

Knik Arm Crossing Public-Private Partnership and Cost of Capital Overview

Availability Payment Structure

- Private partner responsible for finance, design, build, operate and maintain over life of agreement (e.g. 35 years)
- State makes regular annual payments to private partner that cover its:
 - Debt service
 - Operation and maintenance costs
 - Reasonable return on invested equity
- State owns facility and toll revenues
- State funds annual payments from:
 - Toll revenues
 - Then, if necessary, from reserve fund
 - Then, from appropriations (if necessary)
- Annual availability payment amount fixed, except:
 - A portion is indexed to CPI to account for increases in O&M costs
 - Increases if traffic significantly increases over time, to account for resulting increases in O&M costs
 - Reductions if private partner fails to meet contract standards for keeping facility available for public use and in good and safe condition
- Competition is lowest annual availability payment from State to private partner
- Off balance sheet financing for State

Reduces Cost of Capital

- Private partner's cost of capital a significant factor in amount of annual payments
- Credit that backs State's annual payment obligation is a material factor affecting availability and cost of capital
- Senior debt must receive investment grade credit rating for project to be eligible for low cost, federal loan ("TIFIA" financing)

SB 79 and SB 80 enhance project credit, ensuring an investment grade rating is achieved and that the developer can obtain the lowest cost of capital, thereby providing the lowest availability payment offers to the state