

SB

80

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80</SUBJECT><COMM>SFIN27</COMM></TARGET>

Testimony of Lois Epstein, P.E., prepared for the AK Senate Finance Committee hearing on SB 80

March 26, 2012

loisepstein@gmail.com, 907 748-0448

Thank you, Senator Stedman, Senator Hoffman, and other Committee members, for the opportunity to testify. My name is Lois Epstein and I am a licensed engineer in Alaska. I am here today from Anchorage as a member of the public who is concerned that Southcentral Alaska not make an enormous mistake with huge financial consequences. I also serve on the AMATS Technical Advisory Committee (or TAC), however I am speaking today for myself.

While serving on the AMATS TAC, it became clear to me that the Committee's state and municipal representatives were not asking hard questions of the Knik Arm Bridge and Toll Authority (KABATA) while developing our federally-required Metropolitan Transportation Plan (MTP), so it's up to the legislature to ask those questions. Why else would it be acceptable for a technical committee to assume that daily traffic would be roughly the same in 2035 with a \$16 roundtrip toll using KABATA's model vs. no toll as in the AMATS model, i.e., with both models showing around 36,000 Average Annual Daily Traffic (AADT)? Why else would the TAC ignore the fact in the draft plan that it's wholly unlikely that KABATA ever would receive a \$300 million federal low-cost TIFIA loan? TIFIA loans – and there aren't many granted - go to areas with high population, serious congestion, and failing infrastructure; the proposed Knik Arm Bridge meets none of those criteria. And to respond to KABATA Board Chair Foster's statement today that the MTP used the same population numbers for the Mat-Su Borough as KABATA, that's because AMATS said it did not have the resources to adequately analyze KABATA's contractors' work.

As a further demonstration of the Parnell Administration's pro-bridge bias, it's extremely problematic that the Fiscal Note for SB 80 is zero for Alaska DOT "as long as projections for ridership...are fulfilled" without the note acknowledging the high end of the cost range if those projections are wrong.

The legislature also should be aware that the two-lane bridge scored very low in terms of the AMATS screening process for project importance, with a score of 12 out of a possible 30 points. Many higher-scoring and more worthy Anchorage-area transportation projects will not be constructed due to federal "fiscal constraint" requirements. Additionally, there have been a number of community council resolutions throughout the city opposing including the bridge in Anchorage's draft plan. These items should be of concern to Anchorage's elected representatives.

The March 2012 Dittman Poll in your packet commissioned by Alaska House Republicans and released last week showed 58% of respondents statewide said the proposed Knik Arm Bridge could "wait until later" or "it should never be built." A minority of only 37% said "now is a good time to build a Knik Arm Bridge."

I'd like to remind the legislature that this bridge has a notorious history outside the state as one of Alaska's two so-called "bridges to nowhere." Should SB 80 become law, the state would receive more bad publicity for the over \$100 million in federal funds going to this project. Additionally and importantly, there would be liability up to \$2.98 billion in availability payments for the state to make up toll shortfalls in its contract with the private partner. I encourage the Finance Committee to receive a written legal opinion on the liability question.

In contrast to what KABATA Board Chair Foster stated today, growth in the Mat-Su could be accommodated without major Glenn Highway expansion but there is not time today to speak to those relatively inexpensive options including congestion pricing, commuter rail, increased vanpools, telecommuting (not available in the earlier timeframe Foster spoke of regarding traffic doubling on the Glenn), satellite business offices in the Mat-Su, etc.

Perhaps the best reason not to move forward with SB 80 at this time is that the Legislative Budget and Audit Committee currently is working on an audit of the project as the co-chairs know because you serve on the Committee. The audit will review if the "traffic flow assumptions [are] based on reasonable projections" since if those projections are wrong, the state would need to make up several billion dollars in toll shortfalls over a period of several decades. A number of public and private analyses to date have shown serious problems with KABATA's contractor Wilbur Smith Associate's traffic and revenue projections – see the Toll Road News article in your packet showing an overestimate of toll revenues by an average of 118% for the first 5 years after projects open (Appendix A). The consequences of accepting KABATA's projections can be dire financially for both Anchorage and the Mat-Su, i.e., potentially doubling the transportation dollars needed annually for each – see "The Real Finances of the Knik Arm Bridge" report in your packet. For the good of Southcentral, I urge this Committee and the Senate as a whole not to pass SB 80 until LB and A's audit is complete.

Thank you very much for your attention to these comments. I am happy to answer any questions you may have.

STATE OF ALASKA

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

OFFICE OF THE COMMISSIONER

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April 7, 2011

The Honorable Joe Thomas
Alaska State Legislature
State Capitol, Room 514
Juneau, AK 99801-1182

Dear Senator Thomas:

In response to your letter dated March 8th, I appreciate the opportunity to provide you with information regarding the Department of Transportation and Public Facilities (DOT&PF) activities, both current and planned, for the Anchorage and Mat-Su Borough areas of the State. As you have noted in your letter, some of these projects have been included in the traffic analysis relative to the Knik Arm Crossing project. Your interest in how this project impacts the State's transportation infrastructure is evident in the thoroughness of your questions.

In response to a statement made in committee by Jeff Ottesen, you have asked which specific projects on the Glenn Highway the State could avoid (or delay) building if the Knik Arm Bridge was constructed. With the bridge predicted to carry 36,000 or more vehicles per day in 2035, at minimum the widening of the Glenn and Parks Highway by at least two lanes could be avoided. This is roughly estimated to cost \$300 to \$400 million.

You have also asked for vehicle traffic count numbers. The most recent (2009) annual average daily traffic (AADT) figures compiled by the department show 28,495 vehicles on the Glenn Highway at the Eklutna Flats location (prior to the intersection of the Glenn Highway with the Old Glenn Highway). At the bridge carrying the Glenn Highway over the Knik River, the 2009 AADT was 26,220 vehicles. Traffic projections for the Eklutna Flats location on the Glenn Highway have been done using the Highway to Highway traffic model (H2H). For the year 2035, the model predicts an AADT of 54,000 vehicles at the Eklutna location with 37,000 vehicles using the proposed Knik Arm Crossing. The modeling completed by Wilbur Smith Associates for KABATA predicts a 2035 AADT of 48,700 vehicles for the Eklutna Flats location with 36,000 vehicles using the Knik Arm Crossing.

You also ask for project information and cost estimates for the projects DOT&PF believes will be necessary to accommodate projected traffic flow for the Knik Arm Bridge. This information is set out below:

- | | |
|---------------------------------------|--------------|
| • Burma Road 2-Lanes | \$49 million |
| • South Big Lake Road 4-Lanes | \$45 million |
| • Pt. MacKenzie Road (6 mile section) | \$18 million |
| • Knik-Goose Bay MP 8 to MP 17 | \$27 million |

"Providing for the safe movement of people and goods and the delivery of state services."

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Other projects in the area, specifically upgrading Vine Road, the Parks Highway widening to Big Lake, and Knik-Goose Bay widening between Parks Highway and Vine Road are not included as they are needed urgently due to traffic volumes and population growth regardless of the bridge decision.

Maintenance costs are estimated at \$7,500 per lane mile annually. Depending on the final design of these improvements, it is estimated that approximately 100 lane miles could be added to the transportation network in this area. This would require approximately \$750,000 of additional annual maintenance expenditures.

You have asked how much it would cost the state in general funds and / or federal highway funds to pay for the construction of the projects necessary to support the estimated bridge traffic flow. The overall cost of these projects is \$139 million. It would be up to the state Legislature to decide whether to appropriate state general funds or federal funds for the projects and on what timetable.

Phase 2 of the Knik Arm Crossing project involves the bridge/viaduct connection with Ingra-Gambell. This is expected to be needed in 2025 at the earliest depending on traffic volumes. The cost estimate prepared by KABATA for this effort is currently \$248 million (in 2008 dollars). This work is part of the KABATA project commitments and it is expected to be funded from the toll receipts collected on the bridge. A toll agreement is currently being finalized between the department, KABATA and the Federal Highway Administration (FHWA). Since the Knik Arm Crossing project has been federalized (funded with Federal-aid funds through FHWA) surplus revenue generated by tolls must be used on Federal-aid eligible projects.

Some of the projects identified by Wilbur Smith as part of the planned regional network that may influence the estimated bridge traffic flow and their costs are:

- International Airport Road Extension \$34.9 Million
- Abbott Loop Extension \$37.5 Million
- Dowling Road Extension \$115.0 Million

The full list of almost 40 projects can be found at: www.knikarmbridge.com/TIFIA.html#traffic

KABATA's Traffic and Toll Revenue Update Study prepared by Wilbur Smith Associates included many projects from the AMATS Transportation Improvement Plan and Long Range Transportation Plan. These selected projects were segregated based on expected timeframe for delivery. There were 12 projects listed in the study with 2012 date. All of those projects are complete except for two projects that are still active and under development. There were 18 projects that were included with a date of 2015. Cost estimates developed by AMATS for these 18 projects totaled \$486.5 million with \$419.8 of that identified as likely to be funded through their Federal Transportation Improvement Program, \$46.7 million from bonds and \$20 million from State general Funds. Finally, there were 13 projects listed with a date of 2030. Ten of these projects were from the AMATS LRTP with an estimated cost of \$749 million. One of those projects, the Glenn Highway Seward Highway Connection project was estimated at \$581 million. Three of the projects listed in the Wilbur Smith Associates study for 2030 were from the Mat-Su LRTP and did not include estimated costs.

It is difficult (and potentially inaccurate) to make a statement regarding how much funding will be needed each year from the Legislature since these projects listed in the AMATS LRTP do not carry a schedule nor is the cost estimate provided compiled at a precise enough detail. The information contained in the LRTP is designed to be a best estimate of priorities in the future and demonstrate a level of fiscal constraint based on a system-level estimate of costs and revenue sources that are reasonably expected to be available. The LRTP is intended to be strictly a planning document and not an accounting document. Nor did Wilbur Smith do any modeling that confirms whether each of these network improvements facilitate bridge traffic, have no effect, or in fact reduce bridge traffic. Such modeling is a significant undertaking, and was not part of their scope of work. Wilbur Smith Associates simply assumed that most of the planned network in the AMATS and Mat-Su long range transportation plans consistent with the network ADOT&PF used for the H2H traffic model.

In state fiscal year 2009 the department spent in excess of \$108 million dollars (Federal and State funds) in the Anchorage area on transportation improvements. In state fiscal year 2010 the expenditures exceeded \$127 million for the Anchorage area. The projects prioritized by the AMATS LRTP in 2007 that Wilbur Smith Associates identified as influencing the viability of the Knik Arm Crossing project total about \$1.4 billion through 2030. That equates to approximately \$69 million a year. It must be recognized that some of those projects will be funded and delivered by the Municipality as historically they have been proactive in identifying local funding. The projects discussed for the Mat-Su Borough total approximately \$330-390 million over 20 years which comes to \$16.5-19.5 million a year. Neither of those figures seems unreasonable or disproportionate considering the population growth, current congestion and safety issues or historic appropriations levels. Currently the Federal-aid funds received by the State exceed \$400 million annually.

Your final question is how much and what percentage of federal funding it would take to pay for the projects needed to support the bridge traffic flow. The total cost of the projects not covered by toll revenue that influence bridge and general network traffic flow is \$1,800 million (\$1,400 million in Anchorage and \$400 million in Mat-Su) to be constructed over a period of 20 years. Regular federal highway aid funding requires a 10% state match. This leaves \$1,620 million that could be funded from regular highway aid dollars. Dividing \$1,620 over a period of 20 years results in a hypothetical annual federal highway funding need for these projects of \$81 million per year. The State currently receives \$400 million in regular federal highway aid funding per year. Allocating \$81 million per year for the regional network projects would amount to 20.25% a year of the overall amount.

The Knik Arm Crossing project and the transportation infrastructure improvements currently being considered by the department are not only about passenger vehicles traveling between Anchorage and the Mat-Su Borough. Multi-modal services for the Port of Anchorage and Port MacKenzie are also important links in this equation. Improved connectivity between these two ports and the interior regions of the State will reduce freight movement times and potentially drive increased economic development and job creation. The Knik Arm Crossing project is unique in the sense that it has the potential to generate a large enough revenue stream to pay its own way. No other public transportation system has that expectation yet the Knik Arm Crossing project will possibly exceed that expectation and generate additional revenue that could be used to fund other unrelated transportation projects.

In conclusion, the department feels that the current slate of potential projects for the region holds merit regardless of the disposition of the Knik Arm Crossing. They address identified needs in an environment of continued growth and do not appear to represent an unreasonable or disproportionate cost to the State. I trust that this provides satisfactory answers to your questions and I would be happy to discuss further if you desire.

Sincerely,



Marc Luiken
Commissioner

cc: Andrew Niemiec, Executive Director, Knik Arm Bridge and Toll Authority
Pat Kemp, Deputy Commissioner for Highways and Public Facilities, DOT&PF
Rob Campbell, Regional Director, Central Region, DOT&PF
Brenda Hewitt, Legislative Liaison, DOT&PF

“Reserve Fund” established by SB 80 still provides an unlimited State Guarantee

KABATA’s financial descriptions in their “Letter of Interest” from their July 2011 TIFIA Loan Application (which was also included in KABATA’s December 2011 TIGER Grant Application, available at KABATA’s website at <http://www.knikarmbridge.com/2011TIGER/TIFIALOI.pdf>) has the following description on the bottom of page 4, under *Sources and Uses of Funds* for what are called “Availability Payments” made by KABATA to the “Private Partner”:

“Sources and Uses of Funds:

Financing for the Project will be achieved through an availability payment concession, whereby the private partner will design, build, finance, operate and maintain the Project under a concession of approximately 35 years after substantial completion in exchange for availability payments from KABATA. The availability payments will be paid from a Project reserve fund that will hold toll revenues as well as any appropriated funds. The Project reserve fund will set forth minimum reserve requirements that, if not met, will trigger a request for appropriation from the State of Alaska. KABATA shall set toll rates (See HB158 and HB159, and SB79 and SB80). The tolls will be collected by the private partner on behalf of KABATA and the State of Alaska. “

Mr. Jeff Stark, of the AG’s office was accurate in his statements last Thursday before the House Finance Committee that the “Availability Payment” structure “gives certainty to the Private Partner”. Unfortunately the only certainty is that the Private Partner will be paid regardless of whether or not toll revenues will ever exceed those “Availability Payments”. While the specific language in SB80 that would have made any obligations of KABATA, “obligations of the State”, was removed, KABATA’s Federal Loan applications, and their proposed “Pro-Forma” show that if the actual traffic and revenue doesn’t meet the highly optimistic forecasts of KABATA and Wilbur Smith & Associates, that \$150 Million “Reserve Fund” will need to be “replenished” year after year.

The following pages are taken directly from KABATA’s December 2011 TIGER Grant with “explainers”.

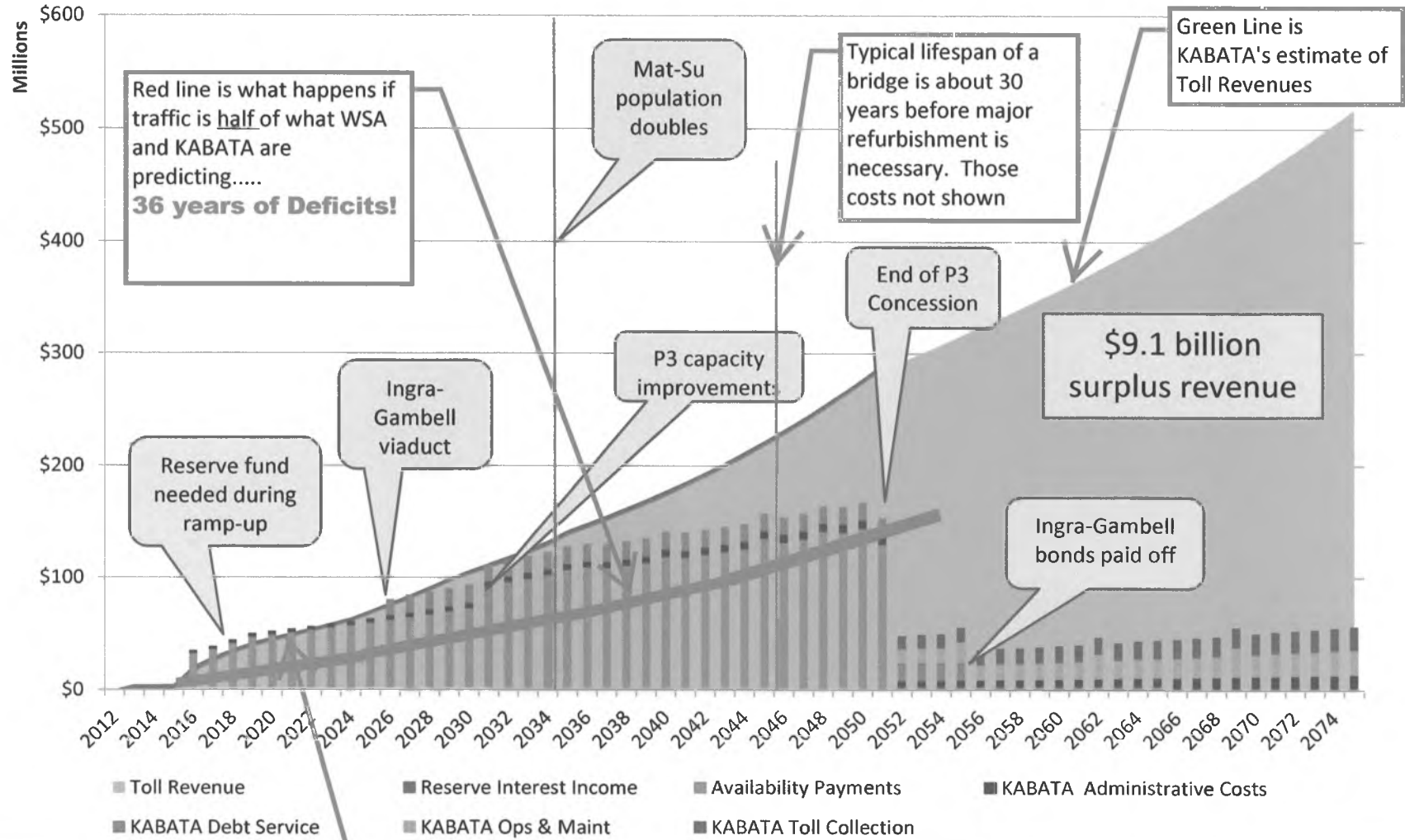
Page 8, Footnote 1, shows the \$50 Million “trigger point” where if the toll revenues are insufficient, KABATA states that **“If ending balance (of the “Reserve Fund) falls below \$50 million, the State will replenish the account back to \$50 million.”**

Page 7 shows that KABATA is not predicting positive cash flow until 2031. If only half of the traffic shows up, KABATA will be in the red during the entire 35 year life of the P3 Contract.

Refer to the attached information taken from KABATA’s November 30, 2011 presentation to the legislature done in Wasilla AK.

These pages are excerpted from KABATA's Nov. 30, 2011 presentation to the Legislature in Wasilla.

60 Year Cost and Revenue Projection



Costs of Phase 1A, expansion from 2 to 4 lanes is NOT shown

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Needed Legislative Action

- 1) Amend statutes to reflect current market realities

Which apparently is that the P3 "Partners" are not willing to take on the risks of NOT having sufficient Toll Revenues, and therefore need this State Guarantee

- 2) Clarify KABATA's relationship with the State

Mechanism is clear: Pot of money has 2 basic sources (Tolls and appropriations by the state), and it pays out annual "Availability Payments" to the P3 Contractor

- 3) Create a reserve fund mechanism to cover KABATA's project obligations
- 4) Reduce Project cost by lowering the cost of capital

Pending Legislation

SB 80 and HB 158

- ~~P3 contract obligations are state obligations, subject to appropriation~~

Removed the language, but NOT the obligation. Mr. Stark from the AG's office testified in House Finance that the language would be in the RFP and in the contract with the P3 Partner

- Increases bond issuance capacity to \$600 mm = PABs allocation

This, along with the RFP and Contract stating that the Legislature WILL Replenish, is where the State Guarantee is made.

- Creates authority for project reserve fund and replenishment mechanism via appropriation

- Confirms property tax exemption under a P3

- Passed out of House and Senate Transportation Committees, pending Finance Committees

Memo

Date: March 22, 2011.

