

**ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE**

February 5, 2015

1:02 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Shelley Hughes, Co-Chair
Representative Charisse Millett
Representative Benjamin Nageak
Representative Louise Stutes
Representative Matt Claman
Representative Dan Ortiz

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

PRESENTATION: KNIK ARM CROSSING PROJECT DETAIL

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

MARC LUIKEN, Commissioner Designee
Department of Transportation & Public Facilities (DOT&PF)
Anchorage, Alaska

POSITION STATEMENT: Testified and answered questions on the Knik Arm Crossing Project (KAC).

JUDY DOUGHERTY, Executive Director
Knik Arm Crossing (KAC)
Anchorage, Alaska

POSITION STATEMENT: Presented a PowerPoint overview on the Knik Arm Crossing Project (KAC).

PAT PITNEY, Director
Office of the Director
Office of Management & Budget (OMB)
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions on the Knik Arm Crossing Project (KAC).

JANET KINCAID, Acting Chair; Board Member
Knik Arm Bridge and Toll Authority (KABATA)
Palmer, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of the Knik Arm Crossing Project (KAC).

BOB FRENCH, Mechanical Engineer (ME)
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to the Knik Arm Crossing Project (KAC).

PAUL CAULCARR, Business Manager
Iron Workers Local Union 751; Vice-President
Southcentral Building Trades
Wasilla, Alaska

POSITION STATEMENT: Testified in support of the Knik Arm Crossing Project (KAC).

LARRY DeVILBISS, Borough Mayor
Matanuska-Susitna Borough
Palmer, Alaska

POSITION STATEMENT: Answered questions and testified in support of the Knik Arm Crossing Project (KAC).

LOIS EPSTEIN, Professional Engineer (PE)
Anchorage, Alaska

POSITION STATEMENT: Testified against the Knik Arm Crossing Project (KAC).

STEPHANIE KESLER, President
Government Hill Community Council
Anchorage Alaska

POSITION STATEMENT: Testified on the scheduled right-of-way demolition during the discussion of the Knik Arm Crossing Project (KAC).

AVES THOMPSON, Lobbyist; Executive Director
Alaska Trucking Association, Inc. (ATA)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of the Knik Arm Crossing Project (KAC).

CATHARINE JONES
Palmer, Alaska

POSITION STATEMENT: Testified in support of the Knik Arm Crossing Project (KAC).

PAUL GROSSI, Lobbyist
Ironworker Management Progressive Action Cooperative Trust
Alaska State Pipe Trades UA Local 375
Juneau, Alaska

POSITION STATEMENT: Testified in support of the Knik Arm Crossing Project (KAC).

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

POSITION STATEMENT: Testified and answered questions during the Knik Arm Crossing Project (KAC).

ACTION NARRATIVE

[1:02:47 PM](#)

CO-CHAIR SHELLEY HUGHES called the House Transportation Standing Committee meeting to order at 1:02 p.m. Representatives Claman, Millett, Ortiz, Stutes, Foster and Hughes were present at the call to order. Representative Nageak arrived as the meeting was in progress.

PRESENTATION: KNIK ARM CROSSING PROJECT DETAIL

[1:04:30 PM](#)

CO-CHAIR HUGHES announced that the only order of business would be a briefing on the Knik Arm Crossing Project detail by Commissioner Luiken Department of Transportation & Public Facilities (DOT&PF).

[1:06:13 PM](#)

MARC LUIKEN, Commissioner Designee, Department of Transportation & Public Facilities (DOT&PF), introduced himself and said that Judy Dougherty, the Executive Director for the Knik Arm Crossing (KAC) will provide an overview of the project. He said he looked forward to working with the committee.

[1:07:13 PM](#)

JUDY DOUGHERTY, Executive Director, Knik Arm Crossing, offered to brief the committee on the progress made on the Knik Arm

Crossing Project. She referred to a PowerPoint overview of the Knik Arm Crossing Project that will cover the public finance plan review and project development activities that have occurred since the last legislative session [slide 1]. She reported that the public finance plan uses three sources of public funds, including \$345 million from a federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan; \$275 million in state bonds, contingent on approval of the TIFIA loan; and \$300 million in STIP [Statewide Transportation Improvements Program] federal highway program funds. She elaborated on the finance plan, indicating TIFIA's goal is to encourage non-federal investment in infrastructure projects by providing credit assistance to projects such as the Knik Arm Crossing Project. The intention of the public finance plan is to spread the spending out over the STIP in approximately \$45 million per year increments, with \$75 million of the STIP funding already appropriated to date.

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MS. DOUGHERTY directed attention to the "Waterfall" flow of funds and reported that the Knik Arm Crossing, a toll facility, will generate revenue from the first day it opens [slide 3]. The facility would initially pay for maintenance and operation costs through tolls. Since the TIFIA funding is a revenue-only pledge, the loan would be repaid solely from tolls and without any state backstop, she said. After operations and maintenance costs are met, the TIFIA Debt Service would be paid next, followed by any reserves that the TIFIA loan might require. Excess tolls would be used to repay bonds, but in the out years any surplus of funds will also be available for other eligible projects, she said.

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MS. DOUGHERTY reported on the pre-construction activities in the project development [slide 4]. In 2010, the Federal Highway Administration (FHWA) issued its record of decision (ROD), a final decision and the challenge period is over. The environmental permit applications have all been submitted, with three outstanding permits remaining, including the USACE [US Army Corps of Engineers] 44 Wetlands permit; second, the National Marine Fisheries Service (NMFS) permit for disturbance of Beluga whales during construction; and finally the US Coast Guard Section 9 bridge permit. She reported on the right-of-way status, such that 86 percent of right-of-way acquisition has been purchased, including all the privately-owned parcels. The

remaining parcels will be purchased from the Alaska Railroad Corporation (ARRC), the Joint Base Elmendorf-Richardson (JBER), the Municipality of Anchorage (MOA), and the University of Alaska (UA), she said. The Knik Arm Crossing also recently completed a utility study - available on the KAC website - that addresses the relocation of water and sewer in the area of the proposed tunnel.

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CO-CHAIR HUGHES understood that a no jeopardy decision from the National Marine Fisheries Service (NMFS) was issued in 2011, but the state has not yet received the letter of approval or authorization. She asked whether the department has sought the final approval.

MS. DOUGHERTY answered that a no jeopardy biological opinion was issued by the endangered species branch of NMFS. She elaborated that the NMFS has two branches, with the regional staff issuing the biological opinion and the no jeopardy decision, which is part of the KAC's NEPA process. The KAC must apply for a construction permit for disturbance of the Beluga whales, essentially a noise permit for use during construction, from the Washington D.C NMFS staff who oversee the Marine Mammal Protection Act. Although this permit has not yet been issued, she offered her belief that the federal staff has been watching the KAC project and has put it the "back burner" at this time.

[1:12:18 PM](#)

CO-CHAIR HUGHES asked whether the federal agency is waiting to see if the project moves forward or if the NMFS has given some other reason why the permit has not yet been issued.

