

ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE

March 12, 2013

1:04 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

COMMITTEE CALENDAR

HOUSE BILL NO. 153

"An Act designating Minnesota Drive and a portion of O'Malley Road in Anchorage the Walter J. Hickel Expressway."

- MOVED CSHB 153(TRA) OUT OF COMMITTEE

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 & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 153

SHORT TITLE: NAMING WALTER J. HICKEL EXPRESSWAY

SPONSOR(S): REPRESENTATIVE(S) LYNN

03/04/13	(H)	READ THE FIRST TIME - REFERRALS
03/04/13	(H)	TRA, FIN
03/12/13	(H)	TRA AT 1:00 PM BARNES 124

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)
03/12/13	(H)	TRA AT 1:00 PM BARNES 124

WITNESS REGISTER

FORREST WOLFE, Staff
Representative Bob Lynn
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 153 on behalf of the sponsor, Representative Bob Lynn.

SCOTT THOMAS, Engineer
Division of Statewide Design & Engineering Services
Department of Transportation & Public Facilities (DOT&PF)
Anchorage, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of HB 153.

REPRESENTATIVE MARK NEUMAN
Alaska State Legislature
Juneau, Alaska

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

STEPHANIE KESSLER
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 23.

LARRY DEVILBISS, Mayor
Matanuska-Susitna Borough (MSB)
Wasilla, Alaska

POSITION STATEMENT: Testified in support of HB 23.

AVES THOMPSON, Executive Director
Alaska Trucking Association (ATA)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 23.

VERNE RUPRIGHT, Mayor
City of Wasilla
Wasilla, Alaska

POSITION STATEMENT: Testified in support of HB 23.

SUZANNE DI PIETRO, Attorney
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of HB 23.

BOB FRENCH
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of HB 23.

LOIS EPSTEIN, Engineer
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 23.

JAMIE KENWORTHY
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of HB 23.

BERNADETTE RUPRIGHT
Wasilla, Alaska

POSITION STATEMENT: Testified in support of HB 23.

JEFF STARK, Assistant Attorney General
Chief, Transportation
Department of Law (DOL)
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of HB 23.

KEVIN HEMENWAY, Chief Executive Officer (CEO)
Knik Arm Bridge and Toll Authority (KABATA)
Department of Transportation & Public Facilities (DOT&PF)
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of HB 23.

ACTION NARRATIVE

[1:04:36 PM](#)

CHAIR PEGGY WILSON called the House Transportation Standing Committee meeting to order at 1:04 p.m. Representatives Gattis, Lynn, Isaacson, and P. Wilson were present at the call to order. Representatives Feige and Kreiss-Tomkins arrived as the meeting was in progress.

[1:04:57 PM](#)

HB 153-NAMING WALTER J. HICKEL EXPRESSWAY

[1:05:15 PM](#)

CHAIR P. WILSON announced that the first order of business would be HOUSE BILL NO. 153, "An Act designating Minnesota Drive and a portion of O'Malley Road in Anchorage the Walter J. Hickel Expressway."

[1:05:35 PM](#)

REPRESENTATIVE BOB LYNN, speaking as the bill sponsor, stated that HB 153 would name a portion of Minnesota Drive in Anchorage the Walter J. Hickel Expressway. He explained that Mr. Hickel was the U.S. Secretary of Interior and was twice governor of Alaska. One of Mr. Hickel's roles was to oversee the permitting process and so it is appropriate to name a portion of Minnesota Drive after Mr. Walter J. Hickel.

[1:06:59 PM](#)

FORREST WOLFE, Staff, Representative Bob Lynn, Alaska State Legislature, stated that it is fitting that this heavily trafficked area of roadway be named after Mr. Walter J. Hickel.

[1:08:37 PM](#)

REPRESENTATIVE ISAACSON asked whether the Municipality of Anchorage (MOA) has a view of this action.

MR. WOLFE answered that in the past the MOA has been in favor of naming the roadway after Mr. Hickel.

REPRESENTATIVE ISAACSON asked whether he was referring to a similar measure last year that died in the Senate Finance committee.

MR. WOLFE agreed, but was unsure of why the bill didn't pass. He deferred to MR. Wickersham.

[1:09:29 PM](#)

SCOTT THOMAS, Traffic Engineer, Department of Transportation & Public Facilities (DOT&PF) stated that O'Malley Road curves around from the Hillside and becomes Minnesota at Old Seward Highway and then at Tudor Road it becomes a six-lane highway. Additionally, the road is partly an expressway 15th Avenue to New Seward Highway. He agreed it is possible to put in signs as per the fiscal note.

[1:11:25 PM](#)

CHAIR P. WILSON asked whether there is any reason not to rename the entire roadway.

REPRESENTATIVE LYNN said not too many personal addresses are on the current Minnesota Drive although 15th Avenue has some businesses and addresses.

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REPRESENTATIVE ISAACSON referred to the fiscal note which requires two signs, one sign in each route direction will introduce the expressway. He related that the fiscal note indicates the memorial sign should be located at an appropriate location in each route direction as an independent sign installation. He interpreted this to mean the bill would not change the roadway name but would memorialize a section of the road.

REPRESENTATIVE LYNN recalled a similar situation in which the Eisenhower Highway or bypass was named, as well. He acknowledged this would be a memorial to Mr. Hickel, but he also thought it would also change the addresses for those residences and businesses on Minnesota Drive.

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REPRESENTATIVE ISAACSON asked whether the "A" street designation is still known as "A" street and not as Eisenhower [Corridor].

REPRESENTATIVE LYNN offered his belief that it is known as the Eisenhower Corridor. He explained that the proposed roadway is

from 15th Street, which turns south and east and becomes O'Malley Drive once it passes Seward Highway.

REPRESENTATIVE ISAACSON stated that the Eisenhower Corridor is still referred to as "A" Street. He asked whether this memorial designation would be known as the Walter Hickel Expressway, but it wouldn't change the name.

REPRESENTATIVE LYNN said he thought it would change the name of the highway.

[1:15:04 PM](#)

CHAIR P. WILSON asked whether it would be easier to rename Minnesota Drive to the Walter J. Hickel Expressway and only change the single designation rather than individual addresses.

REPRESENTATIVE LYNN pointed out that north of 15th Street the roadway would remain as Minnesota Drive.

