

**ALASKA STATE LEGISLATURE**  
**SENATE TRANSPORTATION STANDING COMMITTEE**

July 12, 2010

11:04 a.m.

**MEMBERS PRESENT**

Senator Albert Kookesh, Chair  
Senator Linda Menard, Vice Chair, via teleconference  
Senator Kevin Meyer

**MEMBERS ABSENT**

Senator Bettye Davis  
Senator Joe Paskvan

**OTHER LEGISLATORS PRESENT**

Representative Peggy Wilson  
Senator Fred Dyson  
Representative Max Gruenberg  
Senator Joe Thomas

**COMMITTEE CALENDAR**

OVERVIEW: KNIK ARM BRIDGE AND TOLL AUTHORITY

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

MICHAEL FOSTER, Chair  
Knik Arm Bridge and Toll Authority  
Anchorage, AK

**POSITION STATEMENT:** Delivered an overview of the Knik Arm Bridge and Toll Authority Project.

ANDREW NIEMIEC, Executive Director  
Knik Arm Bridge and Toll Authority  
Anchorage, AK

**POSITION STATEMENT:** Answered design questions related to the Knik Arm Bridge.

GOVERNOR BILL SHEFFIELD, Director  
Port of Anchorage  
Anchorage, AK

**POSITION STATEMENT:** Provided perspective on the Knik Arm Bridge.

AVES THOMSON, Executive Director  
Alaska Trucking Association (  
Anchorage, AK

**POSITION STATEMENT:** Testified in support of the Knik Arm Bridge.

LISA MARQUEZ, President  
Alaska Trucking Association  
Anchorage, AK

**POSITION STATEMENT:** Testified in support of the Knik Arm Bridge.

GEORGE LOWERY, Secretary/Treasurer  
Alaska Trucking Association  
Anchorage, AK

**POSITION STATEMENT:** Testified in support of the Knik Arm Bridge.

KEVIN HEMENWAY, Chief Financial Officer  
Knik Arm Bridge and Toll Authority  
Anchorage, AK

**POSITION STATEMENT:** Provided financial information related to the Knik Arm Bridge.

FRANK RICHARDS, Deputy Commissioner  
Department of Transportation and Public Facilities (DOTPF)  
Anchorage, AK

**POSITION STATEMENT:** Responded to questions and provided the state's perspective of the Knik Arm Bridge.

#### **ACTION NARRATIVE**

[11:04:59 AM](#)

**CHAIR ALBERT KOOKESH** called the Senate Transportation Standing Committee meeting to order at 11:04 a.m. Present at the call to order were Senators Meyer and Menard via teleconference and Senator Kookesh.

#### **OVERVIEW: KNIK ARM BRIDGE AND TOLL AUTHORITY**

CHAIR KOOKESH announced the business to come before the committee is to get an overview of the Knik Arm Bridge and Toll Authority. We want to keep this project in the public view and talk a bit about the financing, he said.

SENATOR MENARD observed that the record of decision for this project is rapidly approaching and there's reason for great optimism.

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MICHAEL FOSTER, Chair, Knik Arm Bridge and Toll Authority (KABATA), stated that the Legislature created the Knik Arm Bridge and Toll Authority to advance the economic welfare of the state and further the development of the public transportation system in the Upper Cook Inlet by constructing a bridge to span Knik Arm and connect the Municipality of Anchorage and the Matanuska-Susitna Borough. The final Environmental Impact Statement (EIS) is complete. The model they used looks at population growth; regional transportation connections between Anchorage, Mat-Su, and the Interior; safety corridor redundancy; access to regional airports, ports, hospitals; and emergency response.

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MR. FOSTER displayed a slide depicting a topographic map of the area and described the Mat-Su Borough as the "top one percent fastest growing county in the U.S. - 31st out of 3,142 this decade." The combined communities in the Mat-Su and Anchorage bowl represent 54 percent of the state's population. He displayed a slide showing the approximate location of the crossing and noted that population is a major deciding factor for the crossing. Current estimates are that the area will have about 170,000 more people by 2030, a 50 percent increase. New ISER [Institute of Social and Economic Research] data also indicates substantial growth and doubling in the Mat-Su Borough. The regional population in 2009 was about 286,000 while the Mat-Su Borough population was about 88,000. These numbers are expected to increase to 361,000 in the region and 187,000 in the Mat-Su Borough.

