

**ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE**

February 28, 2013

2:17 p.m.

MEMBERS PRESENT

Representative Peggy Wilson, Chair
Representative Doug Isaacson, Vice Chair
Representative Eric Feige
Representative Lynn Gattis
Representative Bob Lynn
Representative Jonathan Kreiss-Tomkins

MEMBERS ABSENT

Representative Craig Johnson

OTHER LEGISLATORS PRESENT

Senator Charlie Huggins

COMMITTEE CALENDAR

HOUSE BILL NO. 23

"An Act relating to bonds of the Knik Arm Bridge and Toll Authority; relating to reserve funds 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 AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 23

SHORT TITLE: KNIK ARM BRIDGE AND TOLL AUTHORITY

SPONSOR(S): REPRESENTATIVE(S) NEUMAN, HUGHES

01/16/13	(H)	PREFILE RELEASED 1/7/13
01/16/13	(H)	READ THE FIRST TIME - REFERRALS
01/16/13	(H)	TRA, FIN
02/28/13	(H)	TRA AT 2:00 PM BARNES 124
02/28/13	(H)	Heard & Held
02/28/13	(H)	MINUTE(TRA)

WITNESS REGISTER

REX SHATTUCK, Staff
Representative Mark Neuman
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified on behalf of Representative Newman, sponsor of HB 24 during the discussion of HB 23.

MICHAEL FOSTER, Chair
Knik Arm Bridge and Toll Authority (KABATA)
Department of Transportation & Public Facilities (DOT&PF)
Anchorage, Alaska

POSITION STATEMENT: Presented a PowerPoint presentation and answered questions on HB 23, the Knik Arm Bridge and Toll Authority (KABATA).

REPRESENTATIVE MARK NEUMAN
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified as sponsor during the discussion of HB 23.

ACTION NARRATIVE

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CHAIR PEGGY WILSON called the House Transportation Standing Committee meeting to order at 2:17 p.m. Representatives Lynn, Kreiss-Tomkins, Gattis, Isaacson, and P. Wilson were present at the call to order. Representative Feige arrived as the meeting was in progress.

HB 23-KNIK ARM BRIDGE AND TOLL AUTHORITY

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CHAIR P. WILSON announced that the only order of business would be HOUSE BILL NO. 23, "An Act relating to bonds of the Knik Arm Bridge and Toll Authority; relating to reserve funds 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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REX SHATTUCK, Staff, Representative Mark Neuman, Alaska State Legislature, on behalf of Representative Neuman, sponsor of HB

23, stated the bill would amend the Knik Arm Bridge and Toll Authority's (KABATA) enabling statutes to provide for a successful procurement of the Knik Arm Crossing (KAC) project and to generate the best value for the state. This bill was written in consultation with KABATA.

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MICHAEL FOSTER, Chair, Knik Arm Bridge and Toll Authority (KABATA), Department of Transportation & Public Facilities (DOT&PF) offered to give a brief recap presentation.

MR. FOSTER turned to KABATA's mission [slide 1]. He stated that the KABATA was set up to advance the Knik Arm Crossing (KAC). He pointed out the corridors and road alignments in the Southcentral Alaska area, including for the Glenn Highway and the Parks Highway, Knik-Goose Bay Road, and the Port MacKenzie Rail extension. Additionally, he mentioned the population trends in Southcentral Alaska, noting that 54 percent of Alaskans live in this area. He reported that approximately 300,000 live in the Anchorage Bowl area and about 90,000 in the Matanuska-Susitna area based on the Anchorage metropolitan census figures [slide 5]. He discussed the 2035 population forecast that shows that over the next 25 years substantial growth will occur in the Matanuska-Susitna Borough (MSB) area. He related that different population forecast models predict population increase estimates ranging from 115 percent to 119 percent over the 25 year period with significant growth in the Anchorage area predicted from the Eagle River Bridge north to Eklutna. In fact, this area is estimated to grow by 74 percent over the next 25 years. Additionally, the Anchorage bowl is nearly out of available land for residential, business, commercial, and industrial purposes.

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MR. FOSTER turned to the 2035 population statistics [slide 6]. He said some discussion has surrounded the use of the University of Alaska's (UAA) Institute of Social and Economic Research (ISER) figures. He deferred to Representative Neuman to address that issue. The Woods and Poole Economic Inc.'s population forecast model, which is an independent third party model, and KABATA's model all show that in 2035, significant growth will occur in Southcentral Alaska in the Matanuska-Susitna area.