CHAIR P. WILSON asked whether it would create any problem to change Minnesota Drive to the Walter J. Hickel Expressway.

REPRESENTATIVE LYNN responded that if the committee chose to do so it would be fine with him. He just would like to minimize any cost.

CHAIR P. WILSON thought it would be easier and less expensive [to have the memorial roadway].

SCOTT THOMAS, Engineer, Division of Statewide Design & Engineering Services, Department of Transportation & Public Facilities (DOT&PF), concurred that the fiscal note was calculated for two signs to designate the highway as a memorial name, but not to change all of the street sign names such as the ones on top of stop signs or signal poles. He stated that the cost would be significantly higher to go through the proposed corridor and replace the name of Minnesota Drive on all signs.

CHAIR P. WILSON remarked that Mr. Thomas is confirming Representative Isaacson's view that one sign would be at each end to designate a memorial name; however, the sponsor indicated he wanted to change the entire drive.

REPRESENTATIVE LYNN responded that he is satisfied with the two signs as a memorial.

[1:17:33 PM](#)

REPRESENTATIVE GATTIS recalled she previously served on a team to address this. She further recalled that the team planned to honor former Governor Hickel in a memorial fashion rather than to rename the road. She did not think it was ever the intention to rename the road.

REPRESENTATIVE LYNN deferred to Mr. Wickersham as the resident expert on this.

[1:18:55 PM](#)

CHAIR P. WILSON reiterated that the bill sponsor, Representative Lynn, is fine with the memorial limited to two signs.

REPRESENTATIVE LYNN answered yes.

CHAIR P. WILSON said the fiscal note is correct.

[1:19:29 PM](#)

REPRESENTATIVE ISAACSON understood this would not change residential or business addresses.

REPRESENTATIVE LYNN interjected that he recalled Mr. Wickersham was concerned about the signage, too. He reiterated that keeping costs down was important to him such that it would not exceed \$15,000.

[1:20:08 PM](#)

CHAIR P. WILSON reiterated that two signs according to the fiscal note will be fine as a memorial.

MR. THOMAS understood the signs would be the typical brown [memorial] signs. He compared this to Knik-Goose Bay Road, which has Joe Redington, Sr. Memorial Road signs at the beginning and end, yet residence and business addresses did not change. He brought up a point of clarification. He said it is an honor to put up the signs to each person, but the specific signage phrasing reads expressway. He pointed out some community councils have been concerned about speed. He explained the roadway is a controlled highway through Westchester Lagoon with a median and continues through midtown with driveways and six-lane urban arterials. He was unsure if the title expressway conveys the message of limited speed until

the roadway changes south of Tudor Road. He asked for direction on the signage wording.

[1:21:42 PM](#)

REPRESENTATIVE LYNN, as sponsor, said he would be happy to change it to highway rather than an expressway.

MR. THOMAS said from the department's perspective the sign could read expressway, highway, or roadway.

REPRESENTATIVE GATTIS asked to also consider calling it a parkway.

MR. THOMAS agreed that parkway would also work in terms of sign spacing. He merely thought it might be best if it were different than expressway south of 15th.

CHAIR P. WILSON read, "... Minnesota Drive and the portion of O'Malley Road in Anchorage from Minnesota Drive to the New Seward Highway are designated as the Walter J. Hickel ..." She suggested the committee consider highway, roadway, and parkway.

MR. WOLFE suggested corridor should also be considered.

REPRESENTATIVE LYNN suggested anything other than expressway seemed appropriate.

[1:23:33 PM](#)

REPRESENTATIVE ISAACSON asked whether the department has a differentiation between names.

MR. SCOTT said that parkway or corridor would work, but expressway has an obvious meaning. He referred to similar roadways, such as the Eisenhower Corridor or "A" Street, and Lake Otis Parkway, which is a five-lane arterial. Thus the term parkway and corridor are very flexible terms, as well as highway. In further response to Chair Wilson, he reiterated Lake Otis is a parkway.

REPRESENTATIVE LYNN said he is comfortable with either corridor or parkway.

[1:24:53 PM](#)

REPRESENTATIVE GATTIS moved to adopt Amendment 1, to change the proposed name from Walter J. Hickel Expressway to the Walter J. Hickel Parkway.

CHAIR P. WILSON assumed Amendment 1 would change line 2, 5 and 7 of the bill.

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REPRESENTATIVE GATTIS restated her motion. She made a motion to adopt Amendment 1, which would amend the language of HB 153 on lines 2, 5, and 7, from "Walter J. Hickel Expressway" to read "Walter J. Hickel Parkway."

REPRESENTATIVE FEIGE objected for the purpose of discussion. He said naming a road depends on the part of the country as to the name of a roadway. He suggested that parkways were typically roads on the East Coast and were limited to cars. Expressways were limited-access highways, without numerous streets, although he did not have a preference. He suggested if expressway was used it should be limited to the portion of Minnesota Drive from Tudor Road to Old Seward.

[1:27:35 PM](#)

REPRESENTATIVE GATTIS understood the distinction between highway and expressway, but she wanted to avoid the connotation of high speed.

CHAIR P. WILSON offered her belief that corridor implies speed.

REPRESENTATIVE FEIGE removed his objection. There being no further objection, Conceptual Amendment 1 was adopted.

[1:28:38 PM](#)

REPRESENTATIVE ISAACSON moved to report HB 153, as amended, out of committee with individual recommendations and the accompanying fiscal note. There being no objection the CSHB 153(TRA) was reported from the House Transportation Standing Committee.

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The committee took an at-ease from 1:29 p.m. to 1:30 p.m.

HB 23-KNIK ARM BRIDGE AND TOLL AUTHORITY

[1:30:19 PM](#)

CHAIR P. WILSON announced that the final 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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REPRESENTATIVE MARK NEUMAN, Alaska State Legislature, stated that a project such as this one has its share of people on both sides of the issue. He offered his belief that the decisions need to be based on the most accurate and credible information available. He offered to review some aspects of the Knik Arm Bridge and Toll Authority (KABATA's) credentials and the project's process as it moves forward. He said that KABATA's main financial advisor is Citigroup, one of the largest investment banks doing billions of dollars of finance and underwriting annually. The Nossaman LLP, which is KABATA's law firm has represented the public sector in about 90 percent of the transportation public-private partnerships (P3) in the U.S. CDM Smith [formerly Wilbur Smith Associates], a traffic and control consultant, has about 80 percent of the market share of investment grade traffic in toll revenue studies and has supported \$80 billion in toll road financing over the last fifty years. Standard and Poors (S&P), a Wall Street credit ratings company is one of three nationally recognized statistical rating organizations by the Securities Exchange Commission (SEC). The S&P has provided an investment grade rating on this project, which is considered very favorable.

