

CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

*Annual Report to
His Excellency, the Governor
for the Year Ending December 31, 2014*

CELEBRATING THE PAST AND TUNNELING TOWARDS THE FUTURE



FOLLOW THE GULLS





MISSION

To provide the traveling public with a safe, cost effective, and unique driving experience across the scenic Chesapeake Bay.

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CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT

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February 24, 2015

The Honorable Terence R. McAuliffe
Governor, Commonwealth of Virginia
Office of the Governor
Post Office Box 1475
Richmond, Virginia 23218

Dear Governor McAuliffe:

We are pleased to submit the Annual Report on the operation of the Chesapeake Bay Bridge and Tunnel District for the year January 1 through December 31, 2014, in accordance with the provisions of Chapter 22, Title 33.2 of the Code of Virginia, formerly Paragraph 16, Chapter 714 of the 1956 Acts of the General Assembly.

The economy has improved somewhat with lower gasoline prices and has provided many challenges and opportunities for the District in 2014. The following pages include information on the District's traffic volumes, revenue bonds, financial status, operations, maintenance, promotional activities, and community involvements.

We are excited with the progress that has been made on the Parallel Thimble Shoal Tunnel Project, which will be discussed in detail in this report. Again, we appreciate your being the keynote speaker for our 50th Anniversary celebration of the opening of the Chesapeake Bay Bridge-Tunnel on April 15, 1964.

If you should have any questions concerning this report or the operation of the Bridge-Tunnel, please let us know and we would be most happy to discuss them with you.

CHESAPEAKE BAY BRIDGE AND TUNNEL COMMISSION

Frederick T. Stant, III, Chairman



~ Celebrating the Past and Tunneling Towards the Future ~

PROFILE

For fifty-one years, the Chesapeake Bay Bridge-Tunnel has captured worldwide attention as a modern engineering wonder and an important East Coast travel convenience. Crossing over and under open waters where the Chesapeake Bay meets the Atlantic Ocean, the Bridge-Tunnel provides a direct link between Coastal Virginia and the Delmarva Peninsula (Delaware plus the Eastern Shore counties in Maryland and Virginia), and saves 90 miles from the journey between Virginia Beach and points north of Wilmington, Delaware, as compared to the I-64/I-95 corridor.

The Chesapeake Bay Bridge and Tunnel Commission is the governing body of the District. The Commission consists of eleven members who are appointed by the Governor of the Commonwealth of Virginia. One member represents the Commonwealth Transportation Board and the remaining ten members represent the localities within the District. The District is comprised of six cities: Virginia Beach, Norfolk, Portsmouth, Chesapeake, Hampton, Newport News; and the two Eastern Shore counties of Northampton and Accomack.

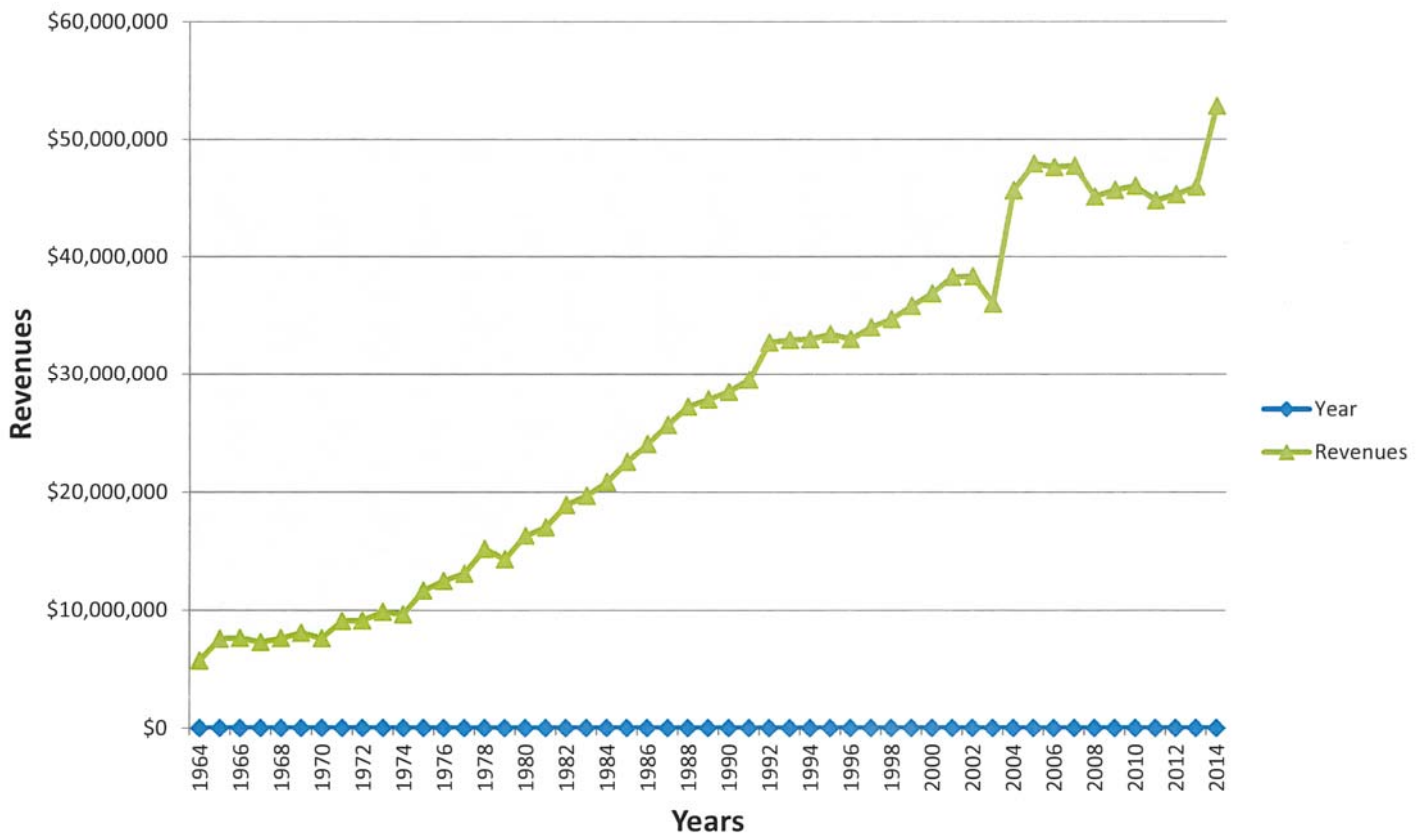
Following its opening on April 15, 1964, the Bridge-Tunnel was selected “One of the Seven Engineering Wonders of the Modern World” in a worldwide competition that included more than one hundred major projects. In addition, in 1965, it was distinguished as “The Outstanding Civil Engineering Achievement” by the American Society of Civil Engineers. In 2000, the Bridge-Tunnel was recognized by Structural Engineer magazine as one of the “Seven Structural Engineering Wonders of America for the 20th Century.” In 2007, the Chesapeake Bay Bridge-Tunnel was named one of Virginia’s “Top Seven Manmade Wonders” in an online poll conducted by the Richmond Times-Dispatch.

The scenic Chesapeake Bay Bridge-Tunnel is ranked #2 in Virginia’s Top 25 Attractions most frequently visited by East Coast travelers, by Virginia Tourism Corporation.

The Chesapeake Bay Bridge-Tunnel (CBBT) provides the only direct north/south route across the lower Chesapeake Bay. Traffic increased overall in calendar year 2014. August 2014 recorded the highest traffic and revenue month ever! Traffic for five of the twelve months in 2014 exceeded those in 2013. Eight of the top 100 traffic days in CBBT history occurred in 2014.

Traffic totaled 3,577,889 vehicles in 2014, an increase of 18,141 over 3,559,748 vehicles recorded in 2013. Cars and light trucks accounted for 90.3% of the total traffic or 3,231,378 vehicles, an increase of 0.6% versus 2013. Heavy trucks totaled 332,447 vehicles or 9.3% of total traffic, a decrease of 0.3% over 2013. Buses totaled 14,064 vehicles or 0.4% of the total traffic, and registered a decrease of 5.0% from 2013. On page vi of the attached financial report is a comparison of traffic, by classes, on a monthly and yearly basis for 2014 versus 2013. A review of revenue changes since inception of the facility is indicated in the following graph:

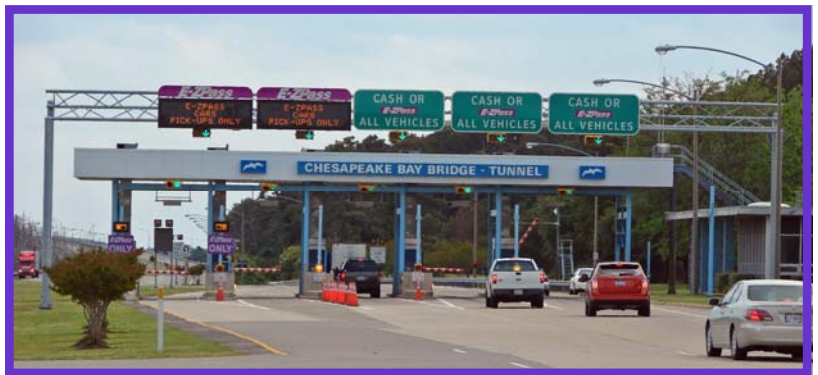
CBBT Historic Revenues



REVENUES

Gross toll revenue for calendar year 2014 totaled \$52,818,199, an increase of \$6,826,472 or 14.8% above gross toll revenue received in 2013. The Commission's toll rate schedule increase commenced January 1, 2014, to proactively enable the parallel tunnel project at Thimble Shoal Channel. The District accepts cash, E-ZPass, scrip, and credit cards in the toll lanes for customer convenience. E-ZPass utilization for 2014 totaled 57% of the total revenue for calendar year 2014, as compared to 46% in calendar year 2013. In calendar year 2014, the District incurred total E-ZPass and credit card fees of \$587,225 for processing electronic payments as compared to \$450,947 during the previous year. As a result, net toll revenues for 2014 totaled \$52,184,161 versus \$45,540,780 in the prior year.

The District's other revenues include leases on the Little Creek property, the operation of the Chesapeake Grill Restaurant and Virginia Originals Gift Shop, and miscellaneous income. Other revenues in 2014 totaled \$1,255,197 versus \$1,149,985 in 2013, an increase of \$105,422.



BONDS

The Commission Finance Committee met on May 12, 2014, to consider the District's options in regards to the outstanding 2011 Constant Maturity Swap (CMS). The existing fixed periodic payments from Deutsche Bank to the District were set to expire on May 30, 2014, and the exchange of cash flows set on a floating rate basis would resume. The Committee considered three potential options as follows: (1) do nothing at the present time and allow the variable cash flows to resume until the existing bonds and swaps are defeased and terminated in 2016; (2) terminate the 2011 CMS transaction now and receive an estimated \$1.9 million; or (3) lock in two years of fixed periodic payments from May 30, 2014 to June 3, 2016, and then potentially terminate the CMS transaction. After careful analysis and consideration with the District's swap advisor team at Public Financial Management (PFM), the Commission adopted a resolution on May 13, 2014, that authorized staff to negotiate and execute Option 3 (lock in two years of fixed periodic payments from May 30, 2014 to June 3, 2016, and then potentially terminate the CMS transaction) and locked in two years of fixed periodic payments at a minimum rate of 1.1% and authorized staff to execute and deliver the Dodd-Frank Compliance Documents as imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act. District staff executed the temporary suspension on May 29, 2014, and locked in a fixed rate receipt of 1.312% until June 3, 2016. The trade has the net effect of lowering the District's synthetic fixed rate payment on the variable rate debt to 2.189% for an approximate net present value at \$1.241 million. By having this transaction in place, the District had savings of \$1,884,001 for FY 2014 and accumulated savings since May 2004 of

\$12,476,747.

On September 11, 2014, Fitch Ratings affirmed the District's "A-" bond rating on the \$44,405,000 in outstanding General Resolution Revenue Bonds, Refunding Series 1998.

As of December 31, 2014, the District had three outstanding series of bonds totaling approximately \$94,855,000 par value with an average debt service interest rate of 4.44%. During 2014, \$6,925,000 par value of bonds matured.

At the end of 2014, the District's outstanding debt portfolio had a ratio of 54% variable rate debt and 46% fixed rate bonds. An interest rate exchange agreement between the District and Deutsche Bank synthetically fixes the rate of interest on all of the variable rate bonds. Since 2004, the District's strategy to lower borrowing costs through the utilization of variable rate debt in combination with interest rate hedges has proven very beneficial.

PARALLEL THIMBLE SHOAL CHANNEL TUNNEL PHASE II -A

Acceleration of the Construction of Parallel Thimble Shoal Tunnel Project:

The Chesapeake Bay Bridge and Tunnel Commission voted to approve a resolution for the acceleration of the construction of the Parallel Thimble Shoal Tunnel Project (the Project) at its meeting on May 21, 2013. The resolution recommended that construction of the Project begin as early as financially practicable and utilize a Design-Build (DB) contracting model to maximize cost savings and to shorten the final delivery timeline.

Following an extensive due diligence process, a majority of Commission members concluded that the current low interest rate environment for tax exempt municipal debt, the decreased construction costs for other large scale infrastructure projects in the current economic environment, and the Design-Build delivery model provided an exceptional opportunity to begin the completion of the second phase of the Parallel Crossing Project that was first envisioned in 1987, and approved unanimously by the General Assembly in 1990.



Besides the lower interest rates and construction costs, the Project timeline also potentially benefits from an improved financing plan that incorporates the utilization of attractive federal loans offered through the Transportation Infrastructure Finance and Innovation Act (TIFIA). The combination of all of these factors improves the construction timeline by as much as four years compared to prior analyses.

As part of the resolution, the Commission also proposed increasing the current toll schedule by 10% beginning on January 1, 2014, and every five years thereafter. The proposed toll rate change utilizes a peak season pricing methodology and includes additional round trip discounting for other classes of vehicles to minimize the impact on local citizens. As such, the proposed round trip rate for passenger vehicles only increased by \$1 and the recently approved \$5 commuter rate (30 one-way trips in 30 days) is preserved. In accordance with the Commission's Public Information Policy, the proposed toll rate adjustments were communicated to the public during a series of public information sessions in Hampton Roads and on the Eastern Shore during the months of July and August 2013. Once locations and dates were confirmed, the public information sessions were publicly advertised. After receiving public feedback, the proposed toll rate adjustment was adopted at the July 2013 Commission meeting.

The Parallel Thimble Shoal Tunnel Project includes the following:

- approximately 5,710 linear feet of tunnel consisting of two-lane concrete tunnel constructed on a centerline 250 feet westward of the existing tunnel with a channel depth of 67 feet plus three feet of overdredge in addition to ten feet of cover over the tunnel,
- widening of portal Islands 1 and 2 to accommodate the new tunnel,
- a set-aside footprint for the construction of a building for the relocation of the restaurant, a separate three-bay garage building, a new fishing pier, and an optional indoor amphitheater on portal island 1, and
- trestle extensions that total approximately 2,000 feet.

Additional support elements include tunnel ventilation, tunnel lighting, approach lighting, electrical power system, tunnel drainage system, fire detection system, fire protection system, communication, Sign Control and Data Acquisition (SCADA), and a traffic control system.

CBBT Commission Awarded Jacobs Supplemental Agreement to Map Existing Conditions:

On October 8, 2013, the Commission awarded Jacobs the supplemental agreement to map the existing conditions for the Parallel Thimble Shoal Tunnel Project, with a not-to-exceed ceiling amount of \$191,000.

