

**ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE**

March 10, 2011
1:33 p.m.

MEMBERS PRESENT

Representative Peggy Wilson, Chair
Representative Lance Pruitt, Vice Chair
Representative Eric Feige
Representative Craig Johnson
Representative Cathy Engstrom Munoz
Representative Max Gruenberg
Representative Pete Petersen

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 57

"An Act authorizing municipalities and nonprofit organizations to sponsor a program to encourage the safe use of bicycles as a mode of transportation, and amending the duties of the Department of Transportation and Public Facilities to include administration of state funds appropriated for that purpose."

- HEARD & HELD

HOUSE BILL NO. 158

"An Act relating to the authority and obligations of the Knik Arm Bridge and Toll Authority, to bonds of the authority, and to reserve funds of the authority; authorizing the state to provide support for certain obligations of the authority; relating to taxes and assessments on a person that is a party to an agreement with the authority; and establishing the Knik Arm Crossing fund."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 57

SHORT TITLE: BICYCLE PROGRAM

SPONSOR(S): REPRESENTATIVE(S) SEATON

01/18/11 (H) PREFILE RELEASED 1/7/11

01/18/11 (H) READ THE FIRST TIME - REFERRALS
01/18/11 (H) TRA, FIN
02/10/11 (H) TRA AT 1:00 PM CAPITOL 17
02/10/11 (H) Heard & Held
02/10/11 (H) MINUTE(TRA)
03/10/11 (H) TRA AT 1:00 PM CAPITOL 17

BILL: HB 158

SHORT TITLE: KNIK ARM BRIDGE AND TOLL AUTHORITY

SPONSOR(S): REPRESENTATIVE(S) NEUMAN

02/16/11 (H) READ THE FIRST TIME - REFERRALS
02/16/11 (H) TRA, FIN
03/10/11 (H) TRA AT 1:00 PM CAPITOL 17

WITNESS REGISTER

REPRESENTATIVE PAUL SEATON
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented the changes in the committee substitute and answered questions during the discussion of HB 57.

JEFF OTTESEN, Director
Division of Program Development
Department of Transportation & Public Facilities (DOT&PF)
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of HB 57.

DERRICK REYNOLDS, Owner
Cycle Logical
Homer, Alaska

POSITION STATEMENT: Testified in support of HB 57.

CHASE WARREN
Homer Cycling Club
Homer, Alaska

POSITION STATEMENT: Testified in support of HB 57.

CATRIONA LOWE, Member
Homer Cycling Club
Homer, Alaska

POSITION STATEMENT: Testified during the discussion of HB 57.

MICHAEL NEECE

City of Homer Economic Development Advisory Commission
Homer, Alaska

POSITION STATEMENT: Testified in support of HB 57.

PETER ROBERTS, Owner
Downtown Bicycle Rental
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 57.

REPRESENTATIVE MARK NEUMAN
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 158 as the prime sponsor.

ANDREW NIEMIEC, Executive Director
Knik Arm Bridge and Toll Authority (KABATA)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 158.

KEVIN HEMENWAY, Chief Financial Officer
Knik Arm Bridge and Toll Authority (KABATA)
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of HB 158.

JAMIE KENWORTHY, Financial Analyst
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of HB 158.

ACTION NARRATIVE

[1:33:36 PM](#)

CHAIR PEGGY WILSON called the House Transportation Standing Committee meeting to order at 1:33 p.m. Representatives P. Wilson, Johnson, Feige, Petersen were present at the call to order. Representatives Pruitt and Munoz arrived as the meeting was in progress.

HB 57-BICYCLE PROGRAM

[1:34:34 PM](#)

CHAIR P. WILSON announced that the first order of business would be HOUSE BILL NO. 57, "An Act authorizing municipalities and nonprofit organizations to sponsor a program to encourage the safe use of bicycles as a mode of transportation, and amending the duties of the Department of Transportation and Public

Facilities to include administration of state funds appropriated for that purpose."

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REPRESENTATIVE PRUITT moved to adopt the proposed committee substitute (CS) for HB 57, labeled 27-LS0315\B, Kane, 2/18/11 as the working document. There being no objection, Version B was before the committee.

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REPRESENTATIVE PAUL SEATON, Alaska State Legislature, explained changes contained in the proposed committee substitute Version B. He referred to page 2, to lines 1-2 of HB 57, which read, "(2) educate the public on the safe use of bicycles and traffic laws relating to bicycles and motor vehicles." This language was in response to the committee's desire to have education a prominent feature, and to allow people to apply for grants. He referred to page 2, and line 7, which read, "(2) to establish safety and education programs described in (a)(2) of this section." This language allows for the grants just mentioned. He referred to page 2, lines 19-20, which read, "(2) educating the public on the safe use of bicycles and traffic laws relating to bicycles and motor vehicles." Additionally, the dates of the program survey in the bill are changed. He referred to page 3, line 14, of HB 57, that the date changes from 2011 to 2012, and on page 3, line 18 of HB 57, the date changes from to 2012 to 2014.

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REPRESENTATIVE PETERSEN recalled viewing advertisements on bicycle laws. He asked whether the department will air additional media announcements or would use the same media campaign.

REPRESENTATIVE SEATON responded that not all communities have television as the most available form of media. The bicycle education programs may be accomplished by using flyers. Thus, villages may have different programs than those offered in cities such as Anchorage.

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REPRESENTATIVE MUNOZ asked whether any small business bicycle shop owners have contacted the sponsor. She related she has

received feedback and expressed concern over the potential competition between businesses and local government.

REPRESENTATIVE SEATON related he heard from Mr. Peter Roberts, Downtown Bike Rental in Anchorage. Some shops in his district in Homer are supportive of the bill since it will encourage and promote bicycle use and users will upgrade to better bicycles. He said it is a mixed bag and he acknowledged that some tourism related businesses expressed concern that a community program could negatively impact their business. However, there are numerous ways, including building bicycle racks and storage to enhance bicycle ownership, repair, and upgrades. He pointed out that one thing he is also trying to promote are bicycle trailers so people can transport groceries. He related that some equipment can make bicycles safer so they can be used as a "mode of transportation." He stated that municipalities are not trying to compete with the tourism industry. However, numerous communities do not have bicycle shops or bicycles of the type that can be used as a mode of transportation. He suggested people tend to use bicycles and then want better models.

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JEFF OTTESEN, Director, Division of Program Development, Department of Transportation & Public Facilities (DOT&PF), offered a brief comment. He recalled that at the last hearing he stressed the importance of bicycling to Alaska. Alaska is one of the leading states in terms of its citizens using bicycles for commuting. He offered that the DOT&PF's only suggestion was to clarify that education was permissible.

