

ALASKA STATE LEGISLATURE
SENATE TRANSPORTATION STANDING COMMITTEE

March 14, 2013

1:43 p.m.

MEMBERS PRESENT

Senator Dennis Egan, Chair
Senator Fred Dyson, Vice Chair
Senator Hollis French

MEMBERS ABSENT

Senator Anna Fairclough
Senator Click Bishop

COMMITTEE CALENDAR

PRESENTATION: OLD HARBOR AIRPORT RUNWAY EXTENSION

- HEARD

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."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 13

SHORT TITLE: KNIK ARM BRIDGE AND TOLL AUTHORITY

SPONSOR(s): SENATOR(s) HUGGINS

01/16/13	(S)	PREFILE RELEASED 1/11/13
01/16/13	(S)	READ THE FIRST TIME - REFERRALS
01/16/13	(S)	TRA, FIN
03/14/13	(S)	TRA AT 1:30 PM BUTROVICH 205

WITNESS REGISTER

CARL MARRS, CEO and President
Old Harbor Native Corporation (OHNC)
Old Harbor, AK

POSITION STATEMENT: Commented on the Old Harbor airport runway extension project that was started last year.

CYNTHIA BERNS-LOPEZ, Vice President
Corporate Affairs
Old Harbor Native Corporation (OHNC)
Old Harbor, AK

POSITION STATEMENT: Commented on the Old Harbor airport runway extension project.

RICHARD WIEBE, Civil Engineer and Project Manager
Airport Runway Extension Project
Shearwater Systems, LLC
Old Harbor, AK

POSITION STATEMENT: Reviewed construction of the Old Harbor airport runway extension.

JODY SIMPSON
Staff to Senator Huggins
Alaska State Legislature
Juneau, AK

POSITION STATEMENT: Commented on SB 13 for the sponsor.

MICHAEL FOSTER, Chairman
Board of Directors
Knik Arm Bridge and Toll Authority (KABATA)
Anchorage, AK

POSITION STATEMENT: Updated the committee on KABATA's mission regarding SB 13.

LARRY DEVILBISS, Mayor
MatSu Borough
Palmer, AK

POSITION STATEMENT: Supported SB 13.

JAMIE KENWORTHY, representing himself
Anchorage, AK

POSITION STATEMENT: Opposed SB 13.

SUZANNE DIPIETO, representing herself
Anchorage, Alaska

POSITION STATEMENT: Objected to certain language in SB 13 over-obligating the state financially.

BOB FRENCH, representing himself
Anchorage, Alaska

POSITION STATEMENT: Elaborated how TIFIA money is appropriated regarding SB 13.

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

POSITION STATEMENT: Supported SB 13.

THOMAS PEASE, representing himself
Anchorage, AK

POSITION STATEMENT: Opposed SB 13.

LOIS EPSTEIN, representing herself
Anchorage, AK

POSITION STATEMENT: Did not support SB 13.

ACTION NARRATIVE

[1:43:42 PM](#)

CHAIR DENNIS EGAN called the Senate Transportation Standing Committee meeting to order at 1:43 p.m. Present at the call to order were Senators French and Chair Egan.

Presentation: Old Harbor Airport Runway Extension

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CHAIR EGAN announced the Old Harbor Airport Runway Extension presentation.

[1:45:33 PM](#)

CARL MARRS, CEO & President, Old Harbor Native Corporation (OHNC), Old Harbor, AK, said the airport runway extension project was started last year. He explained that the project had been on the books for a long time, and Governor Parnell challenged rural Alaska to help figure out ways to improve economic opportunities in rural Alaska to stop the outmigration of its communities, to think about public/private partnerships and to think outside the box.

That is what they did, and they came up with a plan to revitalize Old Harbor, but in order to do that they had to get the tribe, the city and the Native Corporation all working for the same priorities and objectives. Every six months they meet in Old Harbor to make sure everybody is still on the same page, and when issues come up they work through them.

This approach has been successful, he said. This project was structured in a manner that allowed collaboration between the state, the city, the tribe, the village corporation and the federal government. They have achieved the goals while saving the state tens of millions on this project alone.

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SENATOR DYSON joined the committee.

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CYNTHIA BERNIS-LOPEZ, Vice President, Corporate Affairs, Old Harbor Native Corporation (OHNC), Old Harbor, AK, said she was raised in Old Harbor and works very closely with the city and the tribe on economic development to sustain a healthy community and to reach the goals of the community plan established in 2005.

She said Kodiak Island villages have a very strong renewable resources seafood and fishing fleet, the fish resource being their economic driver. They built the new small boat harbor to support their fishing fleet and the city dock that can support the state ferries. Both projects were completed on time and under budget, and they are currently working on the airport expansion and the hydro-electric project. All of these projects are essential infrastructure and are multi-pronged economic development efforts leading to a fish processing plant there.