To: Michael Foster, Knik Arm Bridge and Toll Authority

CC. Governor Sean Parnell, Commissioner Marc Luiken, Randall Ruaro

From: Professor Scott Goldsmith, Institute of Social and Economic Research, University of Alaska Anchorage

Subject: Distribution of Misinformation Regarding KABATA Population Predictions

Mr. Foster

Please stop implying that the KABATA population projections for the Matsu Borough, whatever they are, are "in line with other forecasts" including those of the Institute of Social and Economic Research (ISER). Also please stop characterizing the KABATA population prediction as essentially equal to the ISER projections as you did in the Anchorage Daily News (ADN) Compass piece published on November 2, 2011 and in a recent e-mail to Anchorage community council presidents.

THE KABATA PREDICTION IS NOT WITHIN 1% OF THE ISER PROJECTION, as you have stated. THE ISER 2035 PROJECTION OF 170 THOUSAND IS 12% LOWER THAN YOUR STATED KABATA PREDICTION OF 191 THOUSAND.

I have compiled all the population projections for the Matsu Borough that I can find published since 2005 (see graph). They show a dramatic variation in population projected for the Borough for 2030. In fact the range is from about 130 thousand to 250 thousand—a difference of nearly 100 %. Clearly there has not been consensus among the experts on the expected growth of the Borough. So to say that the KABATA projections are "in line with other forecasts" is not correct.

Curiously, there are two projections missing from the graph because, although you mention them, they can not be found. One is the population projections used in the most recent Wilber Smith Update of the Traffic and Toll Revenues Study (2011) done for KABATA. Whatever those projections may be, to the best of my knowledge, they have never been made public. They certainly are not in the published report. As I have indicated elsewhere, it is impossible to assess the validity of the Wilber Smith analysis of traffic and tolls without even this basic information about what is driving their analysis.

The other missing projection is the Woods & Poole projection that you mention on the KABATA website on March 12 of this year, implying that it is "in line" with the KABATA projection. However that projection does not, to the best of my knowledge, appear on your website nor can it be found

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elsewhere in the public domain. Again it is impossible to judge the quality of that projection or even what it is without being able to see it.

The graph also shows that the ISER projection of Matsu Borough population for 2035 is 170 thousand. This is 12% or 20 thousand less than the KABATA prediction of 191 thousand reported in the ADN article (but not to be found anywhere in the Wilber Smith report, or as far as I can tell, on the KABATA website. So it is impossible to say if this prediction is for the entire Matsu Borough, or for the AMATS planning region which excludes a portion of the Borough area and population.). THE KABATA PREDICTION IS NOT, as you have stated, WITHIN 1% OF THE ISER PROJECTION. The difference between 170 and 191 thousand is not insignificant but rather equal to several Palmers.

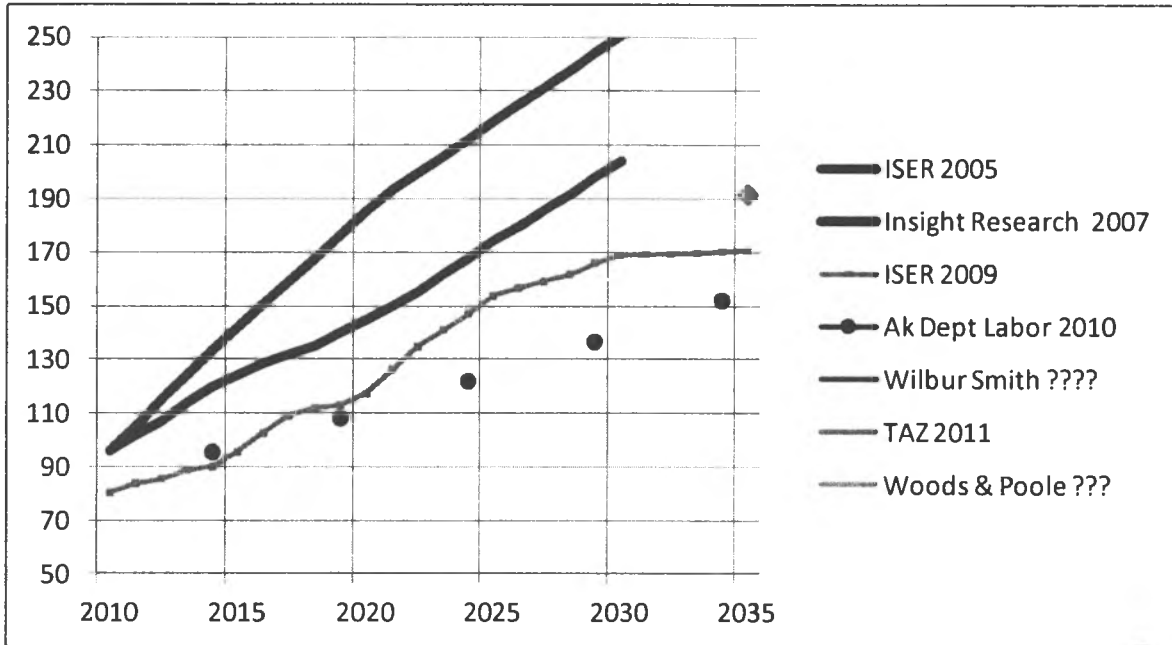
As the author of the ISER report, I stand by the ISER projection based on the assumptions, all publicly available in the written report, which drive the analysis. Although the ISER projection came in low compared to the 2010 census, I do not believe an upward shift in the entire projection is warranted for reasons I recently made clear to the AMATS technical staff. Further evidence that an arbitrary 11% upward adjustment is not warranted is the 2011 Alaska Department of Labor population figure for the Borough which indicates a SLOWER growth rate than the ISER projection.

You of course are free to use any numbers you want in the KABATA analyses. But do not hide the numbers and imply that they are the essentially the same as the ISER projection. Let people see and judge for themselves.

Finally, your statement in the March 2012 KABATA website that "these independent forecasts show that the Matsu borough population will double in the next 25 years" is incorrect. The Alaska Department of Labor projects an increase of only 76% (86 thousand in 2009 to 152 thousand in 2034).

Scott Goldsmith

Matanuska Susitna Borough Population Projections



ALASKA STATE LEGISLATURE



SENATOR JOE THOMAS

March 8, 2011

Commissioner Bryan Butcher
Department of Revenue
550 W 7th Ave, Suite 1820
Anchorage, AK 99501

Dear Commissioner Butcher,

I am writing to you in your position as a member of the board of the Knik Arm Bridge and Toll Authority as well as Commissioner of the Department of Revenue.

Before the Senate Finance Committee acts on SB 79 and SB 80, it is important that we understand the legislation's potential impact, if any, on the state's bond rating and ability to borrow for other projects.

It is my understanding that a decision by the Authority to issue bonds or enter into contracts or partnerships as authorized by the current statute, would not impact the state's credit rating or ability to take on other debt. However, if the Authority were not able to satisfy the financial obligations it makes, then the state's credit rating would be adversely affected.

Please confirm or correct my analysis of the potential impact of the existing law. Then, please explain how SB 79 and SB 80 would affect the state's financial situation. Specifically, does SB 80 increase the risk to Alaska's credit rating if toll revenue is inadequate and the state chooses not to appropriate additional money? How is the state's responsibility for ensuring the availability payment affected by the language on page 2, line 17 of SB 80 which states, "The monetary obligations incurred by the authority under the partnerships or contracts are obligations of the state, and satisfaction of those obligations from funds other than authority funds is subject to appropriation?" Would the result of the state's failure to meet its "moral obligation" to provide the annual availability payment, be an increase in the cost of borrowing money for other state activities?

Finally, as one of five voting members of the KABATA board, are you confident of the revenue projections and financial analysis in the Knik Arm Crossing Pro Forma Financial Plan and other documents the Authority submitted with its March 1 TIFIA letter of interest, and do you recommend that the legislature pass SB 79 and SB 80 as written?

Thank you for your assistance, Commissioner.

Regards,



Senator Joe Thomas

Cc: Knik Arm Bridge and Toll Authority Chairman Michael Foster and Members,
Knik Arm Bridge and Toll Authority Executive Director Andrew Niemiec,
Senate Finance Committee

State of Alaska
Department of Revenue

Commissioner Bryan Butcher



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The Honorable Joe Thomas
Alaska State Senator
State Capitol, Room 514
Juneau, AK 99801-1182

March 30, 2010

Dear Senator Thomas:

This is in response to your March 8, 2011 letter regarding the proposed legislation, SB 79 and SB 80, intended to facilitate the financing of the Knik Arm Crossing.

Your analysis of the current law is essentially correct in that the Knik Arm Bridge and Toll Authority (KABATA) has no authority to obligate the State of Alaska and that the sole legal recourse of a bondholder of KABATA would be the assets and revenues of KABATA. However, it is likely that rating agencies and investors would take some note of the KABATA project even under the current law. Following is a discussion of two kinds of state support for a capital project and where the provisions of SB 80 fall.

MORAL OBLIGATION

The moral obligation structure is used when a more credit worthy entity wants to lend credit support to a less credit worthy entity. The moral obligation is created by mandating a specific structure in law. Specifically, requiring that a reserve dedicated to the liability be created, that the issuer of the reserve have a reporting requirement to the moral obligor, and that in the event of a deficiency in the reserve that a replenishment must be requested from the moral obligor. By creating this legal structure the moral obligor is inferring to investors that while they are not legally guaranteeing the debt, in the event of a shortfall that there will be an appropriation to replenish. If there is a failure of the moral obligor to replenish a reserve based on a moral obligation there would be negative credit ramifications, and reduced access to capital. In essence, a moral obligation authority is creating a contingent liability on the moral obligor's balance sheet.

The State of Alaska currently has \$1.17 billion of moral obligation debt that is comprised of about \$100 million of Alaska Energy Authority utility revenue bonds, about \$400 million of Student Loan Corporation bonds, and about \$600 million of Alaska Municipal Bond Bank bonds. There has not been a payment under the moral obligation commitment of the state for any of these programs.

Senator Joe Thomas

March 30, 2011

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Moral obligation debt levels are monitored by rating analysts that review the state, and do go into the calculus of establishing the state's credit rating. As moral obligation debt is generally self supporting and not legal obligations of the State, it has less impact than more direct borrowing structures. A failure to fund a reserve that was established under moral obligation law and depleted due to payment deficiency would subject the state to negative credit rating action.

STATE SUPPORTED

The State Supported structure is used when the state wants to obligate its balance sheet on a subject to appropriation basis rather than a guaranteed basis. Subject to appropriation commitments are made where the State enters into leases or other contracts that obligate the state to pay on a subject to annual appropriation basis, and that lease or contract commitment is fractionalized and sold to third parties. The State of Alaska has most frequently used this structure for the construction of facilities through the issuance of State of Alaska certificates of participation (COP) or through a conduit as lease revenue bonds. The Alaska Seafood & Food Safety Lab was funded through COP and the Goose Creek Correctional Facility was funded through lease revenue bonds.

The State currently has \$1.26 billion of state supported debt that is comprised of about \$45 million of COPs, \$865 million of school debt reimbursement commitment, \$30 million of capital project reimbursement, and \$315 million of lease revenue bonds. Payments are made annually appropriated for each of these obligations.

State supported debt levels are monitored by rating analysts that review the state and directly impact the state's credit capacity and rating. A failure to appropriate on state supported debt would be viewed as a default of the State of Alaska and result in credit downgrades and significant impediment to future capital market access.

SB 80

The SB 80 Section 1(a)(5)(B) proposed revision provides that monetary obligations under the partnerships or contracts of the Knik Arm Bridge and Toll Authority (KABATA) are obligations of the state and payable on a subject to appropriation basis. This language, in conjunction with other proposed amendment in SB 80, allow up to \$600 million of KABATA bonds as well as an unlimited flexibility for private partner bonds to be issued as state supported debt based on a fractionalization of contract payments that are subject to appropriation obligations of the State of Alaska. If contracts are fractionalized and sold to third party investors, by either KABATA or their private partner, they will directly impact the state's debt capacity and credit. In this instance a failure to pay on the contract by the State of Alaska would result in credit downgrades and significant impediment to future capital market access.


The current authorization in SB 80 should be further defined to eliminate the ability of a private party to securitize monetary obligations of KABATA.

Senator Joe Thomas
March 30, 2011
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It should be clear that SB 80 is authorizing State of Alaska debt of up to \$600 million. There can be acknowledgement of the revenue generating nature of the project and the anticipated self sufficiency that is anticipated based on expert analysis, but a firm recognition that the bill as drafted creates a direct line to the State of Alaska's balance sheet for the \$600 million of KABATA bonds and unlimited authority for a private partner's bonds is important.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Bryan Butcher", with a stylized flourish extending from the end of the name.

Bryan Butcher
Commissioner

ALASKA STATE LEGISLATURE



SENATOR JOE THOMAS

March 11, 2011

Mr. Andrew Niemiec, executive director
Knik Arm Bridge and Toll Authority
550 West 7th Ave., Suite 1850
Anchorage, AK 99501

Dear Mr. Niemiec,

Thank you for meeting with me to discuss SB 79 and SB 80 and the Knik Arm Bridge project.

I understand the value of investment in our infrastructure and the importance of projects that create jobs and opportunity for economic development. I have been a consistent supporter of such projects. I also believe it is my responsibility as a legislator to ensure that we clearly understand the financial terms and implications of this legislation, especially because it makes a 35-50 year commitment to appropriate state funds if toll revenue is insufficient.

Due to the complexity and significance of the issues, I felt it would be most efficient to submit my questions to you in writing, so you can prepare a response that can be shared with other Senate Finance Committee members. These detailed questions should not be interpreted as opposition to the Knik Arm Bridge or to state financial involvement. I may, in fact, support the project if these concerns are adequately addressed.

Questions about the KABATA project and SB 79/80

1. SB 80 (page 5, lines 17-31) says the reserve fund, into which the state may deposit \$150 million through SB 79 and into which all toll revenue will be deposited, can be used for a wide variety of expenses besides the annual availability payment. Uses include the authority's overhead and administrative costs, any indebtedness of the authority, termination payment obligations, improvement or expansion of the bridge, and construction and operation of projects of the authority or other public entities.
 - Why does KABATA need this broad spending authority if the purpose of the fund is to ensure the annual payment in order to attract lower cost financing?
 - What situations would trigger an obligation to make termination payments, and how large would those payments be?
 - If KABATA is not successful in entering into a contract with a private partner to build and operate the bridge, will the state have to refund money KABATA

received from the federal government, what would be the refund amount, and could the reserve fund be used for that purpose?

- Does the existing statute or SB 80 authorize KABATA to be involved in projects other than the Knik Arm Bridge?
 - What other public entities and projects might be funded with the reserve?
 - Would the state have to guarantee payment of monetary obligations KABATA may incur in connection with these new projects, in accordance with page 2, lines 17-20 of SB 80?
 - What is the legislature's role in approving projects the authority may wish to undertake with excess reserves or earnings?
1. SB 80 (page 6, line 6) says income and interest earned by the fund can be transferred to other accounts and used for other purposes. Page 5, line 8 (current law) says, "The interest earned on or profit derived from these funds and reserves shall be the property of the authority." The state's \$150 million deposit into the reserve fund should generate \$5-10 million each year. In addition, up to \$8 billion in toll revenue is anticipated by the authority and will earn significant interest.
 - Why are earnings not retained in the reserve fund, or deposited in the state General Fund if they exceed the amount needed to meet the reserve fund requirement?
 2. SB 80 (page 6, line 4) prohibits using the fund for the design, construction, or operation of projects, if that would reduce the fund to less than the reserve fund requirement. The term "reserve fund requirement" is defined on lines 20-23 as an amount determined by the authority, but there are no guidelines for setting that amount.
 - Please explain what criteria the authority will use to determine if the reserve fund is sufficient.
 - Why does the bill not establish \$150 million as the floor for use of the reserve fund for other purposes, or return excess reserves to the General Fund?
 3. The authority anticipates that over \$8 billion in excess toll revenue will be received by the reserve fund over sixty years, and that those funds will be available for transportation projects statewide.
 - Can the authority board of directors lower the toll to reduce or eliminate this excess revenue?
 - Would excess revenue return to the General Fund for appropriation by the legislature, and through what mechanism?
 4. Would the existing "pledge of the state" in AS 19.75.251 limit future legislatures' ability to reappropriate fund earnings or excess reserves from the authority to other state programs?
 5. A financial document supporting the March 1, 2011 TIFIA Letter of Interest contains a column entitled "State Replenish" with a footnote stating, "If ending balance falls below \$50 million, the State will replenish the account back to \$50 million." (page 7 Private Model – Availability Payment Structure – Current Market – State Reserve Fund)
 - What are the implications for the state if KABATA receives TIFIA credit based on that document?
 6. KABATA has significant remaining federal funds.
 - What is the amount of remaining KABATA funds?
 - Can that money be used to cover future administrative costs, which the TIFIA LOI documents estimate will be \$3 million/year adjusted for inflation, rather than using toll revenue backed by the state to pay administrative costs?

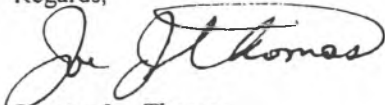
7. The March 1, 2011 TIFIA Letter of Interest includes a document entitled "Annual Employment Impact of Knik Arm Toll Bridge." This document anticipates 2,400 direct bridge construction jobs and 4,000-8,000 direct jobs after construction in fields such as "residential," "retail" and "office."
 - How many full-time and part-time jobs are anticipated in the actual operation and maintenance of the bridge and toll facilities, who will employ those workers, and what percentage are expected to be Alaska residents?
 - Has the authority taken into account the strong financial incentive for the private partner to keep labor costs to a minimum in the on-going operation of the bridge, which could encourage the use of out-of-state workers, perhaps in a week on/week off rotation?
 - Which provisions in the RFP will encourage use of Alaska subcontractors and Alaska workers in construction, maintenance, and operation of the bridge?

8. The March 1, 2011 TIFIA Letter of Interest includes a "pro forma financial plan" with 35 annual availability payments beginning at \$36 million in 2016 and ending at \$141 million in 2051. However, the KABATA board has the authority to enter into a contract with substantially different terms.
 - What would be the consequences of amending SB 80 to require legislative approval of the final contract, or to establish a maximum length and amount of the availability payments?

I understand the value of expanding the state's transportation network and opening new land to development, so I do not need an explanation of the benefits of the bridge. I would, however, very much appreciate a written response to the questions contained in this letter before SB 79 and SB 80 are considered by the Senate Finance Committee on which I serve.

Thank you for your assistance.

Regards,



Senator Joe Thomas

Cc: Knik Arm Bridge and Toll Authority Chairman Michael Foster and Members
Knik Arm Bridge and Toll Authority Executive Director Andrew Niemiec
Senate Finance Committee Co-chairmen Senator Lyman
Senate Finance Committee Co-chairmen Senator Bert Stedman

Senator Linda Menard

Session

State Capitol, Room 9
Juneau, Alaska 99801
Phone: (907) 465-6600
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Interim

600 E. Railroad Ave.
Wasilla, Alaska 99654
Phone: (907) 376-3370
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Alaska State Legislature

CS for SB 80 – Knik Arm Bridge Explanation of Changes

1. Sec. #1 of the original bill is deleted. This removes the obligation of the state language located on Page 2, beginning on Line 17.
2. The other sections of the original bill are renumbered in the CS, but the same in scope.
3. By these changes, the bill now:
 - a. Increases KABATA's conduit bonding issuance authority from \$500 million to \$600 million.
 - b. Provides KABATA the statutory ability to establish a reserve fund for the project to be housed in the Department of Revenue.
 - c. Clarifies the tax exempt status of the bridge is like other state roads in Alaska.

Senator Linda Menard

Session

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Alaska State Legislature

Senate Bill 80 Sponsor Statement

Senate Bill 80 amends the Knik Arm Bridge and Toll Authority's enabling statute to provide for a successful procurement for the Knik Arm Crossing project and to generate the best value for the state. Passing this legislation **this session** is important to seeing the Knik Arm Crossing efficiently move toward a successful and low-cost procurement process and facilitate being open for traffic in 2015. The Knik Arm Crossing will be a significant addition to Alaska's infrastructure that will further facilitate the movement of goods and people in the state.

Senate Bill 80 was written in consultation with the Knik Arm Bridge and Toll Authority (KABATA), which was established in 2003 by the Alaska Legislature. The bill accomplishes many items KABATA has deemed necessary to have a successful public-private partnership procurement. Those items are:

- **Increase in KABATA's Bonding Authority from \$500 million to \$600 million**
 - The \$600 million number represents the same amount authorized under Private Activity Bond (PABs) allocation from FHWA
 - Lowers the cost of capital for the project and ultimately lowers the cost to end users
 - Private partner is the borrower of any PABs issued.
- **Property tax relief – clarify that the Crossing and associated facilities are exempt from state and local property taxes**
 - Like any other transportation project in our State, the roads and bridges are not subject to property taxation.
 - Any private facilities developed outside the crossing will be taxable
 - Property tax exemption reduces the availability payment and reduces the toll
- **Contractual Monetary Obligations**
 - Identifies the *obligations of the State of Alaska* under a P3 process
 - The legislative language applies to "monetary liabilities" which may be incurred by KABATA under a P3 process

- Any P3 agreement needs to be approved by the KABATA Board of Directors, State AG's office, ADOT&PF
- Serves to lower the cost of debt and equity to finance the project
- Keeps the tolls affordable to the traveling public

Project reserve

- Creation of a reserve fund is to provide a backstop for toll revenue fluctuations.
- Serves to enhance the credit worthiness of the project and reduce overall project costs
- Will be repaid over the project life

All of the above language clarifications and additions serve to lower the cost of capital on this much needed infrastructure project and deliver the benefits in a timely and efficient manner.