He displayed a slide showing that the Knik Arm Bridge is an important transportation link in the region. It provides connectivity to: the potential rail corridor, South Big Lake, the Point MacKenzie Road upgrade, the Port MacKenzie Industrial area and dock facility, the Parks Highway, the Glenn Highway going north to Glennallen and the Seward Highway going south to Girdwood. He displayed an aerial rendering of the bridge, the

abutments, and the proposed alignment and noted that the 8,200 foot bridge will join about 18 miles of connector roads on each side.

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SENATOR MEYER just joined the committee.

MR. FOSTER highlighted the following project benefits:

- Serves all Alaska and has significant potential to meet future transportation needs.
- Provides economic stimulus.
  - The current estimate to build the crossing is \$687 million.
  - The new infrastructure creates about 5,000 direct construction-related jobs.
  - It creates about 5,000 indirect support-services jobs.
- The cost of freight to the Interior is reduced because the route is shorter.
  - Over the first 10 years truck-freight savings are estimated to be \$326 million. This includes labor, fuel, and depreciation of capital.
- Savings to Alaskan drivers is estimated to be \$303 million over the first ten years.
- Significant environmental benefit.
  - Estimates are that in the first 10 years after construction, emissions will be reduced by about 10 million metric tons.
- Annual travel savings to bridge users based on \$3.53 gas is about \$90 million. Travel savings are based on:
  - Value of time.
  - Vehicle operating costs avoided against net tolls.
- An improved network produces sustainability and livability benefits.
  - Reduced commuter times.
  - Supports population growth closer to Anchorage.
  - Access to and proximity of affordable housing and good jobs.
  - Includes pedestrian and bike path.
  - Lower dependency on foreign oil.
  - Provides an additional corridor out of Anchorage going north.

- Accommodates emergency situations and Glenn Highway closures.
- Improves access to the \$240 million, 1,536 bed minimum security prison at the Goose Creek Correctional Center that's currently under construction.
  - Savings to staff, vendors, and visitors over the first 10 years will be about \$30 million.
  - With the crossing it's 9 miles from Anchorage and without the crossing it's 72 miles from Anchorage.
- Ties the state's transportation system together benefiting the entire state.
- Connects the Port of Anchorage and Port MacKenzie to better serve the state.

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SENATOR MENARD welcomed Governor Sheffield

MR. FOSTER said the Port of Anchorage is about one mile south of the bridge alignment. The port serves about 85 percent of Alaskans with about 90 percent of the freight coming into the state. The crossing will help move freight north at a significant savings in wear and tear on the roads through Anchorage and the Glenn Highway. The Port of Anchorage generates more than \$750 million in economic stimulus annually and is currently being expanded to double its size. He pointed out that the alignment for the road is on the back side of the port and shouldn't interfere with port activities.

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Port MacKenzie is about one mile south of the Knik Arm crossing. The port is currently a bulk commodities import/export facility that will allow additional resource export opportunities. It currently encompasses about 9,000 acres of industrial land. The railroad is currently doing some development at the port and is looking at an alignment north to connect to the Parks Highway. The Mat-Su Borough has also been working on a ferry and landing site.

MR. FOSTER related that in 2008 the Alaska Railroad Corporation (ARRC) transported about 500,000 passengers and 6.1 million tons of freight and 651 miles of track. The main rail yard is located just south of the Knik Arm crossing. The bridge is designed to be rail compatible and the railroad has a planned route extension to Port MacKenzie and then north. This would provide the railroad a significant savings in operations and freight

costs. He clarified that the rail component is not part of the initial project.

