg City Council approved in 1998 the rezoning of the undeveloped site to accommodate the developer's plans, and later permitted (in 2001) the developer to create a Community Development Authority to operate an autonomous taxing district on the land. The project is called *Celebrate Virginia*. The Fredericksburg portion of the site is just west of I-95, just north of US Route 3 and the *Central Park* shopping center, and extends to the south and west banks of the Rappahannock River. The *Celebrate* development also includes an extensive project across the Rappahannock River from the Fredericksburg site in Stafford County. Altogether the project encompasses an estimated 2,500 acres.

Important to *Celebrate's* success is a new interchange on I-95 between existing Exits 133 and 130 that would connect the interstate directly with the *Celebrate* property. Without a new interchange, *Celebrate* (south) is at a commercial disadvantage because its only access to I-95 is from Exit 130, and through the congested roads of the same developer's earlier project, the *Central Park* shopping center.

At or about the same time the city was approving the proposal, the developer of *Celebrate* released in August 1999, a detailed proposal for a new interchange that would connect I-95 with *Celebrate* at the existing state rest stop lying north of the Fall Hill Avenue overpass and south of the Rappahannock River. Press reports at the time suggested the interchange may cost more than $40 million.

Exceptionally High Costs for Modest and Uncertain Benefits. In preparation for a formal request for approval and funding of the project from VDOT and the Federal Highway Administration (FHWA), Volkert & Associates prepared in 2000 an Interchange Justification Study (IJS) for VDOT that was more detailed than the interchange proposal released earlier by the developer. The Volkert IJS was much more ambitious than the developer's proposal: it required new bridges over the river, several additional main lanes, collector-distributor (C/D) lanes, and a rebuild of the interchanges at Exits 130 and 133. Volkert estimated that it would cost $500 million in 1999 dollars, and one reason for the expense was the necessity of adding this additional infrastructure on I-95 in the Fredericksburg area to offset the delays that would be caused by vehicles exiting and entering from/to I-95 in a busy corridor crowded with interchanges.

Interestingly, Volkert & Associates provides a series of justifications for the interchange, noting (in 2000) that "The imminent development of *Celebrate Virginia!* will generate and attract a high volume of traffic on the already congested Route 3." As it turns out, the only thing "imminent" was the failure of *Celebrate* to attract any significant investment in the twelve years since it received the rezoning approval, so there is not much additional traffic to accommodate, at least from *Celebrate*.

No VDOT Support for Past Twelve Years. For whatever reasons neither VDOT nor the FHWA chose to approve or fund the project, perhaps because of its cost, other funding priorities and an absence of any meaningful contribution to congestion mitigation. Nonetheless, the developer – The Silver Companies – continued to pursue commercial enterprises and encouraged them to acquire sites within *Celebrate*. But despite the commercial real estate boom, and exceptionally lax lending and investment standards of the last decade, few businesses and lenders were interested in investing in *Celebrate*, and in 2010, twelve years after the development was approved, much of the site remains vacant. A privately financed convention center at *Celebrate* has struggled financially (and has been seeking $300,000 per year in subsidies from the city), a proposed Slavery Museum is not likely to ever be built, a Wegman's supermarket opened in 2009 in response to generous tax subsidies from the city, two bank branches, and a small office building. There are also three hotels clustered on the site near I-95, and they are described as being a part of the developer's company.

Renewed Pressure to Build Interchange. In November 2007, and in response to substantial tax subsidies (initially $61 million over 20 years in fee waivers and 50 percent tax rebates) offered by the city, a private company –Kalahari Resorts -- owner and operator of water-theme parks in Wisconsin and Ohio, agreed to build an African-themed water park, hotel, condos and a new convention facility in *Celebrate,* at an initially estimated cost of $225 million. The initial subsidy package was agreed to in early 2008, and the first phase of the resort was expected to open in December 2009. However, as the economy worsened and financial markets struggled, Kalahari Resorts postponed the opening and to date no work has been done on the site, nothing is underway, and a possible opening in December 2013 is now proposed. The cost of the project has since increased to an estimated $260 million. In the meantime, Kalahari Resorts has used the delay to extract additional subsidies from the city, the state, and from the federal government to support the project, including a projected $270 million in taxable and tax exempt bonds issued through the city's Economic Development Authority (at discounted fees subsidized by the city) and through tax exempt bonds available through the American Recovery and Reinvestment Act.