Jacobs prepared a topographic map that shows the roadway approaches to and including Islands 1 and 2, along with the fishing pier on Island 1.



The mapping of these areas, including the existing tunnel, was completed utilizing terrestrial laser scanning, mobile scanning/profiling and traditional mapping equipment including robotic total stations and levels. The mapping of the pier, rip-rap, splash walls and outer edges of the approach roadway bridges within the mapping limits was accomplished by mounting a mobile scanner/profiler on a watercraft. Subsurface utilities, traceable using radio frequency equipment, were designated, marked and field-located on Islands 1 and 2.

This work was completed in July 2014 .

Commission Awarded Jacobs Supplemental Agreement to Perform Geotechnical Investigation:

On October 8, 2013, the Chesapeake Bay Bridge-Tunnel Commission awarded Jacobs the supplemental agreement to perform the geotechnical investigation with a not-to-exceed ceiling amount of \$4,785,200.

This work included conducting a thorough geophysical and geotechnical investigation for expanded Islands 1 and 2, approach trestle foundations, and the proposed immersed tube tunnel alignment. Work done under this agreement included 20 test borings and 38 Cone Penetration Test (CPT) probes. Due to the deep water along the channel, Fugro Atlantic, as a subconsultant to Jacobs, mobilized a jack-up vessel from the Gulf Coast. The borings were drilled to depths of 80 feet to 200 feet below mean low water level. The CPTs were pushed using a Roson or Seacalf Seabed system. The CPT seabed system can be used with cones, T-bars and In-Situ Vanes.

The geophysical investigation employed a Seismic Reflection System, high resolution Compressed High Intensity Radar Pulse (CHIRP) system and an R2Sonic or Reson 7125 multi-beam echo sounders to complete the geotechnical investigation. CHIRP systems employ wideband frequency modulated (FM) "CHIRP" technology. The sub-bottom CHIRP system provided the data to image the near-seafloor sediments. Side scan sonar technology was used to map the extent of the armor and riprap stone around the existing islands and debris along the tunnel and island footprints. In addition, a full multi-beam bathymetric survey was performed on the project site.

This work was completed by the end of the summer of 2014.



Commission Considered Unsolicited Conceptual Proposal:

The Commission considered, for conceptual phase evaluation, an unsolicited conceptual proposal (the Proposal) from Parallel Crossing Consortium (PC2), a joint venture consortium, for the development, construction and maintenance of the new Parallel Thimble Shoal Channel Tunnel. The Proposal included the following specific tasks that were proposed to be performed by PC2:

- Perform technical studies required for the Commission's compliance with the National Environmental Policy Act (NEPA).
- Prepare the necessary engineering documents required to determine an accurate and reliable construction cost.
- Determine an accurate and reliable construction schedule.
- Prepare the necessary application and supporting documents to obtain a permit from the United States Coast Guard (USCG).
- Prepare and execute a feasible plan for project financing in connection with CBBT Staff and Financial Advisors.
- Develop a risk allocation plan appropriately transferring development, construction and maintenance risk of the new Parallel Thimble Shoal Channel Tunnel from the Commission to PC2.
- Deliver a series of Project Development Plans for all critical project functions.
- Assign development and financial risk through a cost-sharing Interim Agreement with the Commission.
- Assure that the Commission retains maximum flexibility for construction procurement and delivery.
- Execute a fixed-price, date-certain Comprehensive Agreement with the Commission to design, build, finance and maintain the new Parallel Thimble Shoal Channel Tunnel, taking the Commission and PC2 into the construction phase. The Proposal was submitted on November 26, 2013, by PC2, a group of design and construction companies that include:
 - Skanska USA Civil Southeast, Inc.
 - Kiewit Infrastructure Co.
 - Philip A Shucet Co.
 - Weeks Marine, Inc.
 - Parsons Brinckerhoff, Inc.

On January 15, 2014, the District began accepting competing proposals for a period of 90 days. The Commission reserved the right in its discretion to extend the 90-day competition period. All competing proposals must be accompanied by a check in accordance with the requirements of both the Public-Private Transportation Act of 1995, as amended (the PPTA), and the Chesapeake Bay Bridge and Tunnel District Guidelines in the initial amount of \$50,000. Following the close of the competition period, the Commission's Project Development Committee reviewed all proposals and was to make a recommendation to the Commission whether to advance any of the proposals for further review. The Proposal(s) were to be submitted pursuant to the PPTA as set forth in §§ 56-556, et seq. of the Virginia Code.

On April 22, 2014, the Commission adopted a resolution terminating further consideration of the Unsolicited Public-Private Transportation Act Proposal from PC2. As there were no competing proposals received, the Commission determined via resolution that price competition is crucial to achieving a

financially successful project for the District; that PC2 was the only PPTA unsolicited proposal received, thus eliminating any potential for price competition under this procurement method; input received from the construction industry, the Commission's Financial Advisor and Strategic Advisor identified the Project as an ideal candidate for a Design-Build project delivery method; and the maintenance of the entire facility should remain with one entity and not be split between the District and PC2.

Strategic Advisor was named for Parallel Thimble Shoal Tunnel Project:



Moffatt & Nichol was named Strategic Advisor for the construction of the Parallel Thimble Shoal Channel Tunnel on January 22, 2014. The Strategic Advisor provides expert technical and financial advice and guidance on all aspects related to the successful development of the Project. The Strategic Advisor is responsible for assisting the Commission and District staff in identifying the optimum strategy for achieving the District's objective of delivering the Project as efficiently and economically as possible. The Strategic Advisor offers guidance and strategic perspective regarding the identification of the required procurement, financing, risk identification/allocation, technical and engineering tasks required for Project procurement and delivery, including the establishment of a timeline for the completion of these tasks.

The Strategic Advisor provides guidance to the Commission and District staff regarding unique and innovative financial ideas, concepts and industry best practices, both nationally and internationally to promote the successful financing of the Project.

The Strategic Advisor provides advice on preparation of all scheduling, proposer meetings, all facets of the development, procurement and administration of the Project development activities ("program"), all owner designed engineering elements, attendance of meetings, and design requirements.

This team also consists of the following:

- Arcadis, an international company, which provides consulting, design, engineering and management services in the fields of infrastructure, water, environment and immersed tunnels;
- Pennoni Associates, Inc., a multi-discipline engineering and design consulting firm specializing in bridge and highway engineering; and
- Ernst & Young, a financial advisory firm with extensive experience in closing TIFIA loans for public and private sector borrowers.

Commission Awarded Supplemental Agreement to Jacobs to Advance NEPA Document through Approval Process:



On March 11, 2014, the Commission awarded a supplemental agreement to Jacobs to advance the NEPA document through the approval process. The Commission determined that obtaining the necessary NEPA approvals for the Project was an element that required a long lead time and was critical in the overall development of the project's procurement process. The contract was awarded with a not-to-exceed ceiling of \$1,606,300.

The scope of work for this agreement includes the completion of an Environmental Assessment (EA) to support construction of a parallel tunnel at the Thimble Shoal Channel. Work under this agreement has commenced with a target completion date of August 2015. All of the studies included in the scope of work will be conducted in accordance with the following procedures and guidelines:

- National Environmental Policy Act of 1969, as amended;
- Council on Environmental Quality's (CEQ) Regulations for Implementing NEPA (40 CFR 1500-1508);
- Federal Highway Administration's (FHWA) Environmental Impact and Related Procedures (23 CFR 771);
- FHWA's Guidance for Preparing and Processing Environmental and Section 4(f) Documents (Technical Advisory T 6640.8A);
- Other appropriate laws, regulations and guidelines.

The following is the planned schedule for the Environmental Assessment:

- ✓ March 2014 – NEPA was started
- ✓ June 2014 - Public Information Sessions were held
 - o June 25, 2014 - Lake Wright Conference Center, 5 pm - 7 pm
 - o June 26, 2014 - Northampton High School, 5 pm - 7 pm
- ✓ December 2014 - Draft Environmental Assessment was completed
- ✓ February 2015 - Public Hearings were held
 - o February 4, 2015 - Lake Wright Conference Center, 5 pm - 7 pm
 - o February 5, 2015 - Kiptopeke Elementary School Auditorium, 5 pm - 7 pm
- June 2015 - Revised Environmental Assessment is anticipated to be a Finding Of No Significant Impact (FONSI)
- July 2015 - FHWA Decision

Chief Engineer Hired to Oversee Parallel Thimble Shoal Tunnel Project:

James W. Long, III, P.E., joined the Chesapeake Bay Bridge and Tunnel District as the Chief Engineer on April 22, 2014. As the Chief Engineer, Mr. Long is focusing on the review and project oversight for the Parallel Thimble Shoal Tunnel Project. In addition to the Project, Mr. Long is responsible for planning, organizing and directing the design, inspection and construction of capital improvement programs; ensuring compliance with Federal and State policies, rules and regulations; maintaining records and files; and preparing reports.

Mr. Long graduated from the University of Hartford with a BSCE, obtained an MSCE from the University of Connecticut and obtained his MBA from the College of William & Mary. Prior to joining the District, Mr. Long worked as the Virginia Department of Transportation's Hampton Roads District Structure &

Bridge Engineer and in the private sector working on both transportation and marine projects throughout the Mid-Atlantic and Northeast.

Steer Davies Gleave, Inc. Selected to Perform Traffic and Revenue Forecast:



On June 19, 2014, the Commission selected Steer Davies Gleave, Inc. (SDG) to prepare an investment grade traffic and revenue forecast to support the financing of the Project. The study, which was completed in December 2014, consisted of an analysis of existing conditions, a review of land use and existing socioeconomic conditions within the study area, identification of socioeconomic growth forecasts for the study area, a stated preference travel survey, development of network and econometric models, preparation of a traffic and revenue forecast and sensitivity analysis of the forecast.

Given its long operating history, the Bridge-Tunnel's traffic experience lent itself to the development of econometric models. The work presented in SDG's report established the relationship of key economic variables, including fuel prices, Hampton Roads and national leisure employment, consumer spending, and Virginia goods production on Bridge-Tunnel traffic. The forecast reflects an extension of recent traffic experience on the CBBT.

SDG concluded that, given the strong relationship to the economic variables used to derive the forecasts, the projected revenues should provide a solid foundation to a plan of finance for the Project.

CBBT Selected Public Financial Management, Inc. as Municipal Advisor for Project:



On March 20, 2014, the District issued a Request for Proposal for municipal advisory services for the Project. Responses to the RFP were due by April 18, 2014.

On May 11, 2014, the Commission selected Public Financial Management, Inc. to serve as an independent Municipal Advisor to the District and provide the financial advisory services necessary to support the District and other members of the Project team in all aspects of the financing and procurement of the Project.

The scope of work under this contract is composed of five major tasks:

1. Project Financial Planning
2. Procurement
3. TIFIA Financing
4. VTIB Financing
5. Toll Revenue Bond Financing

Parallel Thimble Shoal Tunnel Project Added to Hampton Roads Long-Range Transportation Plan and Transportation Improvement Program:



The Hampton Roads Transportation Planning Organization (HRTPO) approved an amendment to add the Project to the Hampton Roads 2034 Long-Range Transportation Plan and Hampton Roads 2012-2015 Transportation Improvement Program at its Board meeting on June 19, 2014.

The HRTPO is the Metropolitan Planning Organization for the Hampton Roads area. As such, it is a federally-mandated transportation policy board comprised of representatives from local, state, and federal governments, transit agencies, and other stakeholders and is responsible for transportation planning and programming for the Hampton Roads Metropolitan Planning Area.

The Hampton Roads 2034 Long-Range Transportation Plan is a multimodal transportation plan that is developed, adopted, and updated by the HRTPO through the metropolitan transportation planning process. The Long-Range Transportation Plan must address a planning horizon of at least 20 years, which includes strategies and actions that lead to an integrated multi-modal transportation system and a fiscally constrained financial plan. The Hampton Roads 2012-2015 Transportation Improvement Plan is a multi-year program for the implementation of surface transportation projects within the Metropolitan Planning Organization, developed in cooperation with the Commonwealth of Virginia and any affected public transportation operators. A Transportation Improvement Plan contains all federally-funded and/or regionally significant projects that require an action by the Federal Highway Administration or the Federal Transit Administration. Before any federally funded and/or regionally significant surface transportation project can be built in the Metropolitan Planning Area, it must be included in a current Transportation Improvement Plan that has been approved by the HRTPO.

CBBT Commission Selected Jacobs Team as Design Manager for Parallel Thimble Shoal Tunnel Project:



At a special called meeting on August 6, 2014, the Commission selected a team led by Jacobs Engineering Group, Inc. to serve as the Design Manager for the Project. The Jacobs Team includes major partners COWI and HNTB, as well as a commitment to small businesses including Capital Project Strategies, Solstice Environmental, LLC from Cape Charles and Virginia Beach, Crofton Diving Corporation from Portsmouth, and Walter C. Grantz, a world-renowned tunnel expert from Virginia Beach.

The Jacobs Team was chosen through a competitive proposal process. The required services include (i) completion of the project design to the level necessary to support a Design-Build procurement, (ii) providing a procurement plan and documents necessary to solicit for a Design-Build team using a two-step Request for Qualifications/Request for Proposal (RFQ/RFP) best value procurement process, and (iii) providing support to the CBBT in reviewing technical requirements of the Design-Build proposals.

CBBT Hosted More Than 225 at Parallel Thimble Shoal Tunnel Project Showcase:



On November 5, 2014, the Chesapeake Bay Bridge and Tunnel District hosted the Parallel Thimble Shoal Tunnel Project Showcase at the Hilton Virginia Beach Oceanfront in Virginia Beach, VA. With more than 225 professionals from around the world in attendance, various fields including construction, engineering, finance, legal and material suppliers were represented.

Lt. Governor Ralph Northam and Delegate Barry Knight welcomed

guests and expressed the importance of this project for the Commonwealth and provided both legislative and executive branch support for the Project. John Malbon, a representative of the Commonwealth Transportation Board and member of the Hampton Roads Transportation Accountability Commission, also recognized other projects of regional significance.

The Project team further provided a general overview of the District and the Parallel Thimble Shoal Tunnel Project, including project elements, the procurement methodology and schedule, evaluation criteria that will be used for the qualification process, and updates on NEPA, permitting, geotechnical, dredge disposal, mapping and more.

Interested design-build teams could request one-on-one meetings with District staff from November 16, 2014 until the RFQ is advertised in the spring of 2015.

Nossaman LLP selected to serve as Project Counsel for Parallel Thimble Tunnel Project:



The Commission selected Nossaman LLP to serve as Project Counsel for the Project in January 2015. With offices located across the nation, Nossaman is a national leader among law firms representing public agencies seeking to deliver high profile projects using innovative project delivery techniques.

Through a competitive proposal process, Nossaman LLP was chosen to support the District by providing legal advice in structuring the procurement process and the negotiation and drafting of a Design-Build contract for the Project. Their services will be provided through the completion of the Project.

