

Public testimony



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To: Sen. Anna Fairclough; Sen. Donny Olson; Sen. Kevin Meyer; Sen. Lyman Hoffman; Sen. Mike Dunleavy; Sen. Pete Kelly; Sen. Click Bishop

Subject: Full Testimony from Bob French for Today's Sen. Finance Hearing on HB23

I appreciate your attention to public testimony during this morning's hearing.

Co-Chair Meyer indicated that I should submit my entire planned testimony to the committee, so here it is.

Please let me know if you have any questions or comments.

Bob French,
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My name is Bob French, and these comments are my own. I have been following the Knik Arm Bridge for over 10 years now, and have reviewed many financial plans done by KABATA, but this is the first time to have only 1 page to review. The latest two financial plans included along with the Committee Substitute are even more interesting regarding what the answers they do not provide, than in the information shown.

While you have heard that truck travel time to Fairbanks will be quicker, you only partially heard that the time savings won't happen until the Burma Road is built (and it is only 7 minutes faster!). The costs for the Burma road (or any alternate route that doesn't dump more cars onto the already unsafe Knik Goose Bay road) are not included in any costs you have in front of you. You have heard that the bridge will facilitate building the gas pipeline, but the fact is that trucks carrying pipe will not use the bridge, they will transit between a lay-down area and where the pipe is needed. You have heard about the lack of developable land in Anchorage, but have not heard that Eklutna Inc. owns 90,000 acres of land in the Municipality of Anchorage. While you heard about truck traffic going through Downtown Anchorage, that is not necessary, much of the traffic going north is currently routed through Ship Creek, bypassing Downtown. You have heard

about how the bridge will facilitate a “Road to Resources” on the west side of Cook Inlet, but did not hear that the routes being considered run north and west of Houston, and it will not be shorter or faster to use the bridge. You have heard from Labor Union Representatives, that they support the bridge, but did not hear that KABATA’s own studies for the Environmental Impact Statement indicated that 2/3 of the workers might come from “Outside” Alaska, or that smaller projects typically employ more Alaskans.

But let’s take this discussion back to Finance, since you are the Senate Finance Committee.

When has the Senate Finance Committee ever looked at a Billion dollar project with a one page financial plan?

The information provided by KABATA for the past bills have included detailed cash flow analyses, along with hundreds of pages of background data. KABATA previously provided their “Pro-Forma” estimates to pay off a *Transportation Infrastructure Finance and Innovation Act* (TIFIA) loan, and provided year by year estimates of the differences between the required payments and the estimated toll revenues, as well as the estimated drains on the Reserve Fund, and how much the State would have to put into that Reserve Fund to make up for the lack of toll revenues.

It is interesting that your packet does not include a Fiscal Note to estimate the potential costs to the state. How can the Senate Finance Committee make a decision without that information?

As Senator Fairclough stated last week, you don’t have the cash flow to provide information about yearly State Bond and Federal TIFIA payments. You don’t have any information about the estimated Toll Revenues, and while this new CS to HB23 refers to a Reserve Fund, there is no information about how much the Legislature will need to pay to establish or maintain that Reserve Fund.

I realize that Mr. Jeff Ottesen, from the Dept of Transportation testified last week that his estimate was that they would “only” need 10,000 daily trips to pay off the TIFIA loan. In your packet, on the map with a bunch of colored lines and numbers, you can see the

number of average daily trips on the Knik Arm Bridge that was estimated in 2013 for another Dept of Transportation project, for the Wasilla Bypass. The estimated daily trips was only 9,400 trips in 2035, compared to the 36,000 daily trips in KABATA's 2011 estimate. But, you say, KABATA's 2011 estimate is nearly 3 years old, why not compare it to KABATA's current traffic estimate? Well, despite paid media advertisements touting their new, so-called, "independent and peer reviewed" Socio-Economic Data, and new traffic and revenue forecasts that were to be based on that new data, KABATA has not yet released even the new Socio-Economic data, much less the revenue forecasts. KABATA's press release that is in your packet, promised the new Socio-Economic data by September 30, 2013: This Sunday, that data will be 6 months late, for a project that was supposed to take three and a half months.