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DERRICK REYNOLDS, Owner, Cycle Logical, stated that he lives in Homer and owns and operates Cycle Logical, a small bicycle repair and retail shop. He said he fully supports HB 57. He offered his belief that he understands the cycling community in Homer. In the past five years he has witnessed a growing number of cyclists ranging from children to dedicated cyclists and commuters. He explained that most people express concern over the lack of safe roads. He agreed with their concern. He said the simple solution is to outlaw cars! He offered his belief that the quickest way to reduce the number of cars and trucks on roadways would be to encourage more people to ride bicycles. He agreed HB 57 would not create a bicycle path along every road but it could help fund a community bike garage for people to use, perhaps allowing them to check out a bicycle. People may

be able to check out a grant funded trailer, lock, signage, or bike rack. People could shop and return the trailer to the garage. Similar bike share programs exist nationwide with considerable success. He acknowledged the concern but as a business owner believes that the program will help grow his business. He reiterated that he understands the rental aspect, but most people who want to rent a bicycle to obtain the "state of the art" features and a bike share program may not offer the high end bicycle features. He explained he lives in the community and represents the cycling group. He stated that several groups are actively working to improve conditions for cyclists in Homer, all of whom have shown a commitment to cycling. Cycling is a growing trend. He thinks this is an important bill to pass. He thanked members for considering it. In response to Chair P. Wilson, Mr. Reynolds responded that he has not specifically contacted the city council for funding for cycling programs.

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CHASE WARREN, Homer Cycling Club, stated that he has worked for Cycle Logical for nearly two years. He related that he has commuted primarily by bicycle for five years. He fully supports HB 57, he said. This bill could significantly increase the safety on our roads, not just for cyclists.

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CATRIONA LOWE, Member, Homer Cycling Club, stated she is a resident of Homer and a long time cyclist. She is also a member of the Homer Cycling Club. This nonprofit group was formed in 2010 to improve conditions for bicyclists at the local level and to establish bicycle routes and mountain bike trails, host group rides, to organize events such as races, and to promote bicycling as an environmentally friendly and healthy choice. She offered her belief that HB 57 holds great potential for Alaskans. Using non motorized transportation such as bicycles impacts lives in so many beneficial ways that even relatively small amounts of money invested will have positive impact. One thing she especially likes about HB 57 is that it allows each community to develop their own programs to best meet the local needs. One of the biggest needs in Homer is education for both cyclists and motorists on rules of the road. The bill could be used to provide classes and workshops. She uses her bicycle year round. She has commuted over 60 percent of the days in 2011 and driven her car 670 miles thus far. Her bicycling has personally reduced her fuel costs, wear and tear on the roads,

and on her vehicle. She encourages her children in grades 4 and 8 to ride their bicycles as much as possible. It provides independent transportation, trips to the library and beach, and a fun means to get exercise. Her children are in the minority since many parents are worried about safety. She advocates the state to provide funding as government provides a central role in creating a seamless, safe transportation infrastructure, including bicycle transportation infrastructure.

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MS. LOWE provided statistics, such as that bicycling and walking provide 12 percent of the trips Americans make, but only cost 1.5 percent of transportation funding. Bicycles keep us healthy, get us from point A to point B, save us from high gas prices, make our air cleaner, and our roads less congested. Bicycles are great for health, good for communities, and provide a solution for many key societal challenges. Cost effective investments in bicycling will boost the economy, help individuals and the state save money, can help reduce challenges such as obesity and road congestion, and benefit individuals, communities, our state, and ultimately the nation. She offered her belief that the state should invest in solutions that solve multiple problems and "I think bicycling fits the bill."

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MICHAEL NEECE, City of Homer Economic Development Advisory Commission, echoed Ms. Lowe's position and points. He is a member of other groups that support bicycle use and public transportation. He rides all the time and does not own a car. He suggested a little more effort on the road shoulders would be great during the winter. He hoped that this bill would help elevate and educate people about bicycling. He offered his support for HB 57.

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CHAIR P. WILSON asked whether Homer has any bike paths.

MR. NEECE related that Homer has one. He related that he served on the Global Warming Task Force in 2006-2007 and that task force worked to address bike paths. He pointed out the one bike path is on Easton Road about two miles long. He lives on Kachemak Drive, which does not have a bike path and is a treacherous route. The community would like to develop more.

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REPRESENTATIVE PETERSEN asked whether he uses studded tires on his bicycle.

MR. NEECE answered no as studded tires sometimes provide a person a sense of false security. He related that he either walks or rides and pays attention to drivers.

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PETER ROBERTS, Owner, Downtown Bicycle Rental, stated that he has listened to the testimony and has heard many assumptions. He stated that the sponsor acknowledged that a chance for competition exists. He asked how much competition and business owners should lose before businesses have lost too much. He recalled a Homer resident implying it would be better to have a government run the bike share program because the bike rental service would be better. He seemed to imply that bikes provided by government would almost be unsafe bicycles. He asked whether the program would anticipate insurance and liability issues if someone is injured on one of the government sponsored bicycles. He said many questions have arisen and the issues do not seem to have been thought through. He recalled a similar bill was introduced two years ago and the bill sponsor and cosponsor knew he was opposed to the bill yet he was not informed of this bill several days ago. It seemed to him that members should vote no, the bill should go back to the drawing board, and the sponsor should consult with affected constituents prior to introducing legislation like this.

MR. ROBERTS emphasized that there is a lot wrong with this bill. He said, "I will wave the flag for bicycling higher than anybody that has testified so far. I rode my bike to this hearing and there's no dispute about how great bikes are." The issue is whether the government should intervene to change peoples' behavior. The education aspect of the bill is good but giving free maintenance, bikes, and trailers needs to be removed. He suggested some testifiers think that it would be better if government provided the trailers. He suggested the testifier fill that niche himself. "That's the American way. I'll bet you anything that he would do a better job. There would be better availability of the trailers, and maybe if he's lucky he'd earn a profit and pay some taxes. And that would help the economy," he said. He suggested that private enterprise should provide the bicycles and trailers and increase competition. He urged the committee to vote no and fund infrastructure instead.

He stressed that government should fund bike racks and trails, and make it more interesting for people to commute. He highlighted that increasing trail safety and creating better routes would provide incentives for bicycle commuters.

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REPRESENTATIVE FEIGE asked Mr. Roberts what the impediments are to more people using bicycles.

MR. ROBERTS responded that he attended a conference several years ago in Anchorage and the experts indicated the impediment to bicycling is due to a lack of infrastructure. Commuters need the right routes. If people cannot afford bicycles, government could use "Bucks for Bikes" vouchers to patronize an existing business. He stressed that infrastructure is the number one issue, and the second would be to support voucher programs.

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CHAIR P. WILSON announced she would leave public testimony open.

[HB 57 was held over.]