MS. DOUGHERTY answered that the federal agency has indicated that it plans on issuing a decision early in 2015. She attributed the delay to the NMFS staff being understaffed so it must prioritize its actions. Once the project moves forward, she anticipated the NMFS will act quickly to issue the construction permit with respect to the disturbance of the Beluga whales.

[1:13:04 PM](#)

CO-CHAIR HUGHES acknowledged the workload and juggling issues. She asked whether the department has recently asked for the status of the permit.

MS. DOUGHERTY replied that the NMFS responded to the Alaska Department of Law's inquiry on the permit status in the fall of 2014, indicating the Beluga whale permit was a difficult case; however, the agency anticipated it would be arriving at a decision shortly.

[1:13:47 PM](#)

REPRESENTATIVE ORTIZ referred to slide 3, entitled "Waterfall Flow of Funds." He recalled that toll revenues will initially pay maintenance and operations (M&O) costs. He asked whether any studies have been done to project toll revenues and the ability to "get down the bucket trail" shown on the slide.

MS. DOUGHERTY answered that the studies were updated last year. For example, in December 2014, the KAC completed a new socioeconomic study as well as additional traffic and revenue studies. She relayed that the socioeconomic study provides the data that is fed into the traffic study so it was important to update the 2007 socioeconomic study. She highlighted the list of key considerations include the MSB [Matanuska-Susitna Borough] 2060 Futures Project, the MSB Density Build Out Study, and the AMATS [Anchorage Metropolitan Area Transportation Solutions] Anchorage Transportation System Plan Update, as well as three key studies performed by the Municipality of Anchorage to analyze the housing market, residential and commercial land availability in the Anchorage area [slide 5].

[1:15:21 PM](#)

CO-CHAIR HUGHES asked whether the aforementioned new socioeconomic study was separate from the CDM Smith study performed in December [to update the traffic and toll revenue forecasts for the Knik Arm Crossing].

MS. DOUGHERTY answered yes.

[1:15:46 PM](#)

CO-CHAIR HUGHES further asked how the studies compared.

MS. DOUGHERTY reported that the initial 2007 socioeconomic study [, the Knik Arm Toll Bridge Anchorage Alaska MSA Traffic and Toll Revenue Investment Grade Study,] was performed by a Texas firm, IRS, [Insight Research Corporation] under contract with the traffic consultant [Wilbur Smith Associates]. This time,

the KAC used an independent economist [Cardno, Inc.] who teamed with a local planning consultant [Agnew::Beck] to provide more of a grassroots effort on projections. She emphasized the importance for KAC to have direct contracts with the economist and the traffic consultant. This is really important in moving forward with this financing plan, she said.

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CO-CHAIR HUGHES asked whether the new studies support the prior reports. She offered that she was surprised at how similar they were given some reactions that the 2007 report was overly optimistic. She further asked whether the "overly optimistic language" was used in the report.

MS. DOUGHERTY said the December 2014 figures are based on new studies. She offered that the KAC also compared the data and found the 2007 socioeconomic data was more optimistic than the current report; however, this is largely because the study was done in 2007. An economic recession followed in 2008 and 2009, she said. In addition, economists have different perspectives on how conservatively to report their forecasts. She acknowledged that KAC has found the new study to be more conservative and although traffic will ramp up more slowly, over time the traffic projections catch up. Although she was unsure which figures Co-Chair Hughes has reviewed, she reported that the gross toll revenues are significantly different than the 2007 projections.

[1:18:44 PM](#)

REPRESENTATIVE CLAMAN asked whether KAC will present the new toll projections in today's presentation.

MS. DOUGHERTY answered yes.

[1:19:11 PM](#)

MS. DOUGHERTY directed attention to the draft tolling operations plan prepared this past year that TIFIA will want to review [slide 6]. She reported that the KAC has made significant advancements in the FHWA [Federal Highway Administration] requirements. She explained that any FHWA project over \$500 million must undergo a Federal Highway Administration (FHWA)-conducted cost estimate review, a project management plan, and a financial plan [slide 7]. The FHWA conducted its review of the KAC's cost estimate last June and finalized its report in

November. The FHWA estimates were within 1.5 percent of the KAC's estimate, or \$15 million, which was nearly negligible [given the size of the project]. The KAC has submitted a draft project management plan - a living document - that will be updated annually once a contractor is in place, she said. The financial plan the KAC will submit for the TIFIA loan will also satisfy the major project requirement so once that plan is completed, she anticipated the FHWA will accept it.

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MS. DOUGHERTY turned to the TIFIA financing and said the KAC believes that the project will meet the eligibility requirements for the TIFIA loan [slide 7]. The current interest rate is 2.28 percent, which is very low, she said. In addition, the TIFIA offers a rural rate and since the KAC is approximately 74 percent rural, the KAC will apply for and hopes to receive a blended rate for the loan.

[1:21:17 PM](#)

CO-CHAIR HUGHES asked whether the blended rate will reduce the 2.28 percent to 1.44 percent under the interest rate for rural projects.

MS. DOUGHERTY answered yes; and explained that the rural rate is half of the urban rate so it is significant.

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CO-CHAIR FOSTER asked whether other entities have received a blended rate.

MS. DOUGHERTY was unsure but offered to research and report back the history. She offered her belief that ten percent is set aside for rural loans. She did not know if the project must be 100 percent rural in order to qualify for the blended rate.

[1:22:17 PM](#)

CO-CHAIR HUGHES asked for clarification on the application process and whether the KAC has been denied a TIFIA loan.

MS. DOUGHERTY answered that the KAC has not gotten past the eligibility test, but she offered to cover this later in her presentation. She indicated the KAC has never been denied a

loan, in fact, the KAC hasn't gotten to the stage in which the project has been asked to apply.

CO-CHAIR HUGHES asked whether the process has been a normal process.

MS. DOUGHERTY answered yes. She suggested that a number of projects are listed on the TIFIA website that indicates the status and lists pending legislation for the KAC project, she said.

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MS. DOUGHERTY directed attention to the projected toll revenue and costs from the aforementioned traffic study completed in December [slide 8]. This projection assumes that design & construction will start in late 2016; however, if the KAC is delayed it will shift and some figures will change, but not significantly, she said. She pointed out that the green wedge in the background is the expected gross toll revenue from a two-lane roadway without considering any expansions or extensions. She pointed out the FHWA declared this project operationally independent. Thus, the project doesn't have to be presented as a whole so phase 1 of the project is all that needs to be advanced at this time. Therefore, the toll revenue and cost projections are based on revenue projections for a two-lane roadway. The black bars show the bonds and assumes the bonds are sold up front with a level payment across 20 years. The blue bars represent the operating costs after the road is constructed and open. Operating costs include routine bridge and roadway maintenance and operations (M&O) as well as toll collection costs. The red bars represent the TIFIA payments. She emphasized that TIFIA doesn't require loan payments until five years after the roadway opens to traffic, with interest-only payments required for the next five years, followed by a level payment thereafter. However, some opportunity exists to "sculpt" that once conversations are held with TIFIA, she said.

