

SB

79

<TARGET><BILL>SB 79</BILL><SUBJECT>SB
79</SUBJECT><COMM>STRA27</COMM></TARGET>

SENATE COMMITTEE REPORT First Committee of Referral

DATE: 2/4/11

FURTHER: Finance

Date of 5-Day Notice: 2/9/11
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 2/15/11

Transportation Committee considered SENATE BILL NO. 79

SB 79-APPROP.: KNIK ARM CROSSING FUND

"An Act making a special appropriation to the Knik Arm Crossing fund; and providing for an effective date."

and recommends:

- be replaced with CS _____ (_____) Same Title New Title
- adopt previous CS _____ (_____) Same Title New Title
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

Dept Abbr.	
ADM	LEG
CED	LAW
COR	LWF
CRT	MVA
EED	DNR
DEC	DPS
DFG	REV
GOV	DOT
DHS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Menard	X			
	THOMAS			✓	
	EGAN	X			
CHAIR:	Koskela			X	

KNIK ARM CROSSING

PRELIMINARY DESIGN PHOTO RENDERING



Alaska Trucking Association, Inc.

3443 Minnesota Drive · Anchorage, Alaska 99503 · Phone (907) 276-1149 · Fax (907) 274-1946

www.aktrucks.org

The authoritative voice of the trucking industry in Alaska

February 11, 2011

Senator Linda Menard
Alaska State Capitol, Room 9
Juneau, Alaska 99801

Re: SB 79 and 80

Dear Senator Menard:

The Alaska Trucking Association and its nearly 200 member companies, stand firmly behind the Knik Arm Crossing project and the associated needed legislation. We feel the Knik Arm Crossing project is a regional connectivity project that will provide a critical infrastructure link between our communities, as well as a much needed freight and services connection between Anchorage, the Matanuska-Susitna and the Interior part of our State. I have long supported the need for this project and am writing to you today to encourage the Alaska Legislature to move the project forward in a timely and beneficial manner.

The Alaska Trucking Association has been serving the needs of the state's trucking industry for over 50 years. We have continually given our support to the Knik Arm Crossing project as we understand the need for improved access to and from our ports, communities and interior Alaska from both a freight and a trucking standpoint. ATA is a leader in Alaska and nationally in promoting and protecting the interests of the transportation industry before the state legislature, congressional delegation and administrative agencies and courts. We understand that Alaska is a young state with vast infrastructure needs. We encourage you to support the Knik Arm Crossing legislative request to help us move this critical infrastructure link forward and reduce the cost to end users.

We understand the purpose of the proposed legislation and believe in the successful procurement of the Knik Arm Crossing to generate the best value to the State of Alaska. The passage of this legislation will facilitate the Knik Arm Crossing being open for traffic in 2015, thus expediting for my members and the State of Alaska ---the benefits generated from the Crossing.

In conclusion, ATA supports the passage of SB79 and 80 in order to facilitate the progression of the project forward in a timely and beneficial manner.

Sincerely,



Aves D. Thompson
Executive Director



If you got it, a truck brought it...



THE ALLIANCE

...for responsible development of Alaska's Oil, Gas & Mineral Resources

Senator Linda Menard
Alaska State Capitol, Room 9
Juneau, Alaska 99801
Re: SB 79 and 80

February 10th, 2011

Dear Senator Menard:

The **Alaska Support Industry Alliance** supports the Knik Arm Crossing project and the associated needed legislation sponsored by Senator Menard in SB79 and SB80. We feel the Knik Arm Crossing project is a regional connectivity project that will provide a critical infrastructure link between our communities, as well as a much needed oil and gas staging connection between Anchorage, Matanuska-Susitna, the Interior part of our State and up to the lifeline of Alaska- Prudhoe Bay. I have long supported the need for this project and am writing to you today to encourage the Alaska Legislature to move the project forward in a timely and beneficial manner.

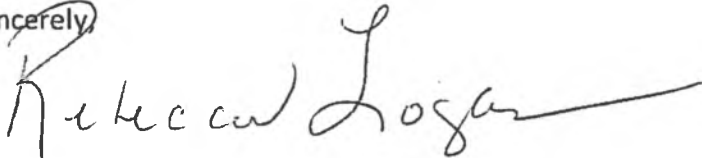
The mission of the Alliance is clear –*“To promote responsible exploration, development and production of oil, gas and mineral resources for the benefit of all Alaskans.”* Developing and improving our infrastructure, such as roads and bridges is critical to the expansion and development of our State’s natural resources. The mission of the Alliance and the benefits that will be achieved by the Crossing are in sync.