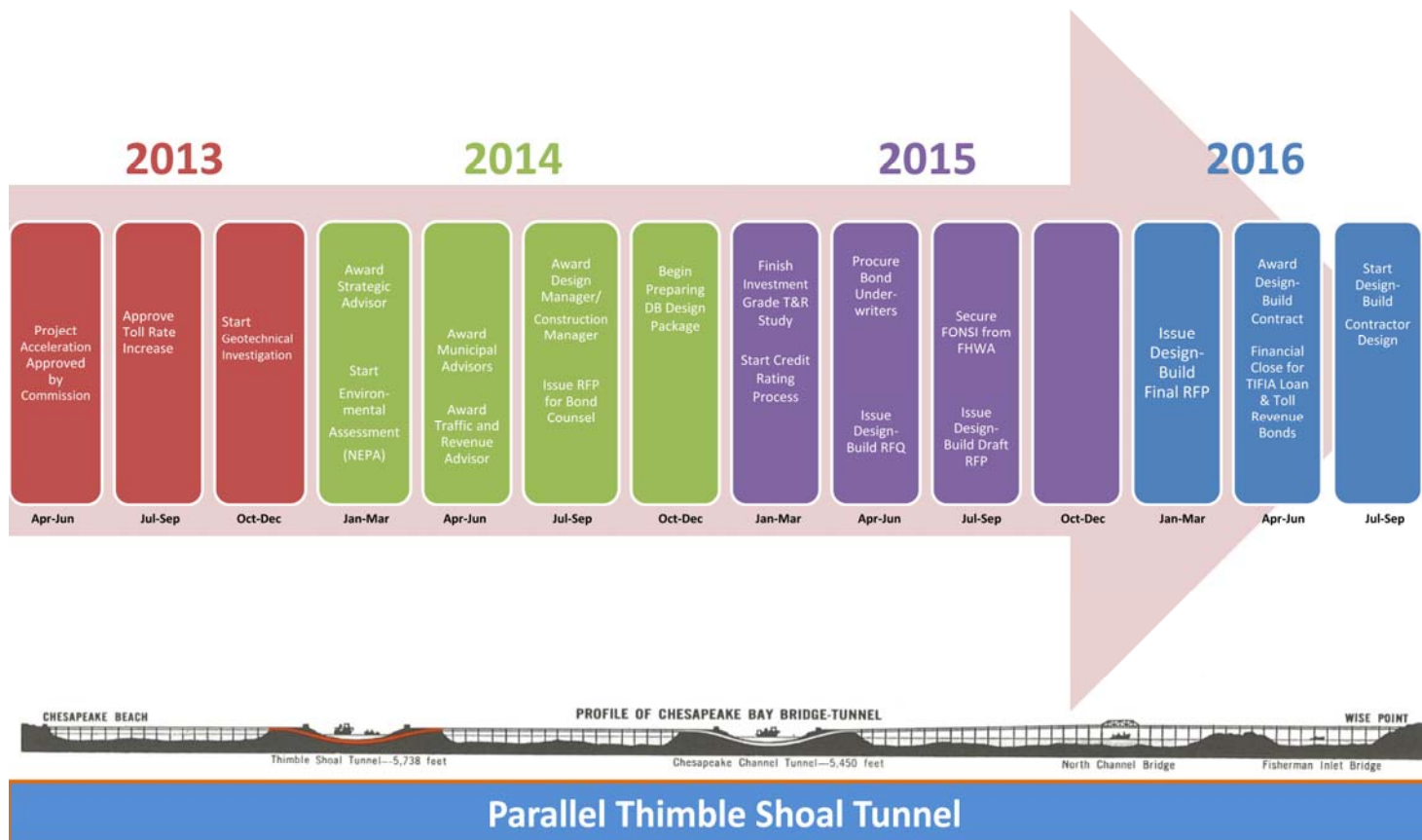
In addition to the aforementioned items, the CBBT's Project team is working on preliminary design work, financial planning, and Request for Qualifications, and Request for Proposal for Design-Build Projects.

The RFQ will be advertised in May 2015, with the short-listed firms announced in July 2015. A draft RFP for Design-Build Contractor(s) is expected in August 2015, with final award scheduled for May 2016.

Additionally, due to ongoing work with the CBBT, the following companies are conflicted from teaming with other Design-Build teams on this Project:

- Jacobs
- HNTB
- Walter C. Grantz
- Capital Project Strategies
- Wetland Studies and Solutions, Inc.
- Moffatt and Nichol
- Arcadis
- Steer Davies Gleave
- Public Financial Management
- COWI
- Fugro
- Solstice Environmental, LLC
- Crofton Diving Corporation
- EA Engineering
- Pennoni
- Ernst & Young
- Economic Development Research Group
- Nossaman, LLP

PROJECT DEVELOPMENT TIMELINE



ENGINEERING AND MAINTENANCE



On April 1, 2014, Jacobs Engineering Group (Jacobs), the District's consulting engineers, submitted its Fifty-First Annual Report on the annual in-depth inspection and review of the District's operations and facilities. This inspection is conducted annually as required by Section 504 of the District's Revenue Bond Resolution. The inspection of

the facility was performed using inspection procedures that followed the general recommended guidelines and regulations of the National Bridge Inspection Standards (NBIS) as defined in the Code of Federal Regulations, the Federal Highway Administration, and the Virginia Department of Transportation. In the Annual Report, Jacobs commented that "Despite its location with constant exposure to a relentlessly aggressive marine environment throughout its entire life, now reaching 50 years for the majority of its components, components of the Chesapeake Bay Bridge and Tunnel facility generally vary from "satisfactory" to "excellent" condition, with the overall condition of the facility determined to be "good." Even with recognition that construction materials and methods were employed appropriate for this environment, the District's well-established and fine-tuned procedures for identifying and repairing defects and repairing or replacing components account for prolonging the lifespan of the structures. The District vigilantly continues to field-test promising new products and methods, resulting in many successful efforts to extend the life of facility components, and has the foresight to utilize Contractors on specific repair projects of significant size or complexity while using internal staff for the remainder of the repair and maintenance needs of the facility. The consistent success of this program over the years is a decided manifestation of the merits and benefits of the District's proactively thorough and cost-effective approach to preventive maintenance. It also demonstrates the knowledge and dedicated commitment of District personnel."

Condition level assessments are completed every year by Jacobs Engineering, and the results are an integral part of the District's Fiscal Year Audited Financial Statements, which are enclosed with this report. The Commission continues to aggressively maintain the Chesapeake Bay Bridge-Tunnel's infrastructure in accordance with its infrastructure preservation policy, which states that at all times it will maintain 90% of the facility at a "good" condition level or better (a rating of 7 out of a 9 point scale). Noticeable degradation in any one component area triggers the need for an infrastructure repair, replacement, or renovation.

An underwater inspection of the entire facility is required every five years and one-fifth of the structure is inspected each year. The 2014 underwater inspection of the Trestle B northbound, Trestle D southbound,

Trestles E and F northbound, North Channel Bridge southbound, Fisherman Inlet Bridge northbound, the fishing pier, and the Little Creek pier was awarded to Jacobs at a cost of \$619,700 on March 26, 2014. The project is approximately 80% complete with \$403,730 paid to date. This project recurs annually to keep the District in compliance with the Commonwealth and FHWA Bridge Inspection Criteria. In addition, this recurring project assures the District is meeting the internal requirements specified in its infrastructure preservation policy.

The Commission approved its Capital Projects in the District's Long-Term Capital Projects Plan, which extends to 2032.

Major projects completed in 2014 are identified hereinafter:

- A project to install a new ventilation system in the Vehicle Shop was completed in March 2014. The project, including exhaust system, two dual exhaust kits, three mounting kits, a load center box, and a circuit breakers was accomplished for \$31,688.
- A project to repair, point, tuck, and paint the Maintenance Building was completed, as well as replacing a window and scraping and painting all of the doors, and power washing and painting the entire exterior of the Maintenance Building for a cost of \$40,113.
- The roof on the Production Building located at Little Creek was replaced in October for \$182,911, and the Production Building was painted at a cost of \$18,456, for a total cost of \$201,367.



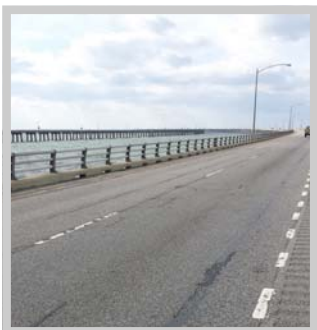
Larger current and ongoing projects approved in the Long-Term Capital Projects Plan include the following:

- Three septic systems, one for the Administration Building and two for the Maintenance Yard are being replaced. Two of the three septic systems were installed for \$21,580. The project is currently in the permitting stage for the final drain field.
- Construction of a 40' x 50' equipment pole barn in the Maintenance Yard is underway. Virginia Carolina Buildings, Inc. was selected to construct the pole barn for \$38,825. Mobilization and materials on hand have been paid for and the project is nearing completion with a total paid to date of \$30,716.79.

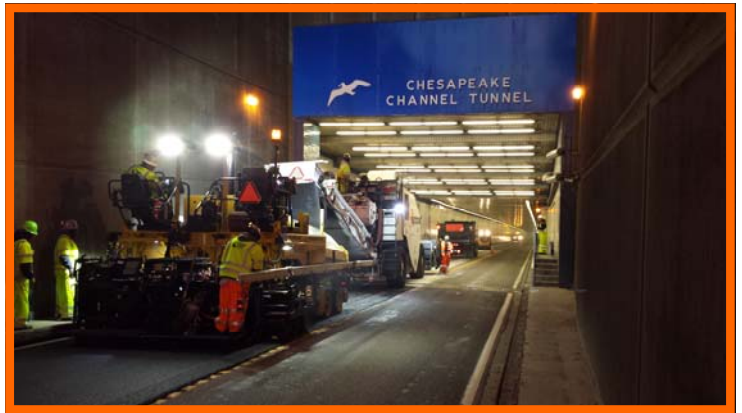


- A project to repair the southbound cable tray is currently being conducted. Townsend Garage fabricated 800 pair of cable tray support connectors. The installation of plates was put out for bid with all bids coming in over the expected amount and were rejected; therefore, the work is being performed with District forces.

- Specifications for a trestle pavement marking project are being prepared at this time, with plans for project letting by early spring.



- The majority of the work has been completed on a project to repair and repave the roadways of the tunnels and open approaches. One paved approach area still requires profiling to meet tolerances. In addition, five locking bars for inner manhole covers require replacement. It is anticipated that these items will be complete by early February 2015. The total amount spent on this project to date is \$5,492,677.



- A project to replace windows in the Ventilation Buildings was awarded to Accurate Construction and Management in July 2014, in the amount of \$99,675. This project has been placed on temporary shutdown due to installation material temperature constraints. The project will start back up on April 1, 2015, and should be ready for final inspection by May 2015.



- A project to paint the tunnel ventilation systems was awarded to Saffo Contractors, Inc. in March 2014, in the amount of \$4,796,500. Notice to Proceed was issued on April 7, 2014. Saffo has completed the blasting and priming of blower fan #1 and exhaust fan #3 on Island 4. Saffo has commenced with the erection of containment on Island 3. A total of \$241,300 has been paid to Saffo to date.

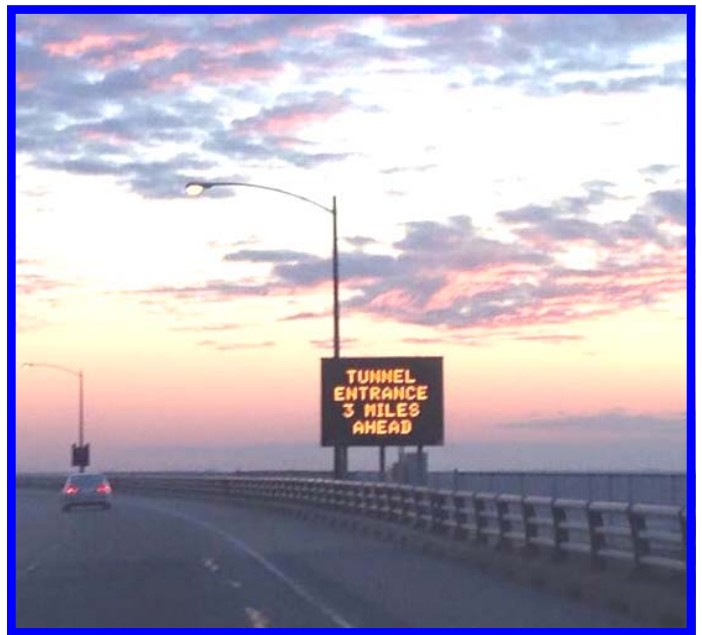


- A project to replace the tunnel flush truck was awarded to Virginia Truck Center for \$215,139. Notice to Proceed was issued in August 2014, and expected delivery is March 2015.

- In-car video recording systems for eleven police vehicles were ordered from Computech International in November 2014 for \$77,823. Delivery is expected in February 2015.

- A SCADA System project was awarded to Wellington Power Corporation in July 2013, in the amount of \$13,880,000. The main focus of this project was to improve and update traffic safety, power and monitoring control, and security enhancement systems across the entire facility. To the general public, the new SCADA system appears in full function. Internal policies have been set and implemented for the new Blank Out Signs and Variable Message Signs across the facility.

- A project to update toll equipment software and hardware was awarded to The Revenue Markets, Inc. (TRMI) Systems Integration for a not-to-exceed cost of \$1,088,310.



OPERATIONS

During 2014, the Operations Division rendered assistance to 466 customers who experienced some type of difficulty with their vehicles while crossing the facility. The Police Department also issued 4,034 traffic summonses with 27 summonses issued for driving Under the Influence. Additionally, the department handled five felony arrests during the calendar year 2014. The Operations Division also assisted 466 customers with driving over the facility, due to bridge, tunnel, or height phobias, age, etc.

During 2014, 21 reportable vehicular accidents occurred on the facility, which involved five personal injuries and one fatality, and represents an increase of one accident when compared with 20 accidents in 2013. As a result of the 21 accidents, estimated vehicle damage totaled \$110,550, and damage to District property totaled \$391,450. This exemplifies the proactive operations strategy to minimize accidents and operational concerns.

During 2014, a total of 16 vehicles were disabled in the tunnels, which required traffic control around said vehicles until District-provided wrecker service arrived. This resulted in seven hours of traffic stoppages. Additionally, the Operations Division/Police Department escorted 351 oversized loads, which required traffic to be stopped at both ends of each tunnel, resulting in 117 hours of traffic stoppages. There were 40 miscellaneous lane closures, resulting in 37 hours of traffic stoppages in the tunnels during the year 2014. Nighttime work details in the tunnels during the year totaled 170, resulting in 1,511 hours of traffic stoppages. In summary, during 2014, there was a total of 561 lane closures in the tunnels, which resulted in a total of 1,665 hours of traffic stoppages.

The Chesapeake Bay Bridge-Tunnel Police Department, in coordination with the Department of Homeland Security, conducted one Visible Intermodal Prevention and Response Operation to enhance security on and around this facility, which has been labeled by Department of Homeland Security as Critical Infrastructure. Ten other state and federal agencies participated in these operations. There were no explosives found and only minimal delays to the traveling public.

The District partnered with the Department of Motor Vehicles and installed a portable Weight in Motion system immediately north of the facility. The information gathered from this system showed that a potential 45 vehicles that exceeded stated limits on this facility by 36,000 pounds or more, had crossed in a period of just a few weeks. After reviewing this information, the District purchased six portable scales to

assist in preventing abusive overweight degradation to our facility. Additionally, four District Police Officers attended a 12-hour training session on Commercial Vehicle Weight Enforcement conducted by the Virginia Beach Police Department Motor Carrier Safety personnel.



The Chesapeake Bay Bridge-Tunnel Police Department conducted two Law Enforcement In-Service Schools, which were attended by 20 District Police Officers and 32 other Police Officers from local departments on the Eastern Shore.