A bi-annual leadership summit is held where community members come together to establish priorities, provide infrastructure updates on programs and projects and do strategic planning.

MS. LOPEZ said the community recognizes the importance of working together and that they are challenged in getting the airport expansion project moving forward. The village corporation is providing the additional land for the extension, and DOT estimated its in-kind value was \$450,000. The Kodiak National Wildlife Refuge is providing the subsurface rock for the expansion, and through the Alutiiq Tribe of Old Harbor they utilized the civil works program for the completion of the environmental assessment and the permitting. This cost-shared program has reduced the cost for these tasks in half.

A key component to the airport project is the Department of Defense (DOD) Innovative Readiness Training program. This program will provide substantial savings with the federal government providing in-kind construction support. They have approved IRT applications for 2013 and 2014 that were submitted

collaboratively by the City of Old Harbor and the Alaska Department of Transportation (DOTPF). Through the IRT program the Marine Corps will provide operators, equipment, and their own fuel and housing support for the project. They are working closely with DOTPF to ensure they are well-informed on the project. This is a state-owned airport and will remain that way. Their community just had to get very creative to complete this project that will ultimately allow them to reach their goal of building the economy with a fresh fish processing plant.

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RICHARD WIEBE, Civil Engineer and Project Manager for the Airport Runway Extension Project, Shearwater Systems, LLC, Old Harbor, AK, explained the airport project showing pictures of conditions that existed prior to any work being done one year ago. The runway was constructed in 1992 and has a small apron, a maintenance building, and land is leased for one private hangar at the facility. It is unpaved and unlighted.

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The existing runway had an object-free zone of 400 feet wide and this will be increased to 500 feet. He explained that the original runway cut through a ridge such that on the west side there was a bluff about 80 feet high and on the east side a bluff of 60 feet high. That doesn't meet the FAA slope requirements, so those hills will be cut back to a ratio 7:1 and the toe will be moved 50 feet further from the center line. They will have quite a bit of fill on the extension up to 55 feet in depth at the northern end. The slope is planned to have a ratio of 3:1 on the south end and 4:1 on the marine end.

The past construction season overburden was removed in preparation for blasting. They received 404 and 401 permits, which will allow them to "spoil" additional organic material within indicated locations. The total volumes moved will be somewhere between 1.9 and 2.2 million cubic yards, depending on what they encounter in depth of organic material in the expansion area and the variation in the expansion material as it gets loosened up. A majority of the fill will be on the north end (over 600,000 cubic yards); the south end will get 140,000 cubic yards.

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MR. WIEBE said that Shearwater and its forces plan to begin the construction season in April and go through June in further preparation for the IRTs arrival on June 1. As part of their secondary mission, they were challenged to train and hire local

operators, which they are doing. The tribe, the city and the corporation provided scholarships to send three individuals through training, and those were employed along with some others who had experience. There are further plans for four more scholarships, two for truck drivers and two for operators this year, so the vast majority of their work force has been locally hired. Including full time and part time workers, 14 are local hires.

MR. WIEBE said once the IRT arrives, they will segregate the work areas so that they don't co-mingle and have conflicts. Some blasting will be done in April and May prior to their arrival to generate enough material for the work season. Once they arrive, Shearwater will move to the southeast side and work on the extension to the south. Prior to their arrival, they will have to push a haul road out and put in a temporary crossing over the creek at the north end.

Grading plans are 90-95 percent complete; the southern end has a 300 foot extension, and a couple of streams need to be rerouted around the fill area. They have been working closely with the Divisions of Fish and Game in terms of their design, and they have conducted fish studies monthly through the last season to characterize these streams.

He said the north end has a 17,000 foot extension and they will have to reroute Skulpin Creek and the road out to Midway Bay to avoid having to install a costly culvert. A temporary pad for construction activities and staging equipment is being constructed for when they get to the point of the final sub-base and finish force that is where the crushing operation will occur outside the object-free area.

They have two areas of tidal land to fill in; one on the east at the outlet of Skulpin Creek and one on the west side.

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SENATOR DYSON asked how high the runway and pad are above mean high water.

MR. WIEBE replied its average elevation is around 55 feet with a slight slope from end to end.

SENATOR DYSON said it looked like any tidal wave activity would be pretty sheltered in there.

MR. WIEBE agreed.

SENATOR DYSON asked if they had done any analysis of that possibility.

MR. WIEBE replied that would get done in 2014. Basically, they need to cut in the new route for the creek and let it heal a season before beginning to divert water.

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He said the second mod for the 404 permit was issued in February; public comment closes on March 18 and grading plans are essentially done. A draft safety and blasting plan has been completed and is being circulated for final review; that will be provided to Rob Marine at the Kodiak Airport who will also receive notifications relative to the blasting and activities on the runway. They have three stream permits that will be submitted shortly for a temporary culvert.

