

SENATE FINANCE COMMITTEE

April 2, 2013

9:05 a.m.

[9:05:57 AM](#)

CALL TO ORDER

Co-Chair Meyer called the Senate Finance Committee meeting to order at 9:05 a.m.

MEMBERS PRESENT

Senator Pete Kelly, Co-Chair
Senator Kevin Meyer, Co-Chair
Senator Anna Fairclough, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Lyman Hoffman
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Joe Balash, Deputy Commissioner, Department of Natural Resources; Daniel Sullivan, Commissioner, Department of Natural Resources; William Barron, Director, Division of Oil and Gas, Department of Natural Resources; James Sullivan, Southeast Alaska Conservation Council; Laura Pierre, Staff, Senator Anna Fairclough; Senator Charlie Huggins; Michael Foster, Chairman, KABATA; David Livingstone, Managing Director, CITI Corp;

PRESENT VIA TELECONFERENCE

Wend Woolf, Division of Oil and Gas, Department of Natural Resources; Jack Roderick, Self, Anchorage;

SUMMARY

SB 86 APPROVE FLINT HILLS ROYALTY OIL SALE

SB 86 was REPORTED out of committee with a "do pass" recommendation and with a "do pass" recommendation and with previously published fiscal note: FN2 (DNR).

SB 59 OIL & GAS EXPLORATION/DEVELOPMENT AREAS

SB 59 was HEARD and HELD in committee for further consideration.

SB 63 CONTRACTS FOR PREPARATION OF BALLOTS

SB 63 (STA) was REPORTED out of committee with a "do pass" recommendation and with previously published fiscal note: FN 1 (GOV).

SB 13 KNIK ARM BRIDGE AND TOLL AUTHORITY

SB 13 was HEARD and HELD in committee for further consideration.

#sb86

SENATE BILL NO. 86

"An Act approving and ratifying the sale of royalty oil by the State of Alaska to Flint Hills Resources Alaska, LLC; and providing for an effective date."

[9:06:47 AM](#)

Senator Olson noted that there were two refineries in the Fairbanks area. He wondered if the smaller of the two refineries had established a position on the legislation.

[9:07:40 AM](#)

JOE BALASH, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, replied that zero negative comments had been offered during public comment on the contract terms.

[9:08:44 AM](#)

Senator Olson inquired if there was any known opposition to the legislation.

Mr. Balash restated that no opposition had been recorded during the public comment period.

9:09:07 AM

Co-Chair Kelly MOVED to report SB 86 out of committee with individual recommendations and the accompanying fiscal note. There being no OBJECTION, it was so ordered.

SB 86 was REPORTED out of committee with a "do pass" recommendation and with a "do pass" recommendation and with previously published fiscal note: FN2 (DNR).

9:09:36 AM

AT EASE

9:10:52 AM

RECONVENED

#sb59

SENATE BILL NO. 59

"An Act relating to approval for oil and gas or gas only exploration and development in a geographical area; and providing for an effective date."

9:11:14 AM

DANIEL SULLIVAN, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, provided an overview of the legislation. He believed that the issue of permitting reform and the effort to modernize the permitting process was critical for the future of the state, as well as the issue of Trans-Alaska Pipeline System (TAPS) throughput. He related that Department of Natural Resources (DNR) had been focused on a four part plan to help turn around TAPS throughput: making the state more competitive; incentivizing and facilitating the next phases of North Slope development; promoting Alaska's resources; and making the permitting system more efficient, timely, and certain. He shared that discussions with the oil industry had highlighted the need for permitting reform within the state. He stated that the bill aimed to provide a statutory change to the Division of Oil and Gas so that it could provide public notice of oil and gas exploration and development phases across geographic areas without regard to lease boundaries. He believed that this would allow a comprehensive review of oil and gas activities before exploration or development began, while protecting the public interest with public notice and an opportunity to comment during review phases. Additionally, the project approval process would be streamlined by the

elimination of redundant elements. He offered that DNR could achieve permitting reform while still maintaining the highest standards in environmental protection. He addressed several issues that were raised in prior committee hearings. He thought that the changes proposed by the legislation would provide the opportunity for public input at the beginning of each phase of exploration and development, which was the time when such input would be most meaningful. He said that DNR had been working closely with the North Slope Borough on integrating the permitting processes and information exchange. He added that the permitting process would present an initial plan and that the public would have significant input at that stage; laying out parameters of exploration and mitigation measures.

[9:15:52 AM](#)

Commissioner Sullivan relayed that it was legally possible that the department already had statutory authority to approve the exploration and development; however, the department decided to come directly to the legislature to seek direct authority to stave off questions of legality in the future. He pointed to a recent ruling by the Alaska Supreme Court in the case of Red Oil v. Sullivan and stated that he would be glad to answer questions regarding how DNR viewed the ruling, as well as its effect on the bill; he offered that the preliminary analysis indicated that the ruling would not affect the legislation.

[9:18:57 AM](#)

Co-Chair Meyer stated that he was unfamiliar with the court ruling and requested further explanation.

Commissioner Sullivan responded that there had been a Superior Court ruling dictating that DNR was required to do a best interest finding at each stage of a project's development. He stated that the ruling would add years to the permitting process of undertaking resource development in the state. He concluded that the group of people that brought the case forward was against any development in the state. He related that the Supreme Court reversed the Superior Court's decision with the caveat the DNR examine cumulative impacts with regard to the development of oil and gas areas. He shared that the plaintiffs had wanted DNR to do a full National Environmental Policy Act (NEPA)

review of cumulative environmental impact; DNR argued that such a formal review was not necessary. The Supreme Court agreed that a less formal, "hard look" should be taken. The Supreme Court had left the details of how the review should be conducted in the power of the legislature. He thought the bill was consistent with the court ruling; however, DNR was still attempting to clarify the ruling.