The Alliance is made up of nearly 500 businesses, organizations and individuals that provide products and services to the oil, gas and mining industries, and represent approximately 40,000 Alaskan workers. We promote a favorable business climate through strong government relations programs, public awareness of the relationships among political decisions, industry activity and Alaska’s economic health. Again, we believe the Knik Arm Crossing embodies the job creation and sustainable economic development that we hold at the forefront.

We understand the purpose of the proposed legislation and believe in the successful procurement of the Knik Arm Crossing to generate the best value to the State of Alaska. The passage of this legislation will facilitate the Knik Arm Crossing being open for traffic in 2015, thus expediting for my members and the State of Alaska ---the benefits generated from the Crossing.

In conclusion, the Alliance supports the passage of SB79 and 80 in order to facilitate the progression of the project forward in a timely and beneficial manner.

Sincerely,

A handwritten signature in cursive script that reads "Rebecca Logan". The signature is written in black ink and is positioned to the right of the word "Sincerely,".

Rebecca Logan
General Manager

Nancy Barnes

From: Lois Epstein [lois_epstein@twos.org]
Sent: Monday, February 14, 2011 9:06 AM
To: Nancy Barnes
Cc: jamiek@alaska.com; Jesse Kiehl
Subject: Tomorrow's Knik Arm Bridge hearing

Hi Nancy. Good to speak with you again today.

As I mentioned, a number of us have been following the Knik Arm Bridge issue very closely (like the Juneau Road coalition). Among our group, Jamie Kenworthy - former head of the Alaska Science and Technology Foundation - has served as a financial analyst because of his extensive understanding of public and private finance. He has prepared 5 minutes of testimony for tomorrow's hearing and it would be very informative for committee members. He's in Denver, currently, but would be happy to testify by phone. I've copied him on this email if you want to discuss anything with him.

Committee packet - It would be great if you could include the following two items:
1) This Sunday's ADN front-page article (by the way, the public comments appear to be 98% against the bridge): <http://www.adn.com/2011/02/12/1699393/supporters-see-150m-for-knik.html>
2) A map from KABATA's consultant showing that it takes more time and is a longer distance to travel via the proposed bridge from Wasilla and Palmer to Anchorage than traveling via the existing Glenn Highway (and there's no toll that way!):
<http://www.adn.com/2011/02/12/1699393/supporters-see-150m-for-knik.html>, Figure 5

Thanks very much for considering inviting Jamie or, alternatively, allowing public testimony.

Please call me on my cell if you have any questions.

Best,
Lois

Lois N. Epstein, P.E.
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A WHITE PAPER EXPLAINING

The Need for the 2011 Alaska Legislature to Examine the Financial Plans of the Knik Arm Bridge and Toll Authority

By **Jamie Kenworthy, jamiiek@alaska.com**
Bob French, bgkfrench@gmail.com
February 2011

SUMMARY

The Knik Arm Bridge cannot be built unless: (1) the State guarantees repayment of the debt necessary to finance the bridge, (2) that guarantee would need to make up the annual shortfall between toll revenues and expenses, including debt repayment, and (3) the State agrees to spend on the bridge a substantial portion of all federal money available for transportation statewide. The legislature must exercise some oversight on the project because Knik Arm Bridge and Toll Authority (KABATA) intends to issue an RFP for the \$700 million to \$1 billion dollar first phase of this project. If KABATA proceeds as planned, the State will be exposed to considerable financial liability and transportation projects statewide will be jeopardized.

Using federal and state numbers, the deficits for the first 10 years of Bridge operations will significantly exceed the approximately \$25 million per year that Anchorage or Mat Su have averaged over the last decade on total state and federal spending on transportation.

I. Background

The Knik Arm Bridge and Toll Authority, a quasi-independent state agency with a Governor-appointed Board of Directors, has a sole purpose to construct and operate the proposed Knik Arm Bridge. The original federal funds with their small state match, total \$114 million. Half of those funds or approximately \$61 million remains unspent. Since the federal money was de-earmarked, the State of Alaska can decide how it spends the remaining funds, if those funds do not go to KABATA.