[1:33:05 PM](#)

REPRESENTATIVE NEUMAN related the short list includes hundreds of companies, which was reduced to three world-class construction teams. The short list for the private partners will each spend over \$10 million to prepare proposals including performing independent due diligence on this project. The short-listed companies will review the traffic, the tolls, and the financing. Thus, this Knik Arm Crossing (KAC) project is being reviewed by numerous world class organizations and if the KAC isn't a viable project it won't happen, but the P3 expenditures demonstrates a positive aspect. He characterized the KAC as a private industry project. He offered his belief that Citigroup is one of the largest and most recognized financial groups in the world. Further, Citigroup and S&P are

both supportive of the project and want to partner with the state, he said. The three short-listed firms are willing to spend \$10 million developing proposals. Citigroup and S&P's ratings are good indicators on the viability of the project, he said. Granted, some people won't like the project in their neighborhood; however, sometimes decisions have to be made based on the benefits to the majority of the people. Over 30,000 residents of the Matanuska-Susitna valley travel to Anchorage on the Glenn Highway, which is over-capacity now. It would cost over \$4 billion to bring that road up to capacity. The P3 partnership wants to invest in a project that can reduce the need for Glenn Highway expenditures considerably, as well as reducing frequency of rut-rehabilitation, which would also reduce state funding. He listed other benefits to the KAC, including that it will save lives - noting he provided the committee with information on accident rates and road safety. Further, this project can open opportunities for investment at a time when the state has struggled with oil revenues. Additionally, the Eagle River bridge is older bridges and the KAC could provide safety if an earthquake were to occur. If it became necessary to fly freight to the Interior it would increase operating expenditures. He concluded that the aforementioned reasons demonstrate how the KAC can help secure Alaska's interests and why the project has statewide support.

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REPRESENTATIVE ISAACSON said he supports this project for a number of reasons, including redundancy and reduction in freight costs to Interior Alaska; however, the legislature will hear testimony with respect to the cost projections for the bridge in the amount of \$2.6 billion. He asked how the project will be evaluated by the Finance Committee and if specific calculations will be applied.

REPRESENTATIVE NEUMAN answered that the House Finance Committee will review the project as a whole, as well as the financial aspects carefully, including any obligations to the state. Currently the bill has a zero fiscal note. Any evaluations on HB 23 have been based on the worst case scenario. Additionally, the private sector is also reviewing the financials so if the KAC doesn't pass muster the project will not happen. He said he has viewed this project as a means of finding new revenue sources for the state. He mentioned the state's deficit, but recognized that the state will need to fund transportation, whether it is the ferry system, the Dalton Highway, airports, or railroads and this project [could generate revenue] to go

towards a proposed transportation fund without using general fund revenues.

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REPRESENTATIVE NEUMAN, in response to a question, said he is a member of KABATA, but KABATA's experts are available to answer any questions. He spoke to the credibility of the people working on the project.

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REPRESENTATIVE ISAACSON understood that the KAC project contains private investment oversight so the state will not incur a deficit and obligation.

REPRESENTATIVE NEUMAN referred to data collection and related the bridge should begin to make money and start repayment to the reserve fund within 7-8 years. This bill has a zero fiscal note and does not contain any obligation, but would create a mechanism to move forward to create the public-private partnership, he said.

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CHAIR P. WILSON understood Governor Parnell has put in funds in the proposed FY 14 capital budget and asked for the proposed appropriation amount.

REPRESENTATIVE NEUMAN responded the governor's proposal is for \$25 million, with an additional \$35 million for each of the next four years for a total of \$150 for the reserve fund. Again, the reserve fund is a loan that will be repaid to the state, will be used to make annuity payments, and any excess revenue will be used to repay the reserve fund.

CHAIR P. WILSON asked about the guidelines that the U.S.-DOT will use with respect to the TIFIA loans.

[1:46:13 PM](#)

MICHAEL FOSTER, Chair, Knik Arm Bridge and Toll Authority (KABATA), Department of Transportation & Public Facilities (DOT&PF), stated that under Moving Ahead for Progress in the 21st Century Act (MAP-21), the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) program has a capacity of \$17 billion, which equates to \$51.5 billion under a

33 percent eligibility model. Currently, 29 projects are on the list for proposed federal TIFIA funding.

CHAIR P. WILSON asked for clarification.

MR. FOSTER answered that TIFIA has both mechanisms in it: to fund projects at either 33 percent or 49 percent of the total funding. He understood that 29 projects are interested in the \$51.5 billion in TIFIA funding, with at least one likely to be funded at 33 percent. Initially, an option existed for 49 percent funding and subsequently KABATA submitted a letter of interest at 49 percent; however the KABATA's model has been based on 33 percent overall funding. The KABATA believes that the TIFIA loans will likely be at 33 percent, which is consistent with the prior TIFIA model. Thus, KABATA's letter of interest was to express interest in approximately \$500 million of TIFIA credit-enhancement, but KABATA's model is built on 33 percent or \$350 million, based on the total anticipated capital outlay for the project which totals \$1 billion.

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CHAIR P. WILSON asked what would happen if the TIFIA loan is not approved.

MR. FOSTER answered that the KAC's funding mechanism is the private partner's responsibility since the private partner is responsible for funding the project. The private partner may decide not to use TIFIA; however, that is highly unlikely if the funding is available. Other funding options available to the private partner would be private activity bonds (PABs) - noting \$600 million is the capacity. This bill actually would raise the legislative capacity from \$500 million to \$600 million, he said. Additionally, the private partner would have private investment options available, including private capital funds available elsewhere in the world. Certainly, TIFIA is the most attractive option due to the lenient repayment schedule and the delay in the first payment. However, there is not any guarantee that the TIFIA loan will be approved. He anticipated, based on the letter in members' packets, meetings with the U.S.-DOT Under Secretary LaHood, and the major project team that this project is ripe and is a prime project for this type of program. However, the U.S.-DOT wants to see the state's commitment demonstrated before the public-private partnership (P3) funding will move forward. To date, the KABATA has not been invited to submit an application for the TIFIA loan. In fact, none of the 29 projects pending in 17 states are in the pre-application

process, but all have submitted letters of interest. Further, if TIFIA asked the state to submit an application, it would not do so immediately since a specific timeframe is involved and the timing is important. The KABATA needs to have certain things in place prior to submitting an application to ensure everything is in place. However, the passage of HB 23 would allow KABATA to move forward and KABATA anticipates being invited to apply once the request for proposal (RFP) is completed. Again, if the TIFIA loan is not approved, \$600 million in private activity bonds (PAB) would be another option for the private partner to consider, he stated.