Please help me by supporting this legislation so a long-term, long sought after project can be realized.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm 329

MEMORANDUM

February 3, 2011

SUBJECT: Sectional summary of SB 80 (Work Order 27-LS0430\B)

TO: Senator Linda Menard
Attn: Michael Rovito

FROM: Brian J. Kane *BJK*
Legislative Counsel

You have requested a sectional summary of SB 80, a bill relating to the Knik Arm Bridge and Toll Authority.

Please note that a sectional summary of a bill is not an authoritative interpretation of a bill. The bill itself is the best statement of its contents.

Section 1 of the bill amends the powers of the Knik Arm Bridge and Toll Authority to add that monetary obligations incurred under a public-private partnership or service contract are obligations of the state that are subject to appropriation.

Section 2 of the bill authorizes the authority to borrow money and lists the means by which the principal and interest on bonds of the authority may be paid.

Section 3 of the bill increases the aggregate amount of bonds the authority may issue to \$600,000,000.

Section 4 of the bill restates a portion of what was originally part of AS 19.75.211(a) but was moved to subsection (e) due to drafting constraints. It adds a reference to private revenue under a public-private partnership.

Section 5 of the bill lists what deposits may be made into a reserve fund established under AS 19.75.221(h).

Section 6 of the bill states the purposes for which a reserve fund of the authority may be used and provides for various rules and reports regarding transfers from a reserve fund and amounts of money needed to be in a reserve fund.

Section 7 of the bill states that rights and interests in real and personal property, assets, income, and receipts held by a private person or enterprise under a public-private partnership agreement with the authority, except any rights and interests of the private

Senator Linda Menard

February 3, 2011

Page 2

person in property serving a business, commercial, or other purpose not necessary to operate the facilities, properties, or projects of the authority, shall be exempt from all taxes and special assessments of the state or a political subdivision of the state.

Section 8 of the bill establishes the Knik Arm Crossing fund as a separate fund in the general fund and states that money from the fund shall be transferred from the fund to a reserve fund of the authority once a public-private partnership agreement is executed.

BJK:plm
11-050.plm

KNIK ARM CROSSING

PRELIMINARY DESIGN PHASE RENDERING



STATE OF ALASKA

SEAN PARNELL, GOVERNOR

KNIK ARM BRIDGE AND TOLL AUTHORITY

550 West 7th Ave, Suite 1850
Anchorage, Alaska 99501
Phone: (907) 269-6698
FAX: (907) 269-6697
www.knikarmbridge.com

March 16, 2011

The Honorable Joe Thomas
Alaska State Legislature
State Capitol
Juneau, Alaska 99801

Re: SB 79 and 80

Dear Senator Thomas:

We appreciate your thoughtful questions and evident interest in the Knik Arm Bridge project. We take this opportunity to provide specific answers to your questions.

1. Your first item 1 includes the following questions.

- *Why does KABATA need this broad spending authority if the purpose of the fund is to ensure the annual payment in order to attract lower cost financing?*

KABATA does not seek to, and SB 80 will not, expand KABATA's existing spending authority. AS 19.75.111(a)(1) limits KABATA's jurisdiction to "the Knik Arm Bridge and its appurtenant facilities." In the Record of Decision, the FHWA defined the Project to include the bridge and approximately 18 miles of connecting roadway. Future phases will include capacity improvements and a second connection in Anchorage to Ingra and Gambell Streets. We refer to these future appurtenant facilities collectively as "other KABATA project responsibilities."

The purpose of establishing in SB 80 a broad set of uses of the project reserve fund is to make it abundantly clear to the private party and its lenders that their beneficial interest in the project reserve fund cannot prevent use of surplus funds for other purposes of benefit to the State. It is not to expand KABATA's statutory authority.

To attract lower cost financing, the trust agreement governing the project reserve fund must set forth sources and uses of funds. The sources of funds in the project reserve will be the \$150 million appropriation, toll revenue, and earnings

on deposited funds. The funds in the project reserve will be used according to an established order of priority for use. We anticipate that KABATA's normal overhead and administrative costs and the availability payments will receive top priority. Reserves also need to be built for project contingencies. The trust agreement will also establish the conditions under which KABATA may use surplus funds – i.e. funds not needed for these higher priority uses – for its other KABATA project responsibilities, for release of the \$150 million (plus interest) back to the General Fund and for other eligible transportation purposes as decided by the State Legislature. During the procurement KABATA will develop the precise terms and conditions of the trust agreement for the project reserve fund, taking into consideration input from the proposers, their lenders and the ratings agencies.

- *What situations would trigger an obligation to make termination payments, and how large would those payments be?*

Concession agreements involving private financial investment always include termination payments if the concession is terminated before the end of the concession term. It is impossible to raise private debt and equity financing without termination payment provisions.

The amount of termination payments generally falls into three categories. The first category includes termination for convenience by the State or termination due to material uncured public party default. For this category, the payment is intended to compensate the private party for its lost business enterprise (similar to the constitutional requirement for just compensation upon condemnation of private property). It includes an amount sufficient to repay outstanding project debt, outstanding equity investment and the contractual rate of return on the equity investment.

The second category is termination due to uncured, material private party default. The termination payment typically results in loss of the private equity and coverage for less than all (e.g. 80 – 85%) of the outstanding project debt.

The third category is termination for stated reasons beyond either party's control. These can include continuation of excusable delays (e.g. due to earthquake) for an extended period of time, or a final court judgment halting the project or invalidating the public-private agreement. The termination compensation is basically calculated to return the private party to the position it was in before entering into the contract – i.e. the amount of its outstanding project debt, return of expended equity plus a rate of return on expended equity up to the date of termination (sometimes less than the rate stated in the proposal).

Although KABATA will need to take all termination possibilities into account in negotiating the public-private agreement, it is unlikely that any will occur. While the foregoing termination payments can be large, KABATA and the State will have received the value of the developed project in return. In addition, KABATA

would have the authority and capacity to issue toll revenue bonds to raise all or a portion of the money needed to make the termination payment.

It is rare that any termination compensation is provided if termination is due to the bankruptcy of the private party, and the public-private agreement will be structured to preclude or minimize the possibility.

- *If KABATA is not successful in entering into a contract with a private partner to build and operate the bridge, will the state have to refund money KABATA received from the federal government, what would be the refund amount, and could the reserve funds be used for that purpose?*

Title 23 requires that the ADOT&PF pay back any Preliminary Engineering to FHWA if the project has not advanced to the Real Estate or Construction phase within 10 years from the date the project was authorized. Likewise, real estate funds must be paid back to FHWA if the Construction phase of work has not commenced within 20 years of the date the funding for real estate acquisition was made available. The funding for real estate acquisition has not yet been made available, but is imminent.

The refund amount would depend upon the amount of federal funds expended at the time. To date, \$57,043,987 of federal Title 23 highway funds have been obligated to the project and approximately \$46 million have been expended (excluding State matching funds).

In the unlikely event that FHWA requested that funds be repaid, they would not be paid from the project reserve fund. This is because under SB 80 the \$150 million appropriation will not have been released to the project reserve fund. The appropriation is to be held by the Department of Revenue at least until a public-private partnership agreement is signed. Under the circumstances described, no signing will have occurred.

- *Does the existing statute or SB 80 authorize KABATA to be involved in projects other than the Knik Arm Bridge?*

The existing statute limits KABATA's jurisdiction to "the Knik Arm Bridge and its appurtenant facilities." AS 19.75.111(a)(1). SB 80 does not change the scope of jurisdiction. For further discussion, see the response to the 1st question under this item 1.

- *What other public entities and projects might be funded with the reserve?*

Federal law and regulations limit the permissible uses of surplus toll revenues from transportation projects funded in whole or in part with federal-aid highway funds to "any purpose for which Federal funds may be obligated by a State under this title [23]," including roads, bridges, trails, transit, ferries, etc. 23 U.S.C. §129(a)(3). The Knik Arm Crossing and the toll revenues from it are subject to

these laws and regulations. Therefore, surplus funds in the reserve could be used to fund or finance other KABATA project responsibilities (described above) and other federally eligible transportation purposes as determined by the State Legislature.

We believe, however, that surplus funds used to repay the \$150 million appropriation, as well as a reasonable interest rate on the appropriation, could be returned to the General Fund free of these federal restrictions on use. KABATA will work with the Department of Revenue and the FHWA on arrangements that will facilitate this result.

- *Would the state have to guarantee payment of monetary obligations KABATA may incur in connection with these new projects, in accordance with page 2, lines 17-20 of SB 80?*

No. SB 80 creates no State guarantee of any monetary obligations of KABATA. To do so would be unconstitutional. Rather, SB 80 would mean that although a monetary obligation of KABATA under a public-private partnership agreement – including one for a future, new project – would be treated as a contractual obligation of the state, it could only be satisfied from State funds to the extent a future State Legislature chooses to appropriate funds needed to pay the obligation.

KABATA has no plans to enter into such a future public-private partnership agreement for meeting other KABATA project responsibilities and its statutory authority under AS 19.75 is limited to the Knik Arm Bridge and appurtenant facilities, constraining its ability to contract for other projects. When the time comes, KABATA's board would evaluate whether it is in the public interest to use such an agreement or some other method of contracting for meeting other KABATA project responsibilities.

- *What is the legislature's role in approving projects the authority may wish to undertake with excess reserves or earnings?*

The central reason KABATA is requesting that SB 80 authorize the use for other transportation purposes of reserve funds in excess of those needed to meet project financial obligations is to assure that KABATA's Board and the State Legislature have maximum freedom to decide when, where and how to use the excess funds. We do not want the private party or its lenders to restrict such uses.

Those future uses will be subject to commitments in the Record of Decision for the Knik Arm Crossing. Because AS 19.75 assigns to KABATA the other KABATA project responsibilities and the Record of Decisions and EIS for the Knik Arm Crossing call for these future capacity improvements, it can be expected that the KABATA Board will allocate such future surplus revenues first toward meeting these responsibilities.

The State Legislature will control use of excess revenues for Title 23 eligible transportation projects beyond the other KABATA project responsibilities, as explained at the 1st and 4th questions above.

1. Your second item 1 sets forth the following question.

- *Why are earnings not retained in the reserve fund, or deposited in the state General Fund if they exceed the amount needed to meet the reserve fund requirement.*

Interest earnings will be retained in the project reserve fund and will be subject to the same uses and priority of uses as all other funds in the reserve.

KABATA sized the \$150 million appropriation request based on the assumption that earnings would be retained. The financial projections indicate that interest earnings on the \$150 million appropriation will be needed in order to keep the project reserve fund at a level that will not require a request for an additional appropriation. Thus, retention of the earnings in the reserve fund until there are surplus funds will enhance the ability to attract low cost, highly rated financing for the project.

Once the reserve fund builds back up to the level that there are excess funds not needed for the project, then interest earnings, like all other surplus funds, will be freed up for other KABATA project responsibilities, repayment to the General Fund of the \$150 million appropriation and interest thereon, and other eligible transportation purposes, as described in the 5th and 7th questions under the first item 1 above.

2. Your item 2 includes the following questions.

- *Please explain what criteria the authority will use to determine if the reserve fund is sufficient.*

KABATA's primary criterion will be to set the minimum reserve requirement at the lowest level consistent with obtaining the best financing terms for the project. KABATA's Board and staff will be working with our financial and legal advisors and will consider input from proposers, their lenders and rating agencies to determine this number.

For KABATA's financial plan, we have assumed a \$50 million minimum reserve requirement. The financial plan is a pro forma model from the private perspective on the transaction. The minimum reserve requirement in the plan is a hypothetical floor for modeling purposes only, and is only indicative of the final structure for the project reserve fund.

We point out that the minimum reserve requirement is different from the maximum reserve requirement. The latter is the floor above which available funds would be treated as surplus funds that could be used for other KABATA

project responsibilities, for repaying to the General Fund the \$150 million reserve appropriation, plus interest, and for other eligible transportation projects chosen by the State Legislature. For KABATA's financial planning purposes, we have assumed a \$150 million maximum reserve requirement once the project achieves annual toll revenues at least equal to annual availability payments.

The minimum and maximum requirements will be refined as the project nears the close of financing.

- *Why does the bill not establish \$150 million as the floor for use of the reserve fund for other purposes, or return excess reserves to the General Fund?*

Like the minimum reserve requirement, KABATA's objective is to set the maximum reserve requirement, as described in the immediately preceding paragraph, as low as possible consistent with obtaining the best financing for the project. KABATA believes it is unwise to set a fixed amount as the floor in the bill because it will not be tested and verified by actual financial market conditions.

The \$150 million floor in the pro forma financing plan is a hypothetical threshold for modeling purposes only, and is only indicative of the final structure for the project reserve. If setting a floor higher than \$150 million were to prove beneficial in reducing the overall cost of debt and equity financing for the project, the flexibility to do so would be advantageous to the State. Likewise, if setting a floor lower than \$150 million can achieve optimal financing for the project, the flexibility to do so would be to the State's advantage.

2. Your item 3 includes the following questions.

- *Can the authority board of directors lower the toll to reduce or eliminate this excess revenue?*

Yes, as provided by AS 19.75.111(a)(10). The board has the exclusive authority to set and collect tolls, as provided by AS 19.75.111(b)(6).

KABATA expects that the public-private agreement and related financing agreements will require KABATA to follow toll rate and toll revenue covenants in order to meet coverage ratios for the availability payments.

- *Would excess revenue return to the General Fund for appropriation by the legislature, and through what mechanism?*

For potential uses of excess revenue, please refer to the answers to the 5th and 7th questions under your first item 1 above.

The mechanism for return of excess revenue (i.e. fund balances in excess of the maximum reserve fund requirement) presumably would be through the normal legislative process. Under SB 80 KABATA would make annual reports to the State Legislature and Governor on the status of the project reserve fund, giving the State Legislature the information it will need to decide on legislation to use

and apply the excess reserve funds to projects of their choosing. Consistent with SB 80, the reserve fund terms and conditions will explicitly authorize use of surplus funds for non-project purposes without need for consent of the private party or its lenders.

4. Your item 4 sets forth the following question.

- *Would the existing "pledge of the state" in AS 19.75.251 limit future legislatures' ability to reappropriate fund earnings or excess reserves from the authority to other state programs?*

No. The very purpose of authorizing use of surplus funds in the project reserve for non-project purposes is to assure that the State Legislature has maximum flexibility, consistent with federal regulations and the commitments in the Record of Decision and EIS, to decide on use of the surplus funds free from interference by the private party or its lenders.

5. Your item 5 sets forth the following question.

- *What are the implications for the state if KABATA receives TIFIA credit based on that document [the TIFIA Letter of Interest]?*

The TIFIA letter of interest is only an expression of interest and is not a binding commitment. KABATA submitted it to the TIFIA program for the benefit of the project and the eventual private party. KABATA would not be the borrower. The private party, if it chooses to use TIFIA, will be the borrower and negotiate its own terms and conditions with the FHWA, which administers the TIFIA program. KABATA will not be bound by the credit agreement between the private party and the FHWA.

Regardless of whether the private party uses TIFIA financing, as provided in SB 80, KABATA would request an appropriation if the reserve balance falls below the minimum reserve requirement. The amount of the appropriation would be the amount necessary to restore the fund balance to the minimum reserve requirement. For a further explanation of how the minimum reserve requirement will be set, see discussion at the 1st question under your item 2 above.

6. Your item 6 includes the following questions.

- *What is the amount of remaining KABATA funds?*

The remaining federal Title 23 highway funds previously appropriated but not obligated to the Project are \$55,528,355. The State matches just over 9% of eligible costs, for total Title 23 funding of \$61,040,294. The \$55.5 million figure is included in the sources in the pro forma financing plan within the \$112.6 million figure designated *Federal* under Public Funds.

- *Can the money [i.e. KABATA's remaining federal funds] be used to cover future administrative costs, which the TIFIA LOI documents estimate will be \$3 million/year adjusted for inflation, rather than using toll revenue backed by the state to pay administrative costs?*

KABATA's remaining federal funds can be used to cover KABATA administrative costs during construction only. Federal Title 23 funds cannot be used for operations and maintenance post construction.

7. Your item 7 includes the following questions.

- *How many full-time and part-time jobs are anticipated in the actual operation and maintenance of the bridge and toll facilities, who will employ those workers, and what percentage are expected to be Alaska residents?*

It is estimated that the actual operations and maintenance of the bridge and toll facilities will require between 35 and 75 persons depending on the traffic volume and number of transactions/accounts under management. These workers will be employed by the private partner and/or their subcontractor(s).

While there may be several supervisory management personnel from outside of Alaska representing the private partner, KABATA believes that all other employees, representing the vast majority (e.g. 95%) of project personnel, will be Alaska residents. KABATA will encourage Alaska hire to the extent allowed by law.

- *Has the authority taken into account the strong financial incentive for the private partner to keep labor costs to a minimum in the on-going operation of the bridge, which could encourage the use of out-of-state workers, perhaps in a week on/week off rotation?*

Yes. It is very unlikely that rotational work by out-of-state workers would be cost-effective for the private party. The nature and scope of the work requires on-site personnel for bridge operations and for managing customer care for tolling operations. In addition, the travel costs for shuttling a work force in and out of the State would be prohibitive. Strong local hiring is the consistent result for other P3 projects in the United States.

- *Which provisions in the RFP will encourage use of Alaska subcontractors and Alaska workers in construction, maintenance, and operation of the bridge?*

The RFP will encourage Alaska hire to the extent allowed by law.

The overwhelming experience with other P3 projects in the United States is that proposers form consortia with substantial participation by local firms. Proposers obtain real advantages by doing so, including local knowledge, local connections, economies of scale and goodwill. As a practical matter, most of the approximately 5,000 FTE's needed to construct the bridge over 3-5 years will be

Alaska hire, including jobs in excavating, gravel trucking and placement, grading and paving, placing armor rock, etc.

8. Your item 8 sets forth the following question.

- *What would be the consequences of amending SB 80 to require legislative approval of the final contract, or to establish a maximum length and amount of the availability payments?*

KABATA wants to leave you with no doubt that a requirement for legislative approval of the final contract would so chill private sector interest in proposing that it would most likely lead to an unsuccessful procurement. The experience of other states like Pennsylvania, Florida and California is informative. In Pennsylvania, the legislature refused, for political reasons, to approve a P3 proposal for the Pennsylvania Turnpike after a successful P3 procurement was completed, sending shock waves through the industry. In Florida and California, this type of legislative provision completely stifled P3 procurements. Only after these states removed this requirement did the private sector take the P3 programs seriously and were these states able to successfully conduct P3 procurements (for the Port of Miami Tunnel project, the I-595 managed lanes project in Ft. Lauderdale, and the Presidio Parkway project in San Francisco).

Prospective private partners will spend in excess of \$5 million in preparing proposals. They must prepare conceptual designs in order to assemble a competent, fully priced competitive proposal. They will have a substantially negotiated design-build contract, firm financing commitments, arrangements for operations and maintenance, etc. that all must be considered in preparing a proposal. Even if a stipend is paid, it will not fully compensate them for proposal and opportunity costs of committing scarce resources to a complex proposal process. Subjecting the proposal process to a political decision after substantial investment of money and time will not draw private sector interest. The private sector will not take this kind of political risk.

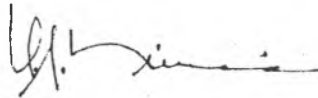
In short, the requirement for legislative approval of the P3 agreement would deal a major setback to the project.

Regarding a legislatively-mandated maximum length and/or maximum availability payment, while there is some precedent for this in other states, we believe the existing governance structure for KABATA under chapter 19.75 makes this unnecessary. The KABATA Board is composed of the commissioners of the ADOT&PF and the Department of Revenue, and three members from the general public appointed by the Governor and two State Legislators. The state's interests are well represented and well protected. The KABATA Board is under a fiduciary duty to obtain terms that it determines are advantageous to the state. They will make decisions within a disciplined framework, with consultation with and involvement of the ADOT&PF, the Department of Revenue, the Alaska

Department of Law and highly qualified financial, technical and legal consultants for KABATA.