Continuing law enforcement education during 2014 included a class entitled, “Response to Critical Incidents;” a Virginia Fusion Liaison Training session; an FBI First Line Supervisors’ Training Class; an FBI Law Enforcement Officers’ Effective Writing class; a training session entitled, “Tactics in Traffic;” a DCJS Trainers’ Meeting; a “Reasonable Suspicion” class; and a training seminar on Law Enforcement Officers Killed in Action.

A District Police Lieutenant, who is the Eastern Shore’s Regional Director of the Virginia Gang Investigators Association, attended numerous meetings related to gang activities and investigations.

Two Police Officers attended the Annual Mid-Atlantic DUI Conference, two Police Officers were certified as Breath Alcohol Operators, and eleven Police Officers were recertified as Breath Alcohol Operators.

One Corporal and one Master Police Officer received Instructor Recertification on the Virginia Criminal Network (VCIN); 19 Officers received their recertification training for the VCIN terminal.

In other training classes for Police Officers, one Police Corporal was recertified as a TASER Instructor; five District Police Officers received Radar/Lidar Recertification training and testing; and the Chief of Police, three Lieutenants, one Sergeant, two Corporals, and eleven Police Officers received Firearms Familiarization and Qualifications training.

Twenty-one Emergency Crew Workers and fifteen Toll Collectors attended Customer Service Workshops entitled, “The Signature of Star Service” that was coordinated through Eastern Shore Community College.



Since 1987, the CBBT has participated in the Special Olympics Torch Run. Designed to provide Police Officers an opportunity to volunteer with Special Olympics in communities where they live and work, the Torch Run is their signature event. Each year in June, the Special Olympics’ “Flame of Courage” is carried over more than 2,000 miles of Virginia’s

roadways to Richmond to open the largest state competition for athletes with disabilities. On June 4, three District Police Officers represented the Chesapeake Bay Bridge-Tunnel as they participated in the final leg of the race down the Eastern Shore of Virginia, running the final mile on the south side of the facility and passing the torch to awaiting Officers in Virginia Beach. Efforts for this year’s event involving the

Bridge-Tunnel netted over \$1,236 for the Special Olympics and the overall Eastern Shore participation raised over \$6,715 for this cause. Additionally, CBBT Police Officer J. C. Carstens was presented with the “Unsung Hero” award at the annual banquet for his unheralded efforts and contributions to the success of the Law Enforcement Torch Run on a community level, which is quite an honor considering that this award is given to only five participants each year.



FINANCE AND MARKETING

The District continues to promote the Chesapeake Bay Bridge-Tunnel with advertising and public relations through cooperative advertising and promotional efforts with surrounding localities, the Virginia Tourism Corporation, and the Virginia Hospitality and Travel Association. As a result of these efforts, response was made to 6,795 individuals requesting literature and information on the Chesapeake Bay Bridge-Tunnel and surrounding areas. In addition to requests made by individuals for literature, more than 277,220 pieces of bulk mail (promotional brochures and toll schedules) were shipped to individual businesses for display in their brochure racks. Website visits were recorded at 294,956 in 2014, and social media continues to be a positive extension of the CBBT marketing. Twitter continues as a platform to inform followers of up-to-date traffic and weather conditions on the facility, with 2,731 direct followers to date. Facebook is used to provide general information, photography, and history, as well as an additional means to disseminate information to the social public. Our “friends” community continues to grow with a current following of 4,089.



2014 was a monumental year, as we celebrated 50 years of service in the Commonwealth of Virginia! In preparation for the milestone anniversary, the CBBT developed an anniversary logo for use on all marketing materials including print media, as well as the website and social media outlets. The District also worked with Terrell Creative on the creation of a new souvenir book that was published just prior to the CBBT's 50th Anniversary. This publication is available for

purchase at the Virginia Originals Gift Shop located on the CBBT's southernmost island. Additionally, items were designed specifically for the commemorative event, to include coasters, lapel pins and key chains. In celebration of the official 50th anniversary, a commemorative celebration was held on Island 1 on April 15, 2014. With more than 300 guests in attendance, guest speakers including Governor Terry McAuliffe and Secretary of Transportation Aubrey Layne, Jr., recognized the history of this engineering marvel, celebrating the past and tunneling towards the future. With a string of storms passing through the area that ultimately resulted in the closure of the CBBT for approximately an hour that



evening, the event was moved into the casual dining area, as well as the semi-enclosed outdoor patio area of Virginia Originals and Chesapeake Grill. All guests in attendance received a souvenir bag containing commemorative items that included the new souvenir book, a construction DVD, a private-label bottle of water, a souvenir coaster, 50th Anniversary lapel pin, and a souvenir key chain. Souvenir books were also distributed in the toll lanes on the anniversary date.



As part of the celebration on Island 1, a 1948 Willys Jeep, the “first vehicle to cross the CBBT,” and the CBBT’s 1964 Wrecker were on site for viewing. They were moved to the North Toll Plaza Rest Area Parking Lot for viewing after the celebration. In partnership with Virginia Tourism Corporation, the LOVE letters were brought to the CBBT, as well.



To further promote the facility and its history, the CBBT partnered with the Cape Charles Historical Society and developed a display of old photographs, paintings, and historical memorabilia for the Cape Charles Museum. The displays were premiered in March for the reunion of Virginia Ferry Corporation employees. It was then open to the public when

the Museum opened for the season in April 2014 and remained throughout the 2014 season.

The Eastern Shore Southern Gateway Welcome Center, located within the North Toll Plaza Rest Area and operated by the Eastern Shore of Virginia Tourism Commission, continues to thrive. The travel ambassadors, comprised largely of volunteer staff led by Welcome Center Manager Allan Burns, actively engage the visitors when they come into the Center in order to determine their vacation preferences and to convert them from “travelers” to “visitors,” as they guide them to the many Eastern Shore attractions and amenities. A total of 105,611 visitors were welcomed during the 2014 calendar year, a 0.6% decrease from visitation in



2013. Since opening its doors in 2009, this center has welcomed more than 580,000 visitors. On May 8, Executive Director Jeff Holland and Commission Chairman Fred Stant welcomed the 500,000th visitor to the Eastern Shore Welcome Center. The lucky couple was traveling from Florida to Pennsylvania to visit family and was presented with a basket of goodies from Eastern Shore businesses.

The Virginia Beach Visitor Counter, which is located within the footprint of Virginia Originals on the CBBT's southernmost island and staffed by the City of Virginia Beach, also continues to grow in popularity with our travelers. In 2014, more than 31,000 guests were assisted by Virginia Beach ambassadors, providing information to travelers that were headed to Coastal Virginia, which includes not just Virginia Beach but also the cities of Norfolk, Portsmouth, Hampton, Newport News, Chesapeake, Isle of Wight and Williamsburg. Since opening in July of 2010, they have assisted more than 167,000 travelers with directions, reservations and travel plans.



The District continues to donate funds to Eastern Shore Rural Health System, Inc., which in turn are used to purchase scrip toll tickets for local residents who need to travel across the Chesapeake Bay for medical reasons. This program has benefited many Eastern Shore residents over the past twenty-two years. In 2014, 5,592 toll passes at a value of \$72,696 was donated by the CBBT and issued by Eastern Shore Rural Health.

The Educational Toll Program was created in 2010, to provide assistance to students commuting across the Chesapeake Bay Bridge-Tunnel for the purpose of furthering their post-secondary education. This successful program is a partnership between the Chesapeake Bay Bridge-Tunnel and the Eastern Shore Community College, who administers the program. In 2014, \$20,000 was donated by the CBBT and issued by the Eastern Shore Community College.



From healthy snack options in the vending machines, to seminars on financial planning, to biometric screenings and a Benefits Fair, the District continues to aggressively promote a healthier work environment. Vascular Arterial Screenings and Skin Cancer Screenings were provided and a free flu shot clinic was held in October for all District employees. Additionally, an eight-week walking program entitled "Walk America" was implemented for all District employees. More than 50 participants competed in the incremental challenges for weekly prizes and the opportunity to qualify for a grand prize drawing. Collectively, more than 20 million steps, or over 10,000 miles, were logged in the challenge.

The District, working in conjunction with the American Red Cross Mid-Atlantic Region, conducted a successful blood drive in



September. Three donors participated in the Double Red Blood Cell Collection process, a process that is the most efficient, donor-friendly method of collecting the blood components most frequently needed by patients in our community, and we had a first-time donor.



The District continues to participate in area Job Fairs and Career Days that are hosted by local schools and Chambers of Commerce on Virginia's Eastern Shore. Through its partnership with the Coastal Virginia Tourism Alliance and in support of National Tourism Week, the District, as well as the Eastern Shore Tourism Commission, once again participated in "Thank a Visitor Day" at the Norfolk International Airport.

Each year, District employees and Commission members participate in the Northampton County Department of Social Services' "Angel Tree" Christmas program, as well as a food and clothing drive that benefits the Eastern Shore Foodbank. Through our efforts, 30 angels, from newborns to age 10, were provided with needed clothing items and toys. Non-perishable food items and \$95 in monetary donations were collected for the Foodbank.



The District develops and publishes informational brochures, flyers and newsletters for its employees and retirees throughout the year. Annual Tide Tables are also published in-house for distribution to anglers on the southernmost island. Several E-ZPass brochures were created for dissemination to our travelers that have questions not only about how the electronic toll collection system works but also the changes to the CBBT toll rate schedule and E-ZPass discounts.



Throughout the year, tours of the facility were provided to various school groups and associations, including members of the Young Presidents Organization, Cape Charles Rotary, British travel agents, college groups and other special-interest groups. The tours continue to be very well received and the participants leave with a vast amount of knowledge regarding the District, its mission, general operations and maintenance, as well as plans for future expansion with the Parallel Tunnel Project. Also, 14 bird watching tours on the manmade islands were conducted during the year.



The District continues to work with local news media and travel writers, as well as Virginia Tourism Corporation. Several familiarization tours were held throughout the year in an effort to publicize and promote the Chesapeake Bay Bridge-Tunnel, as well as the Eastern Shore of Virginia, to various markets. Additionally, we are working with Arcadia Publishing on a pictorial book on the history of the Chesapeake Bay Bridge-Tunnel, as part of its "Images of America" series. The book is anticipated to be published in mid-2015.

In preparation of toll rate changes and discounting that would require the use of E-ZPass on this facility,

the CBBT opened a satellite office at the Eastern Shore Chamber of Commerce building in Melfa, Virginia, on November 1, 2013. In 2014, the District assisted more than 7,200 customers with their E-ZPass accounts and sold more than 2,800 transponders at its two locations. The satellite office in Melfa was closed on September 15, 2014, at the end of the CBBT's peak season pricing period. A full-service E-ZPass Customer Service Office remains at the CBBT's Administration Building. Currently, more than 57% of the District's customers are utilizing E-ZPass in the toll lanes.

The District continues to maintain and improve its website and issued a Request for Pricing for website redesign on December 16, 2014. Pricing was received on January 15, 2015, and an award was made on January 30, 2015, to Ciniva Web Agency of Norfolk, Virginia. In 2014, a dedicated web page was developed to house and provide all news releases and documents as pertain to the Parallel Thimble Shoal Tunnel Project. Additionally, an e-Newsletter was developed in order to further disseminate information on the Project to all interested parties. The downloadable iPod tour of the Chesapeake Bay Bridge-Tunnel continues to be popular with its visitors.

District employees continue to support the Eastern Shore of Virginia's United Way campaign. Employees pledged \$11,577 to this year's campaign, "Celebrate a Better Tomorrow," thus providing valuable support to community organizations and non-profit agencies.



Virginia Originals LLC, operated by Chris and Kellson Savvides of Virginia Beach, successfully completed their fourth full calendar year of the lease for the restaurant and gift shop facilities on the CBBT's southernmost island, known as One Island on the Bay. Virginia Originals LLC continues to focus on providing food and retail products that represent the Commonwealth and their venue

and offerings continue to be well received by the traveling public. In 2014, the District received \$238,112 from the lease of the establishment.



The District purchased property at Little Creek in 1995, to be used as a staging area for the construction of the Parallel Crossing Project, and Phase I of the Project was completed in 1999. The property on Little Creek Harbor is now being leased to several tenants and is producing excellent income for the District. In 2014, income from leases of the Little Creek property totaled \$853,961. The four tenants include Marine



Spill Response Corporation, \$392,749; Precon Marine, \$285,682; TransAtlantic Lines, \$154,254; and Chesapeake Bay Tower Associates, \$21,276. A staging area at Little Creek will be available for the contractor's use when the Parallel Thimble Shoal Tunnel Project begins.

COMMISSION

The members of the Chesapeake Bay Bridge and Tunnel Commission have worked diligently during 2014 in administering the affairs of the District in the best interest of the bondholders and the traveling public. The terms of Thomas B. Dix, Jr., representative from Accomack County; John W. Salm, III, P.E. and John W. White, representatives from Northampton County expired on May 14, 2014. Also, Christopher G. Stuart, representative from the City of Hampton resigned effective June 30, 2014, due to his moving from Hampton to Norfolk. We were pleased that Robert S. Bloxom, Sr.; Paul E. Bibbins, Jr., PhD; Jeffrey K. Walker; and Chris Snead were appointed to the Commission as representatives from Accomack County, Northampton County, Northampton County, and City of Hampton, respectively.

In January, the following officers were elected by the Commission to serve the term beginning March 1, 2014, and ending February 28, 2015: Frederick T. Stant, III, Chairman; Thomas W. Meehan, Sr., Vice Chairman; and Jennifer Lee, Secretary-Treasurer.

In May, the Commission approved the operating expense budget for the District for fiscal year 2014-15, in the amount of \$14,600,050, which was a 2.2% increase versus the prior year.

The Commission held its fourth Chesapeake Bay Bridge and Tunnel Commission Alumni Society meeting in February. It was a great opportunity to keep in touch with former Commission members and to update them on what has transpired at the District in the past year, as well as updating them on the Parallel Thimble Shoal Tunnel Project.

The Commission is excited about the progress that has been made toward the Parallel Thimble Shoal Tunnel Project and looks forward to the coming months.

The outstanding performance and loyalty of the District's employees and staff, under the direction of Mr. Holland, in the operation, maintenance, and promotion of the Bridge-Tunnel, and in carrying out the policies set forth by the Commission is recognized and appreciated by the Commission.