II. Knik Arm Bridge Feasibility

Three recent developments have compromised the financial feasibility of the Knik Arm Bridge and the viability of the public-private partnership:

1. **In November 2010, KABATA was turned down for a federal, low-cost "TIFIA" loan of \$279 million, or more than one-third the total project cost of \$783 million for Phase 1 of the bridge.** This was junior debt at a below market rate which did not require any debt repayment until five years after the bridge opened. All KABATA financial statements to date have included these low-cost funds for a third of project costs. While KABATA may reapply - assuming the TIFIA program continues - there will be fierce competition for these funds (in 2010, one billion dollars was allocated out of the \$12.5 billion requested). Many of the other projects that also had their TIFIA loan applications rejected have positive attributes that the Knik Arm Bridge project lacks: they address significant existing congestion, have private partners willing to assume the downside risk of building for a fixed price or willing to cover debt repayments if there are toll shortfalls, and have accurate, existing (as opposed to projected) traffic and revenue information to demonstrate financial feasibility.
2. **In December 2010, KABATA admitted that the project will need a "state guarantee" to be financed by a private partner.** The March 1, 2010 failed TIFIA letter of interest (essentially a loan application) pledged "annual appropriations of the state legislature" to cover the large (estimated at \$40 million/year) expected shortfall between bridge toll revenues and bridge costs including bond repayments. In a private briefing to the Alaska Department of Revenue on March 23, 2010, KABATA staff put forward two financial scenarios: 1) a publicly-financed project with no private partner; and 2) a private partner putting 9% of the money in and receiving an estimated 64% of the money out over 40 years, with the State of Alaska signing a "letter of credit" (labeled as "off balance sheet financing") to, in effect, guarantee bond repayment. While the KABATA Board

did not review the March documents, and has not formally discussed any financials for the Bridge, at KABATA's December, 15, 2010 news conference, KABATA staff admitted they are seeking a "state guarantee."

The federal 3/1/10 application, the March briefing, and the December statement are all tacit admissions that *the private partnership concept is likely dead* in the sense of a private entity willing to assume the downside risk of the project. Quite importantly, previous support for the Knik Arm Bridge by the Anchorage Assembly and AMATS has been contingent on no further state or local monetary support.

- 3. Federal transportation officials now are questioning two key elements of the project which KABATA has represented as not affecting the funding of other Alaskan projects.** First, KABATA has said that the proposed Knik Arm Bridge is not subject to state or federal "fiscal constraint" requirements, which is federal bureaucratese that the costs of the project do not need to be considered in long range planning "fiscal constraint" calculations. This means that the project's cost was not counted against other Anchorage projects when the U.S. Department of Transportation (DOT) assessed whether the state and Anchorage had adequate resources to follow through on constructing projects that receive federal planning funds. When AMATS updates the Anchorage Long Range Transportation Plan this year, however, U.S. DOT will require the Knik Arm Bridge to compete with funding for other projects including ALL other Anchorage-area road and safety projects, and demonstrate that there are sufficient resources to construct the projects.

Second, the Phase I cost of constructing the Knik Arm Bridge was estimated at \$686 million (National Constructors Group, 2009) or \$783 million including financing costs without including any connecting roads outside of the direct bridge connectors. U.S. DOT is now questioning where the funds are for connecting roads, including the Phase 2 connection across Ship Creek to Ingra-Gambell plus bridge and connector road expansion to four lanes "when traffic warrants". Additionally, 2010 Mat-Su Assembly support for the Bridge was contingent on state or federal funds for engineering and design of improvements to the Knik Goose Bay Road, Burma Road, and South Big Lake Road and other public infrastructure in the area.

These three recent developments suggest it is now time for the legislature to provide a hard look at the financial feasibility of the Knik Arm Bridge project. With the granting of a Record of Decision (ROD) in December 2010, KABATA now can move forward and issue a Request for Proposal (RFP) to the two pre-qualified bidding consortia. Whether the terms of the RFP include a state guarantee or whether the legislature rightly insists on the private sector assuming all of the risk of making bond repayments, are issues that should be clarified prior to issuance of the RFP, not after a consortia has responded to the RFP, won a construction contract, the right to receive all toll revenue, and the project is ready to go except for the "details" of a state guarantee.

State financial liability is not a theoretical issue to be sorted out later; in 2010, two TIFIA-funded public-private partnerships went bankrupt leaving their states holding the bag.