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MR. FOSTER said the Knik Arm crossing provides the following future/potential benefits to Alaskans:

- It supports the population growth in Southcentral Alaska.
  - This area has the potential to be the economic hub in this area.
- It supports major state infrastructure projects.
  - Gas line
  - Bullet line
  - Resource development, such as export of coal.
- Defers needed upgrades and eliminates some needs amounting to about \$575 million in capital costs that could be used on other infrastructure needs in the state.
  - Increasing the Glenn Highway to 6 lanes between Eagle River Bridge and the interchange is estimated to cost about \$350 million.
  - The Wasilla by-pass wouldn't be necessary if a connection is made to the Parks Highway in the Big Lake area.

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This is a state priority project that has strong support.

- Dittman surveys indicate that current support of the project statewide is about 56 percent. Regional support is as follows:
  - Fairbanks 53 percent.
  - Anchorage 56 percent.
  - Mat-Su 70 percent.
  - Kenai 58 percent.
  - Rural Alaska 56 percent.
  - Southeast 44 percent.

MR. FOSTER made the following points about deliverability and financing alternatives:

- The project started as a public-private partnership.
  - Currently two firms have expressed an interest and have gone through the initial screening process.
- Alternative financing is through a state revenue bond.
  - The state would provide a revenue bond for construction and revenue from the project would

be used to retire the bond and for additional infrastructure.

- Federal/state appropriation.
- This project should not be viewed as competition with any other state project. State bonding can deliver without taking away funding for other needed projects.

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MR. FOSTER made the following points about the financial plan development:

- Phase I
  - The Point MacKenzie Road to the A/C connector.
  - Three-lane bridge with a four-lane foundation.
    - The fourth lane would accommodate pedestrians and bikes in future years.
  - Estimated to take four years to construct, plus or minus a year.
    - Construction can happen in late 2012.
  - There's a cut-and-cover tunnel under Government Hill to minimize impact to that community.
    - Some houses are in the right-of-way area.
    - Mitigation was to cut the alignment through, putting on a lid then burying it back.
  - The total estimated cost is \$687 million, validated internally, by a third party, DOT, and federal highways.

A graph of the base case traffic forecast and assuming the 2015 opening shows that use climbs in the initial years and by 2040 it starts to plateau. This is the point that capacity is met for the four lane bridge. Growth beyond that point would require an expansion of some sort. The chart clearly shows a preponderance of passenger vehicle traffic as opposed to commercial vehicles.

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A chart of proposed one way toll rates at opening shows the following:

- Foot traffic no cost.
- Passenger vehicle costs \$5.
- 3 axel commercial vehicle costs \$10.
- 4 axel commercial vehicle costs \$15.
- 5 axel commercial vehicle costs \$20.

- 6 axel commercial vehicle costs \$25.

The base case toll revenue is projected to be \$12.1 billion over 56 years of use. He noted that the ISER numbers are lower, but still show a doubling of population.

MR. FOSTER displayed a slide illustrating that the revenue will flow to:

- Project operation and maintenance.
- Senior debt service.
- Senior debt service reserves.
- TIFIA debt service.
- Various other project reserves.
- Surplus revenues.
  - These can be used for Title 23 services throughout the state and for improvements on west and east side of Cook Inlet.

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MR. FOSTER made the following points about the public-private partnership (P3) availability payment model:

- It's competitive and is the lowest annual availability payment.
- The private partner is responsible for the finance, design, building, operation, and maintenance over the term of the lease.
- The state retains the toll revenue.
  - It's used to make availability payments.
  - The surplus is used for future transportation projects.
- The state retains the legal ownership of the bridge.
  - It's run by a concessionaire, similar to an airport.
- There are strict contractual terms of performance.
- There is significant risk transfer sharing with the private partner.
- It has off balance sheet financing.

MR. FOSTER assured the committee that contrary to some reports, P3s are a very real alternative to public sector financing. He displayed a chart showing the financing structure of the Port of Miami, a recent P3 and is similar in size and structure to the Knik Arm crossing project. He noted that one of the companies

that is interested in the Knik Arm project was a P3 participant in the Port of Miami project.

MR. FOSTER displayed a visual to illustrate risk sharing.