Frederick T. Stant, III
Chairman
City of Virginia Beach



Thomas W. Meehan, Sr.
Vice Chairman
City of Newport News



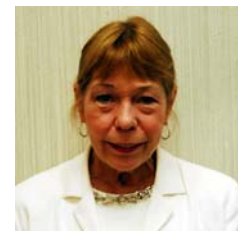
Jennifer Lee
Secretary-Treasurer
City of Portsmouth



Paul R. Hedges
City of Chesapeake



B. Wayne Coleman
City of Norfolk



Deborah Christie
Accomack County



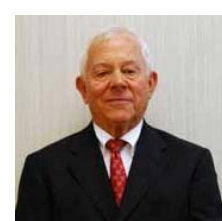
John F. Malbon
Commonwealth
Transportation Board



Paul E. Bibbins, Jr., PhD
Northampton County



Robert S. Bloxom, Sr.
Accomack County



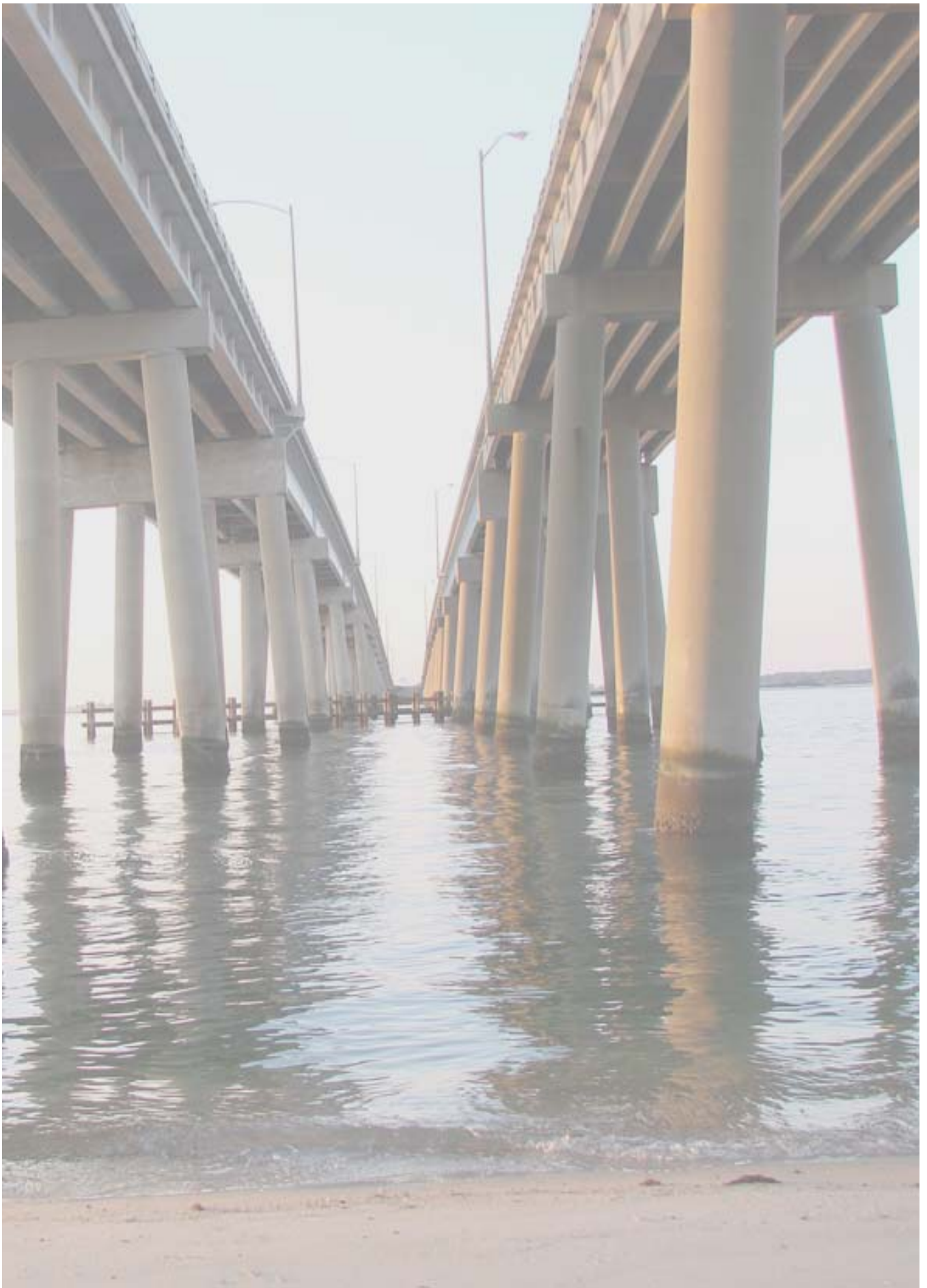
Jeffrey K. Walker
Northampton County



Chris Snead
City of Hampton



Jeffrey B. Holland
Executive Director



CHESAPEAKE BAY BRIDGE AND TUNNEL DISTRICT



FINANCIAL STATEMENTS FOR CALENDAR YEAR 2014

Chesapeake Bay Bridge & Tunnel District
Statement of Revenues, Expenses, and Changes in Net Position
Years ended December 31, 2014 & 2013

	Twelve months ended	
	2014	2013
Operating revenues:		
Toll	\$ 52,184,161	\$ 45,540,780
Other	1,255,197	1,167,931
Total operating revenues	<u>53,439,357</u>	<u>46,708,711</u>
Operating expenses:		
Administration	402,037	357,768
Finance	737,155	672,197
Operations	4,171,919	4,060,582
Maintenance and tunnel operations	3,647,698	3,548,449
General	3,749,131	3,546,208
Consultants	585,469	784,205
Utilities	1,010,682	937,020
Total operating expenses before District facility expenses	<u>14,304,091</u>	<u>13,906,430</u>
District facility expenses:		
Insurance	977,862	1,182,512
Depreciation	880,082	853,675
Bridge and tunnel preservation	16,125,343	7,085,496
Other	519,298	325,872
Total District facility expenses	<u>18,502,585</u>	<u>9,447,555</u>
Total operating and District facility expenses	<u>32,806,676</u>	<u>23,353,985</u>
Operating income	<u>20,632,681</u>	<u>23,354,726</u>
Nonoperating revenues (expenses):		
Change in fair value of investments	(2,083,014)	(6,583,510)
Interest income	4,546,483	5,111,621
Interest expense	(5,198,373)	(4,898,175)
Other income	(298,896)	(1,227)
Total nonoperating revenues (expenses):	<u>(3,033,801)</u>	<u>(6,371,292)</u>
Increase in net position	17,598,881	16,983,434
Net position, beginning of year	592,683,130	575,699,696
Net position, end of year	<u>\$ 610,282,011</u>	<u>\$ 592,683,130</u>

Chesapeake Bay Bridge and Tunnel District
Statements of Net Position
December 31, 2014 and 2013

<u>Assets and Deferred Outflows</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash	\$ 1,069,447	\$ 887,843
Investments	24,495,728	42,382,233
Accounts receivable and accrued interest receivable, net	1,191,564	1,298,953
Prepaid expenses	42,443	221,166
Other assets	9,940	37,240
Note Receivable	25,992	26,102
Total current assets	<u>26,835,114</u>	<u>44,853,537</u>
Restricted assets:		
Cash	2,061	1,211
Investments	24,574,512	24,441,455
Accrued interest receivable	25,617	163,999
Total restricted assets	<u>24,602,190</u>	<u>24,606,665</u>
Investments	214,077,829	188,468,985
Long Term Note Receivable	142,588	195,264
Derivative Investment	1,818,424	2,860,994
Capital assets		
Bridge and tunnel facilities, including capitalized interest	423,933,330	423,933,328
Construction in progress - Thimble Shoal Parallel Tunnel	5,347,924	-
Miscellaneous capital assets, net of accumulated depreciation	10,687,480	11,174,323
Total capital assets	<u>439,968,734</u>	<u>435,107,651</u>
Bond insurance costs, net of accumulated amortization	79,489	87,825
Deferred outflows of resources		
Derivative liability	2,020,163	2,385,119
Loss on debt refunding	11,374,955	13,564,634
Total deferred outflows	<u>13,395,118</u>	<u>15,949,753</u>
Total assets and deferred outflows	<u>\$ 720,919,486</u>	<u>\$ 712,130,674</u>
 <u>Liabilities</u>		
Current liabilities:		
Accounts payable & accrued expenses	\$ 2,664,317	\$ 2,853,148
Current portion of long-term debt	7,150,000	6,925,000
Accrued interest	1,624,688	1,674,002
Unearned revenue	715,310	811,614
Total current liabilities	<u>12,154,315</u>	<u>12,263,764</u>
Long-term liabilities:		
Long-term debt, net of current portion	89,162,985	96,465,899
Imputed borrowing payable	3,020,906	4,053,655
Derivative liability	2,020,163	2,385,119
Other long-term liabilities	4,279,106	4,279,106
Total long-term liabilities	<u>98,483,160</u>	<u>107,183,779</u>
Total liabilities	<u>110,637,475</u>	<u>119,447,543</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	350,464,600	339,641,555
Restricted for debt service	24,600,128	24,605,454
Unrestricted	235,217,283	228,436,122
Total net position	<u>610,282,011</u>	<u>592,683,131</u>
Total liabilities and net position	<u>\$ 720,919,486</u>	<u>\$ 712,130,674</u>

Chesapeake Bay Bridge and Tunnel District
Statement of Cash & Investments
As of December 31, 2014

	<u>Cash</u>	<u>Investments</u>	<u>Totals</u>
<u>REVENUE BOND RESOLUTION FUNDS:</u>			
Revenue Fund	\$ 1,032,517.80	\$ 4,811,783.16	\$ 5,844,300.96
<u>GENERAL REVENUE BOND RESOLUTION FUNDS:</u>			
Bond Interest Fund - Series 1998		1,221,137.50	1,221,137.50
Bond Interest Fund - Series 2010		28,051.80	28,051.80
Bond Principal Fund - Series 2011		4,172,053.09	4,172,053.09
Bond Interest Fund - Series 2011		906,949.31	906,949.31
Bond Interest Fund - Series 2010 & Series 2011 Collateral Acct		3,490,245.20	3,490,245.20
Debt Service Reserve Fund		14,756,075.17	14,756,075.17
Reserve Maintenance Fund	35,900.30	12,970,733.03	13,006,633.33
General Fund	1,028.73	220,791,041.25	220,792,069.98
<u>OTHER RESTRICTED ASSETS:</u>			
Restricted Asset Forfeited Property Account	<u>2,061.10</u>		<u>2,061.10</u>
Totals	<u>\$ 1,071,507.93</u>	<u>\$ 263,148,069.51</u>	<u>\$ 264,219,577.44</u>

Chesapeake Bay Bridge and Tunnel District
Statement of Investments
As of December 31, 2014

<u>Description</u>	<u>Coupon Rate</u>	<u>Maturity Date</u>	<u>Purchase Date</u>	<u>Maturity Value</u>	<u>Market Value 12/31/2014</u>
<u>Revenue Bond - Revenue Fund</u>					
US Treasury Notes	1.375%	11/30/15	09/12/14	\$ 2,365,000.00	\$ 2,388,650.00
Money Rate Savings Account	Variable	Not Fixed		2,423,133.16	2,423,133.16
				<u>4,788,133.16</u>	<u>4,811,783.16</u>
<u>GR Bond - Interest Account Series 1998</u>					
Money Rate Savings Account	Variable	Not Fixed		1,221,137.50	1,221,137.50
				<u>1,221,137.50</u>	<u>1,221,137.50</u>
<u>GR Bond - Account Series 2010</u>					
Money Rate Savings Account	Variable	Not Fixed		28,051.80	28,051.80
				<u>28,051.80</u>	<u>28,051.80</u>
<u>GR Bond - Principal Account Series 2011</u>					
Money Rate Savings Account	Variable	Not Fixed		4,172,053.09	4,172,053.09
				<u>4,172,053.09</u>	<u>4,172,053.09</u>
<u>GR Bond - Interest Account Series 2011</u>					
BB&T Corp. Trust	Variable	Not Fixed		837,081.57	837,081.57
Money Rate Savings Account	Variable	Not Fixed		69,867.74	69,867.74
				<u>906,949.31</u>	<u>906,949.31</u>
<u>GR Bond - Series 2010A & 2011A Collateral Posting</u>					
US Treasury Notes	4.875%	08/15/16	08/15/06	50,000.00	53,507.80
US Treasury Notes	4.875%	08/15/16	08/15/06	150,000.00	160,523.40
US Treasury Notes	4.875%	08/15/16	08/15/06	150,000.00	160,523.40
US Treasury Notes	4.875%	08/15/16	08/15/06	100,000.00	107,015.60
US Treasury Notes	0.750%	06/30/17	07/02/12	3,020,000.00	3,008,675.00
				<u>3,470,000.00</u>	<u>3,490,245.20</u>
<u>GR Debt Service Reserve Fund -1991</u>					
Federal Home Loan Mortgage Assn. Corp.	2.500%	05/27/16	06/26/12	2,960,000.00	3,043,679.20
Federal National Mortgage Assn.	1.125%	04/27/17	11/26/14	2,850,000.00	2,865,903.00
US Treasury Notes	0.750%	12/31/17	11/26/14	4,435,000.00	4,388,210.75
Money Rate Savings Account	Variable	Not Fixed		663,103.72	663,103.72
				<u>10,908,103.72</u>	<u>10,960,896.67</u>
<u>GR Debt Service Reserve Fund - 1995</u>					
Federal Home Loan Mortgage Corp.	2.500%	05/27/16	11/26/14	1,040,000.00	1,069,400.80
Federal National Mortgage Assn.	1.125%	04/27/17	11/26/14	1,000,000.00	1,005,580.00
US Treasury Notes	0.750%	12/31/17	11/26/14	1,565,000.00	1,548,489.25
Money Rate Savings Account	Variable	Not Fixed		171,708.45	171,708.45
				<u>3,776,708.45</u>	<u>3,795,178.50</u>
<u>GR Reserve Maintenance Fund</u>					
Bank of Tokyo Mitsubishi	Variable	02/12/15	11/14/14	1,125,000.00	1,124,746.88
JP Morgan Securities Commercial Paper	Variable	03/13/15	06/17/14	3,650,000.00	3,648,540.00
Freddie Mac Global Notes	1.000%	06/29/17	08/13/14	2,980,000.00	2,985,867.63
PFM Funds Prime Institutional	Variable	Not Fixed		894,986.50	894,986.50
Money Rate Savings Account	Variable	Not Fixed		4,316,592.02	4,316,592.02
				<u>12,966,578.52</u>	<u>12,970,733.03</u>
<u>GR General Fund</u>					
Proctor & Gamble Co. Corporate Notes	3.500%	02/15/15	11/18/10	2,250,000.00	2,258,199.00
BNP Paribas Finance Commercial Paper	Variable	05/01/15	11/04/14	3,750,000.00	3,746,448.75
Proctor & Gamble Co. Corporate Notes	1.800%	11/15/15	11/18/10	1,250,000.00	1,264,252.50
Fannie Mae Global Notes	0.375%	12/21/15	11/04/14	4,405,000.00	4,406,026.37
US Treasury Notes	2.375%	02/28/15	1/7/2011	250,000.00	250,898.50
US Treasury Notes	2.375%	02/28/15	1/7/2011	200,000.00	200,718.80
US Treasury Notes	2.375%	02/28/15	01/07/11	300,000.00	301,078.20
US Treasury Notes	2.375%	02/28/15	01/07/11	300,000.00	301,078.20
US Treasury Notes	2.375%	02/28/15	01/07/11	300,000.00	301,078.20
US Treasury Notes	2.375%	02/28/15	01/07/11	350,000.00	351,257.90
US Treasury Notes	2.375%	02/28/15	03/02/10	800,000.00	802,875.20
Federal Home Loan Bank Global Notes	0.375%	02/19/16	10/06/14	2,000,000.00	1,999,358.00
Fannie Mae Global Notes	0.500%	03/30/16	11/17/14	4,650,000.00	4,654,650.00
Federal Farm Credit Bank	5.550%	04/06/16	09/27/07	3,800,000.00	4,038,716.00
Federal Home Loan Bank	5.375%	04/12/16	11/05/08	2,400,000.00	2,549,152.80
Westpac Banking Corp Floating Certificate of Deposit	0.411%	04/15/16	04/17/14	4,500,000.00	4,504,549.50
US Treasury Notes	2.000%	04/30/16	12/16/14	1,460,000.00	1,490,797.24
Johnson & Johnson Global Note	2.150%	05/15/16	05/20/11	5,000,000.00	5,102,555.00
Toyota Motor Credit Corp.	0.800%	05/17/16	05/17/13	2,130,000.00	2,133,354.75
Google Inc. Global Note	2.125%	05/19/16	02/26/13	5,000,000.00	5,107,475.00
Federal Home Loan Bank	5.375%	06/10/16	06/10/08	3,785,000.00	4,043,125.65
Nordea Bank Finland NY Floating Certificate of Deposit	0.421%	06/13/16	06/13/14	3,000,000.00	3,000,717.00
Chevron Corp Global Notes	0.889%	06/24/16	06/24/13	1,075,000.00	1,077,274.70
US Treasury Notes	0.500%	06/30/16	12/29/14	1,785,000.00	1,785,556.92
US Treasury Notes	1.500%	07/31/16	07/31/14	2,700,000.00	2,741,342.40
US Treasury Notes	4.875%	08/15/16	08/15/06	1,120,000.00	1,198,574.72