Why is the new information not in your packet? Based on the traffic data manipulation done by KABATA and their consultants that we have previously documented, my belief is that KABATA does not want you to see new information, because it does not show high enough traffic counts to cover Operations & Maintenance costs, and the TIFIA payments. KABATA likes to talk about "excess toll revenues" being able to pay back the State Bonds, but the actual revenues will be so low that we will likely need additional state funds to pay back TIFIA. Those additional funds would be beyond the \$450 million that Mr. Deven Mitchell of the Department of Revenue indicated was the maximum state liability for the State Bonds (i.e. not the maximum state liability for the entire project).

So, what happens when the 9,400 daily traffic counts in 2035 are still not enough to pay back the TIFIA loans? Are you ready to gamble with the State's credit rating? Do you believe that the Feds will not somehow either reduce transportation funding for Alaska, or require some other re-structuring of the TIFIA loan after NOT being paid year after year after year? Let's not forget that at least 3 toll projects have gone bankrupt and more have needed to be refinanced, by relying on toll revenue forecasts produced by CDM Smith, the same firm that KABATA is using.

What happens if KABATA does not get the \$341 Million dollar TIFIA Loan to cover 1/3 of what they say the project cost will be? Mr. Deven Mitchell, testified last week, that without the TIFIA loan, the project would not go forward. If that is true, why is there no mention of TIFIA in this Committee Substitute? If that is true, why would there be any objection to making it clear that without a TIFIA loan, that the state allocations for this project will be held until the TIFIA loan comes in? If KABATA is turned down for the 7th time in their application for that low-interest federal TIFIA Loan, then the State costs will certainly be much higher than \$600 million.

To paraphrase Senator Olson, from last week's hearing: Why would the state jump into such a huge project when it's facing budget deficits of \$1 billion to \$2 billion a year?, especially when we have no idea of how much the Knik Arm Crossing will cost.

I am an engineer, and I understand the level of detail that is provided in a 35% design for a project. KABATA's design is considered to be only 35% complete, and can be described as being the "Pretty Picture" stage. By creating the "Pretty Pictures" showing the typical road cross sections, preliminary route drawings and using average unit costs for cubic yards of gravel, tons of armor rock for the causeways, and estimated costs to install the steel bridge piles, and other project elements, the cost estimators come up with what is commonly called a "WAG" in the engineering field. "WAG" stands for a "Wild Ass Guess". If the preliminary design is particularly well developed, the estimators can sometimes come up with a "SWAG", or a "Sophisticated Wild Ass Guess".

If the Legislature chooses to guarantee KABATA's loans and bonds, my guess is that the \$55 Million that is currently in the Governor's Capital Budget will be mainly used by KABATA to take their design from that 35% level to the 100% design that can actually be considered "Shovel Ready". You can see that as the investigations continue, and the design progresses, the cost estimates also begin to include more details about costs, and thus become more accurate. It is that natural design progression that helps explain why a project's estimated cost almost invariably goes up from the initial 35% cost estimate to the final cost estimate. The economic factors during the bids, and the unforeseen or hidden costs that are discovered during construction, typically causes the change orders or cost over-runs that can double or triple a project cost when the accounting is finally finished. Should we be spending \$55 Million on a project that may never get 1/3 of it's proposed funding? Should we perhaps allow KABATA to move the design forward to a 65% level, so that the actual cost of the bridge and it's various phases and approach roads can be more accurately estimated?

So, What is the total cost that the state will take on if this bill is approved? The November 2013 First Southwest Plan (*you can refer to the annotated version in the file named "HB23 KABATA-Summary-12 13-1st-SW-Annotated.pdf" in your packet*) shows a total project cost of \$838 Million dollars. The joint KABATA-DOT/PF proposal in your packet shows a total project cost of \$895 million, and references a KABATA cost estimate from February 2014 that is NOT in your packet. Since KABATA's previous financial plans showed revenue from traffic that can only fit on a 4 lane bridge, but their cost estimates only including building a 2 lane bridge and approach roads, the cost shown in the April 2013 Legislative Audit was \$1.62 Billion, which included costs of building the 4 lane bridge and approach roads.