HB 158-KNIK ARM BRIDGE AND TOLL AUTHORITY

[2:01:22 PM](#)

CHAIR P. WILSON announced that the final order of business would be HOUSE BILL NO. 158, "An Act relating to the authority and obligations of the Knik Arm Bridge and Toll Authority, to bonds of the authority, and to reserve funds of the authority; authorizing the state to provide support for certain obligations of the authority; relating to taxes and assessments on a person that is a party to an agreement with the authority; and establishing the Knik Arm Crossing fund."

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REPRESENTATIVE MARK NEUMAN, Alaska State Legislature, stated that HB 158 would provide for a successful procurement for the Knik Arm Crossing project and would generate the best value for the state. This bill would reduce the cost of financing the project and facilities and would expedite opening the Knik Arm Bridge for traffic in 2015. He pointed out that information in members' packets identifies the Matanuska-Susitna Borough as fastest growing area of the state. He indicated the population

is 88,000 and is increasing. The Knik Arm Crossing would provide an additional route to Anchorage. Anchorage's current population is 300,000. The Knik Arm Bridge and Toll Authority (KABATA) project would create economic growth through jobs and would help diversify the economy. He thanked the committee for touring the highway system last summer. He expressed concern about safety, due to the bumper-to-bumper traffic on the Glenn-Parks Highway. He reported the completion of \$50 to \$70 million for the Glenn Highway rut rehabilitation program. The road is 250 percent over carrying capacity. One solution is to find different routes and the Knik Arm Crossing project would offer an alternative route. He said that three constituents died in traffic fatalities on Knik/Goose Bay Road. This project would connect the Parks Highway, Knik/Goose Bay Road, and the Seward Highway, including three highway safety corridors. He stressed the need to expand the highway system.

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REPRESENTATIVE NEUMAN referred to members' packets to statistics, including that since 1977, 38 fatalities occurred on Knik/Goose Bay Road. He related that 93 major accidents involved injuries. Sixteen fatalities and 51 major crashes occurred on the nine mile stretch between Wasilla and Big Lake alone. He stated it is critical to support expansion. He highlighted the state's resource expansion, including mines. The Matanuska-Susitna Valley is connected to Anchorage, with the largest port in Alaska. Currently, freight is transported via the Eagle River Bridge. He expressed concern that if a major earthquake impacted the bridge transportation could cut off freight transportation north of Anchorage, including to the Matanuska-Susitna Valley area. He suggested that an alternate route with a modern bridge, rated to withstand an 8.0 earthquake is critical to move freight throughout Alaska, including to military bases. He related that about 30,000 commuters travel to Anchorage each day. The Parks and Glenn Highways cannot be expanded. This Knik Arm Bridge and Toll Authority (KABATA) was created in 2003 and has undergone extensive planning and numerous state studies. On December 15, 2010, the Federal Highway Administration (FHWA) signed the record of decision for the KABATA project which provides environmental clearance to move this project forward.

REPRESENTATIVE NEUMAN said the KABATA would not have received the decision without the project being sound. He pointed out that in 2009, the KABATA cost was estimated at \$687 million. The Department of Transportation & Public Facilities (DOT&PF)

asked for an independent analysis, with cost estimated at \$682 million. This speaks to the level of professionalism shown by the KABATA. He referred to letters of support from the Alaska Trucking Association, the Alaska Support Industry Alliance, the Matanuska-Susitna Borough, the City of Wasilla, the Municipality of Anchorage, and various trade groups.

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REPRESENTATIVE NEUMAN reported that 60 percent of Alaskans support the project. He related that the rate is much higher for Matanuska-Susitna commuters. He said it is critical to move forward with the public-private partnership since project costs for roads continue to rise. He stated that public-private projects are also on the rise. The state will own and operate the Knik Arm Bridge but will partner with the private sector. The KABATA staff will provide details. He summarized that this project is an investment in Alaska's future. The project can benefit the economic welfare of the state. He pointed out that he has served on the KABATA board as a non-voting member.

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ANDREW NIEMIEC, Executive Director, Knik Arm Bridge and Toll Authority (KABATA), stated that KABATA is committed to moving forward with the Knik Arm Crossing project which will provide sustainable jobs and economic opportunities for generations of Alaskans. The purpose of KABATA is to develop, stimulate, and advance the economic welfare of the state, and further the development of transportation systems in the vicinity of the upper Cook Inlet by constructing a bridge between the Municipality of Anchorage (MOA) and the Matanuska-Susitna Borough (MSB). The environmental impact statement confirms that the proposed crossing is an essential project that would improve regional transportation infrastructure, national highway connectivity for the movement of people and goods from Southcentral Alaska to the Interior, and the North Slope of Alaska. It would provide a safe alternate route to Alaska's most populated areas for disaster relief and emergency response. The Knik Arm Bridge crossing is being developed as a FHWA project. The FHWA is the lead federal agency and has provided a build recommendation, a build record of decision. KABATA is currently continuing with environmental permitting and right-of-way acquisition. The first phase of the project is estimated to cost \$716 million for construction of a minimum 8200 foot toll bridge, 18 miles of approach roads, and an 800 foot cut and

cover tunnel through Government Hill. The project would be delivered under a public-private partnership or PPP agreement.

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MR. NIEMIEC related that the main statutory changes outlined in HB 158 encompass four areas: increase KABATA's bonding authority, clarify property tax language, address contractual monetary obligations, and add language to establish and manage a reserve fund. The increase in bonding authority from \$500 to \$600 million matches the \$600 million allocation of private activity bonds as the capacity provided by DOT&PF for the purpose of the project and to KABATA. It is important to note that any private activity bonds issued are the liability of the borrower, the private partner and not the State of Alaska (SOA). The property tax language specifies that the bridge and associated connections are not subject to property tax if operated by a private developer on behalf of the state. That is similar to any other state facility that is operated by the SOA. Alaska statutes (AS) 19.75 would be modified to clarify that any monetary obligation under public-private partnership for the purposes of constructing the facility are obligations of the SOA and satisfaction of these obligations are subject to appropriation. He reiterated that this change applies to monetary liabilities associated with the public-private partnership. There could be other liabilities of KABATA and those obligations remain separate from the state. Prior to approval of a public-private agreement, a comprehensive evaluation process involving the DOT&PF, the Department of Revenue (DOR), and the Department of Law (DOL) must be accomplished. The changes necessary to attract lower cost debt and equity to finance the project will reduce the availability payments that the KABATA and the SOA must make to the private developer and will help keep tolls affordable.