- Macquarie, a large Australian-based financial firm and the lead private firm in one of the two pre-qualified bidding consortia for the Knik Arm Bridge, set up an affiliate for San Diego's South Bay Expressway project. In 2010, during its second year of operation when toll revenue of \$6/car proved insufficient, the partnership declared Chapter 11 bankruptcy. The State of California has no recourse to the assets of the parent corporation to pay off the project bonds.
- In 2001 a non-profit entity was set up to operate the Greenville, South Carolina Southern Connector tollway. In 2010, the partnership declared a rare Chapter 9 bankruptcy (the bankruptcy code for units of government) on \$300 million of bonds when annual toll revenue proved half the projected amount.

Both states now find themselves responsible for unanticipated operations and maintenance costs on the roadways while awaiting the results of a bankruptcy process to sort out who is responsible for debt repayments, the terms of the debt restructuring, and whether the state or creditors will own the roadway asset in the interim.

III. KABATA OPERATING ISSUES

Because KABATA has a Board structure and has advertised the Knik Arm Bridge as a public-private partnership, it has not had the administrative and legislative oversight consistent with other large state projects. Its operations to date are not consistent with other state agencies: KABATA has undertaken large and likely inappropriate lobbying and public relations expenses, used inaccurate population and revenue estimates, and developed financing plans that may not be consistent with its enabling statute.

Consider:

- **Over \$1.3 million in large and likely inappropriate lobbying and PR expenses.**

Since FY08, KABATA has spent \$425,000 on lobbying the federal government, up to \$250,000 in PR expenditures to MAP Associates, and \$508,597 on legal expenses that may include lobbying.¹

Because it did not have the in-house, specialized legal expertise necessary, KABATA funds the Alaska Department of Law's contract with William A. Greene who purportedly provides legal expenses in the field of public-private partnerships which cannot be provided by the Department of Law. In 2009, William A. Greene represented KABATA, one quasi-independent branch of AK DOT/PF, in suing another branch of AK DOT/PF and AMATS to redo the process that postponed the Knik Arm Bridge into the long term portion of the Long Range Transportation Plan. William Greene may have provided excellent legal work, but without an audit of those legal expenses, it is not clear if those expenses included lobbying public officials or if state money underwrote other local units of government to join KABATA in its suit against the state and AMATS.

KABATA also has paid Dittman Associates for a 2009 poll showing that the project had a majority approval if responders were told that the project would be paid by 70-90% private funds. KABATA's 2011 Dittman poll tellingly did not make the same claim that the private sector would pay for the bridge, and instead was silent about how the bridge would be paid for. The recent poll found a majority of Alaskans thought the Bridge would be needed in the near future, but failed to test the issue of cost; that is, it did not ask if the state should finance the project, or guarantee nearly a billion in debt, or how often the respondents would pay a \$5, 1 way toll to use the Bridge. KABATA paid for radio ads four years ago supporting the project and in 2010 paid GCI for multiple Channel 1 airings of a 30-minute video (production cost \$57,000) which included the KABATA Executive Director saying that all toll roads in the United States pay for themselves (not true – for example, Alaska's single existing toll road, the Whittier Tunnel, has its operations subsidized by the State of Alaska annually, as well as the 2 bankrupt toll roads listed above).

An LB&A audit could determine if KABATA PR, lobbying, and legal expenses have provided objective and appropriate public information at a reasonable cost comparable to other Alaska DOT & PF projects. With KABATA seeking for the state to fund the project or a guarantee on state bonds, the Bridge is now a public project and the legislature can determine if the scale of public resources devoted to selling the project are appropriate for a project that the legislature will be asked to fund the project directly or through annually appropriated state debt service payments.

- **Inaccurate Population and Toll Revenue Estimates - Probably at Least 50% Too High.**

All of KABATA's financial estimates of project toll revenues to date, assume a Mat-Su population in 2030 of 250,700 compared to UAA ISER's 2009 estimate of 169,000 in 2030. ISER's 169,000 number is now being used to analyze the Glenn/Seward Highway-to-Highway project. For the Mat-Su to grow from around 89,000 today to 250,000 by 2030 would require the Borough to add the equivalent of the city of Palmer, the Borough's second largest city, to the Borough every year for 20 years. Because the KABATA population estimate for Mat-Su is approximately 50% higher than the ISER estimate, the projected toll revenue is approximately 50% higher. Even ISER's 2009 population forecast included the assumption that some form of a natural gas pipeline would be built by about 2020. However, in December 2010, the US Energy Information Administration indicated that the pipeline

¹ Source: State of Alaska Checkbook and www.opensecrets.org.

will not be feasible, based on estimated gas prices, for at least another 20 years, thus a conservative new toll revenue forecasts would need to be based on NOT having the population influx that was predicted as coming from the gas pipeline.