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MR. FOSTER reiterated the state would not be underwriting a loan or be obligated for the underwriting of the loan or bonds; instead, the state would be a conduit for both. He reported the TIFIA loan with an approximate 3 percent interest rate and the PAB's interest rate at 5 percent. Obviously, the TIFIA loan is preferable, although the PABs are still attractive. He estimated the difference between the two loans would be about \$100 million.. He anticipated KABATA would expect to see reduced proposals if the TIFIA funds are available, but if TIFIA loans are not approved at that point KABATA will need to review the model with respect to the affordability curve. He emphasized the importance of avoiding payments in the initial years that the state cannot afford until the traffic ramps up. He characterized it as being a curved financial fee structure. Again, the PABs and other international private financing could be considered. He reiterated that the financing choices are up to the private partner, although KABATA will provide credit enhancement. He recapped the financing preference order as being TIFIA, PABs, and finally private financing.

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REPRESENTATIVE KREISS-TOMKINS understood that depending on whether KABATA obtains TIFIA financing the financial liability would not rest with the state, but the state would act as a conduit for the financing. He asked whether any increased costs of financing would inflate the size of the state's contract.

MR. FOSTER answered that the state has financial liability for the availability payment, but not the financing of the project. He reiterated that the state or KABATA will be responsible for making the availability payments. The model KABATA presented in its overview and discussed at the last committee meeting is

based on a 33 percent TIFIA allocation. If PABs are used the estimate would add an additional \$100 million, which would also increase the availability payment. He anticipated the impact to the state would be to increase the reserve fund requirements in the range of \$150-\$225 million. However, the state has an option to make a milestone payment in the beginning, which would be to provide capital budget funding to Title 23 to pay down the interest difference between the interest on the TIFIA loan and the PABs. The state would have some options to neutralize the additional cost or pass it on and pick it up in future availability payments.

[1:56:09 PM](#)

CHAIR P. WILSON pointed out that the focus of the House Transportation Committee is on the public policy and whether this project is good for the state rather than to focus on the financing. The finance committee will thoroughly consider the financial aspects of the proposed project. Again, this committee will consider whether this project is good for the state, she said.

[1:57:29 PM](#)

REPRESENTATIVE KREISS-TOMKINS said he loves infrastructure, but expressed concerned about financial obligations of the state. He said the financing is an obligation of the private partner, but this financing is a back door way of flipping the obligation to the state. In the event that financing costs for the project increase, the costs would be reflected in the form of higher availability payment for the state.

CHAIR P. WILSON remarked this aspect is in the back of our minds. She appreciated the comments.

[1:58:49 PM](#)

REPRESENTATIVE FEIGE characterized the availability payment as a 35-year mortgage. He asked if at some point it would be more advantageous to take money out of savings to pay the KAC off and if so, whether the legislature or KABATA would make the decision.

MR. FOSTER responded that the contract contains a provision to terminate for convenience, which allows the state to pay the contract off, similar to a home mortgage. He offered his belief that the KABATA board, the administration, and the legislature

would weigh in on any decision since the KAC is a state infrastructure project. The actual passage or rules would be through the KABATA board, noting the KABATA board is comprised of the commissioners from the Department of Revenue and the DOT&PF, along with three individuals appointed by the governor.

[2:00:43 PM](#)

REPRESENTATIVE FEIGE asked what would happen if the legislature wants to pay the KAC debt off but KABATA objects.

MR. FOSTER answered that if the legislature wanted to pay for the bridge today that KABATA would support it. Further, he was unsure of any reason KABATA or the administration would object to payment, noting the mechanism [to pay the project in full] is in place.

[2:01:15 PM](#)

STEPHANIE KESSLER asked members to vote against HB 23. She said that the revenue estimates are based on fallacious information developed by Wilbur Smith Associates [now CDM Smith]. She understood Representative Neuman commended the firm's track record, but offered her belief that Wilbur Smith Associates (WSA) [now CDM Smith] has a nationally documented track record of overestimating toll revenues by 118 percent. Specifically, WSA's estimates for the Matanuska-Susitna population in 2035, which were used for the Knik Arm Crossing (KAC) "financials" are 20 percent higher than the University of Alaska's Institute of Social and Economic Research (ISER) and the Department of Labor (DLWD). Further, the WSA's traffic counts are more than double CH2M Hill's estimates. She offered her belief that CH2M Hill is a respected engineering organization and the firm also used ISER's numbers. The WSA also shows a massive retail space in the Point Mackenzie area that is more than two and one-half times the size of the current Anchorage Dimond Center. The Matanuska-Susitna Borough's (MSB) master plan designates the Point MacKenzie area as reserved for industrial use by coal and timber loading. Additionally, KABATA estimates that in 2035, 13,282 jobs will be in the Point MacKenzie area. She wondered how this compares with reality since currently the entire Matanuska-Susitna area only has 14,000 jobs, the Kenai-Peninsula Borough (KPB) has 13,000 jobs, Juneau has 10,000 jobs, and downtown Anchorage has 18,000 jobs. Thus it seems a stretch to estimate that the Matanuska-Susitna and Knik area will have 13,282 jobs. She concluded that the toll revenue estimates are based on inflated numbers and without [sufficient] tolls it will

cost the state billions of dollars, in fact, \$2.6 billion or more. She urged members to vote against HB 23 since the financial underpinning is a house of cards.

2:04:59 PM

REPRESENTATIVE LYNN asked whether Ms. Kessler is opposed to the bridge just based solely on the supposed inaccuracy of the traffic counts. He asked whether she would offer support for the KAC if she thought the population and traffic counts were accurate.