[9:24:27 AM](#)

Co-Chair Meyer noted that he had a copy of the ruling.

[9:24:36 AM](#)

Co-Chair Kelly asked which section of the Alaska State Constitution dictated that DNR had to perform the cumulative impact study.

Commissioner Sullivan responded that language that spoke to the cumulative impact requirement held in Article 8.

[9:27:03 AM](#)

Senator Hoffman pointed to page 1, lines 7, 8, and 9. He queried the language on line 7, "without regard to lease boundaries." He wondered what would be accomplished by the 10 year retroactivity of the leasing program. He noted that the people of Bristol Bay had similar concerns as the people on the North Slope because of the value of the Red Salmon fishery. He asked if DNR had talked with the people of Bristol Bay about the legislation.

Commissioner Sullivan replied no. He said that the bill would largely impact the North Slope. He said that DNR had focused on the North Slope for community outreach and had not briefed the people of Bristol Bay. He stressed that the bill would only affect areas where there were current oil and gas lease sales in the state. He noted that another area that could be impacted was Cook Inlet.

[9:30:18 AM](#)

WILLIAM BARRON, DIRECTOR, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES, offered that the presentation would provide answers the Senator's questions.

[9:30:57 AM](#)

Mr. Barron related that the division was attempting to approach all projects in a more holistic manner through program management rather than isolated project management.

[9:32:59 AM](#)

WENDY WOOLF, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES (via teleconference), stated that SB 59 would allow the Division of Oil and Gas to look at exploration holistically in a geographic area. She directed committee attention to the presentation, " SB 59: Oil & Gas Exploration and Development Approval By Geographical Area"(copy on file).

[9:33:31 AM](#)

Ms. Woolf discussed Slide 2, which illustrated the five areas that the department offered area-wide oil and gas lease sales: Beaufort Sea, North Slope, North Slope Foothills, Cook Inlet, and Alaska Peninsula. She stated that there was not an area in the Bristol Bay Region currently under discussion and that the closest would be the Alaska Peninsula.

[9:34:20 AM](#)

Ms. Woolf stated that SB 59 would make a statutory requirement to provide public notice at the beginning of a multi-stage project and clarified that DNR would review each phase across a geographic area, rather than conducting finite reviews for each individual project. She said that this would bring certainty to the public and to industry as to the type of activities that could occur in the geographic area.

[9:35:17 AM](#)

Ms. Woolf spoke to Slide 4:

What does SB 59 do?

- It clarifies the Department of Natural Resources can authorize oil and gas exploration and development activities within a geographical area.
- It preserves public notice and review at the beginning of an exploration or development phase.

- It ensures certainty when an approval has been granted for exploration or development activities.

What does SB 59 do? How does this benefit the public?

- It allows the public to comprehensively evaluate oil and gas activities within a geographical area.

- It provides an opportunity for input at the beginning of an exploration or development phase.

- It safeguards environmental concerns through special stipulations and conditions.

How does this benefit industry?

- It allows a project to be planned within approved parameters and conditions.

- It provides certainty that plans of operations meeting those defined criteria can proceed.

- It ensures predictable project approvals for subsequent exploration or development activity.

[9:36:35 AM](#)

Ms. Woolf Spoke to slide 5 titled "Oil and Gas Lease Sale Process":

- Proposed Areawide Oil and Gas Lease Sale**

 - Public Notice and Opportunity to Comment Evaluate Statutory Criteria Develop Mitigation Measures

- Final Finding of the Director to Lease Oil and Gas**

 - Exploration Phase**

 - Public Notice and Opportunity to Comment

- Development Phase**

 - Public Notice and Opportunity to Comment

- Transportation (Pipelines)**

 - Public Notice and Opportunity to Comment

[9:38:11 AM](#)

Ms. Woolf spoke to slide 6 titled "Life of an Oil and Gas Lease":

Year 0

- Final Finding of the Director - Areawide Oil and Gas Lease Sale
- Lease Issued (10-Year Term)

Year 3

- Initial Exploration - Seismic Program (multiple leases)
- Public Notice and Comment Period (**30 day public notice**)

Year 5

- Lease Plan of Operations - Exploration Well
- Public Notice and Comment Period (**30 day public notice**)

Year 6

- Lease Plan of Operations - Exploration Well
- Public Notice and Comment Period (**30 day public notice**)

Year 7

- Lease Plan of Development - Conceptual Development Plan

Year 8

- Lease Plan of Operations - Initial Development Plans
- Public Notice and Comment Period (**30 day public notice**)
- Lease Plan of Operations - Modified Development Plans
- Public Notice and Comment Period (**30 day public notice**)
- Pipeline Application (AS 38.05.850 or AS 38.35)
- Public Notice and Comment Period (**30 day public notice**)

Year 10

- Production
- Lease Plan of Operations - Additional Development Plans
- Public Notice and Comment Period (**30 day public notice**)

[9:41:57 AM](#)

Ms. Woolf continued to Slide 7, "Example Geographical Areas for Exploration Activities." She related that the types of activities under discussion were ice roads, ice pads, portable developing equipment, off-road vehicle use, and temporary housing. She said that the geographical area would be defined as including all or a portion of the statewide lease depending on the type of activity being considered. She shared that the development of the western North Slope would be looked at differently than the development of the area encompassing Prudhoe. She stated that exploration activities could also be examined in the undeveloped shale areas so that the public could provide input before development began.

