Testimony from Susanne DiPietro, given on March 14, 2013 to the Senate Transportation Committee, this applies equally to HB23 and SB13.

My name is Susanne DiPietro. I live in Anchorage and have been following this project since 2004.

I have carefully reviewed SB13 and want to bring to your attention some specific language that takes the unprecedented and needless approach of obligating the State to cover unlimited shortfalls in the Knik Bridge's project expenses. I am referring to Sections 4 and 5 of SB13. I'd like to walk you through those sections.

Starting on page 2 at lines 25-26 of your bill you will see that KABATA has the power to create what I'll call a "plain vanilla" project reserve fund – that's existing AS 19.75.221(h).

At the bottom of page 2 and the top of page 3 we see our first new item, which establishes that you will appropriate money into this reserve fund. Then continuing down a bit on page 3, at lines 8-17, we see that KABATA must use this money you've appropriated into the reserve fund to pay its debts and obligations. So now with these two additions, we've created a special kind of reserve fund into which you will deposit money and out of which KABATA will pay its operations and maintenance, including contractual "availability payments" to its private partner.

Continuing on to page 4, in paragraph (l) at lines 5-9 of the bill, we learn that KABATA each year must tell you and the governor how much it needs to cover its debts, and you may appropriate that amount. While this procedure may seem innocuous on its face, this is the language that signals to the rating agencies your pledge to step in and appropriate money to the reserve fund for each and every year that the revenues are insufficient to cover debts.

So although you will not see the words "moral obligation" anywhere in this bill, if you pass SB13 as currently written, the markets will understand that when KABATA signs its contract with its private partner, you are pledging to appropriate money to cover KABATA's obligation to make availability payments or whatever obligations KABATA incurs. In other words, the markets will understand that KABATA's operating debt is backed by the State of Alaska.

Now it is true that this legislation does not require you to appropriate the money every year, and you could decide not to. However, a failure by the State to honor the moral obligation is treated as a default, and the markets would be expected to react adversely by downgrading the credit rating of the State of Alaska in general. On that point, I would refer you to Commission of Revenue Butcher's letter to Senator Thomas in your packet, which warns about this hazard. So by passing this bill you will be setting yourselves up for a Hobson's choice – refuse to appropriate and damage the State's credit rating, or continue to spend the money that we may not be able to afford.

Using a "moral obligation" reserve fund to cover operating expenses has never been allowed in Alaska for any other moral obligation reserve fund and should not be allowed for this project. It would greatly expand the already significant financial risk to which the State will be exposed by this project.

And even aside from any question of default, just passing this bill creates the type of financial exposure that could cause the rating agencies to have a negative reaction when reviewing the State's credit rating for future bonds issued by the State.

If KABATA needs a project reserve fund, existing law already allows it to create one, without roping you into continuous appropriations for the life of the project. Please delete sections 4, 5, and 7 of this bill.

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Compass: Don't buy KABATA's bridge

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By JAMIE KENWORTHY

A bill guaranteeing all Knik Arm Bridge and Toll Authority (KABATA) expenses has passed the Transportation Committees in both houses of the legislature and now heads to the Finance Committees. So now may be the time to look at the real cost of the bridge and how a blank check can get written.

KABATA once said the private sector was sharing the risk of financing the bridge. Since the private sector does not want the risk of covering the toll shortfall to pay costs, KABATA Bills HB 23 and SB 13 now have the state guarantee payments to them for a 35-year contract whose amount the legislators have so far been too polite to discuss.

A novel feature of this year's bills is for KABATA to annually certify how much "of the authority's overhead and administrative and working capital" it needs and then the legislature would face a bad choice. Either replenish the bills' reserve fund to make those payments (my minimum estimate is $2.6 billion over 35 years) or default on a moral obligation of the state and let the resulting hit to the state's credit rating raise the cost of all state-financed projects.

No state agency has ever had this ability to dump unlimited expenses on the state's balance sheet as a contingent liability. The one project KABATA agency is no place to start.

To listen to the hours of KABATA testimony is to travel to a parallel financial universe. True, KABATA has been turned down five times for a $300-$500 million low interest federal loan but, with the passage of these bills, the sixth time will be the charm.

Most legislators have not yet shown much interest in looking at the exact costs of this deal. No one has yet explained why the state, which can borrow at less than 4 percent, should be guaranteeing a contract with a consortium who KABATA estimates will "finance" the project for 12% annual return for 35 years.

The difference between 4 percent and 12 percent over 35 years is over $600 million sent out of Alaska that buys nothing.

And what expertise has been bought by KABATA's $75 million spent to date? According to the federal Transportation Research Board, KABATA's traffic and toll consultant CDM Smith has a national track record of overestimating toll revenue by an average of 118 percent or more than a factor of two. KABATA counts on $4.2 billion of toll revenue over 35 years. When only half that amount shows up, $2.1 billion will be added to the cost of the state's guarantee.

KABATA's financial plan shows impossibly derived revenue from four lanes of full traffic from 2027-2051 while only paying for a 2 lane bridge.

KABATA claims that $1.1 billion is the state's maximum liability on the project. However, there is no current project budget and the 35-year contract will be signed after the guarantee passes. So if these bills pass, nothing should be believed except Alaska's signature on the check.

Bottom line, bridge deficits will be more than what Anchorage or the Mat Su annually receives from the state for roads, mass transit, and pedestrian improvements. Will the Legislature take the bridge deficits out of Southcentral's hide or just cumulatively add $3,500 per Alaskan to the state's annual debt service?

Jamie Kenworthy is a retired investor living in South Anchorage. He was executive director of the Alaska Science and Technology Foundation.