

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



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SUMMARY OF: A Special Report on the Department of Transportation and Public Facilities, Knik Arm Bridge and Toll Authority (KABATA), Knik Arm Crossing (KAC) Project

PURPOSE OF THE REPORT

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of KABATA's KAC Project. The audit objectives were to:

1. Provide a historical summary of major KAC Project milestones;
2. Identify significant changes to the project scope;
3. Evaluate the adequacy of public participation;
4. Provide a detailed summary, by source, of KAC authorized, expended, and remaining funding, including the level of funding necessary to complete the project;
5. Ascertain the reasonableness of KAC toll and revenue projections and the KAC projected financial plan;
6. Evaluate the KAC private-public-partnership (P3) agreement; and
7. Outline the balance of risks and rewards between public and private partner entities as outlined in the P3 agreement.

REPORT CONCLUSIONS

The audit concludes that KAC toll and revenue projections are unreasonably optimistic, and the projected cash flows to the State are likely overstated as a result. These are important considerations for policymakers since the P3 compensation arrangement requires KABATA to make payments to the private partner regardless of the project's ability to generate toll revenues. The deficiencies in KABATA's methodology for generating toll and revenue projections are addressed in Recommendation No. 1.

KABATA's FY 03 through FY 12 expenses total \$70.4 million and authorized funding totals \$131 million. The project is expected to require an additional \$1.4 billion from a variety of sources including bonds, loans, grants, and private equity. A discussion of key project planning and development milestones is provided as part of this report's Background Information section. Appendix A provides a list of significant KAC Project milestones.

The audit was unable to fully outline the balance of risks and rewards embodied in the final P3 agreement because the procurement process is not complete, and the P3 agreement has not been finalized. However, the general structure of the P3 agreement has been defined by KABATA's governing board and provides that the State will bear the risk of lower-than-expected toll revenues.

It is important to note that a final P3 agreement will also contain rewards and additional risks that are not addressed in this report due to the scope limitation already discussed. This report is not concluding whether or not this specific risk is justified when considering the P3 agreement's balance of risks and rewards for the agreement as a whole. The risk of lower-than-expected toll revenues is an important aspect of understanding the potential effect of deficiencies in projections and should be considered in that context.

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

KABATA management should revise traffic and toll revenue projections to address deficiencies.

The audit of key assumptions and inputs used in KABATA's transportation modeling process identified several concerns regarding the validity of assumptions and inputs used as a basis for projecting KAC toll revenues. Overstated traffic volume in KABATA's modeling process has the effect of overstating projected toll revenues.