After public-driven discussions at the KABATA Board meetings and the AMATS Technical Committee, in December 2010, KABATA has agreed to hire Wilbur Smith Associates to redo the population and traffic information in the next few months. Because accurate traffic population estimates are critical in determining accurate toll revenue, if the legislature is asked to provide a state guarantee, the legislature should independently review the technical accuracy of the revised traffic and revenue projections including their underlying assumptions and KABATA's overall financial plan.

The new Wilbur Smith analysis needs to include the effect of a \$5 or more one way car toll, or \$2000 or more annually for a resident commuting 200 days/year, on lowering demand to use the bridge. Presently residents have to live approximately 7 miles west or southwest of Wasilla near Big Lake or along the Knik Goose Bay Road for the bridge to provide a shorter trip to Anchorage than using the Glenn Highway. Residents of Palmer and Wasilla will continue to use the Glenn. Likewise, the new analysis needs to account for increased telecommuting as gas prices rise along with existing and likely future carpool and vanpool incentives and use.

- **KABATA's current plan for financing the project with a state guarantee may not be consistent with its enabling statute and its mission may better be handled by folding KABATA into Alaska DOT& PF.**

KABATA's enabling statute and its amendments gives it authority to issue bonds for up to \$500 million plus issuance costs (19.75.211(c)) *without creating a debt or liability to the state* (19.75.221(g)) at a rate not to exceed 11% or a rate over 125% of the Bond Buyers Index (19.75.211(a)). At that 125%, the bonds likely would have to earn an investment grade in order to be sold. The statute basically assumes that the project only would go forward without pledging the state's credit rating because toll revenues would be sufficient to pay off the bonds, or that a private partner with adequate capitalization would take the downside risk of toll shortfalls to pay off the bonds.

Neither is the case. With KABATA now seeking a state guarantee of the bonds or a publicly financed project, which in effect exposes the state to equal liability, *the Knik Arm Bridge is now a public project.*

Bridge deficits of significantly more than \$25 million/year will dwarf other transportation priorities.

Prior to the discovery of the population error and the loss of a low interest TIFIA loan for one-third of the project costs, an independent financial analysis using KABATA and Wilbur Smith numbers on costs and the Federal DOT estimates of revenue, showed that the bridge deficits for the first ten years of the bridge would be about \$24 million year or roughly the same amount that Anchorage and Mat Su have each received each year on average in the last decade for all federal and state transportation funding. That includes road construction and maintenance, public transportation, and bikeways (see www.knikbridgefacts.org for spreadsheet). While interest rates have declined slightly since that analysis, the more significant loss of the TIFIA loan and expected population revision downward is certain to make revised Bridge finances significantly worse.

IV. CONCLUSION

With KABATA having now received a federal Record of Decision, it can move forward on an RFP. Because the project is now seeking a state guarantee and/or state funding, it is essential that the legislature review the financial feasibility of the project in 2011, examine KABATA's budget and operations, publically review the conditions of any RFP before it is issued, and determine if the bridge is the best continued use of Alaska's limited transportation funds.

From: Christopher Clark [cgcalaska@yahoo.com]
Sent: Monday, February 14, 2011 7:42 AM
Subject: Sean Cockerham: Supporters seek \$150 million for the Knik Arm bridge

Supporters seek \$150 million for the Knik Arm bridge

GOAL: Agency seeks \$150 million to secure private developer.

By SEAN COCKERHAM
scockerham@adn.com

Published: February 13th, 2011 07:45 PM
Last Modified: February 13th, 2011 07:45 PM

Backers of the proposed Knik Arm bridge, which was designed to be funded through tolls, are now **asking the state for \$150 million in help for the project.**

They've found a receptive audience in Wasilla Republican Sen. Linda Menard. She's introduced bills to provide the money and to say the state has a financial responsibility to back the effort.

A bridge connecting Anchorage to mostly undeveloped Mat-Su land near Point Mackenzie, with **a price tag given by advocates of about \$700 million, is among the most hotly debated development projects in Alaska.** Critics call it a boondoggle and say it was not supposed to require state money.