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MR. NIEMIEC related that the project reserve fund provisions were added to allow KABATA to properly manage toll revenues and are contractual obligations of the agreement. The reserve fund will apply sources of revenue, including tolls and any appropriated funds, for specific purposes such as compensation to the private partner. Surplus funds are available for capacity improvements and other federally eligible transportation projects. The statutory language provides that any appropriations made will be held separately by the DOR until the public-private partnership is in place and then will be

deposited into the reserve fund. The KABATA has advisors under contract by the DOL who have reviewed HB 158. This project has continued to have strong support. A January survey shows 60 percent of Alaskans support the Knik Arm Bridge project and say now is the time to build the bridge. He added that 75 percent of Alaskans believe the bridge will lead to more jobs and economic growth.

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KEVIN HEMENWAY, Chief Financial Officer, Knik Arm Bridge and Toll Authority (KABATA), gave a brief history of his career and related his background includes a 25-year career in the private sector in public accountancy as well as having served as the chief financial officer of two publicly traded corporations, including Alaska Communications Systems. He related that in 1999 he came to Alaska and has since completed several billion dollars in transactions. He related that he became interested in this project because it is a toll bridge that will generate revenue, which is different than most state projects. It will be the first new major highway since the Parks Highway and the Dalton Highway were built. It has been at least 30 years since any signature transportation project has been completed in Alaska. This project will be a public-private partnership project which transfers substantial project risks to the private sector and manages the full life cycle of the project. Thus, all of the costs for maintenance and operations (M&O) are recognized, acknowledged, and built into the partnership up front.

MR. HEMENWAY related that Mr. Niemiec mentioned a significant milestone was reached in December 2010, when the Federal Highway Administration (FHWA) issued a Record of Decision that permits KABATA to move forward with procurement of a private partner. The KABATA plans to have the bridge open by 2015-2016. He explained the public-private partnership structure. The private sector will design, build, operate, and maintain the facility for 35 to 40 years under strict contractual terms in exchange for periodic payments, most likely annual payments. The private partner will raise debt and equity and borrow debt to finance the project, not the SOA or KABATA. The periodic payments will be used by the private partner to pay for M&O, the connecting roads, and to repay the project financing. At the end of the term, the facilities will be handed back to the SOA's control in a near new state as required by the contract. The SOA, through KABATA will own the bridge facilities at all times over the life

of the structure, not the private partner. The SOA will set tolls and own the toll revenue stream.

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MR. HEMENWAY explained that the toll revenue will be used to make the periodic payments to the partner and any surplus will be used to fund project improvements and other transportation infrastructure around the state. Competition for the project, from the private sector perspective, will be providing the SOA the lowest annual payment offer. The proposals from prospective partners will be evaluated by a committee by a rigorous criteria evaluation, which will be performed by the DOT&PF, the DOR, the DOL, KABATA, and industry experts. Final approval will be made by the KABATA's Board of Directors (BOD), comprised of two members from the legislature, one from each body; the commissioners of the DOR, the DOT&PF, and three public members.

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MR. HEMENWAY related that financing cost is the most important component the private sector will need to consider when proposing the SOA's annual payment. Lowering the cost of financing for the private partner will result in the best value for the SOA since "they will sharpen their pencils" and give the SOA lower proposals. This bill, HB 158, is important to achieving that best value since it will reduce financing for the private partner and will provide the mechanisms required and expected by the private marketplace to establish a contractual structure that is workable from their perspective. The KABATA is working to lower the cost of capital and has recently submitted a request to participate in a program established by the U.S. Department of Transportation as a result of passage of the Transportation Infrastructure Finance and Innovation Act (TIFIA) of 1998. This is a low-cost loan program for federal projects. This is a federal project since the FHWA has been involved since the beginning. This program will allow KABATA's prospective partners to borrow that low cost capital. He reiterated that the KABATA has been allocated \$600 million of private activity bond capacity by the U.S. Department of Transportation which allows the state's partner to borrow money on a tax exempt basis, which equates to lower interest rates and more refined proposals. One of the items in HB 158 is to increase issuance capacity of the authority since private activity bonds require a public issuer but the public is not the borrower of that debt. He stressed that the private partner and

not KABATA will be the borrower of any project financing under the public-private partnership structure proposed by KABATA.

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MR. HEMENWAY stated that the KABATA recognized early on that this project is a financing project in terms of delivery, beyond the infrastructure needs of the public. The KABATA hired Wilbur Smith, Associates, as its consulting engineer. This firm is the preeminent traffic and toll forecasters in the nation and studies are investment grade, which means Wall Street will accept them for bond issuance. Their dependability is high, he said. Their track record for forecasting is exceptional. Their studies have supported about \$88 billion of toll revenue financings, with \$22 billion in the last five years. They conducted 22 studies for startup toll roads. Of those, 96 percent reached the base forecast, and nearly all of the projects have been within plus or minus of 25 percent. He referred to the proposed Knik Arm Bridge project, and estimated that 67 percent or better will meet the obligations over the term of the contract. In February 2011, Wilbur Smith & Associates updated the 2007 study to reflect the downturn in the economy and a more conservative population forecast. Those figures are reflected in the KABATA's financial models. The authority is very confident in the independent traffic and toll revenue forecast and the project's ability to meet its obligations. Over the life cycle of the Knik Arm Bridge, the KABATA will recover the investment, as well as generate returns that could result in lower tolls or in additional investment n the state.

MR. HEMENWAY concluded that HB 158 would establish the mechanisms needed to develop the public-private partnership contract under the terms the marketplace expects. Thus, HB 158 should attract the most competitive proposals at the lowest cost and best value to the SOA. This bill, HB 158, does not commit the SOA to anything unless the private sector proposals are accepted and finalized and acceptance is subject to a rigorous procurement process, with the final decision of whether to accept any proposals being made by the board. This bill demonstrates that the state is serious about the essential nature of the project, its role in the public-private partnership as project owner, and it signals "Alaska is open for business and confident in our future." Over time the project will generate a surplus toll revenue stream that can be used to fund other needed transportation improvements or to reduce tolls. This project is needed to support economic development,

provide access to land for population and industrial growth, to facilitate the movement of people and freight, and for safety. This project will benefit generations of Alaskans. He urged the committee to move HB 158 on to the next committee of referral.

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REPRESENTATIVE PETERSEN related his understanding that the ferry being built to serve Port MacKenzie and is behind schedule. He stated that significant funds have been expended thus far. Historically, ferry operations are used until the population density reached, such as was done for the Golden Gate Bridge. He asked for clarification.

REPRESENTATIVE NEUMAN answered that the ferry in Ketchikan is funded by the U.S. Navy. This \$60 million world class vessel will not only provide service between Anchorage and Matanuska-Susitna Borough, but it will serve whole Cook Inlet Area. This project will work well as a complement to the proposed Knik Arm Bridge project.

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REPRESENTATIVE PETERSEN asked whether the ferry will begin operations soon. He recalled a problem with either hauling people or cars, not both.