- The State of Alaska provides some form of credit enhancement to reduce the cost of capital.
- KABATA retains toll revenue to:
  - Make availability payments.
  - Deposit surplus to transportation trust fund for:
    - Future capacity expansion.
    - Other Title 23 transportation projects statewide.
- P3 SPV responsibilities:
  - Finance.
  - Design.
  - Building.
  - Operation and Maintenance.

He displayed a graph showing the base case surplus after phase 1 based on a P3 model. Over 56 years the net revenue to the state is about \$5.6 billion.

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MR. FOSTER displayed a visual to illustrate a state-backed public model.

- The State of Alaska provides a form of credit enhancement to reduce the cost of capital. Overall, the payoff to the state is greater in this model.
- KABATA retains toll revenue to:
  - Pay for project operations and maintenance.
  - Repay project financing.
  - Deposit surplus to transportation trust fund for:
    - Future capacity expansion.
    - Other Title 23 transportation projects statewide.
- KABATA is responsible for:
  - Finance.
  - Design.
  - Building.
  - Operation and Maintenance.

He displayed a chart of the public finance pro forma capital structure for Phase 1 (\$millions) and said he would have the

chief financial officer answer any questions about financial issues.

A graph of the public finance model surplus after Phase 1 debt service shows an estimated \$8.3 billion in net transportation revenue earned by the crossing over the life of the project.

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A line graph of new highway funding sources needed for Alaska from September FY06 through September FY10 illustrates that it will be more and more difficult for Alaska to obtain federal funding. He opined that this project provides a funding alternative into the future.

MR. FOSTER highlighted the key differences between private and public model assumptions:

- They present different risks and costs for financing, construction and operations to KABATA and the state
- Key assumptions differ between private and public models, most notably:
  - The combination of debt and equity in the private scenario.
  - The public approach is largely debt financed.
  - Debt costs and coverage ratios are lower for the public approach.
  - The public approach has higher construction and operating costs.
  - Risk is allocated differently.

Phase II financing scope includes the following:

- Four lane facility from Burma Road to the Ingram/Gambell Connector is completed.
- New viaduct over Ship Creek.
- Pedestrian and bicycle path is completed.
- The total cost estimate in 2010 dollars is \$375 million, which will come from revenue earned by the crossing.

The Knik Arm Crossing project timeline and tasks to construction is as follows:

- Preconstruction                      2009, 2010, and 2011.
- Construction                            2012, 2013, 2014, and 2015.
- Operation                                2016, 2017, 2018 and on.

MR. FOSTER informed the committee that KABATA currently has the final EIS and has submitted a biological assessment. The key remaining tasks to begin construction in 2012 included the following:

- Receiving a no jeopardy determination on critical habitat so that the biological opinion can be issued. This is estimated to be forthcoming in 2010.
- Record of decision in late fall or early winter 2010.
- Finalize project delivery method in 2010.
- Right-of-way procurement and final design in 2011.
- Finalize financial plan that the state wants to pursue in 2011.
  - P3.
  - Public.
  - Some combination thereof.

As currently estimated, construction will begin in late 2012 and the bridge will be operational by 2016.

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MR. FOSTER said the Knik Arm Bridge is important for the following reasons:

- It will connect Alaska's infrastructure.
- It will provide jobs and support economic growth in the state.
- It will provide an alternative corridor for safety.
- It will fund future transportation statewide.
- It will reduce greenhouse gas.
- It will be good for Alaska.

MR. FOSTER thanked the committee and closed with a slideshow illustrating what the bridge will look like when it's complete. He offered to provide a copy to any interested legislators listening online.

CHAIR KOOKESH noted that Senator Thomas had joined the committee via teleconference and Representative Gruenberg and Senator Meyer were in the room.

SENATOR THOMAS asked if this and any new information is on the website.

MR. FOSTER confirmed that the information presented today is on the website.

REPRESENTATIVE GRUENBERG asked if any modeling had been done as to the potential effect of an earthquake on the bridge and the tunnel under Government Hill.

MR. FOSTER deferred to Andrew Niemiec who is overseeing the design portion of the project.