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MS. DOUGHERTY stated that sensitivity testing is important to the TIFIA loan process, with KAC performing sensitivity tests using 17 key variables. These are designed to answer questions, for instance, if the population or economy did not growing as anticipated or if road network improvements were incomplete.

[1:26:15 PM](#)

MS. DOUGHERTY said the socioeconomic forecast is important since revenue can vary by 20 percent more or less depending on the conditions. The outcome of the sensitivity tests were overlaid the previous graph to show the expected toll revenue using a 50:50 case [slide 10]. The blue line indicates a 5 percent probability line, which means there is a 5 percent chance revenue may be less or a 95 percent probability that it will exceed the amount. The point the blue line crosses the red bars, the KAC can meet the TIFIA loan requirements even at the low probability, she said, which is really significant to them. The Department of Labor & Workforce Development (DLWD) recently issued a new population forecast for the Anchorage area that is lower than the forecast the KAC is using; however, those figures came out after the study was prepared. The KAC reexamined the probability test and the blue line represents a population projection that is even lower than the DLWD's figures, she stated, so the KAC is comfortable with the forecast.

1:28:06 PM

MS. DOUGHERTY directed attention to the TIFIA process, which can be a lengthy one taking up to 18 months to close a loan [slide 11]. She anticipated that the KAC should know within about 18 months whether the TIFIA loan is approved. First, the loan process requires parties to submit a letter of interest, with an eligibility review conducted, which is where the KAC has been sitting for the last several years awaiting legislative approval. Once eligibility approval occurs, then next phase is the credit worthiness and risk assessment phase, in which the KAC will make an oral presentation in Washington D.C. to obtain rating opinions, and submit a \$100,000 fee for evaluation purposes. Upon successful completion, the KAC would be invited to apply. After submitting the application, the TIFIA would conduct a 30-day completeness review and it would next advance to the credit council. The credit council has 60 days to approve or deny the loan. Upon approval, the TIFIA would obligate the budget authority, which takes approximately eight months, followed by another eight months to close the loan.

MS. DOUGHERTY explained that during the last legislative session, the finance plan changed since the Department of Revenue (DOR) wanted to ensure that the plan would be successful. Thus, the KAC didn't submit the letter of interest immediately, but stopped the process, met on several occasions and reviewed the project requirements from a fresh perspective under the public finance plan. The KAC now feels really

comfortable that it is ready and once the KAC obtains the authorization to do so, it will be ready to submit the letter of interest, she said.

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REPRESENTATIVE STUTES indicated that the total length of time spans 15-16 months and asked how that will affect the interest rate for the project.

MS. DOUGHERTY agreed that the interest rate is not locked in until the loan closes, so it will be the interest rate that is available at the time the loan closes.

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REPRESENTATIVE STUTES asked for further clarification on how volatile the interest rate has been in the past five years.

MS. DOUGHERTY answered that last year the interest rate was over 3 percent, but it has dropped in the last year.

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REPRESENTATIVE CLAMAN, in terms of the letter of interest and eligibility review, pointed out one of the issues that may hold up the project is the National Marine Fisheries Service (NMFS) decision on the permit for disturbing Beluga whales in Cook Inlet. He asked whether the federal agency is waiting to see what action the legislature takes before making a decision on whether to issue a permit.

MS. DOUGHERTY answered that the TIFIA office doesn't expect permits to be in place. The TIFIA considers whether the National Environmental Policy Act of 1969 (NEPA) document is complete, but the KAC is awaiting legislative approval. At the time [KABATA] submitted a letter of interest, it had been considering a public private partnership (P3) so it will be necessary to start the process over again.

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REPRESENTATIVE CLAMAN asked whether the Beluga whale permitting issue is separate from the loan eligibility.

MS. DOUGHERTY agreed the Beluga whales represents one of the major hurdles, but it is not associated with the TIFIA loan.

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CO-CHAIR HUGHES, with respect to the sensitivity testing and how it overlaid the chart, said it looks pretty positive. She asked whether she felt confident about the risk assessment and whether the KAC will likely be awarded the TIFIA loan.

MS. DOUGHERTY answered that in terms of the timeline, the KAC has had an ongoing relationship with the TIFIA office, so staff is very familiar with the KAC project. She anticipated that the application would move as quickly as possible through the federal process. She offered her belief that the loan will be approved.

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MS. DOUGHERTY, to wrap up, said that the KAC is working on other items to preparing for opening, including toll rate schedules, fees and fines, commercial accounts, rental car companies, and customer care issues, such as privacy issues and enforcement. Although the KAC already has the authority to collect tolls, some legislation may be needed to "beef up" some items. The KAC has initiated discussion with Division of Motor Vehicles (DMV) since that agency collects fees and fines. Thus, the KAC is hoping to avoid duplication of effort and partner with the DMV to implement the tolling plan.

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CO-CHAIR HUGHES asked what shelving or slowing down of the KAC might mean in terms of the TIFIA loan process. In addition, she expressed an interest on any costs that might be incurred if the project is placed on hold or is shelved.

MS. DOUGHERTY stated that it would really depend on how long the KAC will be shelved; for example, the traffic and revenue study would likely be relevant for several years. She indicated that study cost \$1 million. She said that the permit applications are very mature, for example, the US Army Corps of Engineers (USACE) is pretty much through its process, but must go through the National Environmental Policy Act of 1969 (NEPA) and is awaiting an incidental take statement. She reiterated that the USACE process is completed and the agency has closed its file. She suggested that if those things languish too long, it will be necessary to go through the process again. It's really difficult to determine the impact. In assessing the pure

federal process, the KAC is currently in the right-of-way phase, and she believes that the project has 10 years to get to construction before the Federal Highway Administration (FHWA) will determine the project isn't moving forward.

[1:37:23 PM](#)

CO-CHAIR HUGHES asked whether the record of decision holds for a certain timeline or if the KAC will need to go through that process again.

MS. DOUGHERTY answered no; that the ROD is a final decision. She offered her belief that the project must move into right-of-way phase within 20 years, but the KAC has already met that requirement, but must go into construction within the next 10 years.

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CO-CHAIR HUGHES stated that all of the documents come to the Office of Management & Budget so it seems appropriate to hear from her on the KAC.

[1:39:04 PM](#)

PAT PITNEY, Director, Office of the Director, Office of Management & Budget (OMB), stated that the discussion on the KAC is ongoing. She focused on two items, the cost to the state and the near-term cash outflow under the current fiscal environment and the opportunity cost. First, there are several years of payment outlays until the toll revenue begins, she said, but since the ROD has been reached there is some flexibility in terms of when to start the project. Next, besides the cash outlay, the state must also consider that if the federal STIP funding is used for the KAC, the state won't have the opportunity to use the funding on another project. However, the highest consideration is the cash outlay in the near term, given the state's current budget circumstances, she said. She reported that she is happy to have Commissioner [Designee] Luiken on board and they are continuing to hold conversations. She understands that going from a public private partnership (P3) structure to a fully public project will require some legislation, as well. She recapped that the project is still in discussion phase, with a huge outlay for the time period. She acknowledged that tolls have some opportunity, but the tolls are in the future, she said.