A New Study. Perhaps in an effort to nail down the much delayed and still uncertain Kalahari deal, and in response to *Celebrate's* continued failure to attract other commercial investments, FAMPO, the city, and the developer have re-energized their efforts to get approval and funding for the controversial and costly interchange. To this end FAMPO and the developer contracted with the transportation consulting firm Michael Baker Jr. Inc. to revisit the interchange project, review options, select a preferred design, conduct traffic studies and provide a rough estimate of costs. The final version of the report for the project was submitted on May 14, 2010 and a copy was provided to VDOT.

As was the case with the earlier Volkert plan, the Baker interchange plan is a very ambitious and costly project that will be located between the Rappahannock River and the current state rest stop located on the west side of I-95 (south). The proposed interchange will directly connect I-95 (north and south) to the *Celebrate* property, traverse the property, and connect to a proposed toll road (just beyond *Celebrate*!) that will continue on for 3 to 4 miles before connecting with US Route 3 near the current intersection with Gordon Road.

The preferred proposal (labeled "Modified North Interchange Alternative – NF) would also necessitate the reconstruction of Exit 133, two new spans carrying two lanes each over the Rappahannock River, four more lanes on I-95 (C/D lanes) extending from somewhere north of Exit 133 to Exit 130, which in turn would also have to be rebuilt to accommodate the additional lanes. The Baker consultants estimate that the cost would be in the range of $250 million to $300 million, though this seems low given that the similarly ambitious Volkert proposal of ten years ago clocked in at $500 million in 1999 dollars, and there has been some inflation since.

In late July 2010 the FAMPO board agreed to submit a version of the NF plan to VDOT and to FHWA.

Not surprisingly, the Baker report focuses on the need to relieve traffic congestion on State Route 3, and all other options (including many which would not, ironically, provide any service to *Celebrate*), are found to be deficient in this respect. In effect, the report would have us believe that the state of Virginia and the federal government – at a time of great pressure on public finances and off-the-chart budget deficits – should expend $300 million in an attempt to resolve a modest congestion problem on an arterial of modest importance.

The embrace of outsized corporate welfare projects flogged as investments that benefit us all are as old as the Republic and were common in the great debate over government funding of canals during the administrations of Jefferson and Madison. Not much has changed since: The earlier transportation projects proposed and funded to benefit the developer of *Central Park* and *Celebrate* were in fact promoted as – you guessed it – projects to relieve congestion on US Route 3!

A Pattern of Overestimating Congestion Benefits. Consider the earlier consultant's study for constructing Cowan Boulevard, a costly new road built in 2004 in Fredericksburg to connect US Route 1 with the *Celebrate* developer's *Central Park* shopping center. An August 1999 Cowan Boulevard study by the transportation engineering/consulting firm Kimley-Horn and Associates, Inc. noted that, and we quote exactly from the study:

1. "An extension of Cowan Boulevard would serve to provide much-needed local access and circulation so that US Route 3 can accommodate continued growth in regional traffic."

2. "When completed, Cowan Boulevard will provide three critical benefits to the area:

    - Provide a new east/west crossing of I-95
    - Provide access and circulation for existing and future growth in the area; and
    - Provide relief for US Route 3"

As is apparent, and given the painful detail on US Route 3 congestion provided by the 2010 Baker report, this promised congestion relief from Cowan Boulevard seems not to have occurred from this developer-benefiting, taxpayer-funded, Cowan Boulevard investment.

In the case of the newer Baker report, once again the critical benefit of the new *Celebrate* interchange is the congestion mitigation estimated to occur on US Route 3 as a consequence of motorists -- who travel west on US Route 3 from I-95 to destinations in Spotsylvania and Orange Counties -- opting to get off at the new interchange, and pay a toll to bypass the peak hour congestion common on the first few miles of US Route 3 in Fredericksburg and Spotsylvania County.

But, how much congestion relief actually occurs depends crucially on estimates of how many motorists will opt to use the new toll road, as opposed to the no cost option available at Exit 130 (*shunpiking*). And as we know from recent experience, *ex ante* consultant estimates of motorist use of proposed toll roads in Virginia (and elsewhere) have often been overly optimistic.