Ms. Woolf discussed Slide 8, "Example Geographical Areas for Development Activities." She stated that development involved more specific activities which would focus on a small group of leases. She relayed that the decision would address the development across an entire areas so that the public could address the entire area that could be affected. She added that small additions to already existing larger developments would be subject to public comment. She stressed that all of the areas were hypothetical.

[9:46:10 AM](#)

Ms. Woolf addressed Slide 9, "Life of an Oil and Gas Lease under SB 59":

Year 0

- Final Finding of the Director - Areawide Oil and Gas Lease Sale
- Lease Issued (10-Year Term)

Lessee develops exploration plans

Year 3

- Initial Exploration - Seismic Program (multiple leases)
- Public Notice and Comment Period (30 day public notice)

Year 5

- Lease Plan of Operations - Exploration Well
- Public Notice and Comment Period (30 day public notice)

Year 6

- Lease Plan of Operations - Exploration Well
Exploration Phase Public Notice & Comment Period
(30 day public notice)
Saves 60 to 90 days for each project in the
geographical area

Discovery - Lessee formulates development plan

Year 7

- Lease Plan of Development - Conceptual Development
Plan

Year 8

- Lease Plan of Operations - Initial Development Plans
- Public Notice and Comment Period (30 day public
notice)
- Lease Plan of Operations - Modified Development Plans
- Public Notice and Comment Period (30 day public
notice)
- Pipeline Application (AS 38.05.850 or AS 38.35)
- Public Notice and Comment Period (30-60 day public
notice)

Year 10

- Production
- Lease Plan of Operations - Additional Development
Plans
Development Phase Public Notice & Comment Period
(30 day public notice)
Saves 60 to 90 days for each project in the
geographical area

[9:50:55 AM](#)

Ms. Woolf spoke to Slide 10, "Results":

Exploration Phase Public Notice & Comment Period

- SB 59 provides for a comprehensive review before
exploration or development.
- SB 59 preserves public participation in the
process.

- SB 59 allows stipulations to be approved before a company develops site specific plans for exploration or development activities.

Development Phase Public Notice & Comment Period

Ms. Woolf reiterated that the bill would give all parties; public, state, federal, local agencies and industry and opportunity to review and evaluate oil and gas activities holistically and across a defined area, which would bring certainty as to how state lands were developed for oil and gas. She explained that the division would define a geographical area for exploration and then prepare public notice. She relayed that the public notice would include the type of exploration activities and any special stipulations, and following public comment, the plan would be approved. Once the exploration phase was approved the division could proceed to approve the substantive plans of operation for exploration activities that were in compliance with the specified conditions in the exploration phase approval, without additional public notice. She shared that all the individual plans of operation could proceed without public notice, but they would have agency review and department approval. She explained that the development phase would follow similar suit.

[9:53:15 AM](#)

Co-Chair Kelly noted that the lease plan slides showed approximately 10 years from exploration to development. He wondered if the legislation would speed up the process.

Mr. Barron responded that it could take from 1 year on up. He stated that the drilling seasons on the North Slope could be accelerated. He explained that the bill would work across 3x3 leases and that the leases were limited in the primary term for up to 10 years. He hoped that activities could be done concurrently between two different companies in the same geographic area. He thought that the legislation would save time for every company working within the specific geographic area.

[9:55:03 AM](#)

Commissioner Sullivan interjected that when there was public notice and comment the companies would need to have time to respond, which could take some time. He stressed that DNR was attempting to make the development more

strategic by minimizing the public comment opportunities after the initial permitting requirements were met.

[9:56:10 AM](#)

Mr. Barron replied that the division hoped to develop projects in a 5 to 7 year period, rather than 10 years.

[9:56:47 AM](#)

Senator Bishop surmised that the statutes already allowed for industry and the department to work together, but that the bill was expected to offer more certainty for industry. He understood that the goal was to maximize the state's assets, while still maintaining due diligence to the public process and the environment. He discussed his experience on the North Slope and stressed that time was of the essence when it came to the work being done in the area.

Commissioner Sullivan agreed, but added that bringing certainty to the process at the outset would help with the investment climate. He offered that the timelines and the uncertainty were limited to the winter season for the most part and that if you compared Alaska to Texas or North Dakota, it was a disadvantage. He offered that the bill would provide DNR with clear authorization and would help in the issue.

[10:00:31 AM](#)

Co-Chair Kelly noted the state got "slammed" with lawsuits every time it tried to do anything development related. He thought that the courts had rejected direction from the legislature. He reiterated for the record that the committee was trying to collapse the timeframe that it took to get projects to meet completion. He expressed a lack of respect for the court system and opined that judges wanted to be legislators. He contended that it was not the job of the courts to set public policy.

Commissioner Sullivan suggested that the intent of the legislation was to define how to expedite the leasing process, which the courts had stated was in the realm of the legislature. He said the department would not allow the REDOIL case to hinder resource development in the state.

[10:02:56 AM](#)

Senator Hoffman requested a clarification regarding the approval of the oil and gas or gas only leases the up to 10 years prior.

Mr. Barron replied that the intent of the 10 years was to provide a period of time that the director could not exceeded. He added that there was a 10 year statutory primary lease term.