[1:41:18 PM](#)

CO-CHAIR HUGHES understood \$5 million from the general fund was appropriated by the last legislature. She asked whether it is correct that STIP funds will not be required until 2017.

MS. PITNEY deferred to the DOT&PF to respond.

CO-CHAIR HUGHES viewed [this project] as having the ability to leverage approximately \$90 million in federal funds. Certainly, it's good to think hard about this project in terms of where the project is and consider any additional costs for items that might need to be redone [if the project is halted]; however, she urged the committee to keep an open mind. Although the state is facing tough times, these funds were appropriated for the project and no additional general fund funds will be necessary to move forward, she said. Further, the proposed project is located in an area that faces road closures, in fact, the Knik River Bridge and the Glenn Highway were just closed last night. Commuters in this area have pointed out that there is only one route between the Matanuska-Susitna valley and Anchorage. Therefore, she wondered whether this is the right time to shelve this project.

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CO-CHAIR HUGHES recalled during the American Recovery and Reinvestment Act of 2009 (ARRA) funding period the legislature frequently heard the term "shovel ready." She asked Ms. Pitney to assess the six projects and whether any are more "shovel ready" than others and if the KAC would be among them.

MS. PITNEY answered the KAC is one of the closest "shovel ready" projects. In response to a question, she said besides the Kodiak Launch Complex (Alaska Aerospace Corporation), this would be the next "shovel ready" project.

CO-CHAIR HUGHES asked whether there is any risk in having to repay Federal Highway Administration (FHWA) funds.

MS. PITNEY answered yes; but it is long-term risk due to the 20 year timeline.

[1:43:44 PM](#)

REPRESENTATIVE ORTIZ asked for an estimate of the outlay that will be needed in the next few years.

MS. PITNEY answered that based on the graph provided it would be the net debt service payments since there wouldn't be any other revenue to cover those until toll revenues start coming in.

[1:44:15 PM](#)

REPRESENTATIVE CLAMAN understood the governor has not yet made any decision on whether to shelve the project. He asked for further clarification on the timeline for the decision.

MS. PITNEY answered that the governor and the incoming commissioner will make the decisions over the next two to three weeks.

[1:45:45 PM](#)

JANET KINCAID, Acting Chair; Board Member, Knik Arm Bridge and Toll Authority (KABATA), stated that she is the acting chair of the "non-functioning" KABATA Board. She gave a brief personal history, relaying that she is a 60-year resident of the state and has lived 50 of those years in the Matanuska-Susitna valley. She has previously served on the Matanuska-Susitna Borough Assembly (MSB). She related her understanding that in the mid-80s, former Governor Cowper didn't fund the capital budget and Anchorage lost 13 percent of their population and 25 percent of their value. She said she embraces the theory that when times are tough it is time for capital project expenditures, in fact, it is how Franklin D. Roosevelt got us out of the depression.

MS. KINCAID stated that a bridge is infrastructure, the population in the Matanuska-Susitna valley is growing, and will continue to grow. As the matriarch of a very large family - her immediate family is 45 persons with only three offspring living out of Alaska - she wants a living wage for all of her family. The KAC will provide opportunities to develop a new community, new enterprises, and entrepreneurship and provide families with an opportunity to buy relatively cheap land and a bigger parcel to raise kids with 4-H projects, which is near and dear to her heart. She indicated that she is passionate about this project. She quoted Rick Mystrom, former Anchorage mayor, who wrote in 2010, "The measure of our state economy's health is not the amount of our savings. It's the growth of the economy, the prosperity and quality of life for its citizens and the opportunity of our young people." She emphasized that she would love to see the KAC happen so the next generation will have this opportunity to develop new land. Certainly, the traffic is a

"big thing" but more importantly she wants to see the opportunity for the young people, she said.

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CO-CHAIR HUGHES asked for additional information on the traffic numbers.

MS. KINCAID answered that she visually can see the traffic, plus she owns businesses in Palmer. She predicted that the truckers will lessen the impact on the Glenn Highway, which will impact Palmer in positive ways. She recently heard on the radio that traffic was backed up past Eklutna, which highlights the traffic issues

CO-CHAIR HUGHES asked why the KABATA Board is still in existence.

MS. KINCAID answered that the KABATA Board is the vehicle for collecting the tolls. The legislature turned the construction phase to the DOT&PF.

[1:50:34 PM](#)

CO-CHAIR HUGHES asked Ms. Dougherty to provide figures when she testifies again.

[1:52:04 PM](#)

BOB FRENCH, Mechanical Engineer (ME), stated that he has been an Alaska resident for over 30 years. He said that he has been studying, commenting, and providing testimony and generally living the proposed Knik Arm Bridge [and Toll Authority] Project for the past 12 years. In fact, one of the former legislators pointed out to him that he and his neighbors have institutional knowledge about the project. He referred to a 20 page "White Paper on the Knik Arm Bridge Project" in members' packets.

MR. FRENCH referred to the report conclusions of the 2013 audit report and read a sentence, "The audit concludes that KAC toll and revenue projections are unreasonably optimistic, and the projected cash flows to the State are likely overstated as a result." The financial structure of the KAC has changed since that audit was completed but the forecast of the traffic and toll revenues are still key in determining whether the KAC's plan is feasible and the amount of the real cost to Alaskans. Following the audit, KABATA planned to hire an independent firm

to review the population and employment forecast; however, the report that was released in December was done by a consortium of companies, including the same discredited firm who prepared the first forecast, and not surprisingly came up with even more "bloated" figures. He asked whether it made sense that these outside firms are projecting 60 percent more growth in the Matanuska-Susitna valley than comparable estimates by the state's demographer or by the University of Alaska - Institute of Social and Economic Research (ISER). He asked whether it makes sense that their forecast uses the same traffic daily count on the KAC only 15 years after the bridge opens as in 2012 on the new Glenn/Old Glenn Highway interchange of the Knik River. He referred to pages 5-8 of the aforementioned white paper as proof that the KAC project figures are off.

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MR. FRENCH stated that the public record shows the traffic estimates for the proposed Highway to Highway project in Anchorage by DOT&PF shows less than half the traffic that KABATA is predicting. Traffic estimates done for the Wasilla bypass by DOT&PF showed less than half the population than KABATA predicted. The population and employment by KABATA has changed significantly over the years. He asked if there would be a zero population but more jobs in 2035 at the Point MacKenzie industrial dome than the entire City and Borough of Juneau currently has or will there new study at Point MacKenzie have more population than the currently Kenai, Kodiak, and Bethel combined.