Chesapeake Bay Bridge and Tunnel District
Statement of Investments
As of December 31, 2014

<u>Description</u>	<u>Coupon Rate</u>	<u>Maturity Date</u>	<u>Purchase Date</u>		<u>Maturity Value</u>	<u>Market Value 12/31/2014</u>
<u>General Fund (Continued):</u>						
Berkshire Hathaway Global Notes	0.950%	08/15/16	08/06/13	\$	2,185,000.00	\$ 2,192,195.21
Toyota Motor Credit Notes	2.000%	09/15/16	10/30/13		2,475,000.00	2,519,871.75
Federal National Mortgage Assn.	1.250%	09/28/16	01/08/13		2,900,000.00	2,929,603.20
Federal Home Loan Bank	0.500%	09/28/16	10/29/14		3,715,000.00	3,705,151.54
Federal Home Loan Bank Notes	0.500%	09/28/16	08/07/14		4,130,000.00	4,119,051.37
Federal Home Loan Bank Notes	0.500%	09/28/16	09/29/14		2,370,000.00	2,363,717.13
Toronto Dominion Bank NY CD	0.900%	09/29/16	09/29/14		3,500,000.00	3,503,003.00
Coca-Cola Global Notes	0.750%	11/01/16	10/29/13		905,000.00	904,771.94
Federal Farm Credit Bank	5.200%	11/28/16	04/09/07		2,500,000.00	2,705,747.50
Federal Farm Credit Bank	5.125%	01/23/17	04/03/07		4,470,000.00	4,863,632.67
Fannie Mae Global Notes	1.250%	01/30/17	06/17/14		4,260,000.00	4,298,190.90
Fannie Mae Global Notes	1.250%	01/30/17	10/06/14		2,075,000.00	2,093,602.38
US Treasury Notes	0.875%	02/28/17	04/25/14		3,770,000.00	3,779,130.47
Exxon Mobil Corp. Notes	0.921%	03/15/17	03/20/14		2,535,000.00	2,531,709.57
Federal Home Loan Bank	1.625%	03/27/17	04/04/14		4,180,000.00	4,193,020.70
Walmart Stores, Inc. Corporate Notes	1.000%	04/21/17	04/22/14		780,000.00	778,209.12
FNMA Notes	1.125%	04/27/17	09/08/14		1,625,000.00	1,634,064.25
FNMA Notes	1.125%	04/27/17	11/14/14		1,785,000.00	1,794,956.73
Federal Home Loan Bank Global Notes	1.625%	04/28/17	04/28/14		1,240,000.00	1,245,345.64
Berkshire Hathaway Global Notes	1.600%	05/15/17	01/15/13		1,245,000.00	1,255,643.51
Toyota Motor Credit Corporation Note	1.750%	05/22/17	05/12/14		2,590,000.00	2,612,880.06
Federal National Mortgage Assn. Global Notes	5.375%	06/12/17	03/25/10		4,000,000.00	4,422,264.00
3M Company Global Notes	1.000%	06/26/17	06/29/12		1,500,000.00	1,497,229.50
Freddie Mac Global Notes	1.000%	06/29/17	08/13/14		1,110,000.00	1,112,185.59
Freddie Mac Global Notes	1.000%	06/29/17	08/13/14		4,200,000.00	4,208,269.80
Freddie Mac Global Notes	1.000%	07/28/17	08/14/14		1,590,000.00	1,589,403.75
Freddie Mac Global Notes	1.000%	07/28/17	06/29/12		2,660,000.00	2,659,002.50
Freddie Mac Global Notes	1.000%	07/28/17	08/14/14		3,330,000.00	3,328,751.25
US Treasury Notes	2.375%	07/31/17	09/10/12		400,000.00	414,531.20
US Treasury Notes	2.375%	07/31/17	07/31/14		285,000.00	295,353.48
Fannie Mae Global Notes	0.875%	08/28/17	07/20/12		2,000,000.00	1,993,014.00
US Bank NA Cincinnati Callable CD	1.375%	09/11/17	09/11/14		5,000,000.00	4,947,450.00
FNMA Notes	1.000%	09/27/17	08/25/14		3,120,000.00	3,113,716.32
Fannie Mae Global Notes	0.875%	10/26/17	10/31/12		1,400,000.00	1,388,167.20
Chevron Corporation	1.345%	11/15/17	11/18/14		2,200,000.00	2,201,782.00
Chevron Corporation Global Notes	1.104%	12/05/17	11/30/12		1,045,000.00	1,038,539.81
General Electric Co. Notes	5.250%	12/06/17	10/29/14		4,700,000.00	5,213,766.40
Fannie Mae Global Notes	0.875%	12/20/17	10/30/12		940,000.00	930,575.56
Berkshire Hathaway Global Notes	1.550%	02/09/18	02/11/13		2,450,000.00	2,448,797.05
Freddie Mac Global Notes	0.875%	03/07/18	03/27/13		3,800,000.00	3,754,221.40
Walmart Stores, Inc. Global Notes	1.125%	04/11/18	04/11/13		1,000,000.00	988,532.00
Microsoft Corp. Global Notes	1.000%	05/01/18	05/02/13		1,225,000.00	1,209,490.28
Apple Inc. Global Notes	1.000%	05/03/18	05/03/13		2,225,000.00	2,191,981.00
Apple Inc. Global Notes	1.000%	05/03/18	05/03/13		2,000,000.00	1,970,320.00
Berkshire Hathaway Notes	1.300%	05/15/18	05/15/13		350,000.00	347,329.15
Fannie Mae Global Notes	0.875%	05/21/18	04/15/13		2,060,000.00	2,025,746.32
Fannie Mae Global Notes	0.875%	05/21/18	05/31/13		3,100,000.00	3,048,453.20
Fannie Mae Global Notes	0.875%	05/21/18	04/17/14		2,800,000.00	2,753,441.60
Virginia State Taxable Build America Bonds	2.750%	06/01/18	10/27/10		6,780,000.00	7,083,676.20
US Treasury Notes	1.375%	06/30/18	04/09/14		1,730,000.00	1,733,378.69
Fannie Mae Global Notes	1.875%	09/18/18	10/29/14		1,390,000.00	1,412,625.03
Fannie Mae Global Notes	1.625%	11/27/18	10/09/14		3,835,000.00	3,853,465.53
US Treasury Notes	1.375%	12/31/18	01/03/12		1,500,000.00	1,494,141.00
US Treasury Notes	1.375%	02/28/19	02/29/12		3,500,000.00	3,481,131.50
Fannie Mae Benchmark Note	1.875%	02/19/19	09/29/14		2,345,000.00	2,380,583.03
Freddie Mac Notes	1.750%	05/30/19	11/06/14		2,850,000.00	2,865,800.40
Freddie Mac Global Notes	1.250%	08/01/19	07/30/12		2,300,000.00	2,257,532.80
US Treasury Notes	1.000%	08/31/19	09/13/12		1,625,000.00	1,580,692.75
Freddie Mac Global Notes	1.250%	10/02/19	09/28/12		3,000,000.00	2,935,113.00
US Treasury Notes	3.375%	11/15/19	02/04/11		2,100,000.00	2,275,053.90
FNMA Benchmark Note	1.750%	11/26/19	12/03/14		2,000,000.00	2,001,200.00
Federal Home Loan Mortgage Corp. Notes	6.000%	06/01/21	06/22/06		233,726.48	256,056.67
Federal National Mortgage Assn.	5.500%	11/01/21	11/16/06		242,246.62	264,271.66
Federal Home Loan Mortgage Corp. Notes	5.500%	02/01/22	04/10/07		284,314.49	309,710.45
Fannie Mae Pool	3.000%	06/01/22	08/17/12		1,114,690.92	1,163,245.04
Federal Home Loan Mortgage Corp. Notes	6.000%	07/01/22	07/17/07		61,796.60	65,623.50
GNMA Pool #5276	3.000%	01/01/27	04/16/13		1,292,780.42	1,360,677.11
GNMA Pool #794283	3.500%	03/01/27	04/16/13		735,042.01	770,790.79
BNMA Pool #MA0007	3.000%	04/01/27	06/18/12		2,063,948.72	2,172,469.62
Fannie Mae Pool #MA1084	3.500%	06/01/32	07/17/12		1,789,351.97	1,887,973.98
Money Rate Savings Account	Variable	Not Fixed			458,904.30	458,904.30
					217,516,802.53	220,791,041.25
Total All Investments				\$	259,754,518.08	\$ 263,148,069.51

Chesapeake Bay Bridge and Tunnel District

Vehicular Traffic Statistics

	2014				2013			
	Cars/ Light Trucks	Heavy Trucks	Buses	Totals	Cars/ Light Trucks	Heavy Trucks	Buses	Totals
Jan	162,363	21,908	759	185,030	169,289	24,060	901	194,250
Feb	155,835	23,273	807	179,915	161,699	22,084	988	184,771
Mar	200,171	24,858	1,160	226,189	222,877	25,073	1,378	249,328
Apr	256,040	26,786	1,389	284,215	232,850	28,574	1,537	262,961
May	297,632	28,852	1,354	327,838	287,473	31,121	1,517	320,111
Jun	315,619	30,465	1,184	347,268	315,561	31,099	1,230	347,890
Jul	394,320	33,701	1,314	429,335	401,986	32,303	1,261	435,550
Aug	436,609	29,937	1,403	467,949	422,122	30,805	1,347	454,274
Sep	267,522	29,355	1,192	298,069	277,627	27,627	1,271	306,525
Oct	259,347	31,087	1,221	291,655	242,807	29,892	1,211	273,910
Nov	245,878	26,592	1,160	273,630	232,294	26,280	1,151	259,725
Dec	240,042	25,633	1,121	266,796	244,825	24,620	1,008	270,453
	3,231,378	332,447	14,064	3,577,889	3,211,410	333,538	14,800	3,559,748

Chesapeake Bay Bridge and Tunnel District
Notes to the Financial Statements & Governor's Report
As of December 31, 2014

Note 1. Statement of Revenues, Expenses and Changes in Net Position:

In accordance with GASB Statement No. 31 "Changes in Investment Fair Value" is the net increase or decrease in the fair value of investments.

Note 2. Statement of Net Position:

In March 1991, the District sold \$30,400,000 in revenue bonds (1991 Revenue Bonds) under the Revenue Bond Resolution. The funds provided by these bonds were appropriated for in-depth traffic, environmental and financial studies, and the development of specifications and plans for the proposed construction of a parallel crossing, which would expand the existing bridges and trestles from two lanes to four lanes.

In November 1991, the District sold \$113,345,000 in revenue bonds (1991 General Resolution Revenue Bonds) under the General Revenue Bond Resolution to defease the \$106,488,000 outstanding 1960 Bonds by a current refunding. The 1960 Bonds were called for early redemption on January 1, 1992, at a redemption price of 101% of the principal amount plus accrued interest. The 1991 General Resolution Revenue Bonds were two term bonds: one term bond maturing on July 1, 2022, par value \$66,345,000, coupon rate of 6.375% (Series 1991 Bond, 2022 Term); and the second term bond maturing on July 1, 2025, par value \$47,000,000, coupon rate of 5.75% (Series 1991 Bond, 2025 Term).

In May 1995, the District sold an additional \$42,450,000 in revenue bonds (1995 Revenue Bonds) under the Revenue Bond Resolution and an additional \$60,250,000 in revenue bonds (1995 General Resolution Revenue Bonds) under the General Revenue Bond Resolution. Proceeds from the 1995 bond offering were used to finance part of the cost of construction of a portion of a parallel crossing (1995 Crossing Project) as well as fund certain improvements to the existing bridge and tunnel (1995 Improvement Project).

In February 1996, the District advance refunded the Series 1991 Bond, 2022 Term by the issuance of \$74,125,000 General Resolution Revenue Bonds, Refunding Series 1996 (1996 General Resolution Refunding Bonds). The 1996 General Resolution Refunding Bonds are a combination of serial and term bonds. A portion of the proceeds from the 1996 General Resolution Refunding Bonds along with cash contributed by the District were placed in escrow to pay for debt service interest, retirement of the Series 1991 Bond, 2022 Term, and redemption premium at the earliest date of redemption, July 1, 2001. The remaining portion of the proceeds from the 1996 General Resolution Refunding Bonds paid the related cost of issuance expenses, including bond insurance premiums.

The District recorded a deferred loss on the advance refunding in the amount of \$8,558,275. The deferred loss according to U.S. generally accepted accounting principles (GAAP), is the difference between the amount required to retire the refunded debt and the book value of the refunded debt. The deferred loss is the difference between the net carrying amount and the reacquisition price of the Series 1991 Bond, 2022 Term. This amount is being amortized on the straight-line method as a component of interest expense over the life of the 1996 General Resolution Refunding Bonds. The advance refunding of the Series 1991 Bond, 2022 Term, will produce a debt service savings over the 26-year life of the 1996 General Resolution Refunding Bonds of approximately \$6,531,000, which had a net present value of approximately \$3,577,000.

Chesapeake Bay Bridge and Tunnel District
Notes to the Financial Statements & Governor's Report
As of December 31, 2014

Note 2. Statement of Net Position (Continued):

In October 1998, the District advance refunded the Series 1991 Bond, 2025 Term by the issuance of \$44,405,000 General Resolution Revenue Bonds, Refunding Series 1998 (1998 General Resolution Refunding Bonds). The 1998 General Resolution Refunding Bonds are term bonds maturing in the years 2024 through 2026 with a coupon interest rate of 5.50%. A portion of the proceeds from the 1998 General Resolution Refunding Bonds along with cash contributed by the District were placed in escrow to pay for debt service interest, retirement of the Series 1991 Bond, 2025 Term, and redemption premium at the earliest date of redemption, July 1, 2001. The remaining portion of the proceeds from the 1998 General Resolution Refunding Bonds paid the related issuance expenses, including bond insurance premiums.

The District recorded a deferred loss on the advance refunding in the amount of \$7,431,844, representing the difference between the net carrying value amount and the reacquisition price of the Series 1991 Bond, 2025 Term. This amount is being amortized on the straight-line method as a component of interest expense over the life of the 1998 General Resolution Refunding Bonds. The advance refunding of the Series 1991 Bond, 2025 Term will produce a debt service savings over the 27-year life of the 1998 General Resolution Refunding Bonds of approximately \$8,275,000, which had a net present value of approximately \$3,504,000.