If your office remains interested in a statutory limit for the term and/or the availability payment, we would like the opportunity to discuss it in more detail with you. The structure of those limitations must recognize market realities and the complex nature of these arrangements. Our interest is in obtaining the best results for the state.

Sincerely,



Andrew J. Niemiec
Executive Director

cc: Knik Arm Bridge and Toll Authority Chairman Michael Foster and Board Members
Senate Finance Committee Co-chairman Senator Lyman
Senate Finance Committee Co-chairman Senator Bert Stedman

ALASKA STATE LEGISLATURE



SENATOR JOE THOMAS

March 8, 2011

Commissioner Marc Luiken
Department of Transportation and Public Facilities
P.O. Box 112500
Juneau, AK 99811-2500

Dear Commissioner Luiken,

I am writing to you in your position as a member of the board of the Knik Arm Bridge and Toll Authority as well as Commissioner of the Department of Transportation and Public Facilities. Construction of the Knik Arm Bridge is a very significant transportation decision, and the expertise of your department is essential to evaluate Senate Bills 79 and 80, and to anticipate the impact of the bridge on our transportation system.

During the Senate Transportation Committee hearing on SB 79 and SB 80, Division of Program Development director Jeff Otteson testified in support of the legislation. Mr. Otteson stated that construction of the bridge would reduce the amount of money the state would otherwise have to spend on the Glenn Highway.

If this is the department position, please describe the Glenn Highway maintenance or expansion projects the department anticipates will not be undertaken if the bridge is built, and their estimated cost. I would like to know the department's current count of vehicles crossing the Glenn Highway bridge, your future traffic projections for the Glenn, and how they compare to the estimates in the Authority's February 25, 2011 Traffic and Toll Revenue Update Study prepared by WilburSmith Associates.

I would also appreciate an estimate of the cost of constructing, improving and maintaining the connecting roads carrying vehicles to the bridge, such as Knik Goose Bay Road, Burma Road, South Big Lake Road, and the phase 2 connection across Ship Creek to Ingra-Gambell, or other infrastructure the department thinks will be necessary to generate the bridge traffic anticipated in the toll revenue estimates or to respond to area development.

I read in the Authority's February 25, 2011 Traffic and Toll Revenue Update Study prepared by WilburSmith Associates (page 16) that the traffic demand model assumed the traffic network would include, "All projects listed in the official transportation planning documents" which included the AMATS TIP, the STIP, the Mat-Su Borough Long Range Transportation Plan and the Anchorage Bowl 2025 Long-Range Transportation Plan. It has been my experience that there is often not sufficient funding to complete all projects appearing in those transportation planning documents as scheduled. If toll revenue is dependent on their timely completion, it will be essential to anticipate and plan for those costs.


Please confirm with WilburSmith which road projects they assumed in their model and estimate the amount of state and federal funds the legislature will need to appropriate each year to meet those expectations.

Finally, I would appreciate your assessment of the impact on other department projects, of directing that amount of federal funding to connecting roads. In other words, what percentage of Alaska's anticipated federal highway funding will be needed to complete the traffic network on which toll revenue is based, and will that reduce the amount available for roads in the Northern and Southeast Regions and elsewhere in the Central Region?

I realize that these are not simple calculations, but I believe it is important that the legislature has the information necessary to understand the implications before acting on legislation.

Thank you for your assistance, Commissioner.

Regards,



Senator Joe Thomas

Cc: Knik Arm Bridge and Toll Authority Chairman Michael Foster and Members,
Knik Arm Bridge and Toll Authority Executive Director Andrew Niemiec,
Senate Finance Committee



U.S. Department
of Transportation

**Federal Highway
Administration**

Memorandum

SENT BY ELECTRONIC MAIL

Subject: **INFORMATION:** National Highway
System Designation of the Knik Arm
Crossing Project

Date: January 21, 2011

Original Signed by Gabe Rousseau for
From: Lucy Garliauskas
Director
Office of Human Environment

In Reply Refer To: HEPH-20

To: Mr. David Miller
Division Administrator
Juneau, AK

We have reviewed the request by the State of Alaska Department of Transportation and Public Facilities, dated August 13, 2010 for the proposed addition of the Knik Arm Crossing Project to the National Highway System (NHS), which will connect to the Port of Anchorage Intermodal Connector. Upon review of the supporting documentation, we concur that the proposed crossing and connection meets the secondary eligibility criteria, as defined under Appendix D of 23 CFR 470, as a significant investment in an intermodal facility. However, since the crossing is not yet built and will not be constructed for three to five years, it cannot be classified as an NHS intermodal connector at this time. It does qualify for addition as an Unbuilt NHS Route. We hereby approve your request and will adjust the NHS as follows:

- Add the proposed 9.8-mile segment of unbuilt facilities to the NHS, from the Port Of Anchorage Intermodal Connector to the Port of MacKenzie.

We will make the appropriate changes to the System and update the NHS maps for the State as stated, and upon notification of completion of construction, we will update the NHS classification from Unbuilt NHS Route to NHS Intermodal Connector. If you have any questions or comments, please call Kevin Adderly at (202) 366-5006.

cc: John Lohrey, AK Division

Knik Arm Crossing Public-Private Partnership and Cost of Capital Overview

Availability Payment Structure

- Private partner responsible for finance, design, build, operate and maintain over life of agreement (e.g. 35 years)
- State makes regular annual payments to private partner that cover its:
 - Debt service
 - Operation and maintenance costs
 - Reasonable return on invested equity
- State owns facility and toll revenues
- State funds annual payments from:
 - Toll revenues
 - Then, if necessary, from reserve fund
 - Then, from appropriations (if necessary)
- Annual availability payment amount fixed, except:
 - A portion is indexed to CPI to account for increases in O&M costs
 - Increases if traffic significantly increases over time, to account for resulting increases in O&M costs
 - Reductions if private partner fails to meet contract standards for keeping facility available for public use and in good and safe condition
- Competition is lowest annual availability payment from State to private partner
- Off balance sheet financing for State

Reduces Cost of Capital

- Private partner's cost of capital a significant factor in amount of annual payments
- Credit that backs State's annual payment obligation is a material factor affecting availability and cost of capital
- Senior debt must receive investment grade credit rating for project to be eligible for low cost, federal loan ("TIFIA" financing)

SB 79 and SB 80 enhance project credit, ensuring an investment grade rating is achieved and that the developer can obtain the lowest cost of capital, thereby providing the lowest availability payment offers to the state



ASSOCIATED GENERAL CONTRACTORS of ALASKA

8005 Schoon Street • Anchorage, Alaska 99518
Telephone (907) 561-5354 • Fax (907) 562-6118

3750 Bonita Street • Fairbanks, Alaska 99706
Telephone (907) 452-1809 • Fax (907) 456-8599

March 23, 2012

Senator Bert Stedman
State Capitol, Room 516
Juneau, AK 99801-1182

Re: SB 80

Dear Senator ~~Stedman~~:

Bert

Developing and improving transportation infrastructure, such as constructing roads and bridges is critical to the expansion and development of our State's natural resources. Some projects by their location and nature have a statewide significance. The proposed Knik Arm Bridge will provide access to vast undeveloped acreage as well as an alternate route for the transport of people and goods along one of our busiest corridors. It is one of these projects of statewide significance.

The AGC supports a healthy economy and the economic development of Alaska. We look at infrastructure development as crucial for our economy and our future. We believe the Knik Arm Crossing is a project that embodies the sustainable economic development and job creation that we hold at the forefront.

With some of the more difficult federal approvals in hand, the project has gained some new momentum. The three shortlisted "teams" include many Alaskan companies that employ many Alaskans, some of whom you might know.

There is a vocal NIMBY attitude today, which only because of its volume seems pervasive. If that attitude was as loud in the past as it is today, we might not have such important infrastructure as the Parks, the Dalton or the Seward Highways, or even TAPS.

Thank you for considering SB 80 and I urge you to support this project.

Sincerely,

John MacKinnon
Executive Director
Associated General Contractors of Alaska



Knik Arm Bridge—State as Last Sucker?

<http://www.alaskapolicyforum.org/2012/03/knik-arm-bridge-state-as-last-sucker/>

Fiscal Policy — By [Online Editor](#) on March 19, 2012 at 2:31 PM

By: Jamie Kenworthy

There may be no better Alaskan example of a big spending government project misrepresented as a “public-private partnership” than the Knik Arm Bridge, Alaska’s second and only surviving “Bridge to Nowhere”. This study examines the financial aspects of the Bridge project and looks at the long term financial impact to the State of Alaska.

The Knik Arm Bridge has always been a wholly government-funded project seeking more government funding to get off the ground. Funded early on by an original \$230 million Congressional earmark, with the state taking about half for other projects, the Knik Arm Bridge and Toll Authority (KABATA) has spent \$60 million to date on studies and salaries.

In March, 2010 KABATA told the Anchorage Assembly that the private sector would assume the financial risk of making up the inevitable toll shortfall to pay off the bonds. In fact, KABATA had already applied for another government \$300 million loan declaring that annual appropriations from the State would be needed to backfill the lack of toll revenue. (See p. 7

<http://www.knikarmbridge.com/documents/TIFIAcoverandLOI.pdf>)

With the toll shortfall, what might the state’s liability be over 35 years of cumulative private contractor payments? In KABATA’s latest federal loan application, it estimated this liability at \$ 3 billion. (See p. 4 <http://knikarmbridge.com/TIFIA/2011/12-2011-KABATA-Model-PABs.pdf>) And this may even be on the low side.

A public records act request to the State Transportation Department revealed that the toll revenue forecast may be overestimated by a factor of two. When Scott Goldsmith’s (University of Alaska, ISER) estimate of future population was modeled into vehicle trips by Ch2M Hill, it concluded 17,700 vehicles would use the Bridge daily in year 2035. However, KABATA’s comparable number that it uses for its toll revenue projection is 36,000 trips a day. This is difficult to imagine because today there are less than 30,000 trips now between the Mat Su and Anchorage on the Glenn Highway.

This possible 103% overestimation of toll revenue by KABATA over the ISER-CH2MHill toll numbers is consistent with the study of a retired federal economist. This economist documented a 118% average overestimation error by the KABATA traffic and toll consultant, Wilbur Smith Associates, for the first five years a toll facility was open in all US projects. (See <http://www.scribd.com/doc/79582705/RCA-Study-Wilbur-Smith-Traffic-amp-Revenue-Forecasts-012712.%3Cbr%20/%3E>.)

The vast majority of the present MatSu commuters would continue to use the Glenn Highway since Palmer and Wasilla are closer to Anchorage via the Glenn than via the proposed Knik Arm Bridge. In addition, these commuters would not have to pay a \$5 one-way toll rising 2.5% a year.

An independent estimate of the Knik Arm Bridge costs concludes that it would accumulate \$1.1 Billion in deficits by 2035. (See <http://knikbridgefacts.org/wp-content/uploads/2012/02/The-Real-Finances-of-the-Knik-Arm-Bridge-v3.pdf>).

We will spare ourselves having to debate over population and traffic projections and just focus on which consultants are paid by KABATA and watch who is left holding the bag. If the private sector were willing to finance the project, it is more than likely the project would already have been financed. But there were no takers.

Instead, KABATA went to the legislature last year with two bills tapping the General Fund to provide another \$150 million for the project and also to make any contract KABATA would sign with the private contractor “obligations of the state” – the inevitable blank check. As David Boaz of the free market-oriented Cato Institute observed of the Knik Bridge project: “Yes, the largest investment companies — and the largest construction companies — would be delighted to work on this project, if someone else would actually put up the money.” http://www.huffingtonpost.com/david-boaz/bridge-to-nowhere_b_984839.html

Clearly, the private sector is not interested in taking any risk on having sufficient toll revenue to pay off the Bridge bonds and operating costs. Rather, KABATA has promised the two losers of three short-listed consortia bidding for the expected \$1.1 billion contract a “stipend” of \$2 million each to submit a final proposal. Supposedly, KABATA will pay for the intellectual property of the losers’ bids, but industry observers consider this amount excessive.

If the KABATA legislation (HB 158-159 and SB 79-80) passes this session of the legislature, the winning contractor will have 35 years of state-guaranteed “availability payments” that KABATA estimates will total \$3 billion. Even this \$3 billion assumes KABATA will get \$350 million in federal TIFIA and TIGER loans and grants which it failed to get in the past three years.

The next phase in the battle of the Bridge is likely to take place over the approval of the Anchorage Metropolitan Transportation Plan (MTP) beginning with a public hearing April 10, 2012 at the Anchorage Assembly. The Knik Bridge remains in the MTP with the new transportation plan, unlike the existing one, overturning the Assembly’s previous position that no further State or local funds would go to support the Bridge.

Unfortunately, readers of the new draft MTP would learn nothing of the size of the downside risk to the State on this \$1.1 billion project. The draft “assumes” the KABATA bills will pass and that if the State has to make up what has been independently estimated as an average of \$55 million a year in deficits, that none of this expected body blow to State transportation funds will impact funds going to South Central Alaska. (See pp. 6-29-31 http://www.muni.org/Departments/OCPD/Planning/AMATS/Documents/MTPChapter-6_123011.pdf

A diligent reader of the MTP would see only the sources and uses of funds to finance the \$1.1 billion project. He would not see any of the overall financing costs and ballooning annual availability payments to the private contractor which go from \$34 million in year 1 to \$133 million in year 36. (p. 4 <http://knikarmbridge.com/TIFIA/2011/12-2011-KABATA-Model-PABs.pdf>)

The draft MTP shows an estimated \$79 million in private equity from the contractor which may seem impressive. Not disclosed is that under the proposed state-guaranteed contract KABATA estimates a 12% compounded return of net cash flow to repay the contractor's equity. So that \$77 million in private contractor equity would end up costing the state a KABATA-estimated \$920 million before the bonds are paid off in 2050.

While the final RFP competition may only result in a compounded return to the contractor of, say 10%, the whole proposed deal structure begs an obvious question: Why would a state with a AA credit rating that can borrow long term at 4% guarantee a contract providing a contractor a 10-12 % compounded return? The State assumes all the risk, the private contractor assumes none. Only in the world of crony capitalism would this make sense.

The marketing of the Bridge project has been an ongoing exercise in the euphemisms necessary to mask a typical bottomless government liability. The proposed \$150 million in additional State funds is just a loan that will be paid back according to the rosy trip forecast. A small print footnote to KABATA's 12/30/11 federal loan application notes that "if" – more likely "when" – the reserve fund dips below \$50 million, it will trigger an automatic appropriation request to the legislature to have the fund "replenished" back to \$50 million (see p. 8 in KABATA's latest Financial Plan <http://knikarmbridge.com/TIFIA/2011/12-2011-KABATA-Model-PABs.pdf>).

So, this reserve fund will apparently be automatically replenished by annual legislative appropriation, regardless of the state of Alaska's budget.

The fundamental misleading description of the selling of the "public-private partnership" project by KABATA is its assurance to the legislature that the contractor will "finance" the project. Technically, the contractor will take the State of Alaska-guaranteed contract to the credit agencies and the State's credit rating will likely be the evidence the contractor needs to provide the investment grade necessary for the firm to then go to the bond market for the funds to build the project. So in reality it's the proposed State guarantee on the KABATA contract – or the continually replenishing \$150 million "reserve fund" by the State — that finances the project and not the balance sheet of the contractor which is put at risk.

The original legislation establishing KABATA made clear that the new agency could not pledge the State's credit or sell bonds without earning an investment grade. But in a 11/30/11 legislative briefing, KABATA now seeks to "clarify" that prohibition to make the bonds "obligations of the State" by amending the original statute "to reflect current market realities."

Senate Finance Chairman Bert Stedman (R-Sitka) is opposed to the State guarantee in the current bills but KABATA Board member Senator Linda Menard (R-Wasilla) is now rewriting the KABATA bills to overcome that objection. However, it is still likely that the continual replenishing of the \$150 million reserve fund will remain in the bills to provide a backdoor State guarantee. Without the State holding the bag, it is unlikely KABATA will be able to put the RFP on the street this year.

Hopefully, both the Anchorage Assembly and the Alaska Legislature will pay close attention to the risk-free financial arrangement of this "public-private partnership" and recognize it for what it is. Public assumes the risk, private sector assumes the benefits.

(Jamie Kenworthy is the former Executive Director of the Alaska Science and Technology Foundation and has served on the Board and Audit Committee of a \$60 million/year remote sensing defense contractor, the former Environmental Research Institute of Michigan. He lives in South Anchorage and has been the volunteer financial analyst opposing state support for the Knik Arm Bridge.)

One difference between this Pro-Forma and Oct 2011, is this version has NO Capital Accretion Bonds

SOURCES AND USES

SOURCES	GOV PURPOSE	PRIVATE ACTIVITY BONDS	SHORT-TERM FINANCING	TIFIA (1)	EQUITY	TOTAL PRIVATE FINANCING	PUBLIC INVESTMENT	TOTAL
Current Interest Bonds	-	403,905,000	-	-	-	403,905,000	-	403,905,000
Capital Accretion Bonds	-	-	-	-	-	-	-	-
Short-Term Financing	-	-	-	-	-	-	-	-
TIFIA	-	-	-	307,855,021	-	307,855,021	-	307,855,021
Equity	-	-	-	-	79,495,439	79,495,439	-	79,495,439
Premium / Original Issue Discount	-	-	-	-	-	-	-	-
Public Funds Available	-	-	-	-	-	-	-	-
1) Federal	-	-	-	-	-	-	112,572,342	112,572,342
2) State Match	-	-	-	-	-	-	17,324,917	17,324,917
3) State Grant (Milestone Payment)	-	-	-	-	-	-	-	-
4) State Grant (Reserve Fund)	-	-	-	-	-	-	150,000,000	150,000,000
5) State Commerce Grant	-	-	-	-	-	-	15,000,000	15,000,000
6) Other	-	-	-	-	-	-	-	-
Total	-	403,905,000	-	307,855,021	79,495,439	791,255,460	294,897,259	1,086,152,719

USES

Deposit to Construction Fund	-	280,923,935	-	307,105,021	62,578,225	650,607,181	62,495,013	713,102,194
Deposit for Port MacKenzie Road Upgrade	-	-	-	-	-	-	15,000,000	15,000,000
Deposit for KABATA Development Costs	-	-	-	-	-	-	67,402,246	67,402,246
Deposit to State Reserve Fund	-	-	-	-	-	-	150,000,000	150,000,000
Repay Short-Term Financing	-	-	-	-	-	-	-	-
TIFIA Credit Subsidy (2)	-	-	-	-	10,000,000	10,000,000	-	10,000,000
Deposit to Capitalized Interest Fund	-	72,896,845	-	-	-	72,896,845	-	72,896,845
Deposit to Prepaid Interest Fund	-	-	-	-	5,367,812	5,367,812	-	5,367,812
Debt Service Reserve Fund	-	40,390,500	-	-	-	40,390,500	-	40,390,500
Bond Insurance Premium	-	-	-	-	-	-	-	-
Cost of Issuance	-	6,058,575	-	750,000	-	6,808,575	-	6,808,575
Underwriter's Discount	-	2,019,525	-	-	-	2,019,525	-	2,019,525
Other Transaction Costs (3)	-	1,615,620	-	-	1,549,402	3,165,022	-	3,165,022
Concession (Shortfall)/Surplus	-	-	-	-	-	-	-	-
Total	-	403,905,000	-	307,855,021	79,495,439	791,255,460	294,897,259	1,086,152,719

Equity Contribution (12% IRR)	79,495,439							
Construction Fund Surplus / (Shortfall)	9,949							
Equity as % of Financing, Including Public Funds	19.942%							
Equity as % of Financing, Excluding Public Funds	10.047%							
Delivery Date	12/1/12							
Rates as of	11/4/11							
Cap I Date	12/1/2015	12/1/2015						
Cap I Earnings Rate	0.50%	0.50%						
Bond Yield	-	6.385%						
Arbitrage Yield	-	6.385%		4.003%				5.292%
True Interest Cost	-	6.426%		4.003%				5.313%
Minimum Coverage	1.26x				1.26x			
Average Coverage	2.20x				1.41x			
Final Maturity	1/0/1900				12/1/2046			
Total Qualified Project Costs	923,565,063							
TIFIA 33% Limitation	307,855,021							

(1) TIFIA rate assumed at 4.00% (current market + 80bps)
 (2) For subsidy cost of credit assistance
 (3) Includes stipend, success fee, and upfront administrative costs to KABATA

Private Equity from P3 Contractor, See Page 5

In 2011 TIFIA application, Cover Ratio was 1.39, in 2011 TIGER Grant application, 1.29