REPRESENTATIVE NEUMAN stated that this ferry can haul trucks, people, and vehicles. He offered that the Municipality of Anchorage supports the project. Currently, docks are being built at Port MacKenzie. He explained that Anchorage is a container port and Port MacKenzie is an industrial port. The project will complement the two ports. In response to Chair P. Wilson, Representative Neuman stated that the state and federal funding for the docks is ongoing and the ferry will provide service in both directions.

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REPRESENTATIVE FEIGE referred to page 2, line 17 of HB 158. He expressed concern about the risk. He asked how much risk and obligation the SOA would incur.

MR. NIEMIEC asked whether he was interested in specific figures.

REPRESENTATIVE FEIGE referred to the language, which read, "...the monetary obligations incurred by the authority under the

partnerships or contracts are obligations of the state..." He asked whether the cost of building the bridge was part of that obligation.

MR. NIEMIEC answered that the cost of bridge is part of that amount. He said the language would basically clarify that a contract for authority to construct the crossing is basically stating the private industry would be conducting business with the state. Under this agreement, the SOA and KABATA are responsible for the payment to the private developer. The private developer would be procuring the construction contract. Normally the state would contract directly with the private sector for constructing a facility, and paying a contractor for that construction. Typically, the owner takes on the construction risk. In this case, the private developer has the design build contract which is not the SOA's contract. The SOA's responsibility is to make the payment. When the KABATA receives proposals from the developers and the SOA accepts them, it represents the SOA's exposure.

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REPRESENTATIVE FEIGE asked for clarification on whether the private entity would have the bonding authority to raise funds for the actual construction of the bridge.

MR. HEMENWAY explained the financing structure: the private sector is responsible to design, build, finance, operate, and maintain the facility. The contracts for design build will be between the private entity and their contractors. The contract with lenders, whether through TIFIA or private activity bondholders, or a bank credit facility, will be between them and their lenders on a nonrecourse basis to the state. He said that whether the private partner directly performs the operations and maintenance or subcontracts it out, the responsibility will be theirs. The private entity's responsibility to the state is to build the infrastructure on the state's behalf and maintain it to a quality standard over the agreement. The private entity will return the facility at the end of the agreement in exchange for the annual payment. He said, "So the state's risk will be knowing when those proposals are received, he said. The state's primary source for meeting those obligations in the form of the annual payment is the toll revenue. Just to be clear, he reinforced that all of the focus from a financial perspective for this project should surround the proposals that KABATA will receive and whether the toll revenue be sufficient.

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MR. HEMENWAY explained that this has been modeled on a pro forma basis, which means "as if we were standing in the shoes of the developer with very good information on cost estimates, operations and maintenance cost, toll collections, etc." He stated that those items will actually be contracts of the private partner. The state would enter into a contract once the evaluation process is completed. The state would commit to making the annual availability payments. He added that if the private partner under performs there would be reductions to the payment up to the point of potentially losing the agreement. The KABATA and the state would not have any obligation related to the debt or to the private partner's design-build contract, which are the primary cost elements in the entire project, he said.

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CHAIR P. WILSON related her understanding that the authority may, under Section 1, AS 19.75.111 (a)(5): make and execute agreements, contracts, and all other instruments with any public or private person... for the purpose of... subparagraph (B), which read:

"entering into public-private partnerships or service contracts in any form; **the monetary obligations incurred by the authority under the partnerships or contracts are obligations of the state, and satisfaction of those obligations from funds other than authority funds is subject to appropriation;**"

CHAIR P. WILSON asked for clarification as it did not seem to match up with the explanation just given.

MR. HEMENWAY answered that the primary contractual obligation of the state will be to make the annual payment. He explained that as with other contracts, some components will add clauses to address such items as early termination. In those instances the contract would add a provision to ensure compensation to make the parties whole if the early termination occurred. Presuming KABATA moves forward with the contract, the state's primary obligation will be to make the annual availability payment or the annual lease payment, whichever term is preferred, under that agreement. He offered his belief that sometimes contracts attempt to think of everything that may happen. "The fact is that is the real state obligation under the contract", he said.

The state will not know what the offer is until proposals are received. The models that have been run are pro forma so KABATA will have a very good idea of what the proposals will look like, he said.

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CHAIR P. WILSON reiterated that the monetary obligations incurred by the authority under the partnership or contracts are the obligations of the state. She related her understanding that says that the obligations of the partnership will now be obligations of the state. She asked if that is true.

MR. HEMENWAY answered yes, since the state is the owner of the bridge and the private sector will expect to know the state will meet its obligations.

CHAIR P. WILSON restated her understanding that under the bill KABATA as the authority will make agreements with partners, but once KABATA makes an agreement with the state, the state will ultimately be responsible.

MR. NIEMIEC responded that KABATA is a state public organization. People understand that when they are doing business with KABATA they are doing business with the State of Alaska (SOA). He related that KABATA was advised that it would be better to have it more clearly defined in the bill. The state and KABATA are one and the same. This language clarifies that the SOA is entering into the agreement. It is a SOA facility and a SOA contract, he said.

CHAIR P. WILSON recapped that essentially since the SOA designated KABATA as the authority to "figure all this out." She related her understanding that when KABATA has been discussing a public-private partnership, the public is the SOA and private is anyone else.

REPRESENTATIVE NEUMAN said that is correct. He related that KABATA is a state entity, just as the Alaska Railroad Corporation is a state entity. He stated that KABATA is the state. However, in terms of cost overruns in a public-private partnership, the private entity will contract out any cost. He said, "But when we look at cost overruns, because this is going to be a public-private partnership, the private partner will do the contracting out." If there's cost overruns "that's their problem. It's not the state's problem." He explained that when the proposal comes to the state for approval, KABATA, DOT&PF,

the attorney general's office must approve the plan and any financing. Once that is completed, that is the state's position. As to cost overruns, that is the private partner's problem since they will execute the contract for construction, he further stated. He affirmed that the state is KABATA.

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REPRESENTATIVE JOHNSON asked who wanted the clarification in the bill and whether it was the financiers, KABATA's board, the SOA, or the Attorney General.

MR. NIEMIEC answered that KABATA's advisors are asking for clarification. He stated that KABATA has not put forth a request for proposal (RFP) so it is not coming from industry. He said he also does not have an official attorney general's opinion on this issue. He elaborated that KABATA has advisors under contract with the Department of Law. The KABATA wants to ensure that the contractual agreement does not have any weakness that may affect the state. Our advisors suggested areas of clarification, including to the property tax provisions.

REPRESENTATIVE JOHNSON understood the necessity for clarification of the property tax provisions.

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REPRESENTATIVE JOHNSON asked for the annual payment.