MS. KESSLER answered that she chose to highlight only one of her concerns in today's testimony; however, there are many, many flaws. She suggested a long conversation could be held on the funding structure of the bridge. She recalled the sponsor mentioned that private industry was investing \$1 billion dollars in the project; however, the fact is the P3 will only invest \$73 million towards the total \$1 billion in bridge costs. The remainder of the funding would come from government funding and PABs, with half of the proposed funding based on a TIFIA loan that has been turned down five times. She concluded that the entire financial structure of this project is questionable.

2:06:18 PM

LARRY DEVILBISS, Mayor, stated that all the mayors in the MSB support the project. The Alaska Municipal League's (AML) Conference of Mayors voted to support this project since the organization views this project as being significant to the rest of the state. He said, "This isn't just about Anchorage and the Matanuska-Susitna area." Additionally, since this project started two town sites have subsequently been laid out: one township located at the road site has been surveyed and monument and the other townsite lie within ten minutes of the end of the right-of-way of the project. The project's economic importance to the MSB is second only to the rail extension. The KAC project will serve the remainder of the MSB. Further, 47 percent of the Kenai Peninsula Borough (KPB) is located on this side of Cook Inlet and the KPB is keen on opening up these natural resources. He also said, "So I won't take your time - I have looked into - we've heard some of the wild allegations like we just heard about the TIFIA letter being turned down numerous times. I was alarmed when I heard that and I think Mr. Foster can clarify the record on that - that's simply not true." He appreciated the legislature's efforts and anything that could be done to remove the gridlock.

2:09:28 PM

AVES THOMPSON, Executive Director, Alaska Trucking Association (ATA), stated that the ATA is a statewide organization representing the interests of its nearly 200 member companies from Barrow to Ketchikan. The ATA would like to go on record that it stands firmly behind the KAC project and any need legislation to move the project forward. The ATA believes that the bridge will provide a vital new link in the state's regional transportation system. First, would provide an additional route into and out of Port of Anchorage. Second, it would provide some congestion relief on the Glenn Highway as well as the Parks Highway. Finally, it will set up an efficient freight corridor to serve Interior Alaska and northern Alaska. He reiterated that the ATA is in support of this project.

2:11:17 PM

VERNE RUPRIGHT, Mayor, City of Wasilla, stated that the City of Wasilla has been involved with this issue for a long time. The four mayors in the Matanuska-Susitna city and borough concur with Mayor DeVilbiss's assessment. In 2009, the City of Wasilla and the City of Houston brought injunctive relief against Anchorage's Metropolitan Area Transportation Solutions (AMATS) to prevent this project from being stalled. Since then the project has been moving forward. He pointed out that a significant number of the commuters travel on the Parks Highway through the middle of the city. He reported that it is approximately equidistant from the KAC to Wasilla as it is to use the Glenn Highway. Thus having two accesses would make it a lot easier for commuters to and from Anchorage to access the Matanuska-Susitna area. While he understood the disruption issues for neighborhoods, all of us have had to modify and accommodate changes in growth, just as Wasilla had done over the past couple decades. He suggested this project would allow for greater potential for growth in the MSB area and Interior Alaska. He related he has held numerous discussions about this project at AML conferences. This route, [the KAC], is a strategic route for the U.S. as well as Alaska. He offered his belief that another route out of Anchorage is long overdue. He stated that the mayors are mindful of the growth and must accommodate. In closing, he urged members to pass HB 23.

2:14:21 PM

SUZANNE DI PIETRO, Attorney, said she has followed this project especially with respect to the legal issues. She asked to speak to a specific provision in HB 23. She highlighted her focus has been the reserve account established under the bill. She emphasized that the authority established in the account is different than any other authority in Alaska. More specifically, the reserve fund established in Sections 4 and 5 create an account KABATA will use to pay its legal obligation - the availability payments - to the private partner. She said the open nature of the reserve fund is unprecedented.

MS. DI PIETRO referred to page 4, lines 5-9 to paragraph (1), which read, "(1)The chair of the board shall annually, not later than December 1, certify in writing to the governor and the legislature the amount, if any, required to restore a reserve fund established in (h), of this section to the reserve fund requirement." She emphasized the importance of this language. She has researched it and found this language is recognized by markets and rating agencies as creating something referred to as "a moral obligation." She said a moral obligation is an understanding between state government, the markets, and the rating agencies, such that if the revenues in the fund are insufficient to cover whatever liability is being paid from the account, the state government will step in and appropriate to the reserve fund. Thus this language is understood by the markets to create a contingent liability to the state up to the amount necessary to cover the reserve fund. She explained the reserve fund in HB 23 is open ended so each year KABATA will ask the state to appropriate to the fund. Thus the markets and rating agencies understand the legislature in passing this specific language has pledged to appropriate whatever is necessary.

MS. DI PIETRO offered that KABATA could create a reserve fund and put the \$10 million in the governor's budget in the fund, or deposit \$100 million. However, the danger and difficulty with the language in HB 23 is the specific open-ended language, which is not necessary to this project. She related that the DOR's Commissioner Butcher has written a letter, which she could make available if it is not in members' packets, and she urged members to read it. In response to a question by Representative Feige, Ms. Di Pietro said she is an attorney.

[2:18:47 PM](#)

BOB FRENCH stated that he has been analyzing the financial assumptions of the proposed Knik Arm Crossing (KAC) since 2003.

He asked to address some statements made that were errors. He recalled that Representative Neuman previously discussed the reliability of the toll revenue forecast; however, he pointed out the forecast is irrelevant if the shortfalls will be made up by the state. No matter what toll revenues are generated, the availability payment is guaranteed, he said. Representative Neuman also spoke about the private partner's investment of \$1 billion for the project. Instead, under the bill, the private partner would receive a \$1 billion loan with state as a cosigner on the loan. In fact, KABATA's pro formas say the P3 partner will put in \$72.7 million. Representative Neuman also talked about investment grade ratings; however, the ratings are based entirely on the good credit rating of Alaska. Additionally, the sponsor spoke about the need to improve the Eagle River bridges and based on the money already spent on the project by KABATA, the state could have upgraded the bridges to current earthquake standards and also change them to three lanes each way, which could reduce the critical bottleneck on the Glenn Highway. Further, Representative Neuman and the ATA discussed reducing the freight cost to Fairbanks, but according to a letter from the commissioner of DOT&PF in order for the bridge to be a faster link to Fairbanks, the legislature would need to spend at least \$95 million to build the Burma Road and the South Big Lake Road.