In 5 different "Pro-Forma" spreadsheets produced by KABATA, the Cover Ratio number is the most consistent, ranging from 1.25 to 1.39

With Annotations from Bob French & Jamie Kenworthy
 Un-Annotated version of this document available at KABATA's website:
<http://knikarmbridge.com/TIFIA/2011/12-2011-KABATA-Model-PABs.pdf>

Knik Arm Bridge and Toll Authority **Phase I**
Federalization of Sections 2-5, with TIFIA Optimization
Private Model - Availability Payment Structure - Rate at +0.50% above Market
Private Activity Bonds Only

ASSUMPTIONS

Derivation of DSRF Requirement	
Gov. Purpose	-
10% of Par	-
Maximum Annual Debt Service	-
125% of Average Annual Debt Service	-
Minimum of 3 tests	-
PABs	
10% of Par	40,390,500
Maximum Annual Debt Service	61,738,657
125% of Average Annual Debt Service	42,381,352
Deposit	40,390,500
TIFIA Eligible Costs	
Project Costs	715,882,350
KABATA Debt Service Reserve Fund Deposit	40,390,500
KABATA Capitalized Interest Deposit	72,896,845
Bond Insurance	-
Cost of Issuance	6,808,575
Development Phase: Public Investment (1)	82,402,246
Underwriter's Discount	2,019,525
Upfront Payment	3,165,022
Total Eligible TIFIA Costs	923,565,063
Maximum Capacity Constraint	307,855,021
Actual TIFIA Loan Amount Used	307,855,021
2016 Initial Toll Rate	\$5.00
2011 Initial Toll Rate (PV @ 2.50%)	\$4.53
Annual Toll Rate Increase After 2016	2.500%
Costs of Issuance	
Bonds	1.500%
TIFIA	750,000
Underwriter's Discount	
Bonds	0.500%
Insurance (% of Total DS)	0.000%

(1) Includes \$15 million commerce grant for Pt Mackenzie Rd upgrade and \$67.4 million KABATA development phase expenses

Knik Arm Bridge and Toll Authority
Federalization of Sections 2-5, with TIFIA Optimization
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Phase I

Phase I: Outstanding Debt and Equity (\$000's)

Date	GP CIBs Debt	GP CABs Debt	Total GP Tax-Exempt Debt	PABs Debt	TIFIA Debt	Total Debt	Equity	Total Debt and Equity	Debt %	Equity%
12/1/16	-	-	-	403,905	318,511	722,416	120,258	842,674	85.729%	14.271%
12/1/17	-	-	-	403,905	331,390	735,295	126,535	861,830	85.318%	14.682%
12/1/18	-	-	-	403,905	344,790	748,695	127,794	876,489	85.420%	14.580%
12/1/19	-	-	-	403,905	358,730	762,635	127,592	890,228	85.667%	14.333%
12/1/20	-	-	-	403,905	365,916	769,821	133,480	903,301	85.223%	14.777%
12/1/21	-	-	-	403,905	365,816	769,721	139,820	909,541	84.627%	15.373%
12/1/22	-	-	-	403,905	365,716	769,621	146,500	916,121	84.009%	15.991%
12/1/23	-	-	-	403,905	365,616	769,521	153,884	923,406	83.335%	16.665%
12/1/24	-	-	-	403,445	365,516	768,961	161,705	930,666	82.625%	17.375%
12/1/25	-	-	-	401,110	365,416	766,526	170,084	936,610	81.840%	18.160%
12/1/26	-	-	-	397,115	365,316	762,431	178,987	941,418	80.987%	19.013%
12/1/27	-	-	-	390,925	365,216	756,141	188,540	944,681	80.042%	19.958%
12/1/28	-	-	-	382,625	365,116	747,741	198,483	946,224	79.024%	20.976%
12/1/29	-	-	-	370,835	365,016	735,851	209,203	945,054	77.863%	22.137%
12/1/30	-	-	-	356,610	364,916	721,526	220,611	942,137	76.584%	23.416%
12/1/31	-	-	-	339,060	364,816	703,876	233,059	936,935	75.125%	24.875%
12/1/32	-	-	-	319,020	364,716	683,736	246,419	930,155	73.508%	26.492%
12/1/33	-	-	-	295,330	364,616	659,946	233,653	893,599	73.853%	26.147%
12/1/34	-	-	-	295,330	364,516	659,846	226,964	886,810	74.407%	25.593%
12/1/35	-	-	-	284,265	364,416	648,681	207,626	856,307	75.753%	24.247%
12/1/36	-	-	-	284,265	364,316	648,581	184,978	833,560	77.809%	22.191%
12/1/37	-	-	-	284,265	364,216	648,481	190,634	839,115	77.282%	22.718%
12/1/38	-	-	-	251,625	364,116	615,741	196,477	812,219	75.810%	24.190%
12/1/39	-	-	-	214,925	364,016	578,941	202,636	781,577	74.073%	25.927%
12/1/40	-	-	-	174,300	363,916	538,216	208,689	746,905	72.059%	27.941%
12/1/41	-	-	-	127,735	363,816	491,551	215,005	706,557	69.570%	30.430%
12/1/42	-	-	-	76,295	363,716	440,011	221,560	661,571	66.510%	33.490%
12/1/43	-	-	-	19,485	363,616	383,101	220,126	603,227	63.509%	36.491%
12/1/44	-	-	-	-	288,901	288,901	226,626	515,527	56.040%	43.960%
12/1/45	-	-	-	-	221,434	221,434	233,529	454,963	48.671%	51.329%
12/1/46	-	-	-	-	149,735	149,735	241,571	391,306	38.265%	61.735%
12/1/47	-	-	-	-	76,264	76,264	250,646	326,910	23.329%	76.671%
12/1/48	-	-	-	-	-	-	178,785	178,785	-	100.000%
12/1/49	-	-	-	-	-	-	96,133	96,133	-	100.000%
12/1/50	-	-	-	-	-	-	0	0	-	100.000%

Knik Arm Bridge and Toll Authority
Federalization of Sections 2-5, with TIFIA Optimization
Private Model - Availability Payment Structure - Rate at +0.50% above Market
Private Activity Bonds Only

Phase I

EBITDA							
Date	Toll Revenue	Availability Payment	Interest Income Earnings	2.50% O&M	2.50% Tolling Operations	2.50% Renewal CapEx	Cash Available for Debt Service
Total	-	2,980,396,076	74,318,520	(119,247,079)	(191,932,714)	(109,321,804)	2,634,212,999
12/1/13	-	-	-	-	-	-	-
12/1/14	-	-	-	-	-	-	-
12/1/15	-	-	-	-	-	-	-
12/1/16	-	34,268,000	1,211,715	(1,861,725)	(1,704,000)	(867,505)	31,046,485
12/1/17	-	38,038,720	1,211,715	(2,165,827)	(1,905,000)	(868,374)	34,311,234
12/1/18	-	43,880,269	1,211,715	(2,020,124)	(2,091,000)	(876,619)	40,104,241
12/1/19	-	45,795,480	1,211,715	(2,145,107)	(2,263,000)	(878,383)	41,720,704
12/1/20	-	51,787,299	1,211,715	(2,107,097)	(2,412,000)	(879,333)	47,600,584
12/1/21	-	53,858,791	1,211,715	(2,397,298)	(2,553,000)	(1,186,478)	48,933,729
12/1/22	-	56,013,142	1,211,715	(2,273,668)	(2,699,000)	(1,187,486)	51,064,704
12/1/23	-	58,253,668	1,211,715	(2,565,983)	(2,853,000)	(2,404,138)	51,642,262
12/1/24	-	60,583,815	1,211,715	(2,412,134)	(3,014,000)	(2,404,364)	53,965,032
12/1/25	-	63,007,167	1,211,715	(2,707,185)	(3,209,000)	(2,405,465)	55,897,232
12/1/26	-	65,527,454	1,211,715	(2,559,033)	(3,411,000)	(2,398,129)	58,371,007
12/1/27	-	68,148,552	1,211,715	(2,771,252)	(3,623,000)	(2,399,297)	60,566,718
12/1/28	-	70,874,494	1,211,715	(2,714,878)	(3,844,000)	(1,177,536)	64,349,795
12/1/29	-	73,709,474	1,211,715	(3,145,128)	(4,077,000)	(1,178,775)	66,520,286
12/1/30	-	76,657,853	1,211,715	(2,779,103)	(4,300,000)	(1,180,051)	69,610,414
12/1/31	-	79,724,167	1,211,715	(3,119,068)	(4,521,000)	(1,914,812)	71,381,002
12/1/32	-	82,913,134	1,211,715	(3,055,620)	(4,752,000)	(1,916,166)	74,401,063
12/1/33	-	86,229,659	1,211,715	(3,539,869)	(4,995,000)	(1,917,560)	76,988,945
12/1/34	-	89,678,846	1,211,715	(3,241,707)	(5,248,000)	(2,005,203)	80,395,651
12/1/35	-	91,920,817	1,211,715	(3,393,322)	(5,547,000)	(3,750,337)	80,441,873
12/1/36	-	94,218,837	1,211,715	(3,439,126)	(5,810,000)	(4,823,693)	81,357,734
12/1/37	-	96,574,308	1,211,715	(3,984,154)	(6,086,000)	(4,825,262)	82,890,607
12/1/38	-	98,988,666	1,211,715	(3,648,569)	(6,375,000)	(4,826,879)	85,349,933
12/1/39	-	101,463,382	1,211,715	(3,951,142)	(6,675,000)	(4,742,338)	87,306,617
12/1/40	-	103,999,967	1,211,715	(3,734,881)	(6,991,165)	(3,000,399)	91,485,237
12/1/41	-	106,599,966	1,211,715	(4,484,201)	(7,322,305)	(2,172,044)	93,833,130
12/1/42	-	109,264,965	1,211,715	(4,106,497)	(7,669,130)	(2,283,067)	96,417,986
12/1/43	-	111,996,589	41,602,215	(4,447,045)	(8,032,383)	(2,284,941)	138,834,435
12/1/44	-	114,796,504	-	(4,356,582)	(8,412,841)	(2,286,872)	99,740,209
12/1/45	-	117,666,417	-	(4,889,477)	(8,811,320)	(2,288,860)	101,676,759
12/1/46	-	120,608,077	-	(4,621,899)	(9,228,673)	(6,464,809)	100,292,696
12/1/47	-	123,623,279	-	(5,005,188)	(9,665,794)	(8,843,749)	100,108,548
12/1/48	-	126,713,861	-	(4,903,372)	(10,123,619)	(8,845,922)	102,840,948
12/1/49	-	129,881,708	-	(5,680,450)	(10,603,130)	(8,848,159)	104,749,968
12/1/50	-	133,128,750	-	(5,019,368)	(11,105,353)	(8,988,800)	108,015,229
12/1/51	-	-	-	-	-	-	-

These Availability Payments total \$1.3 Billion through 2035

Note that Availability Payments are Balloon Payments, most successful P3's have Flat Availability Payments

Knik Arm Bridge and Toll Authority
Federalization of Sections 2-5, with TIFIA Optimization
Private Model - Availability Payment Structure - Rate at +0.50% above Market
Private Activity Bonds Only

In the "Real Cost" paper, this is reduced to 10%

Phase I

This is the Equity from the P3 Contractor

COVERAGE

Date	Cash Available for Debt Service	PABs Debt Service	Senior PABs Lien Coverage	TIFIA DS	Total Coverage	Total Coverage (inc. O&M)	Net Cashflow	PV of Net Cash Flow 12.0%
Total	2,634,212,999	(968,318,205)		(745,852,801)			920,041,992	79,495,439
12/1/13	-	-	-	-	-	-	-	-
12/1/14	-	-	-	-	-	-	-	-
12/1/15	-	-	-	-	-	-	-	-
12/1/16	31,046,485	(24,601,067)	1.26x	-	1.26x	1.26x	6,445,418	4,043,935
12/1/17	34,311,234	(25,723,722)	1.33x	-	1.33x	1.33x	8,587,512	4,795,222
12/1/18	40,104,241	(25,723,722)	1.56x	-	1.56x	1.56x	14,380,519	7,146,677
12/1/19	41,720,704	(25,723,722)	1.62x	-	1.62x	1.62x	15,996,983	7,075,481
12/1/20	47,600,584	(22,970,777)	2.07x	(14,747,642)	1.26x	1.26x	9,882,164	3,890,077
12/1/21	48,933,729	(24,031,152)	2.04x	(14,743,642)	1.26x	1.26x	10,158,935	3,559,120
12/1/22	51,064,704	(25,723,722)	1.99x	(14,739,642)	1.26x	1.26x	10,601,340	3,305,548
12/1/23	51,642,262	(26,183,722)	1.97x	(14,735,642)	1.26x	1.26x	10,722,899	2,975,659
12/1/24	53,965,032	(28,033,422)	1.93x	(14,731,642)	1.26x	1.26x	11,199,968	2,766,152
12/1/25	55,897,232	(29,562,195)	1.89x	(14,727,642)	1.26x	1.26x	11,607,395	2,551,422
12/1/26	58,371,007	(31,528,281)	1.85x	(14,723,642)	1.26x	1.26x	12,119,084	2,370,858
12/1/27	60,566,718	(33,276,785)	1.82x	(14,719,642)	1.26x	1.26x	12,570,291	2,188,615
12/1/28	64,349,795	(36,273,765)	1.77x	(14,715,642)	1.26x	1.26x	13,360,388	2,070,291
12/1/29	66,520,286	(37,996,649)	1.75x	(14,711,642)	1.26x	1.26x	13,811,995	1,904,833
12/1/30	69,610,414	(40,452,502)	1.72x	(14,707,642)	1.26x	1.26x	14,450,270	1,773,637
12/1/31	71,381,002	(41,857,912)	1.71x	(14,703,642)	1.26x	1.26x	14,819,449	1,618,860
12/1/32	74,401,063	(44,255,412)	1.68x	(14,699,642)	1.26x	1.26x	15,446,009	1,501,695
12/1/33	76,988,945	(19,070,573)	4.04x	(14,695,642)	2.28x	2.28x	43,222,730	3,739,950
12/1/34	80,395,651	(30,135,573)	2.67x	(14,691,642)	1.79x	1.79x	35,568,436	2,739,092
12/1/35	80,441,873	(18,363,519)	4.38x	(14,687,642)	2.43x	2.43x	47,390,712	3,248,055
12/1/36	81,357,734	(18,363,519)	4.43x	(14,683,642)	2.46x	2.46x	48,310,572	2,946,868
12/1/37	82,890,607	(51,003,519)	1.63x	(14,679,642)	1.26x	1.26x	17,207,446	934,164
12/1/38	85,349,933	(52,954,975)	1.61x	(14,675,642)	1.26x	1.26x	17,719,316	856,134
12/1/39	87,306,617	(54,509,155)	1.60x	(14,671,642)	1.26x	1.26x	18,125,820	779,437
12/1/40	91,485,237	(57,824,780)	1.58x	(14,667,642)	1.26x	1.26x	18,992,815	726,877
12/1/41	93,833,130	(59,691,681)	1.57x	(14,663,642)	1.26x	1.26x	19,477,807	663,437
12/1/42	96,417,986	(61,738,657)	1.56x	(14,659,642)	1.26x	1.26x	20,019,686	606,884
12/1/43	138,834,435	(20,743,731)	6.69x	(89,271,071)	1.26x	1.26x	28,819,633	777,544
12/1/44	99,740,209	-	-	(79,033,446)	1.26x	1.26x	20,706,763	497,207
12/1/45	101,676,759	-	-	(80,567,955)	1.26x	1.26x	21,108,804	451,104
12/1/46	100,292,696	-	-	(79,471,234)	1.26x	1.26x	20,821,463	396,016
12/1/47	100,108,548	-	-	(79,325,322)	1.26x	1.26x	20,783,226	351,805
12/1/48	102,840,948	-	-	-	-	-	102,840,948	1,549,329
12/1/49	104,749,968	-	-	-	-	-	104,749,968	1,404,494
12/1/50	108,015,229	-	-	-	-	-	108,015,229	1,288,959

P3 Contractor receives net cashflow

This \$45,410,432 being taken out by the P3 Contractor BEFORE payment of Federal TIFIA loans is not allowed by present TIFIA guidelines KABATA claims that they are "grandfathered"

**Knik Arm Bridge and Toll Authority
Federalization of Sections 2-5, with TIFIA Optimization
Private Model - Availability Payment Structure - Rate at +0.50% above Market
Private Activity Bonds Only**

Phase I

ANNUAL DEBT SERVICE

Date	GP	GP	GP	Total	PABS	Capi Interest Draws	Prepaid Interest Draws	PABS Annual DS	TIFIA Annual DS	Net Annual DS
	Tax-Exempt CIB Annual DS	Tax-Exempt CAB Annual DS	Capi Interest Draws	GP Tax-Exempt Annual DS	Tax-Exempt CIB Annual DS					
Total	-	-	-	-	1,051,057,538	(77,171,165)	(5,568,168)	968,318,205	745,852,801	1,714,171,007
12/1/13	-	-	-	-	25,723,722	(25,723,722)	-	-	-	-
12/1/14	-	-	-	-	25,723,722	(25,723,722)	-	-	-	-
12/1/15	-	-	-	-	25,723,722	(25,723,722)	-	-	-	-
12/1/16	-	-	-	-	25,723,722	-	(1,122,655)	24,601,067	-	24,601,067
12/1/17	-	-	-	-	25,723,722	-	-	25,723,722	-	25,723,722
12/1/18	-	-	-	-	25,723,722	-	-	25,723,722	-	25,723,722
12/1/19	-	-	-	-	25,723,722	-	-	25,723,722	-	25,723,722
12/1/20	-	-	-	-	25,723,722	-	(2,752,944)	22,970,777	14,747,642	37,718,420
12/1/21	-	-	-	-	25,723,722	-	(1,692,569)	24,031,152	14,743,642	38,774,795
12/1/22	-	-	-	-	25,723,722	-	-	25,723,722	14,739,642	40,463,364
12/1/23	-	-	-	-	26,183,722	-	-	26,183,722	14,735,642	40,919,364
12/1/24	-	-	-	-	28,033,422	-	-	28,033,422	14,731,642	42,765,064
12/1/25	-	-	-	-	29,562,195	-	-	29,562,195	14,727,642	44,289,837
12/1/26	-	-	-	-	31,528,281	-	-	31,528,281	14,723,642	46,251,923
12/1/27	-	-	-	-	33,276,785	-	-	33,276,785	14,719,642	47,996,427
12/1/28	-	-	-	-	36,273,765	-	-	36,273,765	14,715,642	50,989,407
12/1/29	-	-	-	-	37,996,649	-	-	37,996,649	14,711,642	52,708,291
12/1/30	-	-	-	-	40,452,502	-	-	40,452,502	14,707,642	55,160,144
12/1/31	-	-	-	-	41,857,912	-	-	41,857,912	14,703,642	56,561,554
12/1/32	-	-	-	-	44,255,412	-	-	44,255,412	14,699,642	58,955,054
12/1/33	-	-	-	-	19,070,573	-	-	19,070,573	14,695,642	33,766,215
12/1/34	-	-	-	-	30,135,573	-	-	30,135,573	14,691,642	44,827,215
12/1/35	-	-	-	-	18,363,519	-	-	18,363,519	14,687,642	33,051,161
12/1/36	-	-	-	-	18,363,519	-	-	18,363,519	14,683,642	33,047,161
12/1/37	-	-	-	-	51,003,519	-	-	51,003,519	14,679,642	65,683,161
12/1/38	-	-	-	-	52,954,975	-	-	52,954,975	14,675,642	67,630,617
12/1/39	-	-	-	-	54,509,155	-	-	54,509,155	14,671,642	69,180,797
12/1/40	-	-	-	-	57,824,780	-	-	57,824,780	14,667,642	72,492,422
12/1/41	-	-	-	-	59,691,681	-	-	59,691,681	14,663,642	74,355,323
12/1/42	-	-	-	-	61,738,657	-	-	61,738,657	14,659,642	76,398,299
12/1/43	-	-	-	-	20,743,731	-	-	20,743,731	89,271,071	110,014,802
12/1/44	-	-	-	-	-	-	-	-	79,033,446	79,033,446
12/1/45	-	-	-	-	-	-	-	-	80,567,955	80,567,955
12/1/46	-	-	-	-	-	-	-	-	79,471,234	79,471,234
12/1/47	-	-	-	-	-	-	-	-	79,325,322	79,325,322
12/1/48	-	-	-	-	-	-	-	-	-	-
12/1/49	-	-	-	-	-	-	-	-	-	-
12/1/50	-	-	-	-	-	-	-	-	-	-
12/1/51	-	-	-	-	-	-	-	-	-	-
12/1/52	-	-	-	-	-	-	-	-	-	-
12/1/53	-	-	-	-	-	-	-	-	-	-
12/1/54	-	-	-	-	-	-	-	-	-	-
12/1/55	-	-	-	-	-	-	-	-	-	-
12/1/56	-	-	-	-	-	-	-	-	-	-
12/1/57	-	-	-	-	-	-	-	-	-	-
12/1/58	-	-	-	-	-	-	-	-	-	-
12/1/59	-	-	-	-	-	-	-	-	-	-
12/1/60	-	-	-	-	-	-	-	-	-	-
12/1/61	-	-	-	-	-	-	-	-	-	-