[10:04:03 AM](#)

Senator Hoffman pointed to page 2 of the bill and the immediate effective date; however, the fiscal note had a different date. He inquired why there was a specific date in the analysis but not in the legislation.

Ms. Barron replied that the intent of the fiscal note was to give the department the proper resources to establish the program and regulations.

[10:05:00 AM](#)

AT EASE

[10:09:40 AM](#)

RECONVENED

Co-Chair Meyer OPENED public testimony.

[10:10:07 AM](#)

JAMES SULLIVAN, SOUTHEAST ALASKA CONSERVATION COUNCIL, expressed concern with the legislation. He acknowledged the at an exploration stage the intent was that the land be explored; however the council had problems with only one comment period at the development stage. He offered that the council had an issue with the redefining of a geographic area, particularly multi-use areas. He pointed out that anytime there was a planned development that would affect the people living in the area, there should be an appropriate notice and access to adequate information on the project. He stated that in Cook Inlet the public the possible effects of a particular project could not be projected into the future. He stressed that plans could change and contended that once a company reached the development stage it would be impossible to predict possible disasters. He understood that efficiency was an important part of the permitting process, but felt that

bill created uncertainty, and put the onus on the public to speculate what could happen. He added that the state was planning to move into shale development and that DNR might have to make changes to its permitting process. He concluded that the bill did not represent the best approach for the state.

[10:14:53 AM](#)

JACK RODERICK, SELF, ANCHORAGE (via teleconference), expressed support for SB 59.

[10:15:32 AM](#)

Co-Chair Meyer CLOSED the public testimony.

[10:15:42 AM](#)

Co-Chair Meyer discussed the fiscal note attached to the bill.

[10:16:17 AM](#)

SB 59 was HEARD and HELD in committee for further consideration.

AT EASE

[10:19:22 AM](#)

RECONVENED

#sb63

SENATE BILL NO. 63

"An Act relating to contracts for the preparation of election ballots."

[10:20:01 AM](#)

Vice-Chair Fairclough MOVED to ADOPT CS SB 63(STA), 28-LS0459/C as a working document.

Co-Chair Meyer OBJECTED for the purpose of discussion.

[10:20:18 AM](#)

LAURA PIERRE, STAFF, SENATOR ANNA FAIRCLOUGH, introduced SB 63. She explained that the legislation would bring the

preparation of ballots under the state procurement code. She stated that the intent was to allow for competition in the process, and that there could be cost savings to the state.

[10:20:49 AM](#)

Ms. Pierre related the changes in the legislation:

Title: Title changed to include reference to the state procurement code.

*** Section 1:** Removed language in subsection (3) "may contract for the preparation of the ballots on a regional basis if necessary," and inserted the language, "contract for the preparation of ballots under AS 36.30 (State Procurement Code).

***Section 2:** Replaced all of section 2 with a new section 2 which removes the reference to preparation of ballots in AS 36.30850(b)

Co-Chair Meyer WITHDREW his OBJECTION.

Co-Chair Meyer OPENED public testimony.

Co-Chair Meyer CLOSED public testimony.

[10:23:20 AM](#)

Vice-Chair Fairclough stated that the intent of the legislation was to provide opportunities to all Alaska printers and to move away from a sole source contract.

[10:24:10 AM](#)

Co-Chair Kelly MOVED to REPORT SB 63 out of committee with individual recommendations and the accompanying fiscal note(s).

SB 63 (STA) was REPORTED out of committee with a "do pass" recommendation and with previously published fiscal note: FN 1 (GOV).

[10:24:39 AM](#)

AT EASE

[10:29:45 AM](#)

RECONVENE

#sb13

SENATE BILL NO. 13

"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."

SENATOR CHARLIE HUGGINS, introduced Mr. David Livingstone from Citigroup. He stated that the Knik Arm Crossing was the only strategic pieces of infrastructure for transportation currently being discussed in the state. He said that the estimates for widening and improving the Glenn Highway were approximately \$3 billion. He opined that approximately 20,000 people were traveling from the Mat-Su to Anchorage daily between the hours of 4am and 9am. He added that there were three highway safety corridors on the way from Anchorage to Mat-Su, which was symptomatic of the population growth. He relayed that records indicated that in 2012 Knick-Goose Bay Road (KGB) was more dangerous than driving south out of Anchorage, and that the road from Wasilla to Palmer was equally dangerous. He said that users of KGB Road heading toward the Port of Anchorage had grown by 50 percent in the last 10 years. He pointed out that there were a significant number of people that would use the access immediately in order to get into Anchorage.

[10:36:23 AM](#)

Senator Huggins related the sponsor statement:

Senate Bill 13 amends the Knik Arm Bridge and Toll Authority's enabling statute to provide for a successful procurement for the Knik Ann Crossing project and to generate the best value for the state. The Knik Arm Crossing will significantly enhance Alaska's public infrastructure and further the movement of goods and people throughout our state. Passing this legislation this session is important for moving the Knik Arm Crossing toward a bridge opening in 2015.

This bill, written in consultation with the Knik Arm Bridge and Toll Authority (KABATA), which was established in 2003 by the Alaska Legislature,

accomplishes many items deemed necessary for securing a successful public-private partnership, including:

> Increases KABATA's bonding authority from \$500 million to \$600 million:

- The \$600 million number represents the same amount authorized under Private Activity Bonds (PABs) allocation from FHWA.
- Lowers the cost of capital for the project and ultimately lowers the cost to end users.
- Private partner is the borrower of any PABs issued.