MR. FRENCH, with respect to the zero fiscal note, said the caveat on it reads, "The Knik Arm Bridge and Toll Authority's budget will not be affected by the development of the project as long as projections for ridership on the bridge and related financial solvency are fulfilled." He emphasized, "as long as the projection are true." He related Mayor DeVilbiss is correct that the project would have a statewide effect. In fact, if a \$55 million to \$98 million per year deficit occurs, it will affect transportation projects statewide, he said. He was glad to hear Mr. Foster say the reserve fund will need more than \$250 million if the [private partner] needs to go to PABs. He encouraged members not to pass these bills until the independent reviews from the Department of Revenue (DOR) and the Legislative [Audit Division's] audit are completed since both audits were tasked to see if KABATA's assumptions were reasonable. In the current form these bills would add tremendously to the risk of the state and will cost billions of dollars when the state finds KABATA's assumptions are not true.

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REPRESENTATIVE KREISS-TOMKINS asked him to identify the audits he just mentioned.

MR. FRENCH responded that the LB&A audit [requested] is one of two audits requested. He offered his belief that the draft legislative audit is completed, but KABATA has been given time to review it. He understood the final audit might be out by the end of March. Additionally, the DOR's audit was put out for a bid in December, but was recently canceled by the DOR. He concluded that the independent audit may not be available this year.

CHAIR P. WILSON reported that the LB&A Committee indicated the legislative audit will be out in about 30 days. She anticipated the LB&A's audit will be available for the legislature to consider.

[2:23:17 PM](#)

LOIS EPSTEIN, Engineer, stated she serves on the Anchorage Metropolitan Area Transportation Solutions (AMATS) technical advisory committee; however she is speaking on behalf of herself today. She said that the KAC is not ready for construction nor is it a financially sound investment. The KABATA expects to get a low cost federal loan for \$500 million - a TIFIA loan - however, KABATA has been turned down five times, which is accurate despite Mayor DeVilBiss's comments, respectfully. She said there would be an enormous hole in KABATA's budget, as mentioned today - an extra \$100 million, at least. She indicated the proposed toll is among the highest in the country so many people would likely take the Glenn Highway to and from Anchorage. Additionally, KABATA's toll revenue forecasts are based on the consultant's projections, CDM Smith, formerly Wilbur Smith Associates, whose projection of population growth in the Matanuska-Susitna area is far greater than the DLWD and UA ISER's population projections. To make matters worse, the consultant's projections put almost all future growth on the western part of the MSB and not in the Wasilla or Palmer area, which knowledgeable experts believe is unrealistic. Unfortunately the state's audit of bridge toll revenue was cancelled, as just mentioned. According to the paper in members' packets entitled, "The Real Cost of the Knik Arm Bridge" substantial costs to the state are unaccounted for by KABATA. She urged legislators to ascertain how much the project will cost the state on an annual basis prior to approving these bills. She cautioned that inadequate traffic projections resulted in more than \$2 million annually as a subsidy for the

Whittier Tunnel, which is a much smaller toll project. Please do not support HB 23, which would create a state guarantee to private investors when inadequate toll revenue to cover bridge costs arises. She concluded that the KAC bridge project is not a fiscally conservative investment, which would harm the rest of Anchorage and Matanuska-Susitna area. She urged members not to pass HB 23 out of committee.

[2:25:40 PM](#)

JAMIE KENWORTHY asked to comment on KABATA's financial plan. He said if HB 23 passes it really won't matter how much toll revenue is collected and whether the federal government ever funds the project. This is since the language, referring to the Sections [4 and 5] [to AS 19.75.221(h) (1)] of the bill, contains a "must" before the language and a "shall" after it. He indicated this [language] represents more than a moral obligation for the bond since this bill would guarantee administrative costs. In fact, the key [obligation] would be the guarantee of the annual availability payment. He emphasized the legislature's focus should be on the guarantee this bill will give to the availability payments. He said that KABATA estimates the availability payments at \$2.7 million - this time - without the \$500 million TIFIA loan. The financial statements prepared by Citigroup included revenue based on a four-lane [bridge]; however, the [financial statement] is only based on the construction cost of two lanes [of the bridge]. He offered his belief the project would cost a minimum of \$2.6 billion, which is \$3,500 per Alaskan.

MR. KENWORTHY questioned the necessity of the complicated P3 structure. He pointed out that the developer is only investing \$72 million in equity - per KABATA's sheet - but will be taking out \$737 million in net cash flow. As an aside, he suggested that KABATA has overestimated this amount, which he estimated would be closer to ten percent or \$150 million less, which is represented in his \$2.6 billion figure. Under the bill, the [legislature] would guarantee the contract so when toll shortfalls arise the legislature must annually choose to fund the availability payment contract or adversely affect the state's credit rating. He said he has read the proposed draft agreement for the proposed contractors. He offered his belief that the contract assures the contractor - who will have won a \$1 billion bid to build the bridge - has imbedded in its availability contract a guarantee of all the payments based on a 10-12 percent annual return on investment. This is without even considering the impact of litigation for damages since the

contractor will expect construction costs and a call on their financing profits when a dispute arises. This leads to the basic question, which is the difference between the interest rates on funds the state can borrow and the profits the private partner will receive under the contractual agreement. More specifically, he predicted the state can currently borrow at less than 4 percent interest on long-term investments. However, per KABATA's estimate, which is based on the Citigroup financial statement, the contractor will earn 12 percent compounded annually over 35 years. He concluded that the difference between the \$72 million of equity investment and the \$737 million of net cash flow out is \$500 million. He questioned the reason that the project has chosen a structure, which would allow \$500 million of state funds through the guaranteed [availability payment] to be sent out of state. He concluded that the only answer [for this structure] is that the form of the P3 structure allows KABATA to say the bridge is free and further will allow the project to bypass the capital [improvement] project process that allows the legislature an opportunity to review project costs, determine if the state can afford the project, and make choices [on whether to proceed.]