[1:55:35 PM](#)

MR. FRENCH questioned KABATA's significantly different land use assumptions from 2007, 2011, and 2014, outlined on pages 6 and 7 of the aforementioned white paper, which have the effect of raising traffic and toll projections for the bridge beyond the assumptions made for other DOT&PF projects. These scenarios suggest that the number of daily trips rather than a realistic prediction of future land use and population was the goal that KABATA's outside consultants focused on. He provided three more reasons why KABATA's traffic revenue forecasts are at least two times greater than the actual traffic. First, the economic outlook for the state is significantly different than it was six months ago and KABATA's current predictions were built on a highly modified 2009 ISER model. Second, the housing density that KABATA needs to reach the assumed population and revenue cannot happen with the well and septic, one dwelling per acre

land use that Janet Kincaid talked about. That level of population density can only be achieved with high density planned neighborhoods with water and sewer provided by the developer for the MSB, although the borough is still struggling to get upgrades to their existing sewage treatment plants. However, KABATA ignores that the cost of buying a house in the planned communities is no longer cheaper than buying in the Anchorage area. Third, he was told by Scott Goldsmith [ISER] that the KABATA sensitivity tests do not evaluate whether the new population they claim will choose to live at Point MacKenzie and if they would choose to live there if they paid a couple thousand in tolls.

[1:57:40 PM](#)

MR. FRENCH asked what the effect of the unreasonably optimistic revenue forecast could be, noting that three toll projects have recently gone bankrupt: The Indiana toll road, the South Bay Expressway in California and the Southern Connector in South Carolina, and the Pocahontas Parkway in Virginia went through two defacto bankruptcies with the creditors in the state finally taking over the project. In all cases the tolls were one third to one half of CDM Smith's projections, which is the same firm KABATA has used for its traffic and toll revenue forecasts. He said he did not think that the state needs to spend millions more on a project that doesn't pencil out and that we can't afford. He asked the legislature to support Governor Walker in halting the projects and using the funds for other projects. He said that former DOT&PF Commissioner Kemp wanted the state to believe there are huge penalties for canceling the project, but the truth is that possibly 20 years down the line that might occur; however, the federal government does not want to be responsible for a big boondoggle any more than the legislature does. The regulations require the state to study the impact of the project prior to moving on to construction and if at any point during the process it becomes clear that the cost or controversy is too significant and the project doesn't pencil out the study could be curtailed.

[1:59:08 PM](#)

MR. FRENCH said that amendment 13 to the STIP program shows that ending the project right now would free up \$600 million in state and federal funds, about half of which would be state bonds that wouldn't need to be issued with the remainder that could be used to fund other urgent needs.

[1:59:49 PM](#)

REPRESENTATIVE CLAMAN recalled Ms. Dougherty stating that the KAC has new studies on both the toll and traffic projections. He asked whether Mr. French has reviewed the new studies.

MR. FRENCH answered that he was at the [Knik Arm Crossing] presentation to the Anchorage Metropolitan Area Transportation Solutions in December. He said his comments are related to the current study but did compare the two previous studies done by KABATA.

[2:00:41 PM](#)

CO-CHAIR HUGHES said it sounds like he doesn't agree with some of what Ms. Dougherty presented in terms of the sensitivity study that shows the project in a pretty good position. Thus, she further asked if he disagrees with the department.

MR. FRENCH answered that in reviewing KABATA's studies, the studies show there is less than a percentage of difference between a "build option" and a "no build option" and in terms of how the population might change overall for the region. He said what the study does change is where the population chooses to live. He stated that Scott Goldsmith [ISER] pointed out that one of the sensitivities was missing in KABATA's analysis, which is whether people would live at Point MacKenzie with that high of a toll or if they would choose to locate near the core of the Matanuska-Susitna valley near Palmer and Wasilla with full access to schools, hospitals, and grocery stores.

[2:02:13 PM](#)

CO-CHAIR HUGHES stated that the area is growing by leaps and bounds around Knik Goose Bay and farther out. In fact, she has heard that if the area was incorporated, it would be the fourth largest city in the state. She offered her belief that people are choosing to be there now and the feedback she receives is that people will be willing to pay the toll. She acknowledged that is up for question right now. She hoped the department will speak to the committee on the Statewide Transportation Improvements Program (STIP) funds.

[2:03:21 PM](#)

PAUL CAULCARR, Business Manager, Iron Workers Local Union 751; Vice-President, Southcentral Building Trades, stated that

approximately 300 members live and work in Alaska. He stated that he is currently a resident of Wasilla who commutes daily to work in Anchorage. He stated that the commute is challenging enough and minor accidents can close the north - south travel in the state. Just last night his one hour commute became 2.5 hours, he said, so he considers the KAC a matter of public safety. He recalled two years ago a trooper shooting on the road closed the highway for 5-6 hours and he missed a day of work along with thousands of co-commuters. He passed on anecdotally that commuters support another north-south highway. He said the future of the infrastructure challenged state is badly needing this project. Alaska has overcome many challenges in the past with a "can do" independent spirit. He can't think of a reason why this project can't be built - it is one that Alaska has talked about for 30 years. Construction jobs are often considered temporary jobs, but his members are paying mortgages, coaching youth hockey teams, and attending churches for the long run. In the late 80s people left, but this bridge will be a bridge to the future of the state and it will open up opportunities for industrial, housing, schools, and commercial development. He said he respects the opinions of those not in favor of this project, but he believes that Alaska needs this to grow and infrastructure is never a waste of time or capital.

[2:06:22 PM](#)

LARRY DeVILBISS, Borough Mayor, Matanuska-Susitna Borough, stated that he is very supportive of this project. He views the project in terms of economics and the negative economics of not doing it. Population figures were discussed, but he recently visited the Joe Redington Jr. and Sr. High School and the site of the Dena'ina Elementary School that will open in fall. He said the Knik Fairview area and the Matanuska-Susitna Borough center is moving towards Point MacKenzie. The new school will be filling up with next generation of students in 2016, which is the first project of that magnitude that has started and finished in one year. The state demographer has set the official population at 98,000 as of January 1 so the Matanuska-Susitna Borough is still growing, and has the only school district that is growing in the state. He said the transportation issues really hurt and his phone rings "off the hook." The Knik-Goose Bay Road and Parks Highways are two of the three largest safety problems in the state and he predicted that this will only get worse until traffic is diverted. Traffic causes congestion problems for the City of Wasilla, which is why the city is very supportive of this project.

[2:09:29 PM](#)

MAYOR DeVILBISS reported that Port MacKenzie is more of an economic boon to Anchorage due to its proximity, so what is being decided with the KAC is how fast to develop that economic unit and give Anchorage an opportunity to expand an industrial use property. He found the issue of people not wanting to live at Point MacKenzie a bit laughable. There are two liquefied natural gas (LNG) projects that are well along in developing massive projects. One of their biggest concerns is the source of their labor force. The MSB has laid out a master plan on borough-owned property for a new town site right at the bridge landing and the MSB intends to sell that land this summer, complete with utilities, including gas, septic, and water. This subdivision is capable of the density of population needed to supply jobs to the prison and the port, with the rail extension fitting into that, too.