> Clarifies that the bridge and associated facilities are exempt from state and local taxes;

- Like any other transportation project in Alaska, the roads and bridges are not subject to property taxation.
- Any private facilities developed outside the crossing will be taxable.
- Property tax exemption reduces the availability payment and reduces the toll.

> Establishes a project reserve fund:

- Provides backstop for toll revenue fluctuations.
- Enhances the credit worthiness of the project and reduces project costs
- Will be repaid over the life of the project.
- Keeps the tolls affordable to the traveling public

All of the above language clarifications and additions lower the capital costs of this much-needed infrastructure project and deliver benefits in a timely efficient manner.

SB 13 is a companion bill to House Bill 23, which is sponsored by Representative Mark Neuman.

Senator Huggins urged the committee to link the bill to its House counterpart quickly. He stated that there was \$500 million available to the project through the Transportation Finance and Innovation Act (TIFIA), but that time was limited.

[10:37:58 AM](#)

Co-Chair Meyer noted that public testimony would be taken on the House companion bill, HB 23, once it was received by the committee.

[10:39:59 AM](#)

MICHAEL FOSTER, CHAIRMAN, KABATA, began a presentation on SB 13 titled "Knik Arm Crossing." He discussed Slide 2, "Historic and Projected Population Trend 1985 to 2035." He stated that, according census numbers, between 1985 and 2010 the population of Anchorage grew by 28 percent; Mat-Su by 140 percent, and the South Central area by 44.5 percent. He relayed that there were several different models under discussion using numbers from the Department of Labor (DOL), ISER and KABATA; if all the models were examined and corrected to the 2010 actual census data, there was only a 1 percent difference between the ISER and KABATA models. He said that most of the growth was occurring in Eagle River and North of Mat-Su. He noted that 44 percent of the total growth in Anchorage was in the Eagle River area because the bowl area was running out of land causing the population to move northward.

[10:43:04 AM](#)

Mr. Foster spoke to slide 3, "Glenn Highway AADT Counts (no bridges)." He shared that in 1985 traffic at the Eklutna Bridge was approximately 16,000, and increased to 30,000 in 2010. He contended that by 2035 the traffic number would increase to 65,000 at that point on the Glenn Highway. He pointed out that in 1985, at the point south of Eagle River that was the combination of all the northbound traffic into Anchorage, traffic measured approximately 33,000; 53,000 in 2010, and was projected to increase to 110,000 by 2035. He pointed out that the highlighted two lane road and the slide carried 62 percent of the traffic on the four lane highway.

Mr. Foster continued to Slide 4, "Knik-Fairview Fastest Growing Area":

- Knik-Fairview 2012 population estimate 16,126
 - Larger than the incorporated areas of Palmer and Wasilla combined
 - If incorporated, would be fourth largest city in the state

•Knik-Goose Bay Road traffic statistics:

2000 AADT - 12,590

2010 AADT - 18,308

Increase 5,718

percent 45.4 percent

[10:47:23 AM](#)

Mr. Foster stressed the importance of TIFIA for the project. He explained that the developer would be able to access federal dollars, at low interest, and would not have to make a payment on the loan until five years after the bridge opened. He quoted a letter from Bryan Butcher, Commissioner, Department Of Revenue:

"Finally, you asked about my confidence in the revenue projections and financial analysis provided by KABATA in its March 1 TIFIA letter of interest. KABATA has retained CITI, one of the largest and most successful financial services firm in the world, especially as it relates to government financing of infrastructure projects, to develop its financial models. KABATA retained Wilbur Smith, a firm that has advised on many successful projects to do its traffic and toll models. I am confident that the revenue projections and financial analysis are objective and done to the highest of professional standards. This is the type of work that will be accepted and relied upon by the institutional investors that may be interested in financing this project."

[10:49:19 AM](#)

Mr. Foster addressed Slide 5, "What Happens Without the Bridge?":

- State has to accommodate transportation needs to maintain existing level of service:
 - 6 lane improvements on Glenn Highway from Eagle River to Wasilla
 - 8 lane improvements on Glenn Highway from South Eagle River to 5th Avenue
 - Parks Wasilla Bypass

-Network improvements in Palmer/Wasilla corridor

•≈\$3 billion total cost with no toll revenue *

* Estimate per 2008 Statewide LRTP prepared by ADOT&PF

[10:49:58 AM](#)

Co-Chair Kelly required a brief explanation of the TIFIA program.

Mr. Foster replied that TIFIA was a federal loan program that provided Federal credit assistance in the form of direct loans, loan guarantees, and standby lines of credit to finance surface transportation projects of national and regional significance. TIFIA credit assistance provides improved access to capital markets, flexible repayment terms, and potentially more favorable interest rates than can be found in private capital markets for similar instruments. TIFIA can help advance qualified, large-scale projects that otherwise might be delayed or deferred because of size, complexity, or uncertainty over the timing of revenues. Many surface transportation projects - highway, transit, railroad, intermodal freight, and port access - are eligible for assistance. Each dollar of Federal funds can provide up to \$10 in TIFIA credit assistance - and leverage \$30 in transportation infrastructure investment. He noted that there were currently letters of interest from 18 different states and that the Alaska project was in the "hold mode." He shared that the program was still being developed and the application process had yet to be completed. He stated that the program was waiting for the legislation to move forward, which would signify the state's commitment in the project, before inviting Alaska into the pre-application process. He noted that the state had applied to the program before and had been turned down. He believed that if the legislation passed the state would be invited into the program.