ANDREW NIEMIEC, Executive Director, KABATA, said a lot of preliminary engineering work has been done and the bridge will be designed to meet current standards for earthquakes. He added that they've done a lot of geotechnical and design studies but they're preliminary to get through the environmental process. Final design hasn't occurred.

Representative Gruenberg asked if more studies are planned and when they might be complete.

MR. NIEMIEC said there will be additional studies as soon as the record of decision on the environmental process is in hand.

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SENATOR MEYER stated support for the project and observed that it has the potential to save Alaskans a lot of money. Noting that the beluga whale is a big issue right now, he asked if that sort of study and monitoring was figured into the finances. He also asked if rails will be a later addition.

MR. FOSTER said he's quite sure that once the bridge is completed that there will be studies related to silting and the foundation, but he doesn't envision doing additional studies unless there is work done on the structure. Responding to the second question, he said rail isn't included in the project at this time. The EIS references that the structure is rail compatible so the alignment could be used, but upgrades to the foundation and structure would likely be necessary.

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GOVERNOR BILL SHEFFIELD, Director, Port of Anchorage, stated that he's been a bridge supporter since 1953 when he arrived in Alaska. He informed the committee that KABATA will go to Mississippi in September to do computer modeling of the bridge. This is important because how you align the bridge makes a difference in what happens below, he said.

MR. SHEFFIELD mentioned the current cost estimate and opined that it will cost more. He can't say why, that's just what happens on every project.

Last year was the first year that the Port of Anchorage dealt with the beluga whale listing and he estimates that it will add \$10 to \$15 million per year or \$200 million over the life of the [port expansion] project. The project shuts down for half the work day because of low tide and observers cost \$4000 a day. More money goes to the excellent marine mammal program at the Alaska Pacific University. These students sit on the Air Force land and observe the movement of the entire whale population.

He opined that it would be a mistake to design the bridge without a rail line. Having rail on the bridge would complete the transportation system and the cost of operation for the railroad would be less. Port engineers are currently working with the bridge engineers to use as little port land as possible for the project. He's come to believe that if the bridge could go behind Elmendorf Air Force Base and come out at Boniface that would be the way to go. That route removes the bottleneck. He suggested KABATA work with Elmendorf Air Force Base and not take no as an answer. The location of the antennae system shouldn't stand in the way and everyone should lend support for this route. Ultimately it will be cheaper for KABATA than going behind the port.

GOVERNOR SHEFFIELD said this project is all about vision and transportation in the state. Without it you can't move and enjoy yourself.

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SENATOR MENARD asked if she could characterize his remarks as fully supportive of the Knik Arm Bridge and Toll Authority.

GOVERNOR SHEFFIELD answered yes.

SENATOR MENARD said she understands that a lot of pounding will take place when the rail is put in and this will upset the environment and the whale migration. She asked if that's his understanding.

GOVERNOR SHEFFIELD agreed that the whale issue is about noise and the pitch of the noise. It's not about ships moving; it's about vibrant hammers working on sheet metal in the water. Some studies show this does no damage, but there's been no decision. Whales do present problems, but protecting them is the law and we have to deal with it, he said.

SENATOR MENARD said she appreciates his insight on the railroad and she assumes that his remarks reflect the Alaska Railroad Corporation (ARRC) board sentiments with respect to rail going to Port MacKenzie.

GOVERNOR SHEFFIELD replied they'd all love to see a rail line on the bridge. He noted that the Port of Anchorage is being designed to withstand greater than a 1964 earthquake. It's just a case of more engineering, money, concrete, and steel. "I'm sure the bridge will do the same thing," he said.

SENATOR MENARD asked him to speak to the landing for the ferry Susitna.

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GOVERNOR SHEFFIELD said he spent more than 5 years of his life worrying about putting the ferry landing at the port at a cost of about \$135,000, but they were never able to make it work with the other ships coming in and out of the port.