[2:11:32 PM](#)

CO-CHAIR HUGHES asked for a range of projected jobs specifically related to Port MacKenzie.

MAYOR DeVILBISS responded with respect to the two LNG projects - WestPac [Logistics] and REI [Resource Energy, Inc.]. The forecast on one of the projects is 250 [jobs] and the maximum on the other is 2,500 local jobs. He clarified that these jobs are not related to bridge construction and the projects are moving ahead with or without a bridge. He offered that the decisions being made today will determine how fast development will occur and the extent to which the economic engine will be nurtured.

[2:12:50 PM](#)

LOIS EPSTEIN, Professional Engineer (PE), stated that she lives in Anchorage and served two terms on AMATS [Anchorage Metropolitan Area Transportation Solutions] Technical Advisory Committee. She has since remained involved in transportation decision-making in Alaska and statewide, including authoring several editions of a transportation finance report entitled, Easy to Start, Impossible to Finish. This publication covers the economics of the state's megaprojects. She offered her belief that the KAC is a Matanuska-Susitna Borough (MSB) priority, but shouldn't be a priority for others in the state. First, Matanuska-Susitna employees only represent about 10 percent of the Anchorage work force. Second, the "so called" explosive growth in the Knik-Goose Bay area may be high but it

started with a relatively low population base. She cautioned that statements about the road should not be used in isolation to justify a bridge for an area with still a small population. Third, as the MSB grows, it is developing its own business community so there will be less and less need over time for the MSB to depend on Anchorage for employment.

MS. EPSTEIN said that the arguments against the proposed KAC are important for the legislature to consider. First, the proposed toll is among the highest in the country so commuters and travelers are likely to take the Glenn Highway alternative to travel to and from Anchorage. Second, it will be farther and take more time via the bridge route for people traveling from Wasilla east so these drivers will likely avoid the toll bridge and road. Third, as previously stated, there are inadequate traffic projections. She pointed to projections for the Whittier tunnel as an example of a project built with overstated traffic projections, noting the legislature currently provides an annual subsidy of \$2 million for the Whittier tunnel. Fourth, evidence shows that younger generations are relying on cars less and less. Finally, it is extremely unlikely the [KAC] will receive a TIFIA loan, especially since the project has not been invited to submit further information on numerous occasions. In addition, the vehicle miles traveled per capita peaked several years ago in Alaska and elsewhere in the country, so people are relying on other ways to connect. In response to [KAC] that alternatives to the bridge could cost more, she offered three points: 1. A number of organizations proposed a comprehensive alternative to the bridge, which was not analyzed since KABATA apparently did not take alternatives seriously enough 2. The Glenn Highway corridor could carry the needed traffic with options such as congestion pricing to spread traffic to non-peak times, or using advanced transportation solutions 3. The Wasilla bypass could meet the freight industry's needs and is desirable for reasons not associated with the bridge.

MS. EPSTEIN directed attention to Amendment 13 to the Statewide Transportation Improvements Program (STIP), which is currently out for public comment through February 13, 2015, which wisely transfers nearly \$900 million in federal and state funds from Knik Arm Bridge to more essential transportation projects. This funding could be applied to other projects statewide, including road and bridge upgrades, safety upgrades, public transportation, or ferries, she said.

[2:16:56 PM](#)

MS. EPSTEIN pointed out approximately \$250 million of the nearly \$900 million in the current STIP is for state bonds, which will not need to be issued if the [KAC] is cancelled. She offered her belief that the bridge is not a wise, fiscally-conservative investment and will harm the state's transportation infrastructure by siphoning away dollars that would otherwise be able to maintain and upgrade existing roads and bridges. She questioned the need for the bridge given the state's limited finances and offered that projects with poor justification like this bridge must be the first to go. She asked the legislature to take action to ensure that the properties on Government Hill currently scheduled for demolition by Department of Transportation & Public Facilities (DOT&PF) this spring be preserved for the good of the Anchorage and Government Hill communities.

[2:17:45 PM](#)

STEPHANIE KESLER, President, Government Hill Community Council, asked to testify on the scheduled right-of-way demolition on Government Hill. She stated in January one of the business owners received a letter from DOT&PF indicating their property would enter into eminent domain proceedings. Governor Walker stopped that because it was contrary to his order prohibiting additional spending on the large mega-projects. However, three properties on Government Hill - two homes and one hotel - are still scheduled for demolition in the spring. She directed attention to this matter so during discussing expenditures for the KAC, the legislature will be aware that the DOT&PF has indicated it is still moving forward with the aforementioned demolitions. She said the council thinks this is an unwise expenditure of money, plus it will demolish two fine homes and a motel in the Government Hill area for a project that may never happen, leaving the community with destroyed properties. She concluded by saying, "We will continue to raise this issue as the legislative session progresses with the hope that cooler heads will prevail and consider that those houses not be demolished until construction is actually ready to begin."

[2:20:20 PM](#)

AVES THOMPSON, Lobbyist; Executive Director, Alaska Trucking Association, Inc. (ATA), stated that the ATA has long supported the Knik Arm Crossing Project. Although the ATA realizes that serious budget constraints exist this year, the ATA hopes the state will not abandon the work done on the KAC project. He

offered his belief that this is a once in a generation opportunity to expand the regional transportation network, provide alternative ways to move freight in and out of Anchorage, and generally create a safer and more efficient transportation system.

[2:21:37 PM](#)

CO-CHAIR HUGHES asked for further clarification on any figures for fuel savings and trip length benefits that might be realized by the industry.

MR. THOMPSON answered that he has not done so, but it would be a "serious swag" and he'd rather not get quoted on it at this juncture.

[2:22:21 PM](#)

CATHARINE JONES stated that the Knik Arm Bridge is a necessary part of Alaska's infrastructure. She said, "It certainly needs to be built and to move forward sooner than later because it's only going to get more expensive."

[2:23:09 PM](#)

PAUL GROSSI, Lobbyist, Ironworker Management Progressive Action Cooperative Trust, Alaska State Pipe Trades UA Local 375, stated he wanted to testify on behalf of the ironworkers, but he wanted to add to Mr. Caulcarr's testimony. Obviously the organization supports this project for jobs, including construction jobs for building the bridge and for potential private-sector development across the proposed bridge. He said the state will need this because people can't depend on state dollars as much anymore. He suggested that the state will need creative thinking to fund future projects, especially since projects are important for the economy since they are construction jobs, but also since it develops infrastructure and allow for further development.