He reported that the Alutiiq Museum will be doing the field work for the section 106 archeological surveys. They did the initial survey last year and located a couple of sites that need further investigation. Shipment of this year's materials should occur this Friday for the first barge run. They are adding two fuel tanks to the city's fuel farm to accommodate fuel demands for the IRT operation as well as the city's. This will further enhance the city's opportunity in terms of scheduling barge runs of fuel and price reductions due to the volume that can be accommodated.

Blasting will begin in early April on the west side and go up until the IRTs arrive and then move to the east side. The IRTs plan three months of operation, June-August.

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He said they did soil borings and used a geotechnical report from the original runway to check for consistency in the material there and they also took samples in the northern extension which hadn't received much boring in the earlier study.

CHAIR EGAN asked if they had time constraints on when the blasting occurs.

MR. WIEBE replied their main concern is if there are sea mammals in the area. They will observe and postpone blasting if that's the case. They are quite a distance from residences.

CHAIR EGAN asked if they were concerned about the skulpins.

MR. WIEBE said that issue came up and was dismissed, because they were too far away to cause a problem. He said the north end would be somewhat challenging because of a high water table, but they were planning on using some geo-tech fabric in some of those fill areas as well. He showed some pictures of the project.

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SENATOR FRENCH asked if they were able to get \$4.5 million from the legislature last year and were asking for \$6.6 million this year.

MR. MARRS answered yes. He explained that they got started late last year, so they are rolling some of that funding into this season. The total project cost, depending on what IRT does, is between \$14.5 million and \$18.5 million (versus the original estimate of \$38 million). In the meantime, they are hiring local people and training them in something they can continue - like operators and truck drivers. The ultimate goal is to be able to fly fresh fish out of the Old Harbor airport in DC10s.

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CHAIR EGAN thanked the presenters.

SB 13-KNIK ARM BRIDGE AND TOLL AUTHORITY

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CHAIR EGAN announced SB 13 to be up for consideration.

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At ease from 2:08 to 2:10 p.m.

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JODY SIMPSON, staff to Senator Huggins, sponsor of SB 13, said this is a companion bill to HB 23. This project - Knik Arm Bridge and Toll Authority (KABATA) - has been discussed and vetted over 35 years. SB 13 accomplishes three things: increases KABATA's bond issuance capacity from \$500 million to \$600 million, which will allow them to offer the full allocation of private activity bonds to the private developers to factor into their proposals; it clarifies that the bridge is exempt from local property taxes if the private partner operates the facility on behalf of the state, which puts the bridge (which is always owned by the state) in the same tax exempt category as all state roads; and establishes a project reserve and details

the operation of this reserve. The reserve is where toll revenues, appropriations and other funds will be deposited; it will include a reporting and replenishment mechanism subject to legislative appropriation.

She said these three elements are designed to achieve the best value for the State of Alaska in the public-private partnership that is being used to build the bridge. She recapped that KABATA was established in 2003 by the legislature under AS 19.75 to construct a bridge over the Knik Arm between the Municipality of Anchorage and the Mat-Su Borough. In 2006, the legislature amended the enabling statute to allow the authority to enter into a public-private partnership to finance, design, build and operate the crossing. Since that time, the authority has followed the direction of the legislature by steadily advancing the project toward construction.

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MS. SIMPSON said the sponsor wanted to emphasize that the MatSu Borough population grew by 140 percent between 1985 and 2000; during that same time Anchorage grew by 28.6 percent. Together those regions grew by 44.5 percent. The communities of Knik and Goose Bay, the area that will receive traffic from Anchorage across the Inlet, if incorporated, would be the fourth largest city in Alaska. The area has more people living in it right now than live in the combined cities of Palmer and Wasilla.

From 2000-2010, she said, the auto count on Knik/Goose Bay Road grew from 12,590 cars to 18,308. Currently, calculations indicate the accident rate is nearly twice as high as the rates on the Seward Highway.

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MICHAEL FOSTER, Chairman, Board of Directors, Knik Arm Bridge and Toll Authority (KABATA), Anchorage, AK, said this project gets down to the much needed new infrastructure Alaska needs as a whole. It is not a connection between Point A and Point B for the Municipality of Anchorage and the Mat-Su Borough, but rather the infrastructure that would be important to the western side of Cook Inlet, Interior Alaska and all the state. The way the project is structured, the net revenue over time would actually go back to Title 23 projects statewide from marine highways to airports to harbors and board walks in rural Alaska.

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One of the most important pieces of this project starts with the population growth in Southcentral of 44.5 percent between 1985 and 2000 and the resulting growth of traffic.