AVES THOMSON, Executive Director, Alaska Trucking Association (ATA), said ATA is a statewide organization that represents 200 member companies. Many members are headquartered in or operate major freight terminals in the Municipality Anchorage. Many access the Port of Anchorage on a daily basis. He stated that the ATA has supported the Knik Arm crossing since its inception. This alternate route is important to enable increasing volumes of freight to move from the Port of Anchorage. This project is an essential element in expanding freight moving capabilities. It's an important investment in Alaska's future, he concluded.

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LISA MARQUEZ, President, Alaska Trucking Association, stated agreement with Mr. Thompson's comments. She said she's done a lot of emergency response and in the event of emergency an additional corridor could be vital. She mentioned the measures she's taken to mitigate environmental concerns and said her company is all about the future and growth. The bridge is about growth and opportunity and she's eager to see it happen.

SENATOR MENARD suggested she post her comments on Facebook.

MS. MARQUEZ agreed.

GEORGE LOWERY, Secretary/Treasurer, Alaska Trucking Association, stated support for the Knik Arm crossing. He related that his company brings two ocean vessels into the Port of Anchorage each

week and the bridge will improve his ability to service communities and the state safely and efficiently. Also, the bridge will provide a transportation alternative going north which is important to any business. Finally, he's very supportive of the economic development that this project will bring the state.

SENATOR MENARD asked Mr. Hemenway to tell the committee about the award he received on behalf of KABATA.

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KEVIN HEMENWAY, Chief Financial Officer, KABATA, said the award is the Government Finance Officers Association (GFOA) certificate for excellence and financial reporting. The association is a nationwide organization that is involved in establishing accounting standards for government entities. Each year KABATA has applied for and received this award, which is about transparency in financial reporting. We're proud of this and all the work we do, he concluded.

FRANK RICHARDS, Deputy Commissioner, Department of Transportation and Public Facilities (DOTPF), said he is available to answer questions. He disclosed that he is a member of the KABATA board.

REPRESENTATIVE GRUENBERG asked what the plans are for the new ferry Susitna.

MR. RICHARDS said he's not the best person to respond because it's not a DOTPF asset; that project and vessel are being promoted by the Mat-Su Borough.

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SENATOR MENARD asked if the estimated cost savings are believable.

MR. RICHARDS replied any large project comes with controversy and substantial process, which takes time and considerable money, and that's what you're seeing. When DOTPF has these projects, it is never accomplished on the aggressive timeline that's desired. As to whether the cost-saving analysis is correct, he said that the consultants gave their best guess based on their analysis at a point in time. Economic conditions ebb and flow and hopefully we'll see the growth that's been projected, but in any event the experts gave their best guess and I'll take it at that, he concluded.

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SENATOR MENARD asked how many bridges DOTPF is responsible for in the state.

MR. RICHARDS replied the state has about 850 on-system bridges. DOTPF does a biannual inspection on these bridges and they're eligible for federal funds.

CHAIR KOOKESH opined that this project won't go forward unless the state and federal government are part of the process. He asked if DOTPF or the State of Alaska is doing anything to be part of the process.

MR. RICHARDS related that the Knik Arm Bridge qualifies for federal funds because it's part of the Anchorage Metropolitan Area Transportation Solutions (AMATS) and in turn it's part of the statewide transportation improvement plan that flows through DOTPF. The department is part of the KABATA board and as such consults with the executive director and staff. Other teams within DOTPF that look at projects and how they relate to the bridge are also in consultation.

CHAIR KOOKESH said he's pleased to hear that the state is part of the process.

SENATOR MENARD opined that as the population increases in Southcentral people are going to demand this bridge in particular, and once it's built they'll wonder why it wasn't built sooner. She added that as a new KABATA board member she is "on fire about this bridge."

CHAIR KOOKESH recapped that the purpose of this meeting was to continue to establish the record for the bridge. Today the committee heard invited testimony and from experts with KABATA and the state. Perhaps a future meeting could provide an opportunity for public input, he said.

REPRESENTATIVE GRUENBERG expressed appreciation for being invited to participate.

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There being no further business to come before the committee, Chair Kookesh adjourned the Senate Transportation Standing Committee hearing at 12:43 p.m.