MR. HEMENWAY answered that the annual payments that are being modeled, which are pro forma, would be approximately \$32 million at opening. The availability payments are typically structured so the payment increases over time as traffic increases and additional maintenance is needed. The KABATA has modeled an increase of four percent for the first 15-20 years and as traffic levels out the increase is about the rate of inflation. At the end of agreement, the final payments would be approximately \$140 million, which could be significantly lower. He pointed out that the revenue forecast for the same period is \$285 million. This represents a ratio of two.

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REPRESENTATIVE JOHNSON asked for the toll assumption.

MR. HEMENWAY answered that the toll for the Knik Arm Bridge at opening would range from \$5 for a passenger vehicle, with an

average of \$18 for commercial vehicles, depending on the number of axles. He stated that this is based on constant dollars, which means in nominal dollars it will grow at about the rate of inflation with an annual increase of 2 to 2.5 percent. He advised this is slightly lower than the Anchorage consumer price index over the past few years.

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CHAIR P. WILSON commented that most people's income does not increase. She asked whether the toll charges are reasonable since the tolls would range from \$10 to \$13 per day for passenger vehicles, especially given the gas price increases.

MR. HEMENWAY responded that KABATA used Wilbur Smith & Associates to model the traffic and revenue forecast for tolls. The rationale they use is based on their traffic and revenue models. He pointed out that the average new single family home in the Matanuska-Susitna costs \$189,000 less than the average new single family home in Anchorage since Anchorage is out of land. The average single family home, including resale, in the Matanuska-Susitna is \$140,000 less than the average single family home in Anchorage. Today the population growth is moving to the Palmer and Wasilla area. He concluded that with the bridge people could live 10 miles from downtown Anchorage. He stated that even if gas raises to \$5 to \$7 per gallon will the fewer miles roundtrip the better off the consumer will be. Traffic will be fairly low in the opening years, predicted at 3,000 roundtrips per day or 6,000 crossings. However, population predictions increase over time and with the bridge in place, considering the wages in Anchorage are 36 percent higher, the most economic scenario in Southcentral Alaska today is to live in Matanuska-Susitna valley and work in Anchorage. Today, that translates into a 60 mile roundtrip, but with the bridge in place the trip is reduced to 10 miles. Using a 2.5 percent inflation rate the \$5 toll today increase to \$5.10 next year, and \$5.22 the following year. He offered his belief that the Knik Arm Bridge and toll would equate to a great value for consumers.

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REPRESENTATIVE PETERSEN asked whether anyone has done a study to determine how the Knik Arm Bridge project would affect home prices in Anchorage. He expressed concern that if home prices were adversely affected it could affect property taxes in Anchorage.

MR. HEMENWAY offered his belief that the socio-economic studies done for the Knik Arm Bridge indicate that the tax increment is at a break-even point in Anchorage with or without the bridge. He recalled the projection was based on 20 years. The tax increase in the Matanuska-Susitna increases by about \$1.2 billion to pay for infrastructure needs to support that growing population. He said he is not a realtor and the scope of the authority is more limited. He related his sources do not see any impact on Anchorage home values but homes in the Matanuska-Susitna area closer to Anchorage would have higher values due to their close proximity to Anchorage.

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REPRESENTATIVE PETERSEN stated that very few people in the Matanuska-Susitna valley would live 10 minutes from downtown Anchorage if the Knik Arm Bridge was currently in place. He asked how long it would take to build up a bedroom community that would be within the 10 minute drive to Anchorage. He also thought it would take time develop schools, hospitals, and other infrastructure. He offered his belief that it would be very taxing for the Matanuska-Susitna Borough residents.

REPRESENTATIVE NEUMAN offered his belief that the property tax valuation would be neutral, but the value of Matanuska-Susitna valley homes would increase since they are close to Anchorage. He stated that his home in Big Lake would be about 25 miles to Anchorage if the proposed Knik Arm Bridge was in place whereas it currently is 60 miles to Anchorage. He stated that is a considerable amount. He asked what options are available to the 30,000 people who commuters who drive the Glenn and Parks Highways, which are 250 percent above capacity.

CHAIR P. WILSON equated the Knik Arm Bridge project as similar to ferry system. It costs a lot to build a ferry, ridership is hoped for, but the project is never going to pay for itself. She said the toll makes the project feasible. She initially thought of a public-private partnership as between the private sector and the public, not the state, but she realizes the "public" is the state.

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REPRESENTATIVE JOHNSON asked who owns the land across the proposed Knik Arm Bridge and the percentage of private and state ownership.

MR. HEMENWAY stated that the traffic and revenue areas impacted by the Knik Arm Bridge include approximately 3,000 private landowners. The SOA, native corporations are also landowners and the Matanuska-Susitna Borough owns significant land.

REPRESENTATIVE JOHNSON asked for clarification that no single landowner would benefit.

MR. HEMENWAY answered that the largest landowners are the Matanuska-Susitna Borough, the University of Alaska, the SOA, and Cook Inlet Region, Inc. (CIRI). Some private landowners own between several hundred acres to partial acreage.

REPRESENTATIVE NEUMAN explained the largest owners are farmers, but farmers cannot subdivide the agricultural land. The proposed Knik Arm Bridge will deposit revenues back to the general fund.

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REPRESENTATIVE MUNOZ related her understanding that \$500 to \$600 million in state bonding authority would roughly match the private bonding authority.

MR. HEMENWAY responded that the bonding authority requested in HB 158 is to permit the private partner to fully utilize the \$600 million from the FHWA to this project. He explained the last federal highway authorization had a \$15 billion national cap and Alaska received \$600 million of that for this project. Private activity bonds under the Internal Revenue Service (IRS) tax code require the bonds be issued by a public entity, but the public entity is not the borrower, the private entity is the borrower. The KABATA wants to increase the bonding capacity so the private partner can fully utilize the \$600 million in tax exempt financing if the private partner determines it is the optimal financial plan in proposing the annual availability payment. Financing is the single biggest part and is probably a more expensive piece over the life of the project than the construction costs. He said:

What we're trying to do is get us or another public issuer in the state to be able to do on a conduit issuance basis, to issue that debt for the private partner as the borrower. The 35 years after substantial completion that we've talked about is because that matches the type of long-term financing

that the private partner needs to build this kind of infrastructure and operate and maintain it to make it an attractive contract for them. But from the state's perspective, we are not the borrower of that debt.

REPRESENTATIVE MUNOZ asked him to identify the private partner.