MR. GROSSI said he has listened to potential problems with the [KAC] project; however, if this is not a viable project, it will come out through the TIFIA process and the loan will be denied. It's important for the state to move forward, he said, and he did not think the TIFIA loan will be denied. Further, the state can benefit by learning the TIFIA process, which could fund a number of infrastructure projects. In addition, another similar program to consider is the WIFIA [Water Infrastructure Finance and Innovation Act] loan program that can be used for water

infrastructure projects. Thus, that type of expertise will allow the state access to very low interest loans with long-term payouts. Although he is not an economist, he offered his belief that the loans will be beneficial. In addition, the [KAC] requires very little general fund monies. He encouraged the state to find ways of building projects without using general fund monies. He served as a former administrator in hard times and he understands the need to be creative with funding.

MR. GROSSI recalled that the state had some tough financial times in the 80s for similar reasons. He further recalled that the price of oil was at \$9 per barrel. He characterized the TIFIA loans as a creative means of viewing projects.

[2:27:41 PM](#)

MR. GROSSI, speaking anecdotally, stated that he resides in Juneau. First, he recalled the break-even traffic figures for the KAC was 10,000 vehicles per day, which is about that same number of daily crossings on the bridge connecting Juneau and Douglas. He said he finds it hard to believe there won't be at least 10,000 crossings for the KAC. Secondly, during his travels on the East Coast he used toll roads and toll bridges. Although alternative roads were always an option, he paid the tolls since it typically provided a more direct route. He said he would pay the toll if the proposed KAC was built and he believes others would be willing to do so.

[2:29:29 PM](#)

CO-CHAIR HUGHES agreed that time is definitely a factor and people like to save time. She asked whether people [in the trades, such as the ironworkers] with expertise moved out. She expressed concern about losing skilled workers as the state hopes to build a natural gas pipeline. She further asked whether the state will risk people moving out of state.

MR. GROSSI answered yes. He said he is a plumber and pipefitter by trade and he nearly left, but found a job working for the state within days of preparing to leave the state. He stressed that a lot of plumbers and pipefitters moved out, although some returned. He cautioned that if there are not any jobs, people have to go somewhere to work. He pointed out the state has had a stable working situation during the last 20 years.

[2:31:31 PM](#)

REPRESENTATIVE ORTIZ asked how he would prioritize the KAC in terms of the state's major projects.

MR. GROSSI said he doesn't know the answer to that since the construction industry would like a pipeline, a dam, and the other major projects. He agreed that each project must be judged, but he also believes that all the major projects have validity. He suggested that what's doable with the least amount of general fund dollars is one consideration, but it's also important to consider what is necessary in Alaska. For example, the proposed natural gas pipeline is necessary for long term viability of the state in terms of jobs and future revenue. The KAC does the same thing, not to the same extent as a pipeline, but this project will provide revenue in the long term that can be used for infrastructure, he said.

[2:33:40 PM](#)

REPRESENTATIVE CLAMAN asked whether he would pick the gas pipeline if he had to prioritize and select one project.

MR. GROSSI hesitated to say yes, but he agreed that a proposed natural gas line is extremely important project.

[2:34:22 PM](#)

CO-CHAIR HUGHES pointed out that the small diameter natural gas pipeline is under consideration at this point.

[2:34:32 PM](#)

REPRESENTATIVE CLAMAN did not hear any distinction between the large or small diameter pipelines in Mr. Grossi's response.

MR. GROSSI offered that in 1981, there were three proposed projects ready to go: the natural gas pipeline, the Susitna Dam, and the Knik Arm Crossing. He said:

You know, I was a young man then and I thought it was a great idea and I was promoting that. Now I'm an old man and the one thing I really don't want to see is my grandchildren sitting here as old men and asking for the same three projects - or these same projects. I think, it's time we start building. In the governor's words, "We've studied enough." It's time to build some of these things.

CO-CHAIR HUGHES directed attention to the written testimony in members' packets from the International Union of Operating Engineers Local 302.

[2:36:16 PM](#)

CO-CHAIR HUGHES closed public testimony on the Knik Arm Crossing project.

[2:39:55 PM](#)

REPRESENTATIVE NAGEAK remarked that when he was a young man the cost of gasoline was \$.35 per gallon. He recalled when the Parks Highway was built what a difference in time it made. He described it as being progress. He viewed it as being the difference between the old and new ways. He stressed that projects are necessary. He remarked on improvements in the quality of life in Anchorage and other parts of Alaska since the 60s. He said the Bush aspires to improve the quality of life. He remarked on the cost of gasoline in rural Alaska, which is over \$ 7 a gallon. In terms of the [KAC], it will reduce the cost of doing business, especially for the trucking companies. He still wants the road to his house, but he said he also recognizes that some projects are much needed ones. At some point, he will come back and request the road [to his house].

[2:41:30 PM](#)

MS. DOUGHERTY emphasized that the new study shows an incredible difference in traffic. She stated that under the P3 [public-private partnership] process, the KABATA was looking at carrying the whole availability payment with toll revenue, but when that wasn't possible the project considered a reserve account. Now, the KAC seeks enough funding to repay approximately one-third of the financing plan since the TIFIA needs to be covered. She characterized the KAC plan as a much more conservative approach. She argued that the figures are not the same, that [traffic and toll revenues] are approximately half of the predictions in the early years, in part, because the KAC used a local firm, as well as an economist who has performed multiple studies for the Municipality of Anchorage - and was raised in Soldotna. Further, the KAC performed significant outreach to local people. She predicted approximately 3,500 ADT [average daily traffic], with a slow ramp up, but within 10 years extra lanes will be needed. Thus, the growth will still be there. The new study indicates the ADT will start more slowly, but once the town sites are developed, the traffic will shoot up, in part, due to

the lack of single family homes in Anchorage and people preferring not to live in condos. She suggested that the predicted ADT figures are ones that could be met even in small communities such as Barrow.

MS. DOUGHERTY said, "If you step back and look at it from a 'pass the red face' test, it absolutely passes 'the red face test'". All the studies show that the Matanuska-Susitna valley is growing, even during downturns, she stated.

[2:44:49 PM](#)

CO-CHAIR HUGHES summarized that the newer figures show a slightly slower ramp up but the [KAC] is considered a viable project in terms of traffic.

MS. DOUGHERTY answered yes. She recalled one testifier suggested that the sensitivity didn't address the willingness to pay a toll. She acknowledged that the socioeconomic sensitivities studies don't include that, but the traffic and revenue study does since it applies toll friction. The toll friction reduces the traffic, she said, and that is included in the aforementioned study.

[2:45:48 PM](#)

REPRESENTATIVE ORTIZ recalled one testifier said that the KAC will be the highest toll in the country. He asked whether she agreed with that statement.

MS. DOUGHERTY answered that most toll roads in the Lower 48 apply the toll every half mile so it isn't a fair comparison to the KAC proposed tolls. In further response, she reported that the proposed toll has been modeled at \$5 each way, which would grow with inflation. The KAC has done surveys and studies that indicate people are willing to pay those tolls.

[2:46:43 PM](#)

REPRESENTATIVE MILLETT recalled hearing the same discussion when the Whittier tunnel was build, as to whether people would pay the toll. She recalled the toll is set at \$6 each way. She indicated it is a busy port and the tunnel has taken pressure off Seward and Whittier. She ascribed to the theory, "Build it and they will come." She said she lives in Anchorage and it's becoming a public safety issue due to the increase in cluster homes being built. She said she is not threatened by the road

since she believes traffic will grow since there isn't any land in Anchorage.