While the Baker people believe enough motorists will pay the toll to make a difference in US Route 3 congestion (and interchange funding), we also know that however well-meaning and by-the-book a consultant's estimates of toll road usage may be, their estimates sometime suffer from serious error. Over the last decade and a half such consultant estimates for toll road use in Virginia have been unduly optimistic, and the very much lower actual patronage rates have contributed to significant financial shortfalls that have led to changes in ownership and *de facto* bankruptcy in both public and private toll roads. The Dulles Greenway struggled early on when actual usage was one-third that which was estimated to occur, leading to toll revenues insufficient to service debt, and ultimately a forced sale to a new owner. Likewise traffic on the Pocahontas Parkway (Richmond) fell well short of consultant estimates on use, and ownership was transferred to the Australian firm Transurban in 2006 under a 99 year lease to avoid approaching debt service problems.

So what does all this mean for the state of Virginia and the Federal Highway Administration who are being called upon to pay for the new interchange? Well for starters, the project is awfully expensive and its modest mobility benefits depend upon estimating procedures that have sometimes proven wildly inaccurate when recently used in the state of Virginia, as well as in Texas, South Carolina and California. And however much we may want to believe the story line that this is all about congestion relief on US Route 3, in fact the real purpose of the project is a costly taxpayer bailout of a struggling real estate development project.

Please Do Not Approve the Interchange. Therefore, we are requesting that you not agree to use Virginia and/or federal funds to finance the *Celebrate* interchange project. Importantly, we don't have to tell you how strapped for funds both VDOT and the FHWA are at the present time, and how many critical and essential projects around the state are being delayed, canceled or postponed to stay within strict budget guidelines that are likely to prevail for the foreseeable future. Under the circumstances, a very costly project of modest, yet uncertain, benefits would seem to be an unlikely candidate for such scarce funds, and we hope you agree. Moreover, at a minimum of $300 million, the acceptance of the project would force the cancellation of many more worthy projects around the state and in the Fredericksburg area, and at a time when many other valuable transportation projects have already been delayed because of funding shortfalls.

Oppose Earmarks for Project. At the same time, we also encourage you to contact Virginia's U.S. Congressional delegation, and the leadership of the Senate Environmental and Public Works Committee, the House Committee on Transportation and Infrastructure, and the House and Senate Appropriations Committees, and urge them to reject hired lobbyists efforts to acquire a federal earmark to help fund the proposed *Celebrate* interchange and the toll road. As the records of the Office of the Secretary of the U.S. Senate reveal, the developer of *Celebrate Virginia* has hired the Arlington-based lobbying firm of Alcalde and Fay to pursue an earmark for the interchange and the toll road, and at some point the lobbyist may be successful in achieving it.

If successful, that earmark would be of utterly no value to VDOT or state transportation funding, and may in fact diminish the volume of discretionary transportation funds that you have available from the highway trust fund by formula allocation. Federal transportation earmarks do not represent new money but are carved out of a state's formula allocation from the highway trust fund. As a consequence, a $100 million dollar earmark from Congress represents a $100 million reduction in the funds that VDOT would otherwise have discretion over. And if you opt not to approve and/or fund the interchange, then the money associated with that earmark is lost to the state. Because the main purpose of earmarks is to circumvent state DOT priorities, historically only about half of all earmarks ever get spent because most state DOTs find it more cost-effective for forgo the federal money to avoid paying the state match because the earmarked projects tend to be of little value.

We apologize for the length of this letter and again urge you to reject the interchange proposal that the FAMPO and the developer are urging you to approve and fund. If appropriate, we would be pleased to meet with you or your staff to discuss this matter in greater detail.

Sincerely,

William M. Beck Ronald D. Utt

cc.
Speaker of the House William Howell
Delegate Mark Cole
Senator Richard Stuart
Delegate Joe T. May
Delegate G. Glenn Oder

Senator Yvonne B. Miller
Senator R. Ed Houck
Senator Stephen D. Newman
Gregory A. Whirley, Commissioner, VDOT
Quintin D. Elliot, VDOT Fredericksburg
U.S. Congressman Rob Wittman
U.S. Senator James Webb
U.S. Senator Mark Warner
Senator Barbara Boxer
Senator James Inhofe
Congressman James Oberstar
Congressman John Mica
U.S. Senator Patty Murray
U.S. Senator Christopher Bond
U.S. Senator Sam Brownback
Congressman John Olver
Congressman John Latham
Congressman Frank Wolf
Irene Rico, FHWA, Virginia
Victor Mendez, FHWA Administrator