[2:30:11 PM](#)

MR. KENWORTHY said he has a cabinet of KABATA's pro forma financial statements. The statements all arrive at the minimum bond cover ratio, which is 1.25 to 1.4, depending on the year. This basically indicates that KABATA will have about \$1.30 to pay \$1 worth of costs, he said. However, he offered his belief that these statements have all been reverse engineered. In other words, [KABATA] takes the bond cover ratio, plugs in the proposed TIFIA loan, and subsequently creates the traffic and tolls necessary to arrive at the bond cover ratio. He referred to last year's pro forma financial statement. This statement was based on a \$300 million TIFIA loan and had \$600 less in cumulative toll revenue to 2051 than this year's pro forma financial statement, which is based a \$500 million [TIFIA] loan. He cautioned when the toll estimates move \$600 million in one year the [legislature] should be Leary, especially since this bill will guarantee the availability payment. In summary, he offered his belief that this [project] is a house of cards. It's a house of cards since the private sector doesn't want to take the risk and the toll forecast firm isn't taking the risk. In fact, the [toll revenue forecasting] firm's disclaimer indicates the forecast can't be used in any financial offering. This [KAC project] is only held up by the guarantee in this bill. He asked members to carefully examine [proposed AS

19.75.221 - Section 4 of HB 23] and whether the [legislature] wants to sign up for the full liability.

2:32:23 PM

REPRESENTATIVE FEIGE asked whether he was referring to page 2, Section 4, line 24.

MR. KENWORTHY agreed to the reference. He clarified that this language refers to the reserve fund. He pointed out that he has conferred with a bond counselor. In fact, there are probably two reserve funds: one for the bonds and a second reserve fund for the de facto state guarantee, which covers administration, overhead, or working capital. He wondered what limit KABATA would indicate as the amount of working capital it would need since [the bill requires] the KABATA to annually certify KABATA's cash needs and ask the legislature for the reserve fund to be replenished. Specifically, he cautioned that last year's TIFIA application, which was also rejected, had a footnote which indicated that whenever the reserve fund drops below \$50 million, KABATA would ask the legislature to refund it. Of course, if you ask any bond counselor, these are the magic words of a moral obligation and there is not any limit to it, he said.

2:34:00 PM

BERNADETTE RUPRIGHT said she is married to Mayor Verne Rupright, City of Wasilla, but she has previously worked as a surveyor and has worked in the field of transportation. She spoke in support of HB 23, due to the earlier testimony that highlighted the safety issues, access, and growth aspects. She also recalled earlier testimony given in opposition to the bill based on toll and population projections. She commented that studies are normally performed on projects since these projections are done to provide companies with information since companies want to move in areas in which they perceive growth.

MS. RUPRIGHT said she would like the growth in the Matanuska-Susitna area to be 18,000 jobs. Additionally, she would like Anchorage and the Matanuska-Susitna valley to grow, too, since this will be an indicator that the state's economy is strong and people are living well. She predicted this project will bring money to the economy on the front end and in the long term. She urged members to please move HB 23 along and let the finance committee consider the bill. She suggested that everyone would like to see the state invest a finite amount into the project.

2:36:21 PM

MR. FOSTER deferred some questions to the Department of Law (DOL) and to KABATA's Chief financial officer. In response to recurring comments that KABATA has applied for and been turned down five times by TIFIA, he responded that KABATA has submitted letters of interest to indicate an interest in the TIFIA program. At the time these letters have been submitted, KABATA has been fairly certain that it was unlikely the TIFIA loans would be granted or that KABATA would be asked to apply for the loan. He clarified that the process is that a letter of interest is submitted and are asked to submit an application. He explained that KABATA has been vetting the process for the past five applications, and has met with the U.S.-Department of Transportation (U.S.-DOT) Secretary LaHood in Washington D.C. about the project. He suggested by submitting the letter of interest to the Federal Highway Administration will keep them involved and engaged. He recalled that two weeks ago FHWA staff attended a hearing, which shows their interest in this project. Additionally, he met with in June he met with the Under Secretary [LaHood] and requested a letter to better understand what KABATA would need to be invited [to submit a letter of interest.] At that time he responded the project is a good project and is ready and he sent the aforementioned letter in response. As far as the timing, he offered his belief that this is the year for TIFIA. The project has not been turned down five times. Instead, the KABATA has submitted letters of interest and have not been asked to make an application; however, the KABATA had not expected to be asked to make an application. This year, KABATA submitted a letter of interest and KABATA hopes to be asked to apply, which would be the first "true" effort at the TIFIA program. He asked to defer to the Department of Law to discuss the moral obligation aspect.

2:39:27 PM

JEFF STARK, Assistant Attorney General, Chief, Transportation, Department of Law (DOL), stated that the discussion on has language, in proposed Section 4, AS 19.75.221, that creates a reserve fund and requires KABATA to request replenishment for the fund when it is depleted. That language is intentionally in the bill, he said. He explained that basically a legislature cannot bind future legislatures by creating an obligation that future legislatures must fund. This creates issues in credit markets since it's difficult for anyone do business with the state without a guarantee of payment. Thus the moral obligation is an accommodation that is worked out in financial markets,

which signals the state does intend to fund the obligations going forward. By sending this signal, the financial markets can rely upon the fact that funding will be available, which therefore reduces the risks and the costs. In fact, this is the reason the provision is in the bill, which is to reduce the overall cost of the project.

[2:41:28 PM](#)

MR. STARK said prior to 2008, the [KABATA] transaction could be structured very differently and the developer would have gladly taken on the revenue or toll risk. However, after the big financial meltdown that is simply no longer an option for a project such as this, without a proven record. Thus in order for this [KAC] project to work, there must be a back stop to the toll revenues, which is why the moral obligation language is in bill. It makes the project feasible and will lower the overall cost to the state; however, from a legal standpoint, "Does legislature have to fund it in the future?" He answered no. He acknowledged that one could not assume there won't be any toll revenues. However, if toll revenues don't meet the expectation, some obligation exists to continue to make the appropriations to fund the project, but there is a limit to the appropriations, which will be in the request for proposal (RFP). He explained that the RFP will have an affordability curve that will limit the amount of those payments and if proposals don't come in within the affordability curve they will be rejected. If none of the proposals comes in within the affordability curve, there will be no project, he said. He recalled Representative Feige asked whether the state could cut off the project and the answer is yes; that the state could do so. He stated that KABATA will always have the power to terminate for convenience. He indicated that figure has been analyzed and if it were to happen at the absolute worst time, the cost to terminate for convenience would be \$1.4 billion.