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The Department of Labor and Workforce Development (DOLWD) modeled a projection in 2012 for Southcentral Alaska that showed a growth in Anchorage of about 26 percent and in the Borough of 80 percent growth with an overall Southcentral growth of 39 percent. The University of Alaska's Institute of Social and Economic Research (ISER) did a model in 2009 (funded through DOTPF) before the census showing that growth in Anchorage was 20 percent and in MatSu 90 percent with the overall growth in Southcentral was about 37 percent.

The growth in the MatSu Borough is one of the key components to the traffic demand on the Glenn Highway. The 2009 ISER model under-predicted MatSu growth by 9.8 percent. Using the same factor of growth, he took the ISER model and plugged in the 2010 census numbers as an established baseline and that actually showed a growth of 127 percent or a population of 190,000.

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MR. FOSTER said KABATA also had a model of Anchorage, the Mat-Su Borough and Southcentral over the same timeframe that showed a growth of 128 percent. Both models show about 100,000 additional Borough residents. The overall area in Southcentral actually grew by 42 percent. Projecting that out over the next 25 years, Anchorage will grow by about 24 percent (in the last 25 years it grew by 28 percent), and the Borough will continue to grow by 128 percent (in the last 25 years it grew by 140 percent).

The Anchorage Metropolitan Area Transportation Solutions (AMATS) indicates that almost half of the growth in the Anchorage area occurs along the Glenn Highway, more specifically north of the Glenn at the Eagle River Bridge. Eagle River to Chugach to Peters Creek out to Eklutna grew by about 74 percent in the model; that is 44 percent of the total population growth that is predicted for Anchorage. If you look at the population by itself, you see a substantial growth along the Glenn Highway from Eagle River out to the MatSu Borough over the past 25 years or from Palmer to Wasilla to Knik, Goose Bay and parts thereof. From the population, Mr. Foster said, comes the critical component - traffic - because this is about transportation not population growth.

He said the Glenn Highway at Eklutna in 1985 had an average daily traffic count of 15,700; in 2010 that grew to 29,700, an 89 percent growth.

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CHAIR EGAN asked if that was for the same number of lanes.

MR. FOSTER answered no; the Glenn Highway had been expanded over those 25 years. Their model predicted 65,000 vehicles at Eklutna in the same time frame (2010-2035).

Highland, the next measuring point just south of the Eagle River Bridge, where the six lanes start, in 1985 had 33,000 vehicles (it wasn't six lanes all the way out to Highland in 1985) and in 2010 there were 52,000 vehicles. The Glenn traffic increased by 52 percent in those 25 years. The Glenn today is at "design capacity," which means that is where it should be for the highway speeds and the traffic counts. This is one reason why another lane is being added southbound at the Eagle River Bridge through a GO bond.

They project 110,000 vehicles in Highland in 2035 based on the population models he discussed. This is a staggering number, but he remembered in 1985 there were only 33,000 and in 2010 there 52,800.

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MR. FOSTER said there is a lot of discussion about who would use this bridge if people will still use the Glenn. Again, this is all about transportation, he said; the Knik Goose/Bay Road (the road that brings the west side of Cook Inlet traffic to Wasilla) might be called a highway, but between 2000 and 2010 the traffic count on that road went from 12,600 to 18,400, a 45 percent increase. Also based on the federal highway accident rates (based on fatalities and major accidents in a "100 million mile ratio"), the Knik/Goose Bay had a ratio of 22.something to a ratio of 14 for the Seward Highway. If you look at all the transportation corridors, the Knik/Goose Bay Road is clearly the deadliest road in the state.

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The amount of population at the end of Knik/Goose Bay Road, if that area incorporated today, would be roughly 17,000 people, and it would be the fourth largest city in Alaska; and the Palmer/Wasilla area combined is only about 14,000 people.

He said critics will talk about the use of the bridge and the amount of traffic in years one and two, but in year one their model predicts about 3,000 vehicles will cross the bridge one way every day (or 6,000 total trips), which is similar to traffic at Huffman or DeArmond in Anchorage now. Their models shows in the initial years more trips start from Anchorage than the other direction. He said with or without a bridge the Mat-Su Borough in that area is the fastest growing portion of the borough. "It is not a bridge to nowhere," he said; it already has a correction facility, and a rail extension is coming into Port MacKenzie that is also being developed as a resource development. Some things are there already; this is just needed infrastructure.

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In 2008, he said the DOTPF did a study of expanding the Glenn Highway based on traffic predictions (Glenn going to six lanes northbound and expanding to an eight-lane going out to north Eagle River where a large portion of traffic comes on) and estimated it would cost about \$3 billion to expand over the course of 25 years to handle traffic capacity. So you have to ask yourself do you use STIP money to expand the Glenn or do you look at another public-private partnership with toll revenue to build infrastructure that, based on their models, will have a net return to the state over the life of the concession (although in the initial years they will have to draw from the reserve fund to subsidize the payment). But based on their traffic and population model, money will start coming back to the reserve fund in seven or eight years and over the course of 45 years about \$2.2 billion in net surplus can be used for Title 23 statewide for any eligible transportation project not only for Anchorage and the Mat-Su Borough but for Southeast and rural Alaska.