The outstanding maturities of the 1995 Revenue Bonds and a portion of the outstanding maturities of the 1995 General Resolution Revenue Bonds, due 2007, 2008 and 2009 (collectively, the 2001 Refunded Bonds) were advance refunded by the District on December 5, 2001 by the issuance of two refunding series of bonds. The District issued \$30,390,000 Revenue Bonds, Refunding Series 2001 (2001 Revenue Refunding Bonds) and \$22,835,000 General Resolution Revenue Bonds, Refunding Series 2001 (2001 General Resolution Refunding Bonds) (collectively, the 2001 Refunding Bonds). The 2001 Refunding Bonds are serial bonds maturing 2002 through 2010 with coupon interest rates ranging from 3.00% to 5.00%. A portion of the proceeds from the 2001 Refunding Bonds, along with cash contributed by the District, was placed in escrow to pay for debt service interest and principal of the 2001 Refunded Bonds and redemption premium at the earliest date of redemption, July 1, 2005. The remaining portion of the proceeds from the 2001 Refunding Bonds paid the related cost of issuance expenses, including a portion of bond insurance premiums.

The District recorded a deferred loss on the advance refunding in the amount of \$4,777,425, representing the difference between the net carrying amount and the reacquisition price of the 2001 Refunded Bonds. This amount is being amortized on the straight-line method as a component of interest expense over the life of the 2001 Refunding Bonds. The advance refunding of the 2001 Refunded Bonds will produce a debt service savings over the eight-year life of the 2001 Refunding Bonds of approximately \$937,000, which had a net present value of approximately \$802,000.

On May 13, 2004, all of the outstanding 1996 Refunding Bonds, except for the 2005 maturities, were advance refunded by the District with the issuance of \$76,650,000 par of auction rate certificates (the 2004A ARCs). The 2004A ARCs bore variable rates of interest that reset every 35 days via a Dutch auction through Deutsche Bank. The District entered into a synthetic fixed rate swap agreement with UBS AG, a counterparty, whereby the District paid UBS AG a fixed rate of interest set at 3.501%, and in return UBS paid the District a variable rate of interest at 67% of LIBOR, which was structured to closely mirror the 35-day 2004A ARCs rate payments incurred by the District. The proceeds from the 2004A ARCs issue, along with cash contributed by the District, were placed in an escrow account to be invested until July 1, 2005, the call date of the 1996 Refunded Bonds. The 2004A ARCs mature between 2011 and 2021.

Chesapeake Bay Bridge and Tunnel District
Notes to the Financial Statements & Governor's Report
As of December 31, 2014

Note 2. Statement of Net Position (Continued):

The District recorded a deferred loss in the amount of \$13,966,084 in 2004. The amount required to retire the refunded debt is the net proceeds of the 2004A ARCs together with the cash contributed by the District to the escrow account. The book value of the refunded debt is the par value of the refunded 1996 Refunding Bonds less unamortized original issue discount, underwriter's discount and bond issuance costs. This advance refunding resulted in a debt service savings over the 18-year life of the 2004A ARCs of approximately \$16,250,000. This debt service savings has a net present value of approximately \$5,560,000.

At the June 13, 2006 Commission meeting, the Commission passed a board resolution authorizing the District to convert the outstanding 2004A ARCs from a 35-day auction period to a 7-day auction period. Notice of the conversion was provided to all the appropriate parties in July 2006 and the conversion was effective on the next possible reset date of July 20, 2006. At the same Commission meeting, the Commission authorized the District to enter into a new Constant Maturity Swap agreement with UBS AG, a counterparty, whereby the District paid UBS AG a variable rate of interest at 67% of one-month LIBOR and in return, UBS AG paid the District a variable rate of interest at 67% of the 10-year LIBOR swap rate. This transaction, taken in conjunction with the synthetic fixed rate swap agreement entered into on May 13, 2004, has the net effect of converting the District's current swap receipt from 67% of one-month LIBOR to 67% of the 10-year LIBOR swap rate. The new Constant Maturity Swap agreement was executed on June 20, 2006 with a forward start date of January 12, 2007.

XL Capital Assurance, Inc. provided the bond insurance for the variable rate 2004A Auction Rate Certificates. On January 24, 2008 Fitch Ratings, and on February 7, 2008 Moody's Investors Service, downgraded the claims paying ability of XL Capital Assurance Inc. from AAA to A (Watch Negative) and from Aaa to A3 (Negative Outlook), respectively. The insured ratings on the District's 2004A Auction Rate Certificates were likewise downgraded. These actions caused the Commission to aggressively pursue a current refunding of the outstanding 2004A Auction Rate Certificates. On March 24, 2008, all of the outstanding 2004A ARCs were advance refunded through the issuance of \$76,650,000 par of variable rate demand obligations (the 2008A VRDOs) with a direct pay BB&T letter of credit. The 2008A VRDOs bore variable rates of interest that reset weekly through a remarketing process conducted by BB&T Capital Markets. The 2008A VRDOs maintained the same maturity schedule as the 2004A ARCs between 2011 and 2021. The unamortized portion of deferred municipal bond insurance costs related to the 2004A ARCs was \$582,367 and was expensed in March 2008. All other deferred issuance costs related to the 2004A ARCs and the 2008A VRDOs continued to be amortized over the term of the 2008A VRDOs. The two interest rate exchange agreements that the District had with UBS AG remained in effect.

Due to the credit rating downgrades of XL Capital, the District's swap insurer, the District was required by UBS, the swap counterparty, to post collateral for the negative termination value of the two existing swap transactions in January 2009. Collateralized securities are classified as restricted investments on the District's statement of net position, and the District retains all investment earnings.

On December 31, 2010, the District issued \$30,000,000 General Resolution Revenue Bonds, Refunding Series 2010A (the 2010A Bonds) to provide funds to refund a portion of the outstanding 2008A VRDO's. The 2010A Bonds are variable rate bonds that reset monthly at 68% of 1-month LIBOR plus a fixed spread. The 2010A Bonds were issued as bank qualified bonds pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986 and were privately placed with Branch Banking and Trust Company (BB&T). The 2010A Bonds will maintain the same maturity schedule between 2017 and 2021 as the refunded 2008A VRDO's. The District recorded a deferred loss on refunding in the amount of \$9,800,685 in FY2011. The amount required to retire the refunded debt is the net proceeds of the 2010A Bonds. The book value of the refunded debt is the par value of the refunded 2008 VRDO's less unamortized deferred loss, underwriter's discount, bond issuance costs and a portion of the negative termination value of the 2004 Fixed Rate Swap.

Chesapeake Bay Bridge and Tunnel District
Notes to the Financial Statements & Governor's Report
As of December 31, 2014

Note 2. Statement of Net Position (Continued):

On March 17, 2011, the District issued \$46,650,000 General Resolution Revenue Bonds, Refunding Series 2011A (the 2011A Bonds) to provide the necessary funds to refund the remaining portion of outstanding 2008A VRDO's. These non-bank qualified bonds are also variable rate bonds that reset monthly at 78% of 1-month LIBOR plus a fixed spread. The 2011A Bonds were placed privately with BB&T and will maintain the same maturity schedule between 2011 and 2017 as the remaining portion of the refunded 2008A VRDO's. The District recorded a deferred loss on refunding in the amount of \$6,074,055 in FY2011. The amount required to retire the refunded debt is the net proceeds of the 2011A Bonds. The book value of the refunded debt is the par value of the refunded 2008 VRDO's less unamortized deferred loss, underwriter's discount, bond issuance costs and a portion of the negative termination value of the 2004 Fixed Rate Swap.

The District continues to maintain the two outstanding interest rate swaps to synthetically fix the interest rate paid on the District's outstanding variable rate debt. These transactions were originally entered into with UBS AG in 2004 and 2006 when UBS AG was an active swap counterparty and underwriter of municipal debt. UBS AG is no longer an active participant in the municipal debt and swap markets. The District and its swap advisor, Public Financial Management, issued a Request for Qualification "RFQ" in late March 2011 to identify a new swap counterparty to accept the transfer of the existing swaps from UBS and to execute a partial termination of the 2006 CMS swap. At a special called meeting on April 5, 2011, the Commission approved a series resolution authorizing the novation and restructuring of the existing swaps to Jefferies Funding, LLC with Deutsche Bank AG acting as their credit support provider. On April 21, 2011, the swaps were successfully novated and the 2006 Constant Maturity Swap was amended so that the receipt of 67% of the 10-year LIBOR swap rate was temporarily terminated through May 30, 2014 in exchange for a new fixed rate receipt of 1.564% to be paid on the same schedule every 35 days beginning on May 6, 2011. The restructuring of the 2006 CMS Swap, when considered in conjunction with the 2004 Fixed Rate Swap, effectively reduces the District's synthetic fixed rate payment from 3.501% to 1.937% until May 30, 2014. On May 29, 2013, the District received notice from Jefferies Funding, LLC that they were invoking their right of Optional Assignment to assign both interest rate exchange agreements to the Credit Support Provider, Deutsche Bank AG, effective on May 31, 2013.

With the temporary termination of the 2006 CMS Swap set to expire on May 30, 2014, the District evaluated the current market conditions and their impact on the current and future cash flows of the 2006 CMS Swap. With the yield curve remaining steep from a historical perspective, the Commission approved a resolution authorizing District staff to pursue another temporary termination of the 2006 CMS Swap through June 3, 2016. On May 29, 2014 the District amended the 2006 CMS Swap to continue the temporary termination of the receipt of 67% of the 10-year LIBOR swap rate in exchange for a new fixed rate receipt of 1.312% to be paid on the same schedule every 35 days beginning on July 4, 2014. Taken in conjunction with the 2004 Fixed Rate Swap, the District's synthetic fixed rate payment is effectively reduced from 3.501% to 2.189% until June 3, 2016.

The Revenue Bonds issued under the Revenue Bond Resolution hold senior status to the General Resolution Revenue Bonds issued under the General Revenue Bond Resolution, and all revenues of the District are first directed under the Revenue Bond Resolution.

Chesapeake Bay Bridge and Tunnel District
Notes to the Financial Statements & Governor's Report
As of December 31, 2014

Note 2. Statement of Net Position (Continued):

	Balance 12/31/2013	Bond Proceeds	Amortization of costs, premiums, discounts, and deferred losses, net	Bond payments	Balance 12/31/2014	Amounts due within one year
1998 General Resolution Refunding Bonds	46,015,899	—	152,914	—	45,862,985	—
2010A General Resolution Refunding Bonds	30,000,000	—	—	—	30,000,000	—
2011A General Resolution Refunding Bonds	27,375,000	—	—	(6,925,000)	20,450,000	7,150,000
	<u>\$ 103,390,899</u>	<u>—</u>	<u>152,914</u>	<u>(6,925,000)</u>	<u>96,312,985</u>	<u>7,150,000</u>

Maturities of bond principal and interest to be paid in subsequent fiscal years for all bonds outstanding at December 31, 2014 were as follows:

Fiscal year	General resolution revenue bonds principal	General resolution revenue bonds interest
2015	7,150,000	4,200,186
2016	7,450,000	3,937,923
2017	7,700,000	3,691,394
2018	8,000,000	3,409,914
2019 - 2023	20,150,000	13,417,577
2024 - 2026	44,405,000	3,750,314
	<u>\$ 94,855,000</u>	<u>32,407,308</u>

Total principal balance herein is different from that in previous table because it represents the bond principal before amortization of bond discount and premium.

Chesapeake Bay Bridge and Tunnel District
Notes to the Financial Statements & Governor's Report
As of December 31, 2014

Note 3. Derivatives:

The District accounts for and reports its derivative instruments in accordance with GASB Statement No. 52, Accounting and Financial Reporting for Derivative Instruments. GASB Statement No. 53 requires that the fair value of financial arrangements called "derivatives" or "derivative instruments" be reported in the financial statements of state and local governments. A derivative is a complex financial arrangement that is typically entered into with a private-sector financial firm in an effort to hedge (or reduce) a specific financial risk. The fair value of a derivative as of the end of the fiscal year will be reported in the statement of net position. The annual changes in the fair value of an effective derivative are required to be deferred and will be reported as Deferred Inflows or Deferred Outflows. As long as a derivative effectively hedges an identified risk of rising or falling cash flows or fair values, its annual fair value changes are deferred until the transaction ends or the derivative ceases to be effective. If the hedged transaction terminates prior to its expected conclusion or if it ceases to be effective, then the accumulated gains or losses, if any, will be reported as investment income or loss. Derivative instruments that are entered into primarily for the purpose of obtaining income, that do not meet the criteria of a hedging derivative instrument or that cease to be an effective hedge, are deemed to be investment derivative instruments for which the changes in fair value of investment derivative instruments are reported as investment income or loss through the statement of revenues, expenses and changes in net position.

For the fiscal years ended June 30, 2013 and 2012, the District has identified two outstanding interest rate exchange agreements (i.e., interest rate swaps) that qualify as derivative instruments under GAAP.

In May 2004, the District issued \$76,650,000 par of auction rate certificates (the 2004A ARCs) that bore variable rates of interest that originally reset every 35 days via a Dutch auction. Simultaneously, the District entered into a synthetic fixed rate swap agreement (the 2004 Fixed Rate Swap) with a notional amount of \$76,650,000 with UBS AG. Under the terms of the agreement, the District paid UBS AG a fixed rate of interest set at 3.501% and in return UBS paid the District a variable rate of interest at 67% of one-month LIBOR, which was structured to closely mirror the 35-day 2004A ARCs payments incurred by the District. The 2004 "pay-fixed, receive variable" interest rate swap was entered into as a cash flow hedging derivative instrument with the objective of hedging the District's exposure to change in the overall cash flows. The objective of the overall transaction was to lower the District's borrowing costs by achieving a lower interest rate than could have been obtained by issuing fixed-rate debt.

In July 2006, the District entered into a new forward starting Constant Maturity Swap agreement (the 2006 Constant Maturity Swap) with UBS AG with a notional amount of \$76,650,000. Under the terms of the 2006 agreement, the District paid UBS AG a variable rate of interest at 67% of one-month LIBOR and in return UBS AG paid the District a variable rate of interest at 67% of the 10-year LIBOR swap rate less 0.325%. This transaction, taken in conjunction with the synthetic fixed rate swap agreement entered into on May 13, 2004, had the net effect of converting the District's previous swap receipt from 67% of one-month LIBOR to 67% of the 10-year LIBOR swap rate less 0.325%. The 2006 Constant Maturity Swap was entered into as an investment derivative instrument with the expectation that over time the variable receipt based on a long-term rate would more than offset the short term rate paid to the 2004A ARC bondholders.

Subsequent to the 2004 and 2006 transactions, all of the outstanding 2004A Refunding Auction Rate Certificates (ARC) were redeemed through mandatory optional tender on March 24, 2008 as part of a conversion to variable rate demand obligations (VRDOs).

Chesapeake Bay Bridge and Tunnel District
Notes to the Financial Statements & Governor's Report
As of December 31, 2014

Note 3. Derivatives (Continued):

The 2008A VRDOs were variable rate demand obligations backed by a direct pay letter of credit from BB&T. The variable rates of interest reset every 7 days via a remarketing process conducted by BB&T Capital Markets. The 2008A VRDOs maintain the same maturity schedule as the 2004A ARCs between 2011 and 2021. The 2004 Fixed Rate Swap remained in effect to synthetically fix the rate of interest on the 2008 VRDOs.