Knik Arm Bridge and Toll Authority
Federalization of Sections 2-5, with TIFIA Optimization
Private Model - Availability Payment Structure - Rate at +0.50% above Market
Private Activity Bonds Only

Phase I

AVAILABILITY PAYMENT SURPLUS (SHORTFALL)

Date	Toll Revenue	Availability Payment	GP Total Annual DS	KABATA Administrative Costs	Net State Surplus (Shortfall)	PV @ 5.000%	Cumulative Deficit/Return
Total	4,525,935,828	(2,980,396,076)	-	(170,661,726)	1,374,878,025	269,685,989	-
12/1/13	-	-	-	-	-	-	-
12/1/14	-	-	-	-	-	-	-
12/1/15	-	-	-	-	-	-	-
12/1/16	16,024,000	1.53 (34,268,000)	-	(2,945,406)	(21,189,406)	(17,391,132)	(21,189,406)
12/1/17	24,543,000	1.30 (38,038,720)	-	(3,028,146)	(16,523,866)	(12,908,417)	(37,713,272)
12/1/18	32,007,000	1.20 (43,880,269)	-	(3,113,227)	(14,986,495)	(11,143,297)	(52,699,767)
12/1/19	38,457,000	1.13 (45,795,480)	-	(3,200,716)	(10,539,195)	(7,458,875)	(63,238,963)
12/1/20	43,317,000	1.09 (51,787,299)	-	(3,290,682)	(11,760,981)	(7,922,490)	(74,999,944)
12/1/21	47,428,000	1.09 (53,858,791)	-	(3,383,196)	(9,813,987)	(6,292,394)	(84,813,930)
12/1/22	51,689,000	1.09 (56,013,142)	-	(3,478,330)	(7,802,473)	(4,761,622)	(92,616,403)
12/1/23	56,124,000	1.08 (58,253,668)	-	(3,576,159)	(5,705,827)	(3,314,314)	(98,322,231)
12/1/24	60,778,000	1.11 (60,583,815)	-	(3,676,761)	(3,482,575)	(1,925,430)	(101,804,806)
12/1/25	67,251,000	1.09 (63,007,167)	-	(3,780,212)	463,620	243,973	(101,341,186)
12/1/26	73,911,000	1.09 (65,527,454)	-	(3,886,597)	4,496,949	2,252,422	(96,844,236)
12/1/27	80,839,000	1.09 (68,148,552)	-	(3,995,997)	8,694,451	4,145,016	(88,149,785)
12/1/28	88,028,000	1.09 (70,874,494)	-	(4,108,499)	13,045,007	5,919,440	(75,104,779)
12/1/29	95,572,000	1.07 (73,709,474)	-	(4,224,192)	17,638,334	7,618,091	(57,466,445)
12/1/30	102,218,000	1.06 (76,657,853)	-	(4,343,167)	21,216,980	8,722,167	(36,249,465)
12/1/31	108,408,000	1.06 (79,724,167)	-	(4,465,517)	24,218,316	9,476,262	(12,031,149)
12/1/32	114,789,000	1.06 (82,913,134)	-	(4,591,339)	27,284,527	10,161,594	15,253,379
12/1/33	121,486,000	1.06 (86,229,659)	-	(4,720,732)	30,535,609	10,824,410	45,788,988
12/1/34	128,385,000	1.07 (89,678,846)	-	(4,853,798)	33,852,356	11,421,912	79,641,344
12/1/35	137,619,000	1.05 (91,920,817)	-	(4,990,642)	40,707,541	13,073,054	120,348,885
12/1/36	144,232,000	1.05 (94,218,837)	-	(5,131,373)	44,881,790	13,719,069	165,230,675
12/1/37	151,137,000	1.05 (96,574,308)	-	(5,276,100)	49,286,592	14,339,550	214,517,267
12/1/38	158,254,000	1.05 (98,988,666)	-	(5,424,939)	53,840,395	14,909,643	268,357,662
12/1/39	165,550,000	1.05 (101,463,382)	-	(5,578,007)	58,508,610	15,421,657	326,866,272
12/1/40	173,260,474	1.05 (103,999,967)	-	(5,735,426)	63,525,082	15,937,081	390,391,354
12/1/41	181,330,104	1.05 (106,599,966)	-	(5,878,811)	68,851,326	16,440,996	459,242,680
12/1/42	189,775,620	1.05 (109,264,965)	-	(6,025,781)	74,484,873	16,929,189	533,727,553
12/1/43	198,614,533	1.05 (111,996,589)	-	(6,176,426)	80,441,518	17,402,058	614,169,071
12/1/44	207,865,171	1.05 (114,796,504)	-	(6,330,837)	86,737,831	17,859,988	700,906,960
12/1/45	217,546,714	1.05 (117,666,417)	-	(6,489,108)	93,391,190	18,303,359	794,298,092
12/1/46	227,679,237	1.05 (120,608,077)	-	(6,651,335)	100,419,824	18,732,538	894,717,917
12/1/47	238,283,748	1.05 (123,623,279)	-	(6,817,619)	107,842,851	19,147,884	1,002,560,767
12/1/48	249,382,237	1.05 (126,713,861)	-	(6,988,059)	115,680,317	19,549,748	1,118,241,084
12/1/49	260,997,717	1.05 (129,881,708)	-	(7,162,761)	123,953,249	19,938,472	1,242,194,333
12/1/50	273,154,272	1.05 (133,128,750)	-	(7,341,830)	132,683,692	20,314,390	1,374,878,025
12/1/51							

2024 is the first year that KABATA estimates higher revenues than payments

Phase 2 with 4 lanes to open in 2030

KABATA is showing positive cash flow only after 2031

Traffic & Toll Forecasts by Wilbur Smith Associates stops at 2039. Note revenue rates apparently use a factor of 1.04657 from the previous year

KABATA is counting on revenues from more than 18,000 AADT starting in 2022, but doesn't show any cost to expand from 2 lanes to 4 lanes until 2030

Calculated Yearly increase in Revenue.

**Knik Arm Bridge and Toll Authority
 Federalization of Sections 2-5, with TIFIA Optimization
 Private Model - Availability Payment Structure - Rate at +0.50% above Market
 Private Activity Bonds Only**

Phase I

STATE RESERVE FUND

This is the \$150 Million "Reserve Fund" that would be created by SB60 and HB158

Date	Beginning Balance	Excess Revenues	Interest @ 3.000%	State Replenish (1)	Draws on Reserve (2)	General Surplus Withdrawals (3)	Phase II Surplus Withdrawals	Ending Balance
Total		1,476,682,831	157,819,069	-	(101,804,806)	(1,532,697,095)	-	
12/1/13	150,000,000	-	4,500,000	-	-	-	-	154,500,000
12/1/14	154,500,000	-	4,635,000	-	-	-	-	159,135,000
12/1/15	159,135,000	-	4,774,050	-	-	-	-	163,909,050
12/1/16	163,909,050	-	4,917,272	-	(21,189,406)	-	-	147,636,915
12/1/17	147,636,915	-	4,429,107	-	(16,523,866)	-	-	135,542,157
12/1/18	135,542,157	-	4,066,265	-	(14,986,495)	-	-	124,621,926
12/1/19	124,621,926	-	3,738,658	-	(10,539,195)	-	-	117,821,389
12/1/20	117,821,389	-	3,534,642	-	(11,760,981)	-	-	109,595,050
12/1/21	109,595,050	-	3,287,851	-	(9,813,987)	-	-	103,068,914
12/1/22	103,068,914	-	3,092,067	-	(7,802,473)	-	-	98,358,509
12/1/23	98,358,509	-	2,950,755	-	(5,705,827)	-	-	95,603,437
12/1/24	95,603,437	-	2,868,103	-	(3,482,575)	-	-	94,988,965
12/1/25	94,988,965	463,620	2,849,669	-	-	-	-	98,302,254
12/1/26	98,302,254	4,496,949	2,949,068	-	-	-	-	105,748,271
12/1/27	105,748,271	8,694,451	3,172,448	-	-	-	-	117,615,170
12/1/28	117,615,170	13,045,007	3,528,455	-	-	-	-	134,188,631
12/1/29	134,188,631	17,638,334	4,025,659	-	-	(5,852,624)	-	150,000,000
12/1/30	150,000,000	21,216,980	4,500,000	-	-	(25,716,980)	-	150,000,000
12/1/31	150,000,000	24,218,316	4,500,000	-	-	(28,718,316)	-	150,000,000
12/1/32	150,000,000	27,284,527	4,500,000	-	-	(31,784,527)	-	150,000,000
12/1/33	150,000,000	30,535,609	4,500,000	-	-	(35,035,609)	-	150,000,000
12/1/34	150,000,000	33,852,356	4,500,000	-	-	(38,352,356)	-	150,000,000
12/1/35	150,000,000	40,707,541	4,500,000	-	-	(45,207,541)	-	150,000,000
12/1/36	150,000,000	44,881,790	4,500,000	-	-	(49,381,790)	-	150,000,000
12/1/37	150,000,000	49,286,592	4,500,000	-	-	(53,786,592)	-	150,000,000
12/1/38	150,000,000	53,840,395	4,500,000	-	-	(58,340,395)	-	150,000,000
12/1/39	150,000,000	58,508,610	4,500,000	-	-	(63,008,610)	-	150,000,000
12/1/40	150,000,000	63,525,082	4,500,000	-	-	(68,025,082)	-	150,000,000
12/1/41	150,000,000	68,851,326	4,500,000	-	-	(73,351,326)	-	150,000,000
12/1/42	150,000,000	74,484,873	4,500,000	-	-	(78,984,873)	-	150,000,000
12/1/43	150,000,000	80,441,518	4,500,000	-	-	(84,941,518)	-	150,000,000
12/1/44	150,000,000	86,737,831	4,500,000	-	-	(91,237,831)	-	150,000,000
12/1/45	150,000,000	93,391,190	4,500,000	-	-	(97,891,190)	-	150,000,000
12/1/46	150,000,000	100,419,824	4,500,000	-	-	(104,919,824)	-	150,000,000
12/1/47	150,000,000	107,842,851	4,500,000	-	-	(112,342,851)	-	150,000,000
12/1/48	150,000,000	115,680,317	4,500,000	-	-	(120,180,317)	-	150,000,000
12/1/49	150,000,000	123,953,249	4,500,000	-	-	(128,453,249)	-	150,000,000
12/1/50	150,000,000	132,683,692	4,500,000	-	-	(137,183,692)	-	150,000,000
12/1/51								

- (1) If ending balance falls below \$50 million, the State will replenish the account back to \$50 million.
- (2) In the event of a negative Draws on Reserve balance, the reserve fund will be tapped to make up this shortfall.
- (3) If ending balance exceeds \$150 million plus state replenishment, if any, the balance over such amount is available for release.

This "guarantee" that the State will replenish the account also appears on Page 24.2 of this Pro-Forma, and on Page 7 and page 27.2 of KABATA's October 2011 TIGER Grant application, and on page 7 of KABATA's March 2011 TIFIA application

Remaining pages of this document are not printed, but are available for view at <http://knikarmbridge.com/TIFIA/2011/12-2011-KABATA-Model-PABs.pdf>

18) Have you ever heard or read anything about a proposed bridge between Anchorage and the Mat-Su Borough called the Knik Arm Bridge?

Yes 84%
 (skip to Q.21) No 16%
 (skip to Q.21) Unsure --

19) Based on what you know about the Knik Arm Bridge, would you say now is a good time to build a Knik Arm Bridge, should we wait until later, or should it never be built?

58% say that "Now" is not the right time to build the Knik Arm Bridge

Now is a good time 37%
 (skip to Q.21) Wait until later 32%
 (skip to Q.21) Never be built 26%
 (skip to Q.21) Unsure 5%

20) Would you still feel that way even if the cost to the state could be over \$150 million dollars?

KABATA's Dec 2011 "Pro-Forma" financial plan states the following on Page 8 about the \$150 M "Reserve Fund" that would be created by HB159 and SB79. "1) If ending balance falls below \$50 million, the State will replenish the account back to \$50 million."

Yes 88%
 No 8%
 Unsure 4%

21) Overall, as far as the Pebble Mine project is concerned, do you believe it should continue through Alaska's environmental impact and permitting process to see if it can be developed safely, or should it be stopped before the permitting process is complete?

Current costs of the Knik Arm Bridge include \$1.389 Million for FY 2012 in the Operating Budget. KABATA has spent about \$55 Million out of the \$114 Million of State and Federal funds that were set aside for KABATA's use in 2006 after the Federal Earmark was removed, which allows the remaining approximately \$58 Million to be "re-purposed" to other transportation projects that are eligible for Federal Funding.

Continue process 49%
 Stopped 43%
 Unsure 8%

Split sample; 50% asked Set A, remaining 50% asked Set B

22a) On another topic, in 2008 the Legislature approved the Film Tax Credit Program to incentivize movie production in Alaska. 100 million dollars in state funds were approved for the program which pays up to 44% of the production costs of movies filmed in Alaska. The program is set to expire in 2013 and its renewal is currently being debated by the Legislature. Legislation has been introduced that would extend the program for ten more years, and also add 200 million dollars more in additional state funding.

What is your opinion, should the Film Tax Credit be renewed and expanded this year, or not?

Set A Renew 49%
 Should not renew 41%
 (skip to Q.25) Unsure 10%

23a) ...and do you feel very, somewhat, or not very strongly about that?

Very strongly 44%
 Somewhat strongly 44%
 Not very strongly 12%
 Unsure --

24a) Why do you feel that way?

Verbatim Comments provided in Final Report

This is page 5 from the poll by Dittman Research entitled "Topline Results: Alaska Public Opinions & Perceptions, 2012 Legislative Session, and released in March 2012.

The ~~Real~~ Finances of the Knik Arm Bridge

Summary

In contrast to KABATA's predictions of surpluses, this analysis projects a minimum \$2.5 Billion shortfall for the state in covering the cost of the proposed Bridge before the final contractor payment in 2050. The shortfall between when the Bridge would open in 2016 and 2035 is \$1.1 Billion, or an average of \$55 million a year. That is about what Anchorage and Mat Su have both received on average over the last ten years in federal and state dollars for all road and pedestrian projects.

KABATA goes out to 2075 to project a huge surplus. In reality, the project is so far "Under Water" in the early years it can never pay for the \$672 million Phase 2 costs, so the Bridge will never pay off

Last month an independent study was released that documents that Wilbur Smith Associates, the traffic and toll consultant the Knik Arm Bridge and Toll Authority (KABATA) relies on for its financial plan, has a national track record of overestimating toll revenue by 2.27 times the actual revenue received in the first five years a facility is open. This finding is consistent with Wilbur Smith Associates (WSA) projecting more than twice the Bridge traffic by 2035 compared to the traffic counts modeled by Ch2MHill based on population estimates by Scott Goldsmith of UAA's ISER.

The huge expected toll shortfall projected in this realistic estimate makes any state guarantee on a Bridge contract or any commitment to continually replenish the \$150 Million line of credit that KABATA is seeking from the legislature, to be a serious financial commitment of at least \$2.5 Billion in State funds.

ANALYSIS

Common Assumptions between the KABATA estimate¹ and this Realistic estimate:

- Phase 1 Bridge cost of \$713 M and same amount Bridge costs including O&M, tolling operations, capital expenditures, and administrative costs. With having to capitalize interest to pay for the toll shortfall and other bond issuance costs the total cost is \$1,086,152,719 plus a cumulative \$170 million in cumulative KABATA administrative costs until Phase 1 is paid off in 2050.
- Passage of HB 158-9 or SB 79-80 that provides an additional \$150 million "Reserve Fund" to the project and a state guarantee on a KABATA estimated 36 years of availability payments of a cumulative \$2.98 Billion for Phase 1 since KABATA obligations would become "obligations of the state."
- Same deal structure, that is a private partner putting in \$79 million equity and receiving net cash flow for 36 years estimated to be \$920 million in KABATA estimate or \$767 million in this realistic estimate
- Same amount of senior debt and capital accretion bonds and same debt schedule to pay off those bonds and same 6.426% in total true interest cost
- One way car toll of \$5 and \$18 commercial vehicle in Year 1 with tolls rising 2.5% per year to a one way car toll of \$12.16 and a \$43.79 commercial toll in Year 36. So a commuter driving a car 200 days a year between Anchorage and Mat Su would pay \$2000 in Year 1 and \$4832 in Year 36.

Three Differing Assumptions between the KABATA estimate and this *Realistic* estimate

The three following changes drive a \$2.5 Billion increase in the cost to the state of the guarantee to backstop the toll shortfall and meet the cumulative availability payments to the contractor that KABATA estimates at \$2.98 Billion for Phase 1.

1. Loss of Federal Loans and Grants, Add \$340 Million to State Cost

KABATA has been turned down for an over \$300 Million federal TIFIA loan in 2007, 2010, and 2011 and at least two different TIGER grants for over \$40 Million. Both programs are highly competitive with 10-20 times more money applied for than available. KABATA on 12/30/11 again sent in a preliminary application for a \$308 million TIFIA loan. *KABATA's financial plan includes receipt of these funds.*

The \$308 million TIFIA loan is particularly valuable to making the financial plan work since TIFIA loans bear a low interest rate and do not require repayment to start until five years after the Bridge opens.

Projects that win federal loans and grants usually show: private sector risk taking, flat as opposed to ballooning annual payments to the concessionaire, and a project which solves significant existing congestion problems. KABATA's application fails each of these key attributes and in addition shows the contractor taking out equity before the federal loan payments start which appears to contradict federal program guidelines.

Politically, the Knik Arm Bridge is *even more challenged*. In his 2011 infrastructure program speech to Congress, the President pledged "no more "Bridges to Nowhere." Last month Senator Coburn (R-OK) highlighted the recent release by the Federal Highway Administration (FHWA) of \$15 Million in right of way money to KABATA, and the Senator rated the project # 6 in his list of Top 100 in his "Wastebook" of federal spending.

Do you believe that <u>any</u> Federal Administration will provide over \$353 Million in Federal Loans or Grants to the "Bridge to Nowhere"?
--

2. Realistic Toll Forecast, Add \$2.3 Billion to State Cost

Revenue forecasts are based on population and employment projections, which in turn, drive trip and toll projections.

KABATA uses a Mat Su population or household forecast for 2030 that is 30% higher than the state demographer's December 2010 forecast or Scott Goldsmith's Institute of Social and Economic Research's (ISER's) 2009 forecast used for the Highway to Highway project². Also, Wilbur Smith Associates, KABATA's traffic consultant, changed its traffic model between 2007 and 2011 so the same population number now generates 9% more trips and lowered the number of people per household from 2.7 from the 2010 Census to 2.5 in 2035 to appear to be consistent with ISER numbers. The result is higher toll revenue projections than realistic.

In doing the Highway to Highway traffic forecast, CH2M HILL, using Scott Goldsmith's population and employment data, projected 17,700 trips a day on the Bridge in 2035. KABATA's financial plan is based on a traffic forecast of 36,000 trips in 2035, *more than double*. Another forecast where the state Department of Transportation modeled ISER data (falsely labeled AMATS/ISER in the Anchorage Metropolitan Transportation Plan) said there would be 36,600 trips a day in 2035 but that forecast assumed no toll thereby inflating trip numbers.

Since KABATA's population forecast is an outlier and tolls reduce demand, a projected 18,000 daily trips in 2035 paying the higher \$8.19 one way auto toll used in KABATA's pro forma seems the best, conservative, *realistic* estimate of toll revenue. It also makes sense to use the 18,000 figure for 2035 since that is about the maximum traffic that a restricted 2 lane highway can serve and KABATA's financial plan included only the cost of a 2 lane Bridge.

A *realistic* toll estimate reduces cumulative toll revenue 2016-2050 by half from \$4.525 Billion to \$2.263 Billion.

3. Lower Profit to Private Partner, Subtract \$153 Million from State Cost

KABATA's financial plan projects that they will pay out a total of \$920 Million (labeled as net cash flow) to the winning bidder for their \$79 M equity in the project.

This 12% cumulative rate of return is excessive given that the state guarantee (subject to annual legislative appropriation) largely removes the financing risk to the project and leaves the concessionaire with only the customary construction cost risk. The state has traditionally paid no more than 10% when it asks the contractor to front project costs and competition among the three bidding teams and is likely to reduce this return on equity to 10%.