SENATOR FRENCH asked how much state and federal money had been spent on KABATA to date.

MR. FOSTER replied \$75 million.

SENATOR FRENCH asked him why raising the bond limit from \$500 to \$600 million was necessary.

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MR. FOSTER answered that they currently have a \$600 million capacity through the Safe, Accountable, Flexible, Efficient Transportation Equity Act (SAFETEA-LU), so they are just asking

to increase the capacity to match the capacity they have through the private activity bonds.

SENATOR FRENCH asked why a bill was originally written for \$500 million if SAFETEA-LU gave us \$600 million.

MR. FOSTER answered that he wasn't here in 2003, but offered to research it.

SENATOR FRENCH asked why the SAFETEA-LU is even a relevant point when it's the state in essence giving them the authority to issue the bonds.

MR. FOSTER answered that the public-private partnership is a private entity that is responsible for financing, and it will have to acquire the financial support through a TIFIA loan process, private activity bonds or through private financing options. All he does in the SAFETEA-LU process is to provide a mechanism for tapping into the private activity bonds and the federal government; the state is not responsible for the private activity bonds.

SENATOR FRENCH asked if the state didn't need to issue bonds if this part of the bill wasn't necessary.

MR. FOSTER answered that the department is a conduit for the private activity bonds; it doesn't underwrite them. But they do need statutory authority to issue them. Currently they have the authority to issue up to \$500 million, and this would increase that amount to \$600 million. They just provide the private partner the ability to go to SAFETEA-LU as a financial mechanism.

SENATOR FRENCH asked what happens to the project if the Transportation Finance and Innovation Act (TIFIA) money doesn't come through.

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MR. FOSTER replied that the reason they think they will get TIFIA funds is that MAP 21 has about \$17 billion in capacity and Alaska has submitted one of the 29 letters of interest currently into the Federal Highways Administration as part of the "greens field" type loan process). He added that, in fact, if the developer uses the TIFIA loan, payment isn't required for five years after completion, and then it's a low interest in the initial years that increases over time. Alaska is one of eighteen states that have applied for it. They have applied for

49 percent, because there is a 49 percent ceiling but believe that the TIFIA program will finance at least 33 percent, because it doesn't appear that federal highways will allow many projects to get that much.

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MR. FOSTER said he met twice with Secretary of Transportation LaHood, the major projects group, and the undersecretary on the TIFIA when he was in New York in June and asked them to write a letter about what the state needs to do in order to advance in the TIFIA process; it should be in their packets. Basically, it says they want to see the commitment of the state. Also in their packets should be a letter from the governor back to TIFIA that says it's his intent to fund this. Mr. Foster said he felt 90 percent confident we will get TIFIA with this bill, but 100 percent confident we won't get it if this bill doesn't pass. Alaska won't be in the running if they can't show that the state is behind this project. Not getting TIFIA equates to about \$100 million additional cost to the state; available financing would cost more and need to be paid back sooner. They would probably come back to the legislature for an additional appropriation to the reserve fund - assuming the traffic count doesn't ramp up to match some of their projections. The other option is to do a milestone payment upfront to pay down part of that capital, which could be done through STIP or Title 23 funds.

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MS. SIMPSON clarified that she didn't include the original TIFIA letter, but she did include the governor's response as well as Senator Huggins' response.

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LARRY DEVILBISS, MatSu Mayor, Palmer, AK, said that every mayor in the borough totally supports this project; the Alaska Conference of Mayors had also passed a resolution in support of it as an indication that this is of importance to the broader state, not just Anchorage and the borough. In anticipation of the growth that is already moving towards the landing of the causeway, they have already bonded and are starting construction this summer on a new high school/middle school and are laying out two town sites out there, one of which is already surveyed and monumented. This project is a very necessary piece of their infrastructure.

MR. DEVILBISS said he recently learned that of the 1 percent of Alaska that is privately owned, 30 percent is in the MatSu Borough, so it has a lot of room to grow.

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JAMIE KENWORTHY, representing himself, Anchorage, Alaska, said SB 13 greatly expands the state's liability from the existing KABATA statute. The new language says the legislature "must" appropriate funds to make annual payments to the contractor to pay off the bonds, and Section 5 says the state "shall" fund KABATA's overhead, administrative costs, and working capital. He said he believes a moral obligation for the agency's self-defined operating funds is unprecedented.

He said there are four problems related to the state's liability for this project, which counts on future tolls to make the annual liability payments, the first being overestimated toll revenues. KABATA's traffic and toll consultant, Wilbur Smith, has an average overestimating error rate of 118 percent for the first five years of all their national projects that have been opened, more than a factor of 2. Those numbers come from the Transportation Research Board of the National Academy of Sciences. KABATA says there will be \$4.2 billion in toll revenue over 35 years, but Mr. Kenworthy said his estimate is half that at \$2.1 billion. That might be combined with the possibility of 50 percent fewer cars, which actually happened when CH2MHill modeled ISER data for the Highway to Highway project.