MR. FOSTER turned to slide 7, entitled, "Historic and Projected Population Trend 1985 to 2035." He highlighted the 2035

projections, which shows nearly a linear curve related to the availability of land.

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MR. FOSTER said that population growth drives traffic increases. In 1985, Eklutna had an increase of about 16,000, in 2010 at 29,000, and traffic is forecasted in 2035 at over 60,000 vehicles [slide 9]. The growth at Hiland Road - at the six-lane point - from 2010 to 2035 is estimated to increase from 50,000 to over 110,000 based on the population projections from Eagle River to Eklutna and population projections from the Matanuska-Susitna Borough (MSB). This slide graphically shows the population points based on 2010 average daily traffic and using the 2035 estimated traffic [slide 11].

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CHAIR P. WILSON pointed out ISER's population estimate is different from KABATA's estimates. She asked whether he could explain the difference in the estimated population projections.

MR. FOSTER deferred to Representative Neuman to address.

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MR. FOSTER discussed what happens without a bridge [slide 13]. He explained that in 2008, the DOT&PF considered transportation needs based on the traffic and population demands going forward, in which the Glenn Highway from Eagle River north would become a six-lane highway to handle the increased traffic. Further, the Glenn Highway from downtown Anchorage to Eagle River north would become an 8-10 lane roadway, based on actual traffic counts, he said. He reported the 2008 estimates totaled \$3 billion in federal/state funding. He reiterated the DOT&PF's Long Range Plan totaled about \$3 billion improvements to the Glenn Highway.

MR. FOSTER related the bridge option under consideration is a private-public partnership model (P3) [slide 11]. The KABATA has short-listed three firms, who have each undergone a rigorous solicitation - as the potential private developers. The private partners in the public-private partnership (P3) would be responsible for financing, designing, building, operating, maintaining, and collecting tolls for the proposed Knik Arm Crossing (KAC) project and the draft contract would be a 35-year concession or contract.

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MR. FOSTER related that to make this project as attractive as possible for the financial markets, the State of Alaska - through this bill and legislation - would be to create a reserve fund for the initial years. The \$600 million funding source would be [Federal Highway Administration [FHWA]] Safety-LU private activity bonds (PAB). Again, the state would be a conduit - the state would not secure the PAB nor would the state be financially obligated to the bonds. The state would only provide the capacity for the private partner to apply for the bonds. Additionally, the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) financing would be the same type of model - the state would act as a conduit and would not sign for the financing nor have any financial responsibility for it. He characterized the funding as a pass through. Additionally, the contract terms provide for a termination for convenience clause that would allow the state to terminate if the state decides not to proceed, which he characterized as being similar to a lease agreement, with a payout value. He emphasized that from the beginning the bridge will be owned by the state and once construction begins the bridge project will become a state asset. However, the private partner would not receive the first availability payment until the bridge is open for use. Thus during construction the private partner will finance the project.

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REPRESENTATIVE MARK NEUMAN, Alaska State Legislature, referred to a memo dated March 22, 2011, in members' packets from Professor Scott Goldsmith, from the University of Alaska's Institute of Social and Economic Research (ISER). He explained that the ISER figures were below the 2010 U.S Census figures. He suggested that by taking the ISER figures and correlating them to the U.S. Census population, that the figures would fall within one or two percent. As a matter of fact the figures are still in the 85,000-90,000 range, he said. He recalled ISER had estimated approximately the population at 170,000 and KABATA had predicted 190,000. He said, "You can nitpick about those numbers all day long, but there's still a lot of people."

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REPRESENTATIVE NEUMAN asked to have a document distributed entitled, "Current Traffic Safety Corridors (TSC) & Candidates as of August, 2009" that helps explain the safety issues. In