MR. HEMENWAY answered that the private partner will be selected through a procurement process. Current, the KABATA has "short listed" two entities. Typically, the private partner would establish a limited liability corporation (LLC) or limited liability partnership (LLP). The private partner would bring in the equity money and borrow the funds from the lenders, which could be bonds, TIFIA, or bank credit. The private partner would hire the design builder, who would be involved during the construction period and any warranty period. The private partner would either operate and maintain the facility or contract it over term of the agreement. The state's obligation under the contract would be to make an annual payment to the private partner since it will build and maintain the Knik Arm Bridge. He said:

We're not the borrowers of the debt. We're not the parties in the design-build contract or anything else. What we really are doing is simply establishing the contract standards they need to operate and maintain at through the public-private agreement and what happens behind that is left to them as long as they meet our performance standards.

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REPRESENTATIVE MUNOZ asked him to address the profits once the tolls bring in significantly more than the bond payments.

MR. HEMENWAY answered that the excess toll would first replenish any reserve fund established by HB 158. Secondly, it would be used on improvements needed for traffic growth, and finally it would go to other eligible projects in the state. This is a FHWA highway project, which is subject to a Section 129 tolling agreement. This would require that any excess toll revenues after paying project financing be reinvested in eligible transportation projects as defined under the federal statute, including roads, bridges, bike paths, or ferries.

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CHAIR P. WILSON asked whether the state would ever be obligated to repay the bonds.

MR. HEMENWAY agreed they would not. He explained that if the private partner underwent a Chapter 11 bankruptcy, their creditor would work out the Chapter 11 terms without recourse to the state.

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CHAIR P. WILSON suggested that the monetary obligation incurred by the state under the public-private partnership or contract, are obligations of the state. She surmised the state would be obligated to pay if the private partner did not.

MR. HEMENWAY answered no. The state would only be obligated to pay the annual payment to the private partner so long as the private partner operates to the performance standards agreed to, and what happens between lenders and the private partner would not be state business. In further response to Chair P. Wilson, he reiterated that the state would only pay the private partner if they meet the performance requirements between the state and the private partner. If the availability payment is not enough to repay the bonds, that is a different issue, but as long as the private partner meets the requirements for the facility and maintenance, the private partner will earn the annual payment. There is a clear contractual distinction.

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The committee took an at-ease from 3:05 p.m. to 3:10 p.m.

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JAMIE KENWORTHY, Financial Analyst, related that he previously operated a state agency and is a financial analyst. In response to what is the state's liability, he stated that in the pro forma statement before the committee, based on a recent estimate, the obligation is \$3.2 billion. The KABATA would sign a contract with the winning private partner for the current estimate. These bills would guarantee that contract. That language is contained in HB 158 and HB 159. The bill states that the obligations of KABATA are the obligations of the state. In response to Representative Johnson, who previously asked who wanted the clarification on the monetary obligations incurred by the authority, he answered:

Who wants this clarification? I have a different answer. The people who are bidding on this project want this qualification because under KABATA's original statute, they could not issue debt that were obligations of the state. They were like AIDEA. They could issue bonds and would have moral authority to the state, but they were basically only the responsibility of the agency. They were not like general obligation bonds: direct obligations of the state. That's why I came to Juneau to testify because the estimates of the total revenue shortfall on this are huge. They have used population numbers that are 50 percent higher than the Institute of Social and Economic Research (ISER) and 64 percent higher than the state's demographer. So once they sign a contract, those become your obligations because you have changed the rules of the game. The game was, and this was the Dittman poll of three years ago, 'If the private sector pays for 70-90 percent of this deal, the private sector takes the risk. That's why the Anchorage Assembly approved this, based upon no further state funds. [Anchorage Metropolitan Area Transportation](AMATS) had the same decision. This changes everything. And you don't know the costs of that change. You have KABATA's current estimate on this.

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MR. KENWORTHY related a scenario in which a bankruptcy occurred. It happened last year in San Diego. One of the two bidders on the project created a subsidiary in San Diego. The toll revenue was too low to pay the bonds so they defaulted on the loan. The subsidiary, which was an LLC, had no recourse to the huge financial institution in Australia, the Macquarie Group. He related a scenario in which he bought bonds of the private partner, Macquarie Knik Bridge and they stop making payments, perhaps because they get into a dispute with KABATA, perhaps because the state refused to give \$100 million, which he referred to as a number he pulled out of a hat. He sues the private partner. The first thing my attorney will do is go after the "deep pockets" the SOA. My attorney will try to get the state involved in its bankruptcy case and they'll have good cause. The first "Exhibit A" of that would be these bills, because the obligations of KABATA, the availability structure of \$3.2 billion over 35 years in the pro forma. He said, "I came here to walk you through those pro formas."

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MR. KENWORTHY pointed out that last year, when KABATA submitted a similar application on March 1, 2010 they estimated the availability payment, not to be \$3.2 billion but \$6.3 billion. Since then KABATA has picked up a \$150 million appropriation from the general fund, which lowers the figure. Secondly, the KABATA has lowered the return from 14 to 12 percent. He expressed concern that last year KABATA's estimate of the contract it would sign with the private partner is now \$3 billion more than this year's estimate. This is nearly double the cost projection of the availability payment. It is not a trivial matter that someone the state contracts with could default on a loan, even if the state came out of the bankruptcy process still owning the bridge asset. The bridge is another asset the court could consider. He expressed further concern that if a state agency defaults on an obligation, whether it is called a bond or a contract for \$3.2 billion, the credit markets will take notice. The first thing Moody's and Standard & Poor's (S&P) will do is place the SOA under review for possible downgrade. When the Alaska Housing Finance (AHFC), the Municipal Bond Bank, or Alaska Industrial Development & Export Authority (AIDEA) wants to upgrade a dock or a mining opportunity materializes, similar to the Red Dog Mine project, and the state wants to finance the project at a reasonable cost, all of a sudden the state could face higher interest rates. If one state agency defaults on its obligations, another could, he said.

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MR. KENWORTHY suggested that the bonds are technically moral obligations of the state and not direct obligations. When AIDEA or AHFC issues bonds that is what the bonds say on the cover sheet. However, investors understand there is a moral obligation if not a legal obligation attached. If agencies default on contracts or bond issues of this size it will have an impact on the credit ratings for all state agencies. He recalled the state has a triple AAA credit rating, which he would like the state to keep. He said, "You have to care about the number in the pro forma sheet."

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MR. KENWORTHY said he has some red flags for the committee. He referred to page 1 of the document in members packets titled, "Knik Arm Bridge and Toll Authority, Federalization of Sections

2-5, with TIFIA Optimization, Private Model - Availability Payment Structure - Current Market." He referred to the \$150 million under Sources listed as State Grant. He stated that is not a reserve fund in any standard meaning for financial analysts. Instead, the KABATA is directly committing that \$150 million to the project "from day one."