[10:53:58 AM](#)

Senator Olson wondered why letters of interest had been sent out before the financial modeling had been completed.

Ms. Foster replied that that had had several financial models and that at the time TIFIA had a small financial capacity.

[10:55:24 AM](#)

Senator Olson asked about other TIFIA loans that had been granted in the United States.

Mr. Foster referred the question to Mr. Livingston.

[10:56:09 AM](#)

DAVID LIVINGSTONE, MANAGING DIRECTOR, CITI CORP, introduced the presentation, "Knik Arm Crossing: Finance Briefing." He spoke to Slide 1, "Public-Private Partnership Approach":

- KABATA is using a public-private partnership, or P3, to build and operate the Crossing
 - Alaska legislature authorized and encouraged use of P3 for project delivery under AS 19.75.111

- Availability fee P3's for surface transportation have been used successfully in the US for:
 - East End Bridge (over Ohio River near Louisville, KY)
 - Presidio Parkway (San Francisco)
 - I-595 (Fort Lauderdale)
 - Denver Eagle "Fastracks"
 - Port of Miami Tunnel

- P3s are accepted as a mainstream method to finance, deliver and operate major projects worldwide, including in the UK, US, Germany, France, Italy, Spain, Portugal, Australia, Canada, Chile and Brazil
 - Concept is so well proven that in Canada any project over \$100M using federal funds must analyze use of P3 and justify why P3 should NOT be used
 - US road P3's have come in 23 percent to 42 percent lower than the owner's capital cost estimate. KABATA's proposed P3 approach has been tested in numerous projects in the US and around the world.

(1) For East End Bridge, Presidio Parkway and I-595, the most recent three availability fee P3's.

[10:58:17 AM](#)

Vice-Chair Fairclough requested and all-in cost on the previous P3 projects and projected traffic counts for the bridges.

Mr. Livingstone replied that he would try to find the information.

Vice-Chair Fairclough asked if the projects were of a similar magnitude as KABATA.

Mr. Livingstone replied that the East End Bridge was almost identical in size to KABATA in terms of cost.

[10:59:44 AM](#)

Mr. Livingstone addressed Slide 2, "Procurement Status":

Procurement is in process with firm bids expected in 2013.

□ KABATA is well along in the procurement of a private partner with the following international consortia competing for the Crossing:

- **Alaska Infrastructure Access Partners** - Infrared Capital Partners; Bouygues; Colaska; URS Alaska; Moffatt & Nichol; USKH; R&M Consultants; Macquarie Capital

- **Cook Inlet Passage Partners** - Meridiam Infrastructure; Kiewit; Manson Construction; Transfield Services; Parsons Transportation Group; Golder Associates; Dowl HKM; Dan Brown and Associates; BMT Fleet Technologies; KPMG Corporate Finance

- **North Star Mobility Group** - Hochtief; ACS Infrastructure Development; Iridium; Flatiron Constructors; Dragados; Traylor Bros.; HNTB; CH2M Hill Engineers; Alaska Interstate Construction; Arcadis; Kodiak Map; Hart Crowser; Earth Mechanics; Bittner-Shen; Denali Drilling; Gregg Drilling

- Six consortia submitted qualifications statements and the three firms shown were short listed by KABATA
- Key members of each team are a mix of local Alaska firms and industry leaders in US and worldwide P3s

Mr. Livingstone stated that the firm selection would be based on which firm would offer the lowest availability payments.

[11:01:42 AM](#)

Mr. Livingstone spoke to Slide 3, "Structure for Availability Fee P3 Deal", which was a flow chart that illustrated that private partner provided single point responsibility for design, construction, financing and long-term operation and maintenance, all for a pre-determined annual availability fee.

[11:02:50 AM](#)

Mr. Livingstone spoke to Slide 4, "Risk Sharing":

The following summarizes the key risk sharing, where the private partner takes risks under its control and KABATA assuming risks of uncontrollable events.

Risk	Party Taking Risk
Design deficiencies	Private Partner
Construction cost	Private Partner
Design/construction integration	Private Partner
Construction schedule	Private Partner
KABATA discretionary change orders/KABATA acts	
	KABATA
All other design/construction change orders	
	Private Partner
Specific conditions/events outside private partner control (see page 6)	
	KABATA
Debt service	Private Partner
O&M cost (for 35 years)	Private Partner
Needed renewal capital expenditures (for 35 years)	
	Private Partner
Future expansions	KABATA / Private
Partner	

Toll collection cost (for 35 years)

Private Partner
KABATA

Toll revenue

Availability payment

KABATA/Project
Reserve/State Moral Obligation

[11:04:04 AM](#)

Mr. Livingstone spoke to Slide 5, "Availability Payment":

Private partner bears risk that its costs exceed the availability fee.

Availability payments are payments by KABATA to private partner to the extent the Crossing is "available" to traffic

- No availability payments owed until project is opened for service
- To the extent the private partner does not keep lanes open, or does not operate and maintain the Crossing to detailed operating standards, the availability payment is reduced

Availability payment is set by formula at the time the concession is signed and includes components for:

- Recovery of capital (debt and equity), which are fixed and not subject to escalation
- Operation, maintenance and repair, which are fixed, but subject to inflation escalation
- Tolling services, which are fixed fees per collected toll, but subject to inflation escalation

[11:04:59 AM](#)

Mr. Livingstone addressed slide 6 titled "Events Outside Private Partner Control":

While KABATA has assumed designated uncontrollable circumstances risks, steps have been taken to mitigate those risks to KABATA.