With typical Savings accounts paying less than 1% interest rates, does it make sense to give the P3 contractor 12%? Not if their annual payments are guaranteed by the State of Alaska.

CONCLUSIONS

Totaling the above three items adds an additional \$2.5 billion to be paid out by the state over 36 years for Phase 1, which breaks down to be *\$1.1 Billion* or an average of \$55 million/year between 2016-2035 and \$1.4 Billion in the years between 2036-2051. (3) *None of this additional amount would be covered by toll revenue.*

It is unclear how much of that \$2.5 Billion would come out of state transportation funds for Anchorage which historically has received 28% of federal and state transportation funds or the Mat-Su which in recent years has received about the same amount of state and federal transportation dollars.

The Anchorage Metropolitan Transportation Plan (MTP) assumes KABATA's estimates of toll revenue and Bridge costs are accurate and further assumes that KABATA will receive over \$300 Million in federal loans it has been turned down on to date. Most importantly, the MTP stated assumption is that *if* there is a toll shortfall that doesn't meet contracted availability payments, and the state must make good on its guarantee, that those funds will not decrease the amount going to Anchorage or Mat-Su or affect the overall state transportation budget.

So, to summarize this paper to one critical question: If as here estimated, the state must make up \$1.1 Billion in toll shortfall revenues between 2016 to 2035 to meet contractor payments, *how much of that amount will come from Anchorage's or Mat-Su's federal and state transportation funding?*

Even though there are predicted cutbacks in federal funding, including earmarks, the Anchorage 2035 MTP Update counts on the ratio of state funding to federal funding actually increasing from 18% state money historically to 56%.state money in the 2035 MTP Update.

RECENT DEVELOPMENTS ADD TO BRIDGE RISKS & COSTS

Three recent developments will likely add to the cost of the project.

1. Bridge Span has increased from 8,200' to 9,200'

In response to U.S. Army Corps of Engineering concerns about the effect of the Bridge on additional siltation challenges in Cook Inlet, in November KABATA signed an agreement with the Corps to increase the Bridge span to 9,200'. While this will reduce a rock-constructed causeway by 1000', it also will require 4 more expensive additional Bridge pilings and spans. Using a rough estimate of the 35% design costs from the TIFIA application, an additional \$15 million will be required which is not included in the \$713 million Bridge cost which is an unchanged number from the earlier KABATA financial plan showing a 8,200' bridge.

2. KABATA's Financial Plan still assumes 2 lanes of cost, 4 lanes of revenue

Phase 2 had been defined as the expansion of the Bridge and approaches from 2 lanes to 4 lanes and adding the Anchorage connection to the Ingra-Gambell couplet. KABATA estimates the cost of Phase 2 at \$673 Million.

Generally, a restricted access highway at around 18,000 trips a day needs to move to 4 lanes to accommodate any increase in traffic; for example, the Glenn Hwy traffic at Eklutna flats, the dividing line between Mat Su and Anchorage, is now about 28,000 trips a day.

The AMATS Technical Advisory Committee in August, 2011 heard my presentation that the KABATA Pro Forma Financial Plan submitted in February, 2011 to the federal government for a TIFIA loan had assumed 4-6 lanes of toll revenue in its toll projection to 2051 but its financial plan included only the cost of a 2 lane Bridge and northern approach roads.

The December, 2011 TIFIA preliminary grant application also includes the revenue from 18,700 trips a day in 2022 rising to 30,300 trips a day in 2030 when they estimate Phase 2 will be implemented at a cost of \$672 million that is not included in this realistic or KABATA estimate. For those eight years between 2022-2030, how is it possible to include the revenue from 4 lanes while including only the cost of 2 lanes on the Bridge and the northern approach roads to connect with Knik Goose Bay Road?

In order to count the revenue from over 18,000 trips a day, the financial plan has to include the cost of 4 lanes from downtown Anchorage to Knik Goose Bay Road.

3. National Track Record of KABATA's consultant Wilbur Smith Associates: Revenue projections 127% greater than actual Toll Revenues

Drawing on a 2006 study of the National Transportation Research Board (a division of the National Academy of Sciences) and adding updated information from recent toll facilities, an independent economist last month documented that the track record of Wilbur Smith Associates (WSA) on U S projects is to overestimate revenue by 2.27 times in the first five years a toll facility is open to project. That is, WSA projected 127% more revenue than actual performance.³

The 2012 study "*Wilbur Smith Associates' Traffic and Revenue Forecast: Plenty of Room for Error*" was developed by Terry Maynard, a retired federal economist. The WSA track record is slightly better

than the industry in projecting the first year revenue of projects and worse than industry averages after five years and later.

Maynard made the WSA's work on the Knik Arm Bridge one of his two "case studies" of questionable forecasting methodology and of the use of overly optimistic population data.

Two toll road projects that WSA provided the toll projections for have now gone bankrupt (the Greenville, SC Southern Connector and the San Diego Freeway) and two more have had changes in ownership and/or debt restructuring when insufficient toll revenues took revenue below required minimum bond cover ratios (the San Joaquin Hills Toll Road, CA and the Pocahontas Parkway, VA).

Jamie Kenworthy
February 15, 2012
jamiek@alaska.com

Note: Revisions from earlier posts of this paper reflect slight number changes between the Citigroup 10/17/2011 financial plan for KABATA's TIGER loan application and the 12/16/2011 Citigroup financial plan for KABATA's TIFIA loan application. Also included in this revision is discussion of the January 29, 2012 Maynard paper on the Wilbur Smith Associates' national track record.

Endnotes:

¹KABATA cost estimate numbers are from the Citigroup financial plan done 12/16/11 for KABATA's TIFIA preliminary federal loan application, see <http://knikarmbridge.com/TIFIA/2011/12-2011-KABATA-Model-PABs.pdf>

² The history of this project's use of population estimates does not inspire confidence in KABATA's revenue forecasts which are based on their consultant trip and toll forecasts. In 2007, Scott Goldsmith of ISER estimated that 204,400 people would live in the Mat Su in 2030. KABATA then hired the Insight Research Corporation of Dallas, Texas to come up with the number of 250,700 for the Mat Su in 2030, see p. 26 of <http://www.knikarmbridge.com/documents/IndependentEconomicOverviewandDevelopmentForecast07022007.pdf>.

³ The full study is available at <http://www.scribd.com/doc/79582705/RCA-Study-Wilbur-Smith-Traffic-and-Revenue-Forecasts-012712>. The 2006 NTRB of the National Academies of Science toll study is at http://onlinepubs.trb.org/onlinepubs/nchrp/nchrp_syn_364.pdf.

Two media stories summarize the poor track record of the traffic and toll projection industry; see <http://www.tollroadsnews.com/node/5726> and http://www.denverpost.com/tollroads/ci_3876477

Wilbur Smith Assoc forecasting record slammed in report for Reston VA group (ENLARGED REPORT)

Posted on Fri, 2012-01-27 16:30 <http://www.tollroadsnews.com/node/5726>

[cdmsmith](#)
[dulles toll road](#)
[maynard](#)
[rail](#)
[reston](#)
[traffic and revenue forecasts](#)
[wilbur smith associates](#)

Wilbur Smith Associates (WSA) record of traffic and revenue forecasting is blasted in a study done by a retired federal government economist Terry Maynard for the Reston Citizens Association (CRA) in northern Virginia. The report supports a call for an independent review of the WSA/CDMSmith traffic and revenue forecast of the Dulles Toll Road.

The analysis titled Traffic and Revenue Forecasts: Plenty of Room for Error by Terry Maynard finds that forecasts of revenue by WSA as it then was (just recently merged to form CDMSmith) are on average 2.27 times - or 127% too high - as compared with subsequently realized toll revenues.

This is based on the first five years of 12 toll projects forecast.



Wilbur Smith Associates'
Traffic and Revenue Forecasts:
Plenty of Room for Error

The Full, 105 page report, available at
<http://www.scribd.com/doc/79582705/RCA-Study-Wilbur-Smith-Traffic-amp-Revenue-Forecasts-012712>
outlines how 2 toll roads that relied on WSA's traffic & revenue forecasts went Bankrupt, and another 2 toll roads needed complete re-financing.



In addition Maynard finds that WSA had a pattern of understating the sensitive profit maximizing toll initially, then subsequently raising those estimates.

Maynard says that WSA routinely uses the highest population and employment forecasts for forecasting traffic.

Despite poor forecasts tollroads stuck with WSA.

WSA estimates for Dulles Toll Road revenues are suspect, Maynard writes, because they are already using numbers overstating Fairfax County employment by 25%.

What it calls the "pattern of overestimates" in WSA forecasting suggests a "substantial risk" in proceeding with the MWAA financial plan, Maynard writes.

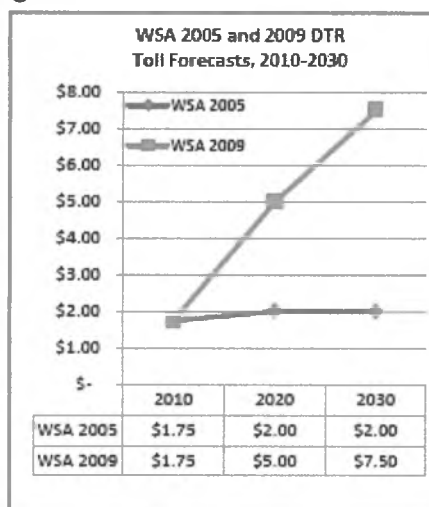
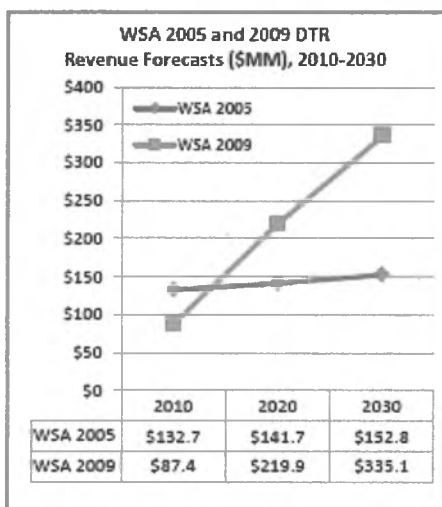
Risks are:

- lenders won't fund the project without state guarantees or at investment grade rates
- tolls much higher than those forecast will emerge
- corridor economic growth will be hampered by the high costs
- MWAA may default and face much higher costs than cited

Terry Maynard: "RCA has long been enthusiastic about Metrorail to Dulles via Reston, but we do not want a rail line at any price, especially one that forces Dulles Toll Road users to absorb most of the financial burden and area communities to absorb added traffic on already crowded local roads. The prospects are even worse if the WSA forecasts overestimate revenues as much as our research suggests. We hope that an independent forecast, combined with 'value engineering' for Phase 2 and restructuring the financial arrangements will lead to a better outcome for everyone."

2nd stage of Dulles Rail at stake

Future Dulles toll road revenues are being used as the security for selling the debt needed to fund a \$5 billion Dulles Metrorail branch line from West Falls Church through Reston County to Dulles Airport and out into Loudoun County. Over half the capital cost is proposed to be covered by toll revenue bonds of the Dulles Toll Road issued by the Metropolitan Washington Airports Authority (MWAA) that has a 50 year franchise on the tollroad and is building the rail line.



Hugely discrepant WSA forecasts in 2005 for VDOT and in 2009 for MWAA of Dulles tolls

Half of the rail line is a done deal, financed and under construction but the second half remains to be approved and financed. The WSA/CDMSmith investment grade traffic and revenue study to be released any week now will be key to whether the project proceeds.

A cover letter addressed to Governor Bob McDonnell, FHWA administrator Victor Mendez and top officials of MWAA and the two local counties charges that "WSA has made many very large errors in its forecasts that have been costly to investors, bondholders, governments, and toll road users who have relied on them to approve construction of major toll road projects."

It continues: "we believe that it is imperative that a second, independent T&R forecast be completed by another forecasting group before any decision is made to move forward with the construction of Phase 2 of the Silver (Dulles Rail) Line."

The citizens association says that given Wilbur Smith's record of overestimating revenues and the unexplained discrepancies between the first two WSA studies the various parties to the Dulles project - FHWA, MWAA, the two counties Fairfax and Loudoun as well as Virginia DOT - should defer any further commitments until Wilbur Smith's forecasts have been checked against those of an independent forecaster.

VDOT is called to take the lead in having WSA's results checked out.

It calls on FHWA to develop a process of 'best practices' for traffic and revenue forecasts given that the problem of gross exaggeration of traffic and revenue (T&R) prospects is seen across the whole T&R forecasting business.

Recommendations

We believe the significant number of cases in which WSA has made major errors in its traffic and revenue (T&R) forecasts, including errors in its forecasts for the Dulles Toll Road, warrants a series of actions before MWAA, Fairfax County, and Loudoun County move to approve construction of Phase 2 of the Silver line. These recommendations involve actions by federal, state, local, and MWAA officials.

US Department of Transportation/Federal Highway Administration

- Do *not* approve TIFIA funding for the Metrorail funding partners until a second independent T&R forecast for the DTR has been prepared by Virginia and any material substantive differences between it and WSA's next forecast have been satisfactorily resolved.
- Longer term, oversee a process involving transportation T&R forecasting practitioners, toll facility operators, toll facility bond financing rating and issuing companies, and appropriate federal, state, and local government transportation officials to develop concrete and transparent national "best practice" standards for the forecasting of toll facility traffic demand and revenue forecasts. Make strict adherence to these "best practices" a requirement for federal funding. If necessary, pursue Congressional legislation to implement these "best practices."

Virginia Department of Transportation

- Conduct an independent T&R study from another T&R consultant to be completed before approval of Phase 2 of Metrorail construction.
- Resolve any substantive material differences between the outside T&R forecast and the new WSA T&R forecast before authorizing the use of state funds on Phase 2.

Dulles Metrorail Funding Partners (Fairfax County, Loudoun County, & MWAA)

- Do *NOT* approve work on Phase 2 of Metrorail until a second Virginia state-sponsored independent T&R forecast has been completed and material substantive issues between it and WSA's forecast have been resolved.
- Present the new (third) WSA DTR T&R forecast to the public as soon as possible for comment and feedback, and well before any consideration of approval of Phase 2 of Metrorail.
- Conduct a public outreach program to elicit community comment on toll, tax, and other issues raised by the possible construction of Phase 2, and adjust the current funding agreement accordingly.

Maynard devastating about track record of forecasting

A key finding of the Maynard Report (named after principal author Terry Maynard) is that "optimism bias" is endemic in the toll forecasting business, and that Wilbur Smith which does about half the industry's forecasts is typical of the industry - driven by sponsors to produce the exaggerated forecasts they want. It cites work by Robert Bain, Bent Flyvbjerg, NCHRP, and ourselves but goes into several forecasts with original work.

Bain using work he started at Standard and Poors found that of 100 tollroad forecasts worldwide the average actual traffic was 77% of forecast or an overestimate of about 30% for year 1 and only minor improvement after that.

NCHRP looked at 26 toll road forecasts in the US over the first five years and found worse results.

Writes Maynard: "The atrocious overestimates of revenue by all the forecasters reflected in this data highlight the difficulty in forecasting demand in the 'ramp-up' period of a new toll road. They are inadequate for planning future revenues, financing, and toll rates."

And there is little indication forecasts improve much over time.

On the Dulles Toll Road forecasting WSA starts with an inflated number for current employment in the major county served (900k vs 700k) and then inflates that faster than others with a higher growth rate (see graph nearby). Similarly on the Knik Arm bridge in Alaska WSA used exaggerated population and employment data, claiming to base them on numbers from a local University institute, which has denied its numbers are used.

Maynard picks up on what we reported (2011-04-11) as huge inconsistency in Dulles forecasting between WSA's modest projections of traffic and revenue for VDOT in 2005 and their highly bullish projections in 2009 for the new concessionaire MWAA. (see graphing of the inconsistency nearby)

Growth prospects declined in that period, and forecasts should have been lowered, not raised. WSA has never explained the basis for their large upward revisions.

"Our examination of vital population and employment input data used by WSA in its forecasts indicates it has almost always used the most optimistic data available to make its forecasts.

Appendix A: Revenue Forecast Error in NHCRP Data, WSA and Non-WSA, in Percent

Wilbur Smith Associates	Year Opened	Revenue Forecast Error					Average Error
		Year 1	Year 2	Year 3	Year 4	Year 5	
Harris County Toll Road Authority (Texas)/Hardy (6)	1988	242%	202%	100%	100%	140%	302%
Harris County Toll Road Authority (Texas)/Sam Houston (6)	1988	18%	25%	22%	20%	28%	30%
Orlando-Orange Expressway Authority/Central Florida Greenway North Segment	1989	3%	17%	23%	64%	30%	23%
Orlando-Orange Expressway Authority/Central Florida Greenway South	1990	103%	175%	17%	100%		162%
Oklahoma Turnpike Authority/ John Kilpatrick (3)	1991	255%	27%	241%	218%	14%	276%
Oklahoma Turnpike Authority/ Creek (3)	1992	100%	8%	7%	10%	1%	77%
Transportation Corridor Agencies (California)/Foothill North (3)	1995	16%	8%	3%			8%
Transportation Corridor Agencies (California)/San Joaquin Hills (3)	1996	216%	11%	94%	99%	8%	119%
North Texas Tollway Authority/ George Bush Expressway (3)	1998	-14%	9%				-11%
Transportation Corridor Agencies (California)/Foothill Eastern (3)	1999	-16%	27%	15%			12%
Connector 2000 Association (South Carolina)/Greenville Connector (3)	2001	238%					238%
Pocahontas Parkway Association (Virginia)/Pocahontas Parkway (44,45)	2002	167%	148%	8%			128%
Average Error		134%	104%	108%	126%	122%	118%

Non-WSA Forecasts	Year Opened	Revenue Forecast Error					Average Error
		Year 1	Year 2	Year 3	Year 4	Year 5	
Florida's Turnpike Enterprise/Sawgrass Expressway (6)	1986	462%	327%	213%	170%	160%	216%
North Texas Tollway Authority/Dallas North Tollway (6)	1986	35%	80%	8%	1%	1%	10%
Mid-Bay Bridge Authority (Florida)/ Choctawhatchee Bay Bridge (39,39)	1992	25%	9%	8%	-12%	-14%	-1%
Orlando-Orange Expressway Authority/Central Florida Greenway Southern Connector	1993	264%	173%				218%
Florida's Turnpike Enterprise/Veteran's Expressway (3)	1994	100%	89%	60%	54%	76%	76%
Florida's Turnpike Enterprise/Seminole Expressway (3)	1994	119%	72%	41%	28%	43%	61%
Osceola County (Florida)/Osceola County Parkway (3)	1995	669%	97%	160%	148%		268%
Toll Road Investment Partnership (Virginia)/Dulles Greenway (3)	1995	398%	302%	324%	288%	182%	299%
I-470 Public Highway Authority (Colorado)/I-470 (3)	1999	67%	60%		96%		72%
Florida's Turnpike Enterprise/Polk (3)	1999	23%	49%				36%
Santa Rosa Bay Bridge Authority (Florida)/Garcen Point Bridge (42,41)	1999	207%	82%	98%	112%	105%	121%
Northwest Parkway Public Highway Authority (Colorado)/Northwest Parkway	2004	65%	79%				72%
Average Error		202%	112%	112%	98%	79%	127%

Annual performance within 10% of forecast is in bold.

Revenue Forecast Error = 1/(Revenues/Forecast) - 1 as presented in NHCRP 364 in Table 1 which reports (Revenues/Forecast).

"This includes its 2005 and 2009 forecasts for the Dulles Toll Road. In its 2005 study, it utilized population and employment forecasts provided by GMU CRA which characterized official MFCOG forecasts as understating the area's growth potential. Then, in 2009, it discarded the conclusions of the contractor it hired to do its socio-economic forecast, Linden Street Associates, Inc., of Alexandria, which had discounted the official MFCOG forecasts as overreaching.

"Instead, it used forecast data provided by Woods & Poole, Inc., another local demographic analysis shop, which was much more aggressive. As we have noted, in the one data point from those two studies we were able to check for Fairfax County—data from the US Census Bureau in 2010—the 2005 WSA forecast overstated county employment by 25% and the 2009 study overstated it by 52%. In both cases, all the population forecasts we examined were within a reasonable five percentage points of the US Census 2010 count."

Detroit

In Detroit Michigan Maynard writes that an independent study by Halcrow found that WSA had used population and employment projections that were "far too high" and traffic was likely to be "about half" of WSA forecasts. He has an appendix commenting on the Detroit-Windsor DRIC/NITC bridge project.