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MR. KENWORTHY brought up a second concern. He referred to the pro forma financial plan, to the heading Capital Accretion Bonds, under the same section, for \$40,792,688. He then referred members to page 5 of the pro forma document to the Annual Debt Service. He offered his belief that Capital Accretion Bonds are a fancy way of saying, "We can't afford the interest in the early years; we're going to add it to the principal." Thus, the state would pay interest on interest. The question should be, "How good is this deal? When can they pay off those Capital Accretion Bonds?" He pointed out that the answer to this question is found on the second column of page 5, of the pro forma document under the heading, Tax-Exempt CAB Annual DS. He said that the state will pay \$248 million to pay off \$41 million of principal. Thus, the state will pay over \$200 million in interest. In response to Chair P. Wilson, he agreed that it would fall in the latter stages. He related a scenario in which in which a person takes out a mortgage for \$300,000, the bank provides as statement that shows the homeowner will repay \$450 thousand. The bank does not say you will repay \$1.2 million, which is a factor of 4. He said, "That's what this deal shows." He recapped the state would pay basically six times the amount. This is his second red flag, he said.

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MR. KENWORTHY stated that in financial markets it is called negative amortization or negative equity. He asserted that this has an eerie similarity as to what caused the housing crisis. He stated there are low down payments, negative amortization, or in other words "you owe significantly more in year two. Most mortgages you owe less." With KABATA, the toll revenue is not yet available to make the availability payments. Ten days ago, the KABATA projected it would earn \$16 million in toll revenue in 2016, but must make a \$38 million availability payment.

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MR. KENWORTHY referred to page 6, of the pro forma financial plan to the amount of the availability payments, which is \$3.2 billion. He directed his comment to Representative Feige, who earlier asked for the amount of availability payments, and he answered that based on KABATA's current estimates. The KABATA would sign a contract committing itself to the \$3.2 billion. The private partner would take the contract to the rating agency that, "Hey, I've made a deal with the State of Alaska." The availability payment is subject to annual appropriation by the legislature, and that would give the private partner an asset, which is the state's commitment.

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MR. KENWORTHY predicted that there would be too little revenue in the early years to make the toll payments, which is why the numbers are so bad. He said, "Another warning sign, you see, is what's called balloon payments." With a mortgage, the fixed amount is paid, and each year less and less interest is paid. Most of the successful private partnerships with state governments are ones that are based on fixed amounts. These are balloon amounts. He added that the KABATA did not obtain a TIFIA loan last year. He predicted they would not get it this year because other deals are better, such as existing congestion and demonstrated population increases. He referred to page 3, to the cost of the Knik Arm Bridge project. He said, "My simple message to you is: believe those cost numbers, the availability payment, the maintenance and operation cost, the tolling operations, the sinking fund for capital expenditures." He stressed that members should not believe the revenue numbers. The reason for this is that in 2007, ISER predicted the Matanuska-Susitna Valley population would be 204,000, in 2030. Instead of using that figure the KABATA went to Texas and bought research.

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MR. KENWORTHY said, "I'm here to tell you they shopped the numbers so the financials would look better." The test of that is that ISER's current population figure for 2030 for the Matanuska-Susitna valley is 169,000. He stated in December, the state demographer came out with a new population projection for the Matanuska-Susitna valley of 156,000 in 2034. He pointed out that KABATA's number is 64 percent higher. Currently, the Department of Transportation & Public Facilities (DOT&PF) has a traffic model for trips are estimated for the Glenn Highway and the proposed Knik Arm Bridge project for 2030. The DOT&PF

refuses to release the figures. He's been told the department does not have them, they are too variable, or too low, and we've been referred to KABATA. This week a public information request was filed to obtain the figures.

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MR. KENWORTHY related that the figures would be helpful to the legislature. The legislature will guarantee the contract. Currently, the census figures list the Matanuska-Susitna valley population at 91,000. He suggested that if the population increases to 150,000 in 20 years, the toll revenue numbers "really slide off." The KABATA is counting on tolls to pay off the availability payment but if the population predictions are skewed, the toll revenue is also skewed by 50 percent. He said when the figure in question is \$3.2 billion the amount is significant and constitutes "real money."

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REPRESENTATIVE FEIGE shared some of his concerns over the population projections. He asked for a brief description of Mr. Kenworthy's background.

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MR. KENWORTHY stated that he was the executive director of the Science and Technology Foundation for seven and a half years. He mainly worked on early stage risk capital businesses that were technology-based businesses. He did a similar job in Michigan, he said. He stated that he does not have a financial credential but has been rating business plans for 20 years. He said he saw the housing bust coming. The symptoms were balloon payments, overestimated and undocumented income, and negative amortization. He also said:

I'm a citizen who's looked at this deal, who's taken it around to three bond geek friends who also don't think this makes sense, but they still do some business with the SOA. You need someone who has no financial interest in this at all. I have no financial...I'm a volunteer. I live in South Anchorage. It's going to compromise the Government Hill neighborhood that I work with but I live in South Anchorage. It won't affect my neighborhood. I am not getting any money from this deal. I think I'm just

trying to prevent the state from making a billion dollar mistake.

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CHAIR P. WILSON asked about the population predictions.

MR. KENWORTHY stated that the Department of Labor & Workforce Development's newsletter, prepared by the state demographer shows the current population projection for the Matanuska-Susitna valley in 2034 is 156,436, which adds an additional four years out from 2030. He stated that the slight adjustment to the Wilbur Smith Associates study. He referred members to look at their website, which has a very strong non warranty provision. Typically, the boilerplate states something like, "Don't hold us responsible for this." Theirs basically says not to count on the population estimates due to the quick preparation. He stated that people have been raising the population issue at the Anchorage Metropolitan Area Transportation Study (AMATS) and other hearings, and in a "grudging way" Wilbur Smith Associates knew it must redo the numbers. He said, "You can't have financial information based upon overly optimistic assumptions. Been there, done that."

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MR. KENWORTHY stated the last warning flag is the unlimited government guarantee. He stressed that HB 158 captures it precisely. It says that obligations of the KABATA will be obligations of the state. That is not language that AIDEA or AHFC have in their statutes. They issue paper under their own credibility. He said, "I think there will be heartburn the day that deals go south if you're trying to run those agencies and you're counting on the good credit of the state and its agencies." He suggested the committee should consult with bankruptcy lawyers, and he is not a lawyer, but when creditors go after the SOA, "when things go south" as it did for San Diego in its second year of operation, the entire floor of the Attorney General's office will be concerned about this, because of the bad precedent. He predicted the downside risks are so high, that having the "veil pierced" the state will settle. He also predicted everyone would take a hit, and the creditors would not get paid right away but the payments would be stretched out. He further predicted the State of Alaska would be advised it must keep making payments. This happens every day and when you pick up the Wall Street Journal and read

"restructuring." He feared this would be the projected scenario for Alaska.

[HB 158 was held over.]

[3:33:14 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 3:33 p.m.