On December 31, 2010, the District issued \$30,000,000 General Resolution Revenue Bonds, Refunding Series 2010A, to provide funds for a current refunding of a portion of the outstanding 2008A VRDO's that were called for redemption on January 3, 2011. The 2010A Bonds are also variable rate bonds that reset monthly at 68% of 1-month LIBOR plus a fixed spread. The 2010A Bonds maintain the same maturity schedule between 2017 and 2021 as the refunded 2008A VRDO's. In accordance with GAAP, the partial refunding of the hedged debt (the 2008A VRDO's) is considered a termination event that results in the termination of hedge accounting for the 2004 Fixed Rate Swap. When the termination event is a current refunding that results in the defeasance of the hedged debt, the balance of any deferral account associated with the hedging derivative instrument is included as part of the deferred loss on the refunding of the bonds. This approach is applied regardless of whether the hedging derivative instrument is terminated. Prior to the refunding, the negative termination value of the 2004 Fixed Rate Swap was recorded as a derivative liability and a deferred outflow of resources on the statement of net position. On the redemption date of January 3, 2011, the portion of the 2004 Fixed Rate Swap that applied to the refunded bonds had a negative termination value of \$3,262,841. This amount was recorded as imputed borrowing payable and included as part of the deferred loss on refunding, and will be amortized over the life of the 2010A Bonds. The 2004 Fixed Rate Swap remained in effect to synthetically fix the rate of interest on the 2010A Bonds and a new hedging derivative instrument was created for accounting purposes.

On March 17, 2011, the District issued \$46,650,000 General Resolution Revenue Bonds, Refunding Series 2011A, to provide funds for a current refunding of the remaining portion of the outstanding 2008A VRDO's. The 2011A Bonds are also variable rate bonds that reset monthly at 78% of 1-month LIBOR plus a fixed spread. The 2011A Bonds maintain the same maturity schedule between 2011 and 2017 as the refunded 2008A VRDO's. As with the 2010A Bonds, a current refunding that results in the defeasance of the hedged debt requires a termination of hedge accounting for the portion of the 2004 Fixed Rate Swap that applied to the remaining 2008A VRDO's. Prior to the refunding, the negative termination value of the 2004 Fixed Rate Swap was recorded as a derivative liability and a deferred outflow of resources on the statement of net position. On the redemption date of March 17, 2011, the portion of the 2004 Fixed Rate Swap that applied to the refunded bonds had a negative termination value of \$3,741,140. This amount was recorded as imputed borrowing payable and included as part of the deferred loss on refunding, and will be amortized over the life of the 2011A Bonds. The 2004 Fixed Rate Swap remained in effect to synthetically fix the rate of interest on the 2011A Bonds and a new hedging derivative instrument was created for accounting purposes.

The two interest rate exchange agreements entered into with UBS AG in 2004 and 2006 were executed when UBS AG was an active swap counterparty and underwriter of municipal debt. UBS AG is no longer an active participant in the municipal debt and swap markets. The District and its swap advisor, Public Financial Management, issued a Request for Qualification (RFQ) in late March 2011 to identify a new swap counterparty to accept the transfer of the existing interest rate swaps (also referred to as novation) from UBS and to execute a partial termination of the 2006 CMS Swap. At a special called meeting on April 5, 2011, the Commission approved a series resolution authorizing the novation and restructuring of both interest rate swaps to Jefferies Funding, LLC with Deutsche Bank AG acting as their credit support provider. On April 21, 2011, the swaps were successfully novated and the 2006 CMS Swap was amended so that the receipt of 67% of the 10-year LIBOR swap rate was temporarily terminated through May 30, 2014 in exchange for a new fixed rate receipt of 1.564% to be paid on the same schedule every

Chesapeake Bay Bridge and Tunnel District
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Note 3. Derivatives (Continued):

35 days beginning on May 6, 2011. The restructuring of the 2006 CMS Swap, when considered in conjunction with the 2004 Fixed Rate Swap, effectively reduces the District's synthetic fixed rate payment from 3.501% to 1.937% until May 30, 2014.

In accordance with GAAP, the novation of the 2004 Fixed Rate Swap from UBS AG to Jefferies Funding, LLC constitutes a termination event of the hedging derivative instruments created for accounting purposes by the bond refundings on January 3, 2011 and March 17, 2011. The termination event requires the District to cease hedge accounting on the 2004 Fixed Rate Swap again and results in the immediate recognition of the deferred outflows of resources as a component of investment income. As of April 21, 2011, the 2004 Fixed Rate Swap had a negative termination value of \$53,240 that was recorded as a derivative liability and a deferred outflow of resources on the statement of net position. After the execution of the novation, the balance of the deferred outflow of resources was recognized as a loss in investment income and a new hedging relationship was created for accounting purposes between the 2004 Fixed Rate Swap and the 2010A and 2011A Bonds.

On May 29, 2013, the District received notice from Jefferies Funding, LLC that they were invoking their right of Optional Assignment to assign both interest rate exchange agreements to the Credit Support Provider, Deutsche Bank AG, effective on May 31, 2013.

Prior to the resumption of variable cash flows under the 2006 CMS Swap, the Commission approved another temporary termination of the swap at its May 13, 2014 meeting. On May 29, 2014, the District amended the 2006 CMS Swap to continue the temporary termination of the receipt of 67% of the 10-year LIBOR swap rate in exchange for a new fixed rate receipt of 1.312% to be paid on the same schedule every 35 days beginning on July 4, 2014. The restructuring of the 2006 CMS Swap, when considered in conjunction with the 2004 Fixed Rate Swap, effectively reduces the District's synthetic fixed rate payment from 3.501% to 2.189% until June 3, 2016.

Both of the District's derivative instruments expose the District to potential risks that could give rise to financial loss. These risks include credit risk, basis risk, interest rate risk, rollover risk, and termination risk. The District has attempted to mitigate the risks associated with an interest rate swap transaction. These risks and associated mitigation strategies are described below:

Credit Risk – The District is exposed to credit risk on derivative instruments that are in asset positions. To minimize its exposure to loss related credit risk, it is the District's policy to require a counterparty collateral posting provision in the terms of its derivative instruments. If Deutsche Bank AG's credit rating, which is currently A/A+/A2 (S&P/Fitch/Moody's), declines below A-/A-/A3 (S&P/Fitch/Moody's), the swap terms require full collateralization of the fair value of derivative instruments in asset positions (net of the effect of applicable netting arrangements).

Basis Risk – The District is exposed to basis risk on the 2006 CMS Swap as the variable swap receipt is based on a percentage of a long-term (10-year) LIBOR and the variable swap payment is based on a short-term (1-month) LIBOR. On average and over time, receiving a longer term CMS rate should generate positive net swap cash flows to the District. If the yield curve slope (difference between short-term and long-term rates) retains its normal positive slope or steepens, the 2006 CMS Swap's cash flow and market termination value will increase. Conversely, if the yield curve slope flattens or becomes inverted (short-term rates exceed long-term rates), the 2006 CMS Swap's cash flow and market termination value will decrease or become negative. After conducting a sensitivity analysis of potential basis risk associated with the 2006 CMS Swap, the District determined that the expected benefit outweighed the potential basis risk.

Chesapeake Bay Bridge and Tunnel District
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As of December 31, 2014

Note 3. Derivatives (Continued):

Interest Rate Risk – The District is exposed to interest rate risk on its interest rate swaps. On the 2004 pay-fixed, receive variable interest rate swap, as the LIBOR index decreases, the District's overall net cash payments on the swap increase.

Rollover Risk – Rollover risk was mitigated by structuring the swap variable rate payments so that it was coterminous with the same amortization schedule as the refunded 2004A ARCs, the refunded 2008A VRDOs, the 2010A Bonds and the 2011A Bonds. The combined maturity schedule for the outstanding 2010A and 2011A Bonds and both outstanding swaps began on June 10, 2011 and continues until a final maturity on May 28, 2021. The District would also be exposed to rollover risk on derivative instruments that involuntarily terminate prior to the maturity of the 2010A and 2011A Bonds. The risk of involuntary termination due to default is mitigated by the District's strong financial position.

Termination Risk – The District and Deutsche Bank AG may terminate a derivative instrument if the other party fails to perform under the terms of the agreement. Additionally, the District has the option of a voluntary termination; conversely, Deutsche Bank AG does not have this option. If the District had voluntarily terminated the swaps on December 31, 2014, the termination payment to Deutsche Bank AG on the 2004 Fixed Rate Swap would have been \$4,069,227. The termination receipt on the 2006 CMS Swap would have been \$1,124,777 from Deutsche Bank AG netting to a total payment of \$2,944,450.

Under the terms of the swap agreements, the District can be required to post collateral for the negative termination value of the two existing swap transactions by Deutsche Bank AG. As of December 31, 2014, the District had posted U.S. Treasury Notes with a market value of \$3,490,245 as collateral for the combined negative termination value of the two swap transactions, which is approximately \$2,944,450 including accrued interest of \$873,142. The collateralized securities are classified as Restricted Investments on the District's statement of net position and the District retains all investment earnings.

Note 4. Investments:

All investments, except the, "Money Rate Savings Account" and "PFM Funds Prime Institutional" investments, are stated at fair market value in accordance with GASB Statement No. 31. The "Money Rate Savings Account" and "PFM Funds Prime Institutional" investments are stated at cost.

Note 5. Non-revenue Vehicles:

Non-revenue vehicles permitted free passage by either Bond Resolutions or by State statute for twelve months ended December 31, 2014 were 94,327.

Chesapeake Bay Bridge and Tunnel District
Notes to the Financial Statements & Governor's Report
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Note 6. Modified Approach for Infrastructure Reporting:

The Governmental Accounting Standards Board (GASB) requires that governmental entities that utilize the modified approach for infrastructure reporting must have their governing board set a policy for the condition levels at which modified approach assets will be maintained. GASB also requires that a third party perform condition level assessments of the modified approach assets annually. GASB also requires that the condition levels for the current and prior two fiscal years be disclosed in the notes to the financial statements.

The Commission's preservation policy is to maintain 90% of the bridge and tunnel assets at a maintenance rating program (MRP) condition level of "generally good" or better.

Jacob's Engineering, Inc., the District's consulting engineer, has inspected the District's bridge and tunnel assets. Jacob's Engineering, Inc. determines the MRP condition level for the bridge and tunnel assets as a *numeric scaled rating*. The *numeric scaled rating* is based on a condition index utilized by the Virginia Department of Transportation whereby 0 is a failed condition level and 9 is an excellent condition level. The table below defines the *numeric scaled ratings* assigned by Jacob's Engineering, Inc.

MRP Numeric code scale		
Numeric Code	Narrative Code	Definition
9	Excellent	Component has been recently put in service or remains in new condition
8	Very Good	No problems noted, potential exists for minor preventative maintenance
7	Good	Potential exists for minor maintenance
6	Satisfactory	Potential exists for major maintenance
5	Fair	Potential exists for minor repair or rehabilitation
4	Poor	Potential exists for major repair or rehabilitation
3	Serious	Major repair or rehabilitation required immediately
2	Critical	The need for repair or rehabilitation is urgent
1	Imminent Failure	Component is out of service; study feasibility for repair or rehabilitation

The following two tables derive percentages in different ways. Trestles and bridges that have an MRP *numeric* condition level are described as a percentage of lane miles. All other bridge and tunnel assets that have an MRP *numeric* condition level are described as a percentage of that specific bridge and tunnel asset. The tunnels and sitewide utilities are the only bridge and tunnel assets that fall below the condition level specified in the Chesapeake Bay Bridge and Tunnel Commission's (the Commission) preservation policy. The tunnels and site-wide utilities have an overall condition level of 7; however, Jacobs Engineering, Inc. assigned some components of the site wide utilities and tunnels, which includes the ventilation buildings, a condition level of 5 or 6. In the tunnels, the tunnel roadway slab and the exhaust air fan housings and dampers were rated a condition level 6 and the supply air fan housing, which composes only 2% of tunnel assets received a condition level rating of 5. Extraordinary reserve maintenance projects are planned to address the maintenance requirements for all three components.

Chesapeake Bay Bridge and Tunnel District
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As of December 31, 2014

Note 6. Modified Approach for Infrastructure Reporting (Continued):

The District awarded a contract to Jacobs Engineering, Inc. for the design of a tunnel ventilation system painting project in May 2012. The design phase was completed in FY2014 and a contract for the repainting of the tunnel ventilation system was awarded through a competitive bidding process to Saffo Contracting of North Carolina for \$4,796,500 in March 2014. The repainting project is expected to continue through FY2015. The District also awarded a contract to Jacobs Engineering, Inc. for the design of a repaving project for both Chesapeake and Thimble Tunnel in January 2012. The project design has been completed and the tunnel repaving project was awarded through a competitive bidding process to Conrad Brothers of Chesapeake, VA in the amount of \$4,986,343. The project will include the removal and replacement of the asphalt concrete overlay at the roadway level in both Thimble and Chesapeake Tunnels as well as along the open approach roadways at the trestle abutments, located at the end of each portal island. In addition, concrete repairs will be made to the underside and topside of the concrete slabs, while concurrently rehabilitating the tunnel roadway manholes. Work for this project started in May 2013 and is expected to be completed in February 2015. The components of the site wide utilities that were rated less than 7 are portions of the roadway lighting system, portions of the sign control and data acquisition system (SCADA) and a portion of the cable tray system. All of these components have been or are currently being repaired or renovated through ordinary maintenance efforts. Due to the age of the asset and the type of repairs required, it is expected that most of these components will require constant attention and that the condition will persist during future inspections. Additionally, the District awarded a contract to Jacobs Engineering, Inc. for the design of a new SCADA system in September 2010. The project design has been completed and the SCADA refurbishment project was awarded through a competitive bidding process to Wellington Power Corporation of Pittsburgh, PA in the amount of \$13,880,000. The refurbishment of the system began in September 2013. The entire project is in the final stages which incorporates a sixty day endurance test, with the expectation of completion in early spring 2015.

The following table details the MRP condition level of bridge and tunnel assets for the last three years.

Bridge and tunnel assets	2012	2013	2014
Original bridges	100%	100%	100%
Parallel crossing bridges	100	100	100
Original trestles	100	100	100
Parallel crossing trestles	100	100	100

Chesapeake Bay Bridge and Tunnel District
Notes to the Financial Statements & Governor's Report
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Note 6. Modified Approach for Infrastructure Reporting (Continued):

Percentage of capital assets at an MRP condition level of 7 or better			
Bridge and tunnel assets	2012	2013	2014
Approach roads	100%	100%	100%
Fisherman Island Causeway	100	100	100
Tunnels	85	86	84
Portal islands	95	95	91
Toll plaza infrastructure	100	100	100
Site-wide utilities	80	80	80

Note 7.

All amounts are subject to final audit.

For questions or additional information, please contact either Thomas R. Anderson, III Director of Finance or Deborah S. Cooley, Assistant Director of Finance:

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LUCIUS J. KELLAM, JR. BRIDGE-TUNNEL

The dream of a structure bridging the lower Chesapeake Bay to connect Virginia's Eastern Shore with the mainland of Virginia became a reality with the opening of the Bridge-Tunnel on April 15, 1964. This accomplishment can be attributed to the foresight, leadership, and untiring efforts of Lucius J. Kellam, Jr. of Belle Haven, Virginia. He served continuously from 1954 as Chairman of the Chesapeake Bay Bridge and Tunnel Commission and the former Chesapeake Bay Ferry Commission until 1993, when he was named Chairman Emeritus and continued to serve as an active member of the Commission until September 24, 1995. He was lauded as a diplomat, an executive, a public-spirited citizen, a man of the highest integrity, and a Virginia gentleman.

In recognition of the outstanding contributions made by Lucius J. Kellam, Jr., and his continued dedication to this major transportation facility, the members of the Chesapeake Bay Bridge and Tunnel Commission, by resolution dated August 11, 1987, named this crossing in his honor. Kellam will be long remembered for his outstanding contributions to the Chesapeake Bay Bridge and Tunnel Commission and the Commonwealth of Virginia.