Further, Mr. Kenworthy said that two Wilbur Smith projects have already gone bankrupt and a few more are having their debts restructured, which is bond talk for the state having to come up with more money and the bond holders having to take a haircut and stretch out the repayments.

SENATOR DYSON asked where it says the state must pay these liabilities.

MR. KENWORTHY responded it doesn't say "moral obligation," but under Section 5, KABATA is going to identify their cash needs for admin working capital and overhead. If you ask any bond counsel, the language of when you establish a reserve fund and when you ask for an appropriation is the language that triggers the moral obligation of the state. At that point the state will have a choice of funding the reserve fund to make up for whatever amount is needed according to what KABATA says it needs (or is renegeing on paying, in effect) and the national credit rating agencies will see that language (which shows as contingent liability on the state's balance sheet) and will then basically ding the State of Alaska.

He believed that if this bill passes by next fall, KABATA would issue a 35-year contract for billions of dollars and this language would then be in place to fully replenish the reserve fund to meet that moral obligation. The credit rating of the state could then be downgraded, because the rating agencies will notice that Alaska is now doing unlimited contingent liabilities. Fitch right now has us at AAA; Standard Poor's and Moody's have us at AA⁺.

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SENATOR DYSON asked if the assets of the state would have to back the fund if it goes in the ditch, so to speak.

MR. KENWORTHY replied yes, but it's a little more complicated. The language that is needed to replenish the fund is customary language for establishing a moral obligation. First, KABATA would say there is too little money in the fund. A TIFIA application clearly says in a footnote that at any time it gets below \$50 million they will ask the legislature for an appropriation. That is when the legislature has two choices: either appropriate the funds or have Wall Street notice that you have a contingent liability you're not funding. AIDEA and AHFC don't have such language, because they don't have this kind of reserve fund for operating funds.

He said the second problem is the missing \$500 million, because KABATA was turned down last fall for the TIFIA loan. The third problem is that the latest financial phase one plan includes impossibly derived revenue from what has to be four lanes after 2025, but the plan only pays for a two-lane bridge out to 2051. KABATA has to either take \$1.9 billion out of the revenue forecast, because that's the maximum load for a two-lane bridge, or it needs to put in \$550 million to \$800 million for a four-lane bridge in phase 2 and the connection to Ingrid/Gamble.

MR. KENWORTHY said the numbers in the last six financial pro-forma plans really move around a lot. The 2010 one had \$7 billion in availability payments, and now it's \$2.7 billion. However, they all have one fixed number, which is basically a minimum bond cover ratio of 1.25:1.40, which means that you've got to have \$1.30 to pay \$1.00 of costs.

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His opinion was that the numbers had all been reverse engineered starting with the bond cover ratio and working back to the traffic and tolls that would get that number. So, in 2011 they asked for a \$300 million loan from TIFIA and showed \$600 million

more in toll revenue than this year's application, which basically asks for a \$500 million loan and has \$600 million less in tolls.

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MR. KENWORTHY said that the last problem is why this is a public-private partnership deal instead of direct state bonding. By KABATA numbers, the contractor is putting in \$73 million of equity and taking out \$738 million in net cash flow for financing the deal at 12 percent for 35 years, but he thought it should be \$150 million less. That would still add up to a half billion dollars, because the state is guaranteeing the contract but the contractor takes that contract to Wall Street and issues the bonds. He questioned why the state should guarantee a contract that pays 10-12 percent over 35 years when it can borrow at less than 4 percent.

MR. KENWORTHY asked why the complicated P3 structure. His guess was that this is the only way to sell the bridge as if it will be free or to by-pass the capital budget process. He estimated the bridge will cost a minimum of \$2.6 billion or \$3,500 per Alaskan, plus the \$2 billion in tolls. Basically, he thought the whole deal was a house of cards that is only held up by a state guarantee.

A different answer to Senator French's question was that the original statute said that they could issue bonds that had to be more than 125 percent of the bond buyer index (investment grade) but that was when the private sector was going to share the risk. But in this new section, the state is fully guaranteeing a reserve fund to replenish the unlimited liability of this project, and therefore it's all public sector taking the risk, so they don't have to worry whether the market would give it an investment grade; it's just a matter of the state acting as the guarantor.

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SUZANNE DIPIETO, representing herself, Anchorage, Alaska, drew their attention to specific language that takes the unprecedented and needless approach of obligating the state to cover unlimited shortfalls in the Knik Bridge's project expenses.