Maynard says some of WSA's numbers are wrong, and that Halcrow's modeling is more convincing because it performs well in backward testing - not attempted by WSA.

Full copy of Maynard report:

<http://www.scribd.com/doc/79582705/RCA-Study-Wilbur-Smith-Traffic-amp-Revenue-Forecasts-012712>

Maynard is contactable at:

termayn@yahoo.com

<http://www.tollroadsnews.com/node/5726>

NOTE: we're fully open to any response from WSA or any other forecasters. So far no response from WSA to the invitation to defend their work.

ACTUAL REVENUE AS PERCENTAGE OF PROJECTED RESULTS OF OPERATION

Authority/Facility	Year of Opening	Year 1	Year 2	Year 3	Year 4	Year 5
Florida's Turnpike Enterprise/Sawgrass Expressway (6)	1986	17.8%	23.4%	32.0%	37.1%	38.4%
North Texas Tollway Authority/Dallas North Tollway (6)	1986, 1987	73.0%	91.3%	94.7%	99.3%	99.0%
Harris County Toll Road Authority (Texas/Hardy (6)	1988	29.2%	27.7%	23.8%	22.8%	22.3%
Harris County Toll Road Authority (Texas/Sam Houston (6)	1988, 1990	64.0%	79.7%	81.0%	83.2%	78.0%
Illinois State Toll Highway Authority/ Illinois North South Tollway (6)	1989	94.7%	104.3%	112.5%	116.9%	115.3%
Orlando-Orange Expressway Authority/ Central Florida Greenway North Segment (6)	1989	96.8%	85.7%	81.4%	69.6%	77.1%
Orlando-Orange Expressway Authority/ Central Florida Greenway South Segment (6)	1990	34.1%	36.2%	36.0%	50.0%	NA
Oklahoma Turnpike Authority/ John Kilpatrick (3)	1991	18.0%	26.4%	29.3%	31.4%	34.7%
Oklahoma Turnpike Authority/ Creek (3)	1992	49.0%	55.0%	56.8%	59.2%	65.5%
Mid-Bay Bridge Authority (Florida/ Choctawhatchee Bay Bridge (38, 20)	1993	79.8%	95.5%	108.9%	113.2%	116.7%
Orlando-Orange Expressway Authority/ Central Florida Greenway Southern Connector (6)	1993	27.5%	36.6%	NA	NA	NA
State Road and Tollway Authority (Georgia/GA 400 (3)	1993	117.0%	133.1%	139.8%	145.8%	141.8%
Florida's Turnpike Enterprise/ Veteran's Expressway (3)	1994	50.1%	52.9%	62.5%	65.0%	56.8%
Florida's Turnpike Enterprise/ Seminole Expressway (3)	1994	45.6%	58.0%	70.7%	78.4%	70.1%
Transportation Corridor Agencies (California/Foothill North (3)	1995	86.5%	92.3%	99.3%	NA ¹	NA ¹
Osceola County (Florida)/Osceola County Parkway (3)	1995	13.0%	50.7%	38.5%	40.4%	NA
Toll Road Investment Partnership (Virginia/Dulles Greenway (3)	1995	20.1%	24.9%	23.6%	25.8%	35.4%
Transportation Corridor Agencies (California/San Joaquin Hills (3)	1996	31.6%	47.5%	51.5%	52.9%	54.1%
North Texas Tollway Authority/ George Bush Expressway (3)	1998	152.2%	91.8%	NA	NA	NA
Transportation Corridor Agencies (California/Foothill Eastern (3)	1999	119.1%	79.0%	79.2%	NA ¹	NA ¹
E-170 Public Highway Authority (Colorado)/E-470 (3)	1999	61.8%	59.6%	NA	95.4% ²	NA ²
Florida's Turnpike Enterprise/Polk (3)	1999	81.0%	67.5%	NA	NA	NA
Santa Rosa Bay Bridge Authority (Florida/Garcon Point Bridge (12, 13)	1999	32.6%	54.8%	50.5%	47.1%	48.7%
Connector 2000 Association (South Carolina)/Greenville Connector (3)	2001	29.6%	NA	NA	NA	NA
Pocahontas Parkway Association (Virginia)/Pocahontas Parkway (14, 15)	2002	41.6% ⁴	40.4%	50.8%	NA	NA
Northwest Parkway Public Highway Authority (Colorado)/Northwest Parkway (16, 17)	2004	60.5%	56% ⁵	NA	NA	NA

Sources are cited in parentheses.

Notes: Bold type reflects actual within 10% of projected. NA = traffic and revenue report not available or not provided.

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THEN AND NOW: A HISTORY OF THE KNIK ARM CROSSING



Southcentral Alaska: 100 Years of Development

Over the last century, Southcentral Alaska has been characterized by drive, determination and development. At the heart of Southcentral is the Anchorage metropolitan area, a region that has experienced continual expansion since the early part of the 20th century.

An important transportation hub, Cook Inlet functioned as a shipping center for the state's mining industry. In 1914, the Alaska Engineering Commission established Ship Creek as a work and supply camp for construction of the Alaska Railroad, creating a town site that is now the city of Anchorage. The Matanuska-Susitna (Mat-Su) Borough also underwent great change and development, including the "New Deal," an agricultural colonization enacted by the federal government in the 1930s, and construction of the Glenn Highway as a way of accessing the colony.

The region continued to expand as the military established a strong presence in Alaska during the 1940s. Because control of Pacific transportation routes was so vital, Gen. Billy Mitchell told Congress in 1935, "I believe that in the future, whoever

Continued inside:



Ship Creek - 1915

*Photographer Alberta Pyatt was an employee of Sydney Laurence in 1915 when both were early residents of Ship Creek. She captured this image in early summer.
(Anchorage Museum of History and Art.)*

Anchorage Museum of History & Art. Library & Archives.

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Continued from page 1

holds Alaska will hold the world. I think it is the most important strategic place in the world.” Anchorage was then established as a major military hub, which brought an increased need for infrastructure. Construction of the Alaska-Canada Highway connected Alaska to the continental highway system and the Glenn Highway was extended to Glennallen, connecting the Anchorage/Mat-Su area to this important road system.

Alaska was granted statehood in 1959. The discovery of oil in Prudhoe Bay in the 1960s spurred construction of both the Trans-Alaska Pipeline System and the 323-mile Parks Highway. Southcentral Alaska’s population surged at this time as workers and their families flooded the region. Many eventually settled in Anchorage and Mat-Su.

The Anchorage metropolitan area now enjoys a more diverse economy with residents employed in a variety of retail, resource development, professional service and city, borough, state and federal occupations. Along with economic diversity comes economic stability. As more individuals move to the area it is imperative we connect Alaska’s two largest population centers – Anchorage and Mat-Su – and provide a more direct route to the Interior.



Alaska Pacific University

Businesses Crowd the Tent City
Amid the tents were the Crest House, Anchorage Fish Market, The Panhandle, Montana Pool Room, White Road House and Riverside Hotel.
(Alaska Pacific University)

An Early History of the Knik Arm Crossing

More than 80 years of transportation, land use and economic plans and studies for the Upper Cook Inlet region of Alaska have indicated a need to connect the Municipality of Anchorage with the Mat-Su Borough. As early as 1923, Alaska Railroad engineers made preliminary studies of a causeway to shorten the route to Fairbanks. By 1954, a multi-purpose proposal was made by a Seattle engineer for a combination causeway and tidal power plant stretching across Turnagain Arm and Knik Arm and connecting on Fire Island. Just one year later, the Anchorage Chamber of Commerce formed a committee to explore a causeway and commissioned Ivan Bloch and Associates to develop the “Preliminary Appraisal of the Proposed Knik Arm Causeway,” a study that reviewed the economic and defense benefits of a Knik Arm crossing.

“We wish to point out very strongly that to make the port 100 percent efficient, the causeway should also be built ... and the Chamber of Commerce could do Anchorage no greater service than to continue to push for it at every opportunity.”

Anchorage News,
July 2, 1957



Plate 1. Location map illustrating Seward's Success as related to Greater Anchorage

The Knik Arm Crossing Draws Closer to Reality

In 1970, the Alaska Department of Highways commissioned a study of the general subsurface conditions of Knik Arm to identify geological factors that might influence the location and design of a proposed highway crossing. The department hired consulting engineers to study existing data for technical issues associated with engineering a structure across Turnagain Arm. The study concluded that a bridge crossing was the most economically feasible alternative and had the least negative effect on the natural environment.

By 1983 the Alaska Department of Transportation (ADOT) prepared an Economic Feasibility Report concluding the Knik Arm crossing and approach roads were economically feasible under conservative assumptions and compared favorably with other state transportation and infrastructure investments. The Federal Highway Administration (FHWA) and ADOT evaluated alternative corridors for the best combination of positive features and documented their findings in the Final Corridor Alternatives Report created in support of the 1984 draft Environmental Impact Statement (EIS).

From a historical perspective, the most comprehensive study conducted for the Knik Arm Crossing project was a Draft Environmental Impact Statement (DEIS) prepared by ADOT

in 1984 under Gov. Bill Sheffield. An Implementation Options Report by the ADOT was prepared the following year. It presented the design, financial and development options for implementing a Knik Arm crossing. Due to a lack of funding and the dramatic downturn in the state's economy between 1985 and 1990, the project was never advanced beyond the DEIS stage. However, with today's diversified economy and current and projected populations, we are now able to afford this important piece of Alaska infrastructure using tolls.

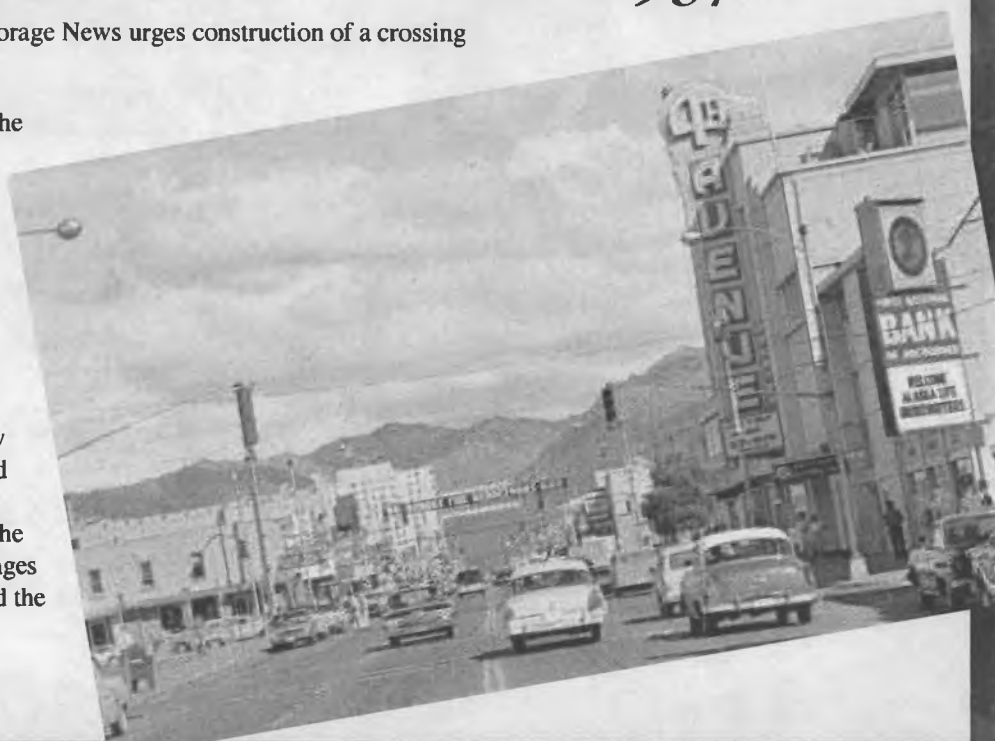
In 2003, the ADOT produced the Knik Arm Crossing Engineering Feasibility and Cost Estimate Update project that revised 1984 DEIS cost estimates using a general alignment deemed the "Hybrid Alignment." The update included a bridge crossing with connecting roads to the north and south. The state established the Knik Arm Bridge and Toll Authority (KABATA) that same year to begin work. By 2004, Congress appropriated funding for advanced planning efforts to include startup and staffing of KABATA, engineering and environmental studies and initiation of a new DEIS. Today we are closer than ever to reaching our goal and we can begin construction as soon as FHWA issues a Record of Decision (ROD).

Bridge Called 'Desirable' Back in 1957

An article published July 2, 1957 in the Anchorage News urges construction of a crossing over the Knik Arm:

"With the proposed Anchorage port again in the limelight we should not lose sight of the companion proposal which is the construction of a causeway across the narrow channel that connects the Anchorage mainland with the great Susitna valley and its adjacent country north and west."

The author goes on to state that "a land connection between Anchorage and the vast mainland of western and interior Alaska is very desirable from the standpoint of evacuation and dispersion." The article also refers to the 1955 Bloch report, saying "it shows very definitely the tremendous engineering and economic advantages that would come to a deep sea port here, should the causeway become a reality."



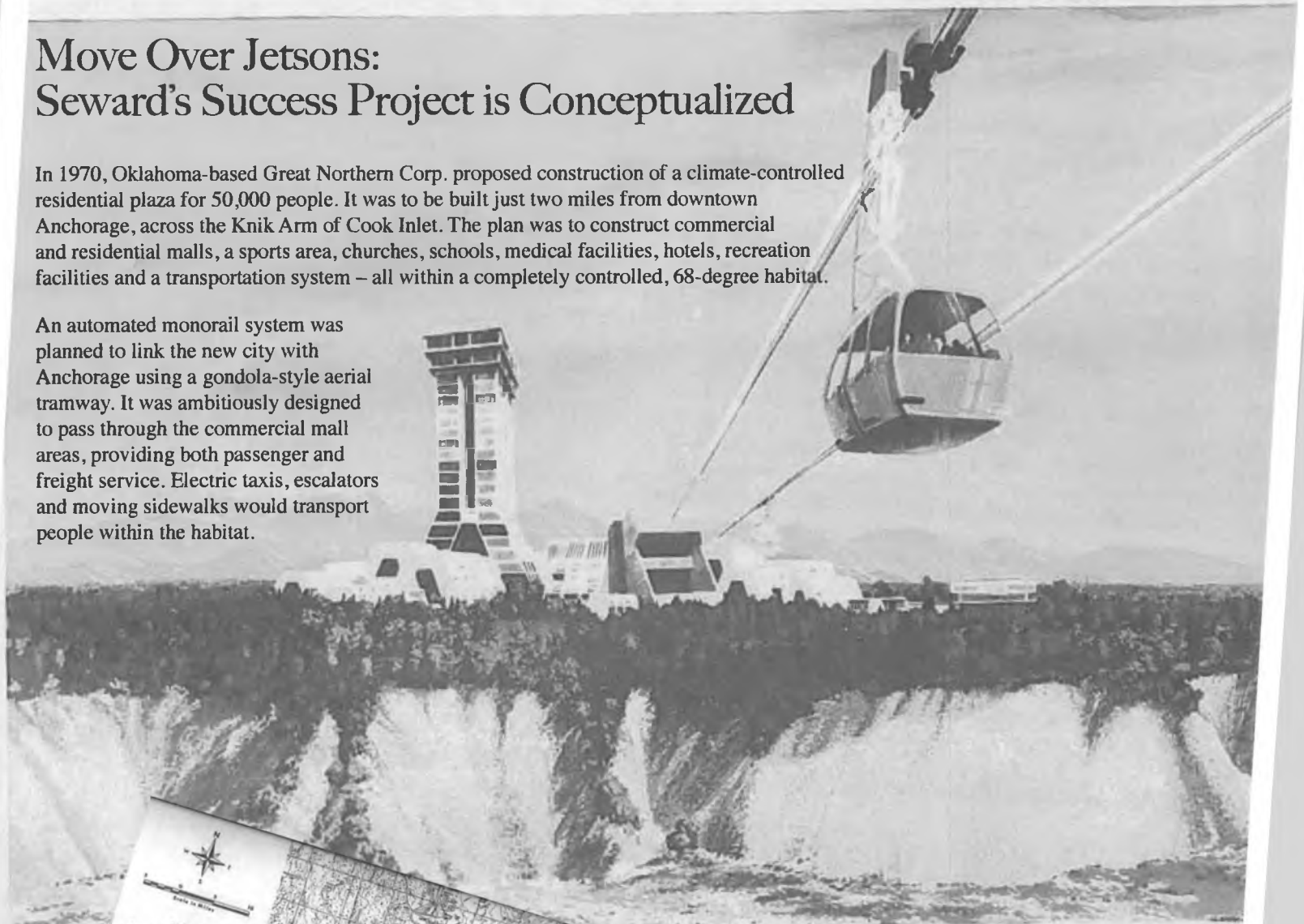
Move Over Jetsons: Seward's Success Project is Conceptualized

In 1970, Oklahoma-based Great Northern Corp. proposed construction of a climate-controlled residential plaza for 50,000 people. It was to be built just two miles from downtown Anchorage, across the Knik Arm of Cook Inlet. The plan was to construct commercial and residential malls, a sports area, churches, schools, medical facilities, hotels, recreation facilities and a transportation system – all within a completely controlled, 68-degree habitat.

An automated monorail system was planned to link the new city with Anchorage using a gondola-style aerial tramway. It was ambitiously designed to pass through the commercial mall areas, providing both passenger and freight service. Electric taxis, escalators and moving sidewalks would transport people within the habitat.

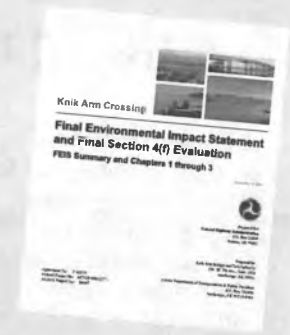


Seward's success commercial building





KNIK ARM CROSSING: TWO STUDIES. THREE DECADES APART. SAME CONCLUSION.



1972 STUDY CONCLUSIONS*	2008 STUDY CONCLUSIONS**
Construction is feasible	Construction is feasible
Bridge is most suitable type of structure	Bridge is most suitable type of structure
Most favorable crossing site: 1.5 miles upstream from Cairn Point	Most favorable crossing site: 1.5 miles upstream from Cairn Point
Estimated total cost: \$140 million. Inflated at just over 4%: \$687 million in 2011 dollars.	Estimated total cost: \$687 million. Deflated at just over 4%: \$140 million in 1972 dollars.

*Alaska Department of Highways engineering study

**Final Environmental Impact Statement, prepared in accordance with the National Environmental Policy Act

Knik Arm Crossing: Bridge to Our Future Video Now Available

Want to see what the Knik Arm Crossing might actually look like, or even fly over as trucks and cars travel across Knik Arm using the bridge? Now you can. The new Knik Arm Crossing project video takes you on a first hand tour of the project – including an animated fly-by of the proposed bridge.

Visit our YouTube channel at www.youtube.com/alaskaKABATA to view the extended or the shorter video as well as individual clips of project information. You can also view it at www.knikarmbridge.com or on GCI's Channel 1 each Tuesday, Thursday and Saturday at 9 p.m., or by tuning into the Municipality of Anchorage's Channel 10.

Please contact KABATA at (907) 269-6698 for more information or to receive a copy of the DVD.



Knik Arm Bridge and Toll Authority 550 W. Seventh Ave., Suite 1850, Anchorage, AK 99501
www.knikarmbridge.com | (907) 269-6698 phone | (907) 269-6697 fax

Knik Arm Crossing Day, 1981

"Representatives from the Anchorage Chamber of Commerce, Assembly and the Administration; the Mat-Su Borough, including the Mayors of the Borough and Wasilla; and leaders of the State Legislature flew across the Knik Arm on Saturday, March 21, 1981, to celebrate "Knik Crossing Day." Coordinated by the Anchorage Chamber of Commerce, the helicopter trip was a demonstration of support for the idea of building a crossing that would link Anchorage to Point MacKenzie and the lower Mat-Su Valley region. Most business and political leaders in this part of Alaska have agreed for more than 30 years that the concept is vital to the development and growth of the South Central region." —Greater Anchorage Today, the Monthly News Service of the Anchorage Chamber of Commerce, Vol. 17 No. 8, April 1981



The Knik Crossing Committee pictures above is Chaired by Roger Riddel and includes Jack Spake, Lou Dickinson, Eric Peterson, Conn Murray and Bob Penney.



Time out for refreshments (furnished by Sheffield Hotels, now the Westmark)



ERA Helicopters flight lands on Knik Arm beach-head.



From left, Senate President Jalmar Kertulla, House Minority leader Joe Hayes and Assembly Chairman Ben March survey site of Knik crossing near Point McKenzie.



This is what you will see as you drive back to Anchorage from your day of business with the legislature at the capital in Willow.