- KABATA retains certain other risks related to KABATA changes or acts in its control and, listed below, items out of the control of the private partner
- KABATA Retained Risks Outside of Private Partner Control

- **Mitigation**

Discovery of unforeseen subsurface conditions, hazardous waste, archeological resources, endangered species

Extensive subsurface investigation completed, including borings in the Knik Arm and historical/archeological surveys along the bridge and roadway alignment

Delays in receipt of certain major permits or right of way acquisition; costs of changes in state law or permit conditions

Major permits and right of way should be completed prior to private partner selection

Delays by utilities

There are not many utilities along right of way and they are known and mapped

Utility memoranda of understanding, should be executed prior to private partner selection

Force majeure events, including earthquakes, war, terrorism, fires, floods

The Crossing is required to be designed to withstand earthquakes, fires and floods

The private partner is required to carry casualty insurance

If an event is catastrophic, it is likely to be covered in part by FHWA, FEMA and/or other federal disaster aid

[11:05:55 AM](#)

Senator Bishop inquired if bedrock had been found as a result of the soil testing.

Mr. Foster responded that consolidated glacial till had been found.

[11:06:22 AM](#)

Mr. Livingstone addressed Slide 7, "Proposed Legislation":

Passage of SB13 (or HB23) is condition to the project proceeding under the "availability fee" P3 approach and obtaining a low cost TIFIA loan from the US Department of Transportation.

- Key elements of the proposed legislation:
 - Ability to establish a Project Reserve and subject it to a trust arrangement
 - Toll revenues collected by KABATA are deposited into the Project Reserve
 - KABATA's availability payment obligation and KABATA expenses are paid from the Project Reserve
 - The KABATA chair must annually certify to the Governor and Legislature the status of the Project Reserve and amounts needed, if any, to restore it to its minimum requirement
 - By the time the Crossing opens for traffic, the project reserve is expected to be funded by State appropriations totaling \$150 million, with a "down payment" this year

- Project Reserve minimum requirement is (1) 120 percent of the estimated average availability payment over next three years plus (2) 120 percent of prior year KABATA expenses minus (3) prior year toll revenues
 - Provides liquidity to KABATA to make the availability payments and fund KABATA administrative costs given the annual legislative schedule (appropriations can normally only be made during the 90 day session)

[11:07:25 AM](#)

Mr. Livingstone discussed Slide 8, "Purpose of State Financial Backstop":

The private partner is investing nearly \$800 million of its funds to build the Crossing and needs assurance that KABATA and the State can pay if the private partner meets its obligations.

- Request
- **Key Purpose**

Funding shortfalls if availability payments and other expenses exceed toll revenues

- **Provides funding for early year projected revenue shortfalls during traffic ramp up on bridge**
- **Under base case projections there are minimal future need for State support**

Funding "pinhole" risks

- Provides funding for "pinhole" risks assumed by KABATA
- Pinhole risks proposed to be backstopped by the State include: (1) termination costs, should the concession be terminated prior to its maturity for KABATA fault or convenience ; and (2) compensation for specific conditions/events outside private partner control

[11:08:44 AM](#)

Mr. Livingstone spoke to slide 9 titled: Assumptions Provided by Team of Experts":

The financial projections are based on a set of assumptions carefully prepared by a team of experts in their respective fields.

- As KABATA's financial advisor, Citigroup has prepared financial projections to show how the project will perform under a set of assumptions developed by national experts in their respective fields:

(The following information is ordered: the assumption, the firm, and the credentials.)

Construction Cost

HDR1

Fifth-ranked engineering firm for highway design in the US

Traffic and Revenue

CDM Smith

Foremost Traffic and Revenue consultant with more studies supporting financings than any other firm

Operations and Maintenance

HDR/PND

Fifth-ranked engineering firm for highway design in the US and one of the top Alaskan road and bridge engineers

Toll Collection

CDM Smith

Leading toll system advisor to toll and transportation agencies

Renewal Capital Expenditures

CDM Smith2

Substantial experience in inspecting bridges and developing capital maintenance programs for transportation agencies in the US.

Debt and Equity

Citigroup

One of the world's largest banks and the #1 underwriter of US toll road bonds

(1) HDR was assisted by PND, Armeni, William Ott and DCS for bridge design and Hydro-Ram and IHC Merwede for piling

(2) CDM Smith was assisted by PND

[11:09:46 AM](#)

Mr. Livingstone addressed Slide 10, "KABATA Projected Obligations and Toll Revenues." He stated that in the early years, revenue would be insufficient to cover costs, but in the later part the project would generate significant revenue for the state.

[11:10:59 AM](#)

Mr. Livingstone discussed Slide 11, "Sensitivities"

Sensitivities prepared to determine upside and downside impact of the project on KABATA and the State.

Analyses completed:

- Base case - Most likely traffic and revenue projection
- Upside and downside sensitivities at 5 percent (aggressive upside), 25 percent (upside), 75 percent (downside) and 95 percent (severe downside) probabilities that traffic will exceed

Analyses include:

- Initial Crossing:
 - Two-lane bridge and connecting roads with four lane foundation

- Government Hill tunnel built to six lanes to avoid future neighborhood disruption
- Future Expansions:
 - Adding an additional two lanes to the initial configuration (estimated 20301 for base case)
 - Constructing Ingra-Gambell connector and Point MacKenzie Road upgrade to four lanes (estimated 20251 for base case)
 - Timing of these Phase 2 additions controlled by KABATA and the State based on traffic, congestion and funding availability

(1) Based on traffic capacity analysis by CDM Smith and HDR.