response to Chair P. Wilson, Representative Neuman deferred to Mr. Foster to address the numbers of estimated vehicles for the bridge being based on a four-lane bridge and the associated costs. He again referred to his handout, which lists the highway safety zones as of August 2009. He reported the fatalities and major injuries per 100 million vehicle miles on the Palmer/Wasilla Highway and Glenn Highway to the Parks Highway at 16.7; from Lucus Road to Big Lake at 17.3; the Knik/Goose Bay Road at 22.84. After all, the Seward Highway is often highlighted, but its fatalities and major injuries rate per 100 million vehicle miles is 13.1. He indicated the community has been undergoing transportation planning for post-bridge construction. In fact, [with the KAC] traffic would be reduced considerably on the Glenn Highway, he said. Currently, 30,000 vehicles travel from the Matanuska-Susitna to Anchorage each day, he reported. Specifically, he pointed out the last rut rehabilitation costs at \$55 million per the DOT&PF. Further, rut rehabilitation must be done every five years. He pointed out that 82 percent of the freight to the state comes in via the Port of Anchorage. Thus all the heavy freight and containers destined to Fairbanks and Prudhoe Bay could bypass the Glenn Highway. Additionally, the proposed Knik Arm Crossing (KAC) would reduce the length of travel considerably, which is one reason why the bridge has been supported by the Fairbanks Chamber of Commerce: it would reduce traffic and trucking costs. He indicated if the road rehabilitation could be stretched to 8 to 10 years, it would also represent a considerable cost savings to the state.

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REPRESENTATIVE NEUMAN said those who live in Wasilla are familiar with the pinch points and congested traffic, such that Wasilla Lake is on one side, the highway and railroad and Lucille Lake on the other side. He characterized this roadway as an over congested highway, which the community has been trying to alleviate. Additionally, Wasilla to Big Lake represents the most dangerous stretch of highway in the state is also proposed to be expanded to a four-lane highway. Further, the Knik Arm Crossing (KAC) would reduce heavy freight, reduce accident rates, and improve traffic freight infrastructure to help turn Alaska resources into jobs. He suggested that expanding the Glenn Highway - which is currently over capacity - is estimated to cost over \$ 4 billion. Thus obtaining a bridge funded by private industry would be much less expensive.

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REPRESENTATIVE NEUMAN turned to the Federal Highway Administration [FHWA] funds under the Moving Ahead for Progress in the 21st Century Act (MAP-21). He related that Governor Parnell supports creating a reserve fund using an appropriation of \$10 million this year and funding an additional \$35 million each year until 2018 for a total of \$150 million. This fund would basically be a loan that would be repaid, he said. He estimated sufficient traffic would cross the bridge to create enough tariffs in approximately seven to eight years for the KAB project to become revenue neutral. The toll revenue would be repaid into the reserve fund, once traffic increased and as new housing is expanded from Anchorage. Any excess revenue must be used for transportation projects, including aviation, marine, or highway projects. He pointed out that the state is trying to diversify its income revenue streams, with 90 percent of the state's revenue derived from oil, which is declining rapidly, the state must find new ways for revenue sources. He said this is an opportunity for the state to spend \$1 billion within the first 20 years of the project time line for transportation projects in Alaska. Thus this project would also relieve congestion on the state general funds.

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REPRESENTATIVE NEUMAN reiterated that this would relieve pressure on general fund expenditures. He emphasized that finding new revenue sources and diversifying the economy is a must. Additionally, this infrastructure would open up development on the west side of Cook Inlet. He related that \$400,000 is in the Governor's FY 14 proposed budget to assess resource development options in the Susitna Basin. This infrastructure would help develop natural resources, which is critical to diversify the state's economy and increase revenue streams to the state. In fact, numerous benefits of this project besides public safety exist, including diversifying revenue streams, creating jobs, finding more opportunities to turn resources into jobs for Alaskans. He concluded that this [project] pays for itself. In the end, this project is ready to build; it's ready to go, he said. As he looks forward and currently, revenue streams are in the negative. Certainly, the state doesn't have funds for large capital projects since the state has a \$1 billion deficit. He offered his belief that partnering with private industry to bring in \$1 billion in private industry investment to create 1,500 jobs over the next four years is critical to the state. He predicted that if the state doesn't partner with private industries that the effect on

the operating budget will be huge. In short, this bridge could get Alaska to the point of building a pipeline and a dam. He said, "This is a bridge to the future and I hope we have the vision to continue on with that, Madame Chair and I'll be glad to answer any questions."

CHAIR P. WILSON responded that she didn't mind having the state pay for some capital projects and infrastructure; however, she wanted to ensure if the tolls are insufficient to cover the availability payment, the state would pay.

REPRESENTATIVE NEUMAN answered that under the worst case scenario some projections were made, but Mr. Foster could best explain the projections.