Without KABATA's latest estimate, or a more complete design, how can we know if the bridge will cost \$838 Million, \$895 Million or \$1.62 Billion, and do those costs reflect the changes to the design of the project since the last detailed cost estimate was done 7 years ago? A key cost factor for building the bridge is how deep the bridge support piles need to be. Obviously costs differ if you need 300 foot deep piles, or 150 foot deep. KABATA's geotechnical consultant in 2007 made a front page recommendation to conduct more core drilling on the east side of Cook Inlet to find out how deep those piles will need to go. That drilling has not yet been done, and same the Bootlegger Cove clay that required that the piles installed for the Port of Anchorage be pulled out and replaced is certainly a large cost factor here.

You have heard that KABATA's previous Traffic and Revenue forecasts were described by the Legislative Audit as "Unreasonably Optimistic". I talked about the 9,400 average traffic on the bridge in 2035 that was predicted for the Wasilla Bypass project, compared to the 36,000 daily trips estimated by KABATA, but why else should you believe that the Audit's conclusion true? Let's look at the Traffic Analysis Zone (TAZ) data on the Maps that are in your packet. As an indication of the differences between KABATA's predictions, and population and employment data done for 2 other Dept of Transportation projects, the 2nd page of those maps highlight 3 TAZ areas where KABATA's population and employment data is strikingly different.

KABATA's land use projections for the greater Port MacKenzie area included major retail, high-tech research parks and significant amounts of Class A office space that are used to justify the 14,337 jobs at Point MacKenzie (discussed on pg 27 of the audit). 10,455 of those jobs are shown in the TAZ area in the lower right corner of the 2nd page. The job forecast done for AMATS includes only 2,469 jobs, while the forecast by HDR for the Wasilla Bypass project shows only 1,249. KABATA's job projections are in direct conflict with all adopted Borough planning documents in the Point MacKenzie Special Use District regulations and the Point MacKenzie Master Plan. Both of those plans are oriented to heavy industrial uses, which complements Port MacKenzie as a bulk commodities port. KABATA's land use plans are in conflict with the new 6 million gallon fuel tank farm being developed by the Alaska Industrial Development and Export Authority and Central Alaska Energy, and the blast zone that needs to surround such a tank farm. KABATA's land-use projections are also in conflict with their own assumptions that were stated in the project's Environmental Impact Statement from 2007. The type and rate of growth projected by KABATA would require complete re-writing of the Borough's development code that guides land use decisions in the Point Mackenzie area.

The Data Manipulation that I referenced earlier is clearly shown when you look at KABATA's earlier job forecasts in the Point MacKenzie area. In 2007, when KABATA's estimate of the 2035 Mat-Su population was 250,700, their estimate of the new jobs in that same area was only 6,740, less than half their 2011 prediction, when the borough population was estimated to be approximately 190,000 in 2035! It is clear that when faced with lower population forecasts, KABATA's consultants raised the job forecasts, so that they could keep the same high number of daily traffic counts, and thus higher toll revenues.

There are big differences between the rate of growth and population density allowed by individual lots with their own well and sewer systems, and community water and sewer systems. The long lead time and capital costs for water and sewer infrastructure necessary to get to KABATA's population density hinders that rate of growth. The one area that the Wasilla Bypass population and job estimate predicts that kind of growth is near the Goose Creek Correctional Facility which has a newly built water and a sewer treatment plant. The Wasilla Bypass model accommodates this expected density. This is also the projected location of a new townsite recently identified formally by the Borough Assembly, the plat of which is posted on BASIS as HB23 Pt. MacKenzie Townsite.pdf.

KABATA has criticized the Audit and said that the Wasilla Bypass estimates did not include the growth effects of the bridge, but the audit indicates that the MSB's updated land use and transportation model was specifically created to study the growth that is expected if the bridge is built. The Wasilla Bypass model was based on 2010 Census data, and built on a new model which was verified with local information from Business People, Realtors, Bankers, Land Use and Transportation Planners, Borough Ordinances and Community Plans. In contrast, KABATA's population and employment estimates are described in the audit as being based on a model originally created in 2000, and updated in 2007 by a Texas firm, with changes by CDM Smith and KABATA since then.

In closing, one final key question to consider is: Does the legislature have veto power, if either the construction or financing costs turn out to be much higher than what you are being told right now? Can you stop the project before it bankrupts the state?

I can't see that you have the information necessary to even vote on this bill.

Thanks, and I can try to answer any questions you might have.