

## ***“Reserve Fund” established by SB 80 still provides an unlimited State Guarantee***

KABATA’s financial descriptions in their “Letter of Interest” from their July 2011 TIFIA Loan Application (which was also included in KABATA’s December 2011 TIGER Grant Application, available at KABATA’s website at <http://www.knikarmbridge.com/2011TIGER/TIFIALOI.pdf>) has the following description on the bottom of page 4, under *Sources and Uses of Funds* for what are called “Availability Payments” made by KABATA to the “Private Partner”:

### ***“Sources and Uses of Funds:***

Financing for the Project will be achieved through an availability payment concession, whereby the private partner will design, build, finance, operate and maintain the Project under a concession of approximately 35 years after substantial completion in exchange for availability payments from KABATA. The availability **payments will be paid** from a **Project reserve fund** that will hold **toll revenues** as well as **any appropriated funds**. The Project reserve fund will set forth minimum reserve requirements that, **if not met**, will trigger a **request for appropriation** from the State of Alaska. KABATA shall set toll rates (See HB158 and HB159, and SB79 and SB80). The tolls will be collected by the private partner on behalf of KABATA and the State of Alaska. “

Mr. Jeff Stark, of the AG’s office was accurate in his statements last Thursday before the House Finance Committee that the “Availability Payment” structure “gives certainty to the Private Partner”. Unfortunately the only certainty is that the Private Partner will be paid regardless of whether or not toll revenues will ever exceed those “Availability Payments”. While the specific language in SB80 that would have made any obligations of KABATA, “obligations of the State”, was removed, KABATA’s Federal Loan applications, and their proposed “Pro-Forma” show that if the actual traffic and revenue doesn’t meet the highly optimistic forecasts of KABATA and Wilbur Smith & Associates, that \$150 Million “Reserve Fund” will need to be “replenished” year after year.

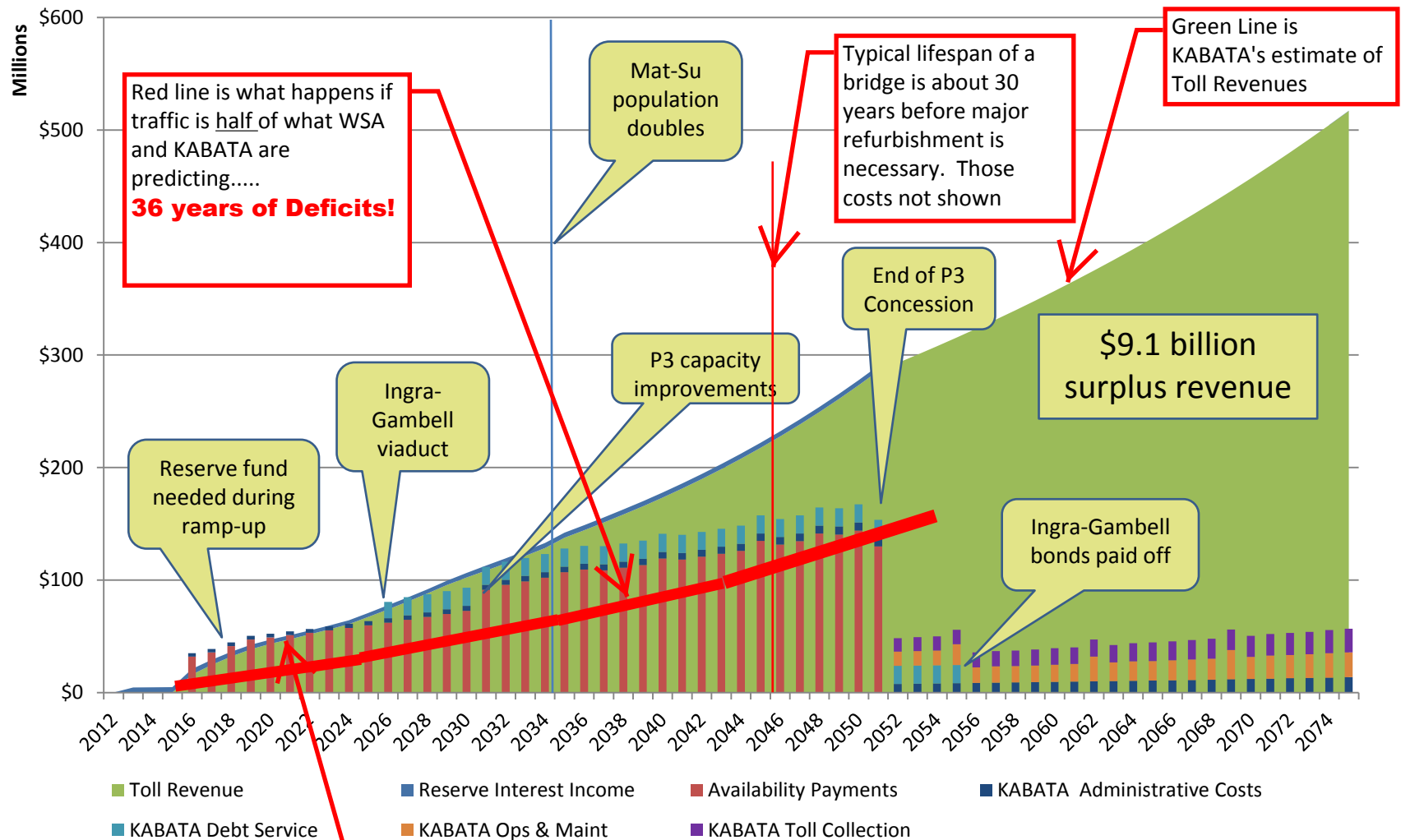
The following pages are taken directly from KABATA’s December 2011 TIGER Grant with “explainers”.

Page 8, Footnote 1, shows the \$50 Million “trigger point” where if the toll revenues are insufficient, KABATA states that **“If ending balance (of the “Reserve Fund”) falls below \$50 million, the State will replenish the account back to \$50 million.”**

Page 7 shows that KABATA is not predicting positive cash flow until 2031. If only half of the traffic shows up, KABATA will be **in the red** during the entire 35 year life of the P3 Contract.

Refer to the attached information taken from KABATA’s November 30, 2011 presentation to the legislature done in Wasilla AK.

# 60 Year Cost and Revenue Projection



# Needed Legislative Action

- 1) Amend statutes to reflect current market realities

Which apparently is that the P3 "Partners" are not willing to take on the risks of NOT having sufficient Toll Revenues, and therefore need this State Guarantee

- 2) Clarify KABATA's relationship with the State

Mechanism is clear: Pot of money has 2 basic sources (Tolls and appropriations by the state), and it pays out annual "Availability Payments" to the P3 Contractor

- 3) Create a reserve fund mechanism to cover KABATA's project obligations
- 4) Reduce Project cost by lowering the cost of capital

# Pending Legislation

## SB 80 and HB 158

- ~~P3 contract obligations are state obligations, subject to appropriation~~  
Removed the language, but NOT the obligation. Mr. Stark from the AG's office testified in House Finance that the language would be in the RFP and in the contract with the P3 Partner
- Increases bond issuance capacity to \$600 mm = PABs allocation  
This, along with the RFP and Contract stating that the Legislature WILL Replenish, is where the State Guarantee is made.
- Creates authority for project reserve fund and replenishment mechanism via appropriation
- Confirms property tax exemption under a P3
- Passed out of House and Senate Transportation Committees, pending Finance Committees