[2:49:20 PM](#)

JEFF OTTESEN, Director, Division of Program Development, Department of Transportation & Public Facilities (DOT&PF), asked to address the STIP amendment since it currently reflects that the governor asked to slow down major projects to allow them to be reevaluated. This meant money in the STIP for the Juneau Access and KAC were designated for other projects to avoid losing the federal funding. The DOT&PF has moved other projects forward to take the place of these two large projects. As part of the federal requirements, the department needed to select projects under active design or under environmental work. It takes 3-5 years to bring a project to the point of using federal funding for construction. He indicated the DOT&PF has selected projects from around the state, including replacing 10 bridges.

[2:51:15 PM](#)

MR. OTTESEN clarified that \$154 million is being reprogrammed this year, not \$900 million. In addition, one other project is a technical that allows the IFA [Inter-Island Ferry Authority] to use funds for their ferries. The remaining projects listed either delay the two major or move in approximately 20 other projects.

[2:52:04 PM](#)

CO-CHAIR HUGHES asked whether the other projects using the amended STIP funds will require general fund dollars, and if so, how much would be required.

MR. OTTESEN answered that the federal funds require matching funds, and whether the federal funding is applied to major projects or lesser ones will use same amount of matching funds. He reported that the DOT&PF uses general fund at the rate of \$9 of state funding for every \$91 of federal funding.

CO-CHAIR HUGHES appreciated the clarification since some people were confused and thought that not moving forward on major projects will save general fund dollars.

MR. OTTESEN clarified that the way the financing plan is set up for the KAC requires the use of state bonds as its matching funds. The state bonds are state-provided dollars that are

borrowed dollars, which are repaid over time. He characterized the financing as more of a technical issue.

[2:53:35 PM](#)

CO-CHAIR HUGHES asked whether the KAC would use less general funds than if the funding were used on projects that moved up on the STIP.

MR. OTTESEN answered yes; although it is a matter of timing. The state bonds must be repaid with general fund dollars, at least initially, until the traffic and toll revenues reached the point in which the bonds would be repaid by revenue from the project. He characterized it as being illustrated in the cascade chart [on slide 3], in which it would be one of the lower buckets.

[2:54:22 PM](#)

CO-CHAIR HUGHES said she recently attended a Transportation Finance Subcommittee. She referred to federal SAFETEA-LU [Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users], funding. She recalled one memo she received indicated \$32.1 million was designated for the KAC.

MR. OTTESEN reported that there was initially over \$90 million in earmark funding, which was used for preconstruction activity that has happened for nearly a decade. Although some of the remaining \$31 million in funding is being used for right-of-way acquisition, it is not actually expended. In addition, there is approximately \$23 million in earmarked funds dedicated to the KAC that has not yet been assigned a project number, but is obligated. He explained that once the DOT&PF asks to put money on a project, it obligates the federal funds.

[2:55:58 PM](#)

REPRESENTATIVE CLAMAN asked whether the state bonds earmarked for Knik Arm Crossing (KAC) can be allocated to different projects.

MR. OTTESEN answered that last year, the legislature approved \$300 million in bonding in House Bill 23 for the KAC, exclusively, subject to the TIFIA loan approval. Thus, without an approved TIFIA loan, the bonds won't be sold.

[2:56:54 PM](#)

REPRESENTATIVE CLAMAN related his understanding that the bonds are contingent upon the TIFIA loan, so if the loan doesn't go through, the state is not authorized to issue the general obligation (GO) bonds.

MR. OTTESEN answered that he is correct.

[2:57:09 PM](#)

CO-CHAIR HUGHES recalled the OMB director indicated a bill still needed to be passed.

MR. OTTESEN answered that he is not aware of any proposed legislation. He suggested that there may be some things that House Bill 23 has expanded, but nothing is required to move forward with the TIFIA application.

[2:58:05 PM](#)

CO-CHAIR HUGHES indicated that AO 271 [Administrative Order 271] pertained to discretionary funds. She indicated that non-discretionary funds could still move forward and asked what is still moving forward.

MR. OTTESEN deferred to Ms. Dougherty.

[2:58:48 PM](#)

MR. OTTESEN, in terms of impact, stated that by subtracting out the earmarks dedicated to the KAC, that the project would require \$271 million of other federal highway funds [FHWA] that are general purpose, which means that funding could be used on other projects in the state for National Highway System [NHS] projects. He said this represents about 90 percent of the FHWA funding the state receives each year. Thus, if the project was performed all at once, it would represent a one-year appropriation of funding at the current level. There are ways to spread that out, especially since the project is anticipated to span four years; which would reduce the overall impact to the STIP.

MR. OTTESEN said for the last three years many projects are coming in under the estimate, in fact, approximately \$100 million per year. The DOT&PF takes the "extra dollars" that were not needed and find projects in the same year. In response to a comment, he agreed it is a good problem to have, but it

does mean the design squads have more work to complete. The DOT&PF has already had \$35 million come back this year. The overall effect of spending \$75 million a year to do this project will be almost nil, he said, if the state takes advantage of the low bid environment. He anticipated that the trend will continue since the cost of construction is contingent on the price of energy.

[3:01:36 PM](#)

REPRESENTATIVE HUGHES asked Mr. Ottesen to recap and provide some figures he mentioned today.

[3:01:53 PM](#)

MS. DOUGHERTY referred to Administrative Order 271 (AO 271) and indicated that the KAC has stopped work with its consultants, and slowed down the right-of-way work, although acquiring federal lands is a lengthy process, she said. She did not anticipate any eminent domain proceedings will be necessary. The KAC has jumped to work on tolling operation plans that will be needed in the future. Further, she reported that the KAC has been "polishing up" the TIFIA letter of interest, which is web-based. This process includes a variety of studies and documents, including links to traffic and toll revenues studies, the National Environmental Policy Act of 1969, and proof that the KAC can collect tolls. These items can be transmitted in an electronic format so the TIFIA can click on the hyperlinks and see the necessary proof.

[3:03:23 PM](#)

CO-CHAIR HUGHES said she thought the work was minimal and there isn't a lot of non-discretionary obligated functions going on.

MS. DOUGHERTY explained that the term "discretionary" can mean a variety of things. The KAC thinks of federal highway dollars as being non-discretionary since the FHWA authorizes the agency to make expenditures that are specifically for right-of-way acquisition so it can't be used for something else.

[3:04:05 PM](#)

CO-CHAIR HUGHES clarified that the AO 271 referred to contracts.

MS. DOUGHERTY, in reference to building demolition, stated that the KAC is under contract to take buildings off of properties

that have already been purchased. She stated that cancellation would result in approximately \$250,000 non-participating funds that would need to be general funds.

[3:04:39 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 3:04 p.m.