The sections of the bill that create this obligation start on page 2, lines 25-26, where KABATA already has the power to create a "plain vanilla" project reserve fund in AS 19.75.221(h). At the bottom of page 2 and the top of page 3 is

the first new item which establishes that the legislature will appropriate money into this reserve fund.

Language on page 3, lines 8-17, also says that KABATA must use the money the legislature has appropriated into its reserve to pay its debts and obligations. These two additions create a special reserve fund into which the legislature will deposit money and out of which KABATA will pay its operations and maintenance including its contractual availability payments to its private partner.

One more element to this structure is on page 4, lines 5-9, that says each year KABATA must tell the legislature and the governor how much it needs to cover its debts, and that amount "may" be appropriated. This language signifies the state's pledge to appropriate money to the reserve fund if it is insufficient to the rating agencies. While the state could decide to not appropriate the money, that failure to honor the moral obligation is treated by the market as a default, and it would be expected to react adversely by downgrading the credit rating of the State of Alaska in general. On that point, she encouraged them to review Commissioner Butcher's (DOR) letter to Senator Thomas warning about this exact hazard. Additionally, using a moral obligation reserve fund to cover operating expenses has never been allowed in Alaska for any other moral obligation reserve fund; and it should not be allowed for this project. She thought that even passing this bill could create the type of financial exposure that would cause rating agencies to have a negative reaction when reviewing the state's credit rating for future bond issues by the state.

If KABATA needs a project reserve fund, existing statute already allows it to create one without roping the legislature into continuous appropriations for the life of the project. She concluded by asking them to delete sections 4, 5, and 7.

SENATOR DYSON said the state presently has north of \$10 billion of unfunded liabilities and \$70 or 80 billion in cash reserves and asked if this potential liability would have that much of an effect on its present bond rating given those reserves.

MS. DIPIETO urged them to consult Commissioner Butcher's letter, but added that in consulting with bond counsel in preparing for this testimony she was told that this would have an effect of possibly one step down grade - because of the unlimited nature of the exposure.

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BOB FRENCH, representing himself, Anchorage, Alaska, said he wanted to add information about what he thought were misstatements by KABATA mostly at the House Transportation Committee hearing on Tuesday. One was that more money is available for TIFIA funding this year than in the past, but it has strong competition. Once administrative overhead and obligation limitations are figured in, federal highways anticipates having \$690 million available in FY2013 and \$920 million in FY2014. Those actual dollars are leveraged around 10:1. So, \$690 million is able to provide about \$6.9 billion of TIFIA backed loans for FY2013.

He explained that KABATA's chair, Mr. Foster, testified two days ago that none of the TIFIA letters of interest had gone forward to the evaluation stage, but that's not true. A week ago, New York Governor Cuomo announced \$1.5 billion to replace a bridge would move to the next stage of the loan process. Successful TIFIA projects will pay flat annual fees to the contractor.

KABATA's numbers show the project cost flow is negative for the first nine years using 49 percent TIFIA money, not the many more years that it would be if they got only \$30 million or zero TIFIA money, and they are still showing ballooning annual payments starting at \$25 million in year one going to \$104 million in 2035. Other successful TIFIA projects have a real private sector sharing of the risk, but this one is all public money with a toll consultant's report that has a disclaimer saying basically to not use its information to support any financing plans.

He said that Mr. Foster also told them that KABATA had not really been turned down five times by TIFIA, but that suggests that the previous four times they really weren't trying, and if that is the case, that is not rational economic behavior for KABATA's financial consultants who are paid millions of dollars for financial plans that don't include 49 percent of the project costs coming from TIFIA.

Full revenues come from population and jobs, he said, and it's informative to look at how those estimates have changed over the years. Is it reasonable to predict that there will be only 30 new jobs in the Willow area by 2035 compared to the 13,828 jobs that KABATA estimates will be created in the first half mile on the west side of the bridge? How about zero new jobs near the Buffalo Mine road or 169 new jobs in the entire Butte area?

In 2007, when KABATA was predicting a MatSu population of 250,000, the population and job estimates were spread all around the borough. At the same time they estimated only 6,740 new jobs at the Point Mackenzie area, less than half of what they were predicting in those same areas in 2011 when the borough population was estimated at 190,000 (per Mr. Foster). It appears that KABATA's 2011 forecast was revised to include additional jobs at Point MacKenzie in order to justify both north and south bound traffic on the bridge to go to work - that the bridge will collect \$595,000 of tolls every day in 2051 or that an equivalent of 2.5 Dimond Centers of retail will spring up in an area that the borough has planned for tank farms and coal loading facility. Another example of the flexibility used by KABATA's consultants was shown in the growth of estimated toll revenues. In 2007 they estimated \$7 billion in toll revenues over a 40-year contract for their P3 partner; in 2010 they estimated \$12 billion in total revenues over a 55-year contract; in February of 2011 they estimated \$4.8 billion for a 35-year contract, but in December of 2011 it was \$4.5 billion in 34 years. In their last financial plan (from August 2012) it was \$4.2 billion for a 34-year contract. The \$600 million of lost toll revenue changed over a period of only 18 months - four times higher than what KABATA has said is the maximum amount they need for their reserve fund.