11:12:30 AM

Mr. Livingstone discussed Slide 12, "Revenue Sensitivity Results from Monte Carlo Simulations," which charted that Citi analyzed the Crossing's revenues under five cases, the base case previously described and four alternative probability cases at higher and lower traffic and revenue volumes. The severe downside, downside, upside and aggressive upside cases represent 95 percent, 75 percent, 25 percent and 5 percent probabilities that traffic and toll revenues will be greater, respectively. For instance, under the severe downside, 95 percent probability case, there is only a 5 percent probability that toll revenues will be below the projection.

11:12:59 AM

Mr. Livingstone addressed Slide 13, "Project Cost/Benefit to State." He explained that the slide illustrated the expected appropriations that would be expected under the various scenarios. Slide 13 charted cumulative costs and financial return to the state and the funding of, and release from, project reserve over 45 years. He noted that the grey line on the slide represented the \$150 million initial funding of the reserve. He said that there would be no request for future appropriations until 2025. The slide listed dates that expansions could occur under the base case; under the sensitivities, the expansions occurred earlier (upside cases) or later (downside cases) based on when traffic levels warranted expansion. Additionally, the severe downside, downside, base, upside and aggressive

upside represented 95 percent, 75 percent, 50 percent, 25 percent and 5 percent probabilities that traffic and toll revenues would be greater, respectively. For instance, under the severe downside, 95 percent probability case, there was only a 5 percent probability that toll revenues would be below the projection.

[11:14:32 AM](#)

Senator Olson inquired the date of the projects final year.

Mr. Livingstone replied 2060.

[11:14:49 AM](#)

Mr. Livingstone spoke to Slide 14, "Sensitivity Results," which was the numeric information charted on the previous slide. Essentially, under the base case, over 45 years, ongoing appropriations of \$37 million were required, while the Knik Arm Crossing would generate \$2.3 billion of revenues to fund transportation in the state.

[11:16:09 AM](#)

Mr. Livingstone discussed Slide 15 "Conservative Assumptions Used in the Financial Analysis":

Citigroup's analysis uses conservative, reasonable assumptions.

- Interest rate assumptions significantly above current market
 - 1.5 percent higher for tax-exempt PABs
 - 1.1 percent higher for TIFIA loan
 - Using current market interest rates eliminates any State reserve replenishment in other than the 95 percent probability, severe downside scenario
 - Reduction in the reserve replenishment in 95 percent probability scenario from \$627 million to \$113 million
- Construction cost includes a \$84 million contingency
- Assumes crossing expansion as traffic warrants, even if state is paying under "moral obligation" pledge
 - If KABATA did not move forward with the expansions, under the severe downside case, State

reserve replenishment drops from \$627 million to \$113 million, but the Crossing would become congested

- Upside and downside traffic and revenue projections modeled
- 33 percent TIFIA and no rural eligibility
 - Recent Federal Highways reauthorization allows up to 49 percent TIFIA and lower interest rate for rural projects
 - Portion of the Crossing in the Mat Su likely considered rural
- Does not consider the benefits of the Crossing to the public or the resulting economic development
- At the end of analysis State owns a \$1 billion+ asset unencumbered

Mr. Livingstone believed that all of the assumptions used in the presentation were very conservative.

[11:18:33 AM](#)

Mr. Livingstone spoke to Slides 16 and 17, " Analysis of Financial Impact of Legislation on State":

State's appropriation pledge is a backup to toll revenues and would only be triggered if toll revenues are insufficient to pay costs.

- KABATA's source of funds to pay the private partner is a "double barreled" credit
 - Payable FIRST from toll revenues in the Project Reserve as the intended primary source of debt repayment
 - Payable SECOND from the appropriated funds in the Project Reserve, initially equal to \$150 million, and a commitment to seek a state appropriation if the Project Reserve falls short of minimum requirement
 - Minimal future appropriations needed under the base case financial projections
- Moral obligation commitments are an accepted credit support feature used by the Alaska Bond Bank and

AIDEA which have good records of debt repayment and have been credit neutral to the State's own bond rating

□ KABATA use of the State "moral obligation" provision has been carefully crafted as back-up credit protection that should be viewed as credit neutral to the State's own bond rating because of the strength of the overall project plan and strength of the primary security

The proposed legislation should be credit neutral to the State, given the minimal projected need for appropriations and the importance of the project to the State.

□ The moral obligation provision, while fundamental to the credit, is likely to be used sparingly

- No availability payments due until the Project is completed and available for service, which removes the construction risks (State is not taking on construction cost overrun or schedule risk)

□ In the base case, aggregate draws from the State are \$36 million; other shortfalls are covered by the Project Reserve without the need for further appropriations

□ Under a severe downside case, "95 percent probability of exceeding," first Project Reserve replenishment by State is in 2025 (\$9 million) and maximum annual payment is \$38 million in 2043

□ Project essentiality

- Infrastructure projects, like the Knik Arm Crossing, fill an essential need and spur economic development

[11:19:03 AM](#)

Co-Chair Meyer noted that the committee would adjourn for floor session and continue the discussion during the afternoon meeting.

[11:19:45 AM](#)

SB 13 was HEARD and HELD in committee for further consideration.

11:19:48 AM

#

ADJOURNMENT

The meeting was adjourned at 11:19 a.m.