REPRESENTATIVE P. WILSON reiterated that the state should pay; for infrastructure; however she wanted to be sure the facts the committee has are the right facts. She asked whether the committee has an updated financial plan from KABATA. She was unsure of whether the federal government is on hold in terms of the TIFIA financing.

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REPRESENTATIVE NEUMAN referred to a letter to Mr. Callenda, Director, Transportation Infrastructure Finance and Innovation Act Joint Program Office, U.S. Department of Transportation dated [November 15, 2012] from Governor Parnell. He read:

I have received a copy of your September 25, 2011 letter to the Knik Arm Bridge and Toll Authority (KABATA). In that letter, you state that the U.S. Department of Transportation (US DOT) is postponing consideration of our Transportation Infrastructure Finance and Innovation Act (TIFIA) Letter of Interest until the State appropriates, or is reasonably likely to appropriate, funding for the KABATA project (Project).

As you know the Alaska legislature has previously authorized use of federal funds and has appropriated State matching funds for the Project. The construction phase is included in the approved Statewide Transportation Improvement Program. KABATA is currently purchasing the right-of-way and acquiring the permits necessary for construction. In addition, my Capital Budget will be submitted to the Alaska

State Legislature in December, and it is my intent to include funding for a Project Reserve.

KABATA will continue to work closely with your office, and the State of Alaska expects full consideration by US DOT and your office for an invitation to submit a TIFIA loan application on behalf of the successful proposer.

REPRESENTATIVE NEUMAN recapped that the aforementioned letter is a letter of intent from the legislature for continued funding for the reserve and the letter is signed by Governor Parnell.

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CHAIR P. WILSON asked whether TIFIA has responded back to this letter.

REPRESENTATIVE NEUMAN responded that this letter was a positive response to TIFIA.

MR. FOSTER answered yes; and offered to quote from a September 25, 2012 letter.

CHAIR P. WILSON asked for the date of the governor's letter.

REPRESENTATIVE NEUMAN answered the letter he read was dated November 12, 2012 and was in response to the September 25, 2012 letter from the U.S. Department of Transportation (US-DOT).

CHAIR P. WILSON asked whether the sponsor has heard back from the U.S.-DOT since the November 12, 2012 letter from Governor Parnell.

MR. FOSTER answered yes; that the U.S.-DOT is waiting for the legislature to pass the bill. In further response to a question, he clarified that the U.S.-DOT has responded.

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CHAIR P. WILSON added for further clarification on the fiscal note.

REPRESENTATIVE NEUMAN answered that the fiscal note is a zero fiscal note since the funding would be a loan. He said the DOT&PF has put in a zero fiscal note since the funding would be in a reserve account that would be repaid. In further response

to a question, he agreed the toll fees would provide the repayment and the contractor would receive the availability payment and if insufficient the state would make up the difference.

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MR. FOSTER clarified that the TIFIA program is being administered under MAP-21. The TIFIA program is a continuation of the program, but it contains significant changes. First, the funding would consist of \$17 billion capacity, which equates to 33 percent of the eligible capital costs. The FHWA has indicated most of these projects would fall under 33 percent of capital costs eligible rather than 49 percent. For example, of the \$1 billion, \$333 million would be part of the TIFIA allocation. Thus the TIFIA's \$17 billion in funding would equate to \$55 billion in capital improvement funding. To date, 26 projects have submitted letters of interest, including KABATA, he said. The selection criteria is on a first-come first-served model so if the project meets the criteria, and project is invited to submit an application, the project would basically fall within the TIFIA's funding cycle. As projects are received, the overall TIFIA's capacity is lowered. Again, 26 letters have been submitted, but none of the 26 projects have been invited to submit an application to date. The 26 projects span 17 states, including Alaska, but the overall capacity is \$17 billion. He acknowledged that the KABATA has previously applied merely to stay in the queue and have the U.S.-DOT remain familiar with the project. Even though KABATA has not yet been invited to submit an application, it did not expect to be asked since KABATA has been working on a record of decision and its financial model. However, the project has matured to the point of the record of decision, permits, right-of-way acquisition, and the governor's commitment - through the capital budget - to create the reserve fund. Once the legislation is in place, he offered his belief and confidence that KABATA will be invited to submit an application. He concluded that would be the next process under the letter of interest.