AVES THOMPSON, Executive Director, Alaska Trucking Association (ATA), Anchorage, AK, said he supported SB 13. They believe the bridge will provide a vital new link in the regional transportation system and an additional route into and out of the port of Anchorage, provide some congestion relief on the Glenn and Parks Highways and set up an efficient freight corridor to Interior and northern Alaska.

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THOMAS PEASE, representing himself, Anchorage, Alaska, gave some history of the proposed project and why he opposed SB 13. He said the momentum for the Knik Arm Bridge originated from federal earmarks and around \$110 million in seed money of which KABATA has spent over \$70 million. But even a large gift from Congress is not enough to sustain a project as expensive as the Knik Arm crossing. It has promised to sustain itself with no state money, but passage of SB 13 would hand a blank check to KABATA signed by the State of Alaska for the entire cost of the bridge, which some estimates place at \$2.5 billion.

He said the Knik Arm Bridge is on AMATS' short term projects list only because KABATA assured the Anchorage Assembly three

years ago that this project would not cost the state any money to build. The Anchorage Assembly pressed hard on this point as they were concerned a project as expensive as the Knik crossing would consume state transportation money badly needed for other road projects in Anchorage and throughout the state. KABATA guaranteed the Assembly that the Knik Bridge would require no state funding, and that is when the project got moved from the long term to the short term AMATS list, which enabled KABATA to pursue federal TIFIA loans, but even with the bridge on the priority list, it was denied those loans on five separate accounts, because even a federal loan agency recognizes this to be a high risk project with likely cost overruns and inflated traffic and toll projections.

MR. PEASE continued that once federal earmarks dried up, KABATA shifted its financial focus to public private partnerships (PPP). For several years they told anyone who would listen that private investors would assume all risk in the bridge project and that they had some of the largest international investment firms knocking at the door and it would be just a matter of months before they would have a contract. He had been assured three years ago that KABATA was actively negotiating with private investors, that no state money was on the table, and that a signed contract was imminent. Now, several years later, KABATA still has no private partner - and the reason is that cost projections are understated, revenue forecasts are inflated and the project is too risky. Today KABATA will tell people that they still have private partners eager to sign a contract and build a bridge and they do, but the private partner will sign only if the State of Alaska guarantees 100 percent of the cost of the bridge including cost overruns and toll revenue shortfalls.

LOIS EPSTEIN, Engineer, Anchorage, Alaska, said she serves on the AMATS Technical Advisory Committee and was speaking for herself today. She did not support SB 13. Despite what they may have heard she said the proposed Knik Arm Bridge is not ready for construction. It is not a financially sound investment nor is it reasonable to assume that the bridge will improve safety on Southcentral roads. Further, she said the KABATA expects to get a federal TIFIA loan for \$500 million, but it hasn't received a single TIFIA during its five attempts - resulting in an "enormous hole" in their budget.

MS. EPSTEIN urged the committee to continue to press KABATA for their financial plan. Their proposed toll is among the highest in the country; so many people are likely to take the Glenn

Highway alternative to and from Anchorage, not to mention the increasing use of telecommuting which doesn't require a car. Additionally, Basing KABATA's toll revenue forecast on their consultant's projection of population growth in the MatSu, which is far greater than from other sources including the DOLWD and ISER, puts almost all the future growth into the western part of the borough, which knowledgeable experts believe is unrealistic. That growth should happen in the Wasilla/Palmer area. Unfortunately, the state's plan to do an independent audit of bridge toll revenue was recently canceled, and the recently issued Legislative Budget and Audit (LB&A) findings about KABATA have not yet been addressed. According to the the real cost of the Knik Arm Bridge, \$2.6 billion plus, a document they had been given, there are substantial costs to the state unaccounted for by KABATA and its materials in testimony. So she urged the as legislators to do their job and ascertain how much this project will really cost the state on an annual basis prior to approving this bill.

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She reminded them that inadequate traffic projections resulted in a more than \$2 million annual subsidy for the Whittier Tunnel, a much smaller toll project.

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MS. SIMPSON, on behalf of the sponsor, asked the chair to allow KABATA a two-minute wrap up.

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MR. FOSTER said KABATA had not tried to mislead the legislature on the moral obligation language. Once the contract is signed, there is about \$1 billion of moral obligation on the books to AIDEA, and this would add about another \$1 billion to it.

CHAIR EGAN thanked everyone for their help and held SB 13 in committee.

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There being no further business to come before the committee, Chair Egan adjourned the Senate Transportation Standing Committee meeting at 3:17 p.m.