[2:44:19 PM](#)

CHAIR P. WILSON asked if the state terminates the project, whether it would affect the state's credit rating. He acknowledged that if the legislature passes [HB 23 containing] the moral obligation and did not make the appropriation to replenish the reverse fund would impact the state's credit rating. He deferred to the Department of Revenue to more fully answer; however, he agreed it would have an adverse effect on the state.

[2:44:58 PM](#)

REPRESENTATIVE KREISS-TOMKINS said it seems a little bit of a ruse to indicate the state could choose to stop payment since it seems as though the state would either have to pay or would sacrifice its credit rating.

MR. STARK clarified that the state could terminate from a legal standpoint. He maintained that the point of the moral obligation is that the state would decide that this is a project it wants to undertake and it will fund going into the future.

MR. FOSTER interjected that the asset will belong to the state. He said the state needs to ask the fundamental question, which is if an investor or private partner is investing and building whether the state owes it to them to make the payments. In terms of determining the convenient clause is to allow the state an option to buy out the contract. He pointed out the worst case point would be after the four-lane upgrade to the bridge, with a 95 percent probability of not making the base traffic count, 33 percent TIFIA, and if that were to happen it would cost \$1.14 billion to exit the contract.

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REPRESENTATIVE FEIGE said the bridge is one thing and he understood the desire to finance the project. If the state were to take money from savings and write a check to build the bridge it would cost significantly less, but the state would also take on the risk of construction. However, the bridge is only one part of the transportation system. While Representative Neuman outlined benefits and time savings of getting trucks to Fairbanks, it presupposes that one can drive directly to Willow. Currently, a road to Willow to connect to the KAB doesn't exist. Although a rail line exists and it is possible to build a road, perhaps along the rail line, the costs to build a road and the supporting infrastructure to get vehicles to the west end of the KAC is not known.

MR. FOSTER responded that under KABATA, the financial model includes the 14,000 crossing, the A/C Coupler improvements, the Ingra-Gambell connection, which is basically 18 miles of road. He reported the DOT&PF has two studies in progress; one is for the north access and a right-of-way assessment to connect to Beluga roads. The second study will consider the northbound from Parks Highway to Big Lake. He related that on a scale of comparisons, the growth in the Matanuska-Susitna Borough - no

matter whether it is KABATA's model, ISER's model, or the DLWD's model, the KABATA model differs by only a few percent once the 2010 Census correction is made. In fact, the MSB is growing so the infrastructure and amount of STIP is already occurring. The state is building expansion for growth. He didn't think it mattered whether the growth is at Point MacKenzie upgrades to Knik-Goose Bay road or from the Big Lake connection north since the state is already paying for that infrastructure. In fact, this bridge would defer the Glenn and Parks Highway expansion, which in 2008 was estimated at \$3 billion. He reiterated that KABATA has not looked at area outside the scope of the project, but the DOT&PF has been conducting some planning studies.

[2:49:56 PM](#)

REPRESENTATIVE FEIGE asked how much the expansions will cost.

MR. FOSTER answered that he did not have the information with him, but offered to follow up with Mr. Ottesen and present it to the committee.

[2:50:17 PM](#)

REPRESENTATIVE FEIGE expressed his concern about the Wilbur Smith reported population figures. He said the projections ranged from 135,000-200,000, which leads him to question the ability to predict the future population growth. He remarked that he has not seen anything in the past three years with respect to the Wilbur Smith report that would identify where the population growth will occur. He asked for a copy of the entire report to make his own determination from the raw data.

MR. FOSTER offered to provide this to the committee.

The committee took an at-ease from 2:51 p.m. to 2:53 p.m.

[2:53:00 PM](#)

CHAIR P. WILSON referred to an earlier concern that the projected costs were based on traffic for four lanes of bridge, but the costs only considered the cost to construct two lanes. She asked for an explanation.

[2:54:16 PM](#)

KEVIN HEMENWAY, Chief Executive Officer (CEO), Knik Arm Bridge and Toll Authority (KABATA) Department of Transportation &

Public Facilities (DOT&PF), pointed out that the base case financial models is based on 33 percent TIFIA and building the capacity improvements and project extensions when the traffic and revenue consultants believe they will need to be done to maintain a level of service of C or better. Depending on the type of road, such as bridge with no on-off ramps, wide shoulders, 70 mile per hour geometry can carry a lot of through traffic versus a road with on and off ramps or even at-grade intersections. Thus all of these things affect the calculations. He said he is not a traffic and revenue consultant, which is why the experts are hired. However, in the financial models, the points in time indicate when the construction needs to occur to maintain a C or higher level of service, which he characterized as a high level of service. He said that means traffic flows freely. Further, in the base case model upgrades to the Point MacKenzie Road section and the project extensions to bring a second connection to Ingra-Gamble are planned for 2025.

MR. HEMENWAY said the sections on roadway behind the Port of Anchorage will be built to a four-lane foundation up front, but the lanes would be added in 2030 to meet the level of service of C in the base-case financial model. However, if traffic develops faster, these improvements would be built sooner, but if traffic develops slower the projects could be deferred since these are not contractually committed to upfront. Thus the project has maintained considerable flexibility in the way the transaction is structured; however, the financial models do take those into account as well as considering a range of potential traffic and revenue outcomes outlined analyzed through Monte Carlo simulations that KABATA will discuss with the finance committee. In response to Chair Wilson, Mr. Hemenway said it is KABATA's responsibility as agents of the state to look at the total life-cycle cost of owning this project, but the contractual commitment up front is just for the facility for the two-lanes with methods to add in the additional lanes later, at KABATA's option, but it is not contractually committed.

CHAIR P. WILSON reiterated she wanted to be sure the House Finance Committee is aware of the amount requested for the next ten years; however down the line this is the potential return.

MR. FOSTER related that information from last year's testimony Jeff Ottesen Department of Transportation & Public Facilities (DOT&PF) reported that Anchorage would need about \$69 million for upgrades in Anchorage related to the KAC; and the Matanuska-Susitna Borough would need approximately \$20 million until 2035

for the road improvements. These figures do not consider the FHWA funding as part of the project, that it would be the state match.

[2:59:01 PM](#)

REPRESENTATIVE FEIGE asked what category of road this would be for the state.

MR. FOSTER answered that he only reported the dollar amounts that DOT&PF reported in terms of the highway funding, but he was unsure which connectors would be funded that connect to the KAB project boundaries.

[HB 23 was held over.]

[3:00:15 PM](#)

ADJOURNMENT

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