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MR. FOSTER continued. He stated that prior to being asked to submit an application KABATA would seek a Standard and Poor's (S&P) rating on project. In fact, the DOR has done this on KABATA's behalf. He reported the rating for this project is an investment grade rating so it also passes the TIFIA federal loan program test. He reaffirmed that the KAB project would have no

impact on state's credit rating. He summarized that the two tests performed by S&P indicate the project was an investment grade - which is what KABATA needs for TIFIA - plus, under KABATA's worst case scenario will not affect the state's credit rating.

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CHAIR P. WILSON turned the gavel over to Vice Chair Isaacson.

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REPRESENTATIVE KREISS-TOMKINS asked when TIFIA will invite KABATA to submit a loan application.

MR. FOSTER indicated that the U.S.-DOT has indicated that it will not move forward until the commitment from the legislature is in place. Due to timing, KABATA does not want to submit an application until the mechanisms are in place since a 60-day time clock starts. This timeframe includes 30 days to respond to KABATA on the application completeness, and once complete, the U.S.-DOT starts its time clock to make a determination. He emphasized that the KABATA needs to have the reserve account partially funded through the capital budget, the bill needs to be passed, and KABATA already has the S&P rating. Thus as soon as legislation is in place, the KABATA will ask the U.S.-DOT to move their letter of interest into a pre-application state.

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REPRESENTATIVE KREISS-TOMKINS understood that the U.S.-DOT does not want to authorize KABATA a TIFIA loan until the state makes a financial commitment by funding the reserve fund. However, in order for the legislature to conduct its financial due diligence, the state wants assurance of KABATA's financing plan and specifically, whether the TIFIA loan will be in place. Thus one of these two pieces needs to come first. He expressed concern that the state would be financially liable. In other words the state would base its approval on a project that assumes a TIFIA loan, which may or may not be approved.

REPRESENTATIVE NEUMAN answered that KABATA cannot apply for the TIFIA loan until the project exists. This bill would create the [Knik Arm Crossing (KAC)] project. The financing mechanism for the toll revenue is in members' packets. Further, the S&P bond ratings indicate this is a very worthy project, which all shows a lot of credibility for this project exists.

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REPRESENTATIVE KREISS-TOMKINS said the difference between the interest on a TIFIA loan and a General Obligation (GO) bond is significant, which is why this project is really predicated on a TIFIA loan.

MR. FOSTER acknowledged the situation is similar to a chicken and egg situation. He viewed the KABATA's financing as being similar to as pre-qualifying for house loan before someone shops for a house. In this instance, the U.S.-DOT said in its September 25, 2012 letter, "It becomes clear, that the issue is reasonably likely to be resolved favorably in the near future." He interpreted this statement to mean the passage of this language [HB 23], the creation of the reserve fund, and the governor's plan to fund the reserve fund. Keep in mind the reserve fund isn't necessary until the bridge is actually open. In the event that the project is not eligible for a TIFIA loan, KABATA does not have an alternate financial plan. The KABATA would then need to evaluate whether another financial plan is as attractive. He said that TIFIA, in some respects, would be a gift to this project as well as to the multitude of the other 26 projects. He explained the TIFIA structure, such that TIFIA would loan between 33-49 percent of eligible capital project costs. He reiterated the private partner would not make any payment on the loan until the bridge is open. In the initial years, the TIFIA payment structure is very favorable structure since it's a green field project. Additionally, TIFIA and the MAP-21 funds are designed to create new development, new projects, and new infrastructure. Accordingly, TIFIA is so attractive to the private investor that KABATA, on behalf of the state, is doing everything it can to secure the TIFIA loan. He assured members that KABATA is doing everything it can. Even if the reserve fund were to be funded completely, until a contract is signed, the reserve fund is just sitting there. If some place along the road the proposals come in and the criteria can't be met or the availability payment can't be kept under a curve that is manageable, the state does not have any moral obligation nor does the state have a commitment for the reserve fund to be in trust, until the contract is signed, he said.

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REPRESENTATIVE NEUMAN said he views the KABATA project as one which will create 1,500 jobs and \$1 billion in private industry investment. He said he chaired the House Health and Social

Services Standing Committee and the number of people who applied for food stamps has doubled. He offered his belief that \$3 billion capital budgets are gone. He encouraged the committee to consider this project because otherwise what will the future look like without these jobs.

[HB 23 was held over.]

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ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 3:00 p.m.