Supporters say Anchorage is running out of developable land and the bridge would open the area for housing and industry and provide a new route to the growing Mat-Su.

The Knik Arm bridge is one of the two so-called "bridges to nowhere" that drew national controversy when Alaska's congressional delegation tapped money for them. **The Knik bridge project ended up with \$110 million in federal money. About \$65 million of that's left,** according to the Knik Arm Bridge and Toll Authority.

The Legislature created KABATA in 2003 to pursue the project. It's the agency now asking for \$150 million in state dollars to advance the effort.

The goal is for the state to team with a private developer, who would borrow money to pay for the bridge construction and operate it in exchange for the state sharing revenue from the tolls. KABATA's chairman said the state money is meant to ensure payments to the private developer are covered during the first few years the bridge is open.

"We need it funded now in order to go to market for our private partner. We have to show them we have funds available for the (payment) in the initial years. Because that's when things are tight," said Michael Foster, chairman of the bridge authority.

Foster told legislators he expects the tolls that drivers pay will cover the payments after the bridge is open for about three years. The state will get its investment back and more with surplus toll money, the bridge authority says.

KABATA is estimating the **tolls to use the bridge would be about \$5 each way for passenger cars,** with higher rates for commercial vehicles.

KABATA chief financial officer Kevin Hemenway said **the \$150 million in state money would go into a reserve fund to be saved until the bridge opened.** Hemenway said the main purpose of the fund is to lower the cost of financing for the project. That will result in the best value for the state and the public, he said.

TOLL FORECASTS QUESTIONED

Critics argue the project depends on unrealistic assumptions about how much toll money will come in.

State Rep. Les Gara, D-Anchorage, said a bridge to Point Mackenzie won't save time for most commuters between Mat-Su and Anchorage, so they won't pay a toll.

"When people realize it's faster to take the Glenn Highway to Wasilla and Palmer, they quickly come to the conclusion that the tolls are going to be pretty high for the few people that use the bridge," said Gara.

The Knik Arm bridge would link to the Government Hill area of Anchorage, which Gara represents.

Government Hill Community Council President Bob French wrote legislators last week, saying KABATA's estimate for Mat-Su growth involves adding the equivalent population of Palmer every year for 20 years. It's far more optimistic than the prediction of the Institute of Social and Economic Research at the University of Alaska Anchorage.

French also questioned the forecast that nearly 20,000 vehicles a day would use the toll bridge three years after its proposed 2015 opening. He compared that number to the Transportation Department's average daily traffic count of 26,220 at the Old Glenn overpass on the Glenn Highway near Eklutna.

KABATA chief financial officer Hemenway, asked to respond to objections of Gara and French, said traffic forecasts for the project are based on the work of independent consultants Wilbur Smith Associates. Their work is respected nationally and bankable on Wall Street, he said, with studies that have supported about \$30 billion in toll revenue financing over the past decade.

"We are very confident in our independent traffic and toll revenue studies and the project's ability to meet its obligations from toll revenue. Wilbur Smith Associates' green field investment grade traffic and toll revenue studies have averaged 96 percent of the base forecast and virtually none have underperformed by more than the minimum traffic required to cover project financing," he said in an e-mail.

Hemenway cited confidence in those studies when asked if the state might later need to put more than the \$150 million into the bridge. "Over the life of the Knik Arm Crossing the state will recover its investment and earn a substantial return that can be used to invest in other transportation infrastructure," he said.

He did tell the Legislature's transportation committees, though, that if the reserve fund dropped far enough "it would be subject to appropriation for replenishment."

'VITAL INFRASTRUCTURE'

Menard, the legislator sponsoring the bills to give money to the project, didn't return a phone message. She is also a member of the bridge authority's board.

The AMATS committee, the panel that makes decisions on how to spend federal transportation money in Anchorage, included the Knik Arm bridge project in its long-term plan. But it did so only on the condition no more state or federal money is used.

AMATS said the financial plan prepared by the bridge authority indicated no more government money was needed for construction, operation and maintenance of the bridge.

But it looks like it does not much matter where AMATS stands at this point. **Federal highway officials already signed off on the bridge, issuing a "Record of Decision" in December. Hemenway said it's not up to AMATS to decide.**

"AMATS funding is not part of the Knik Arm Crossing financial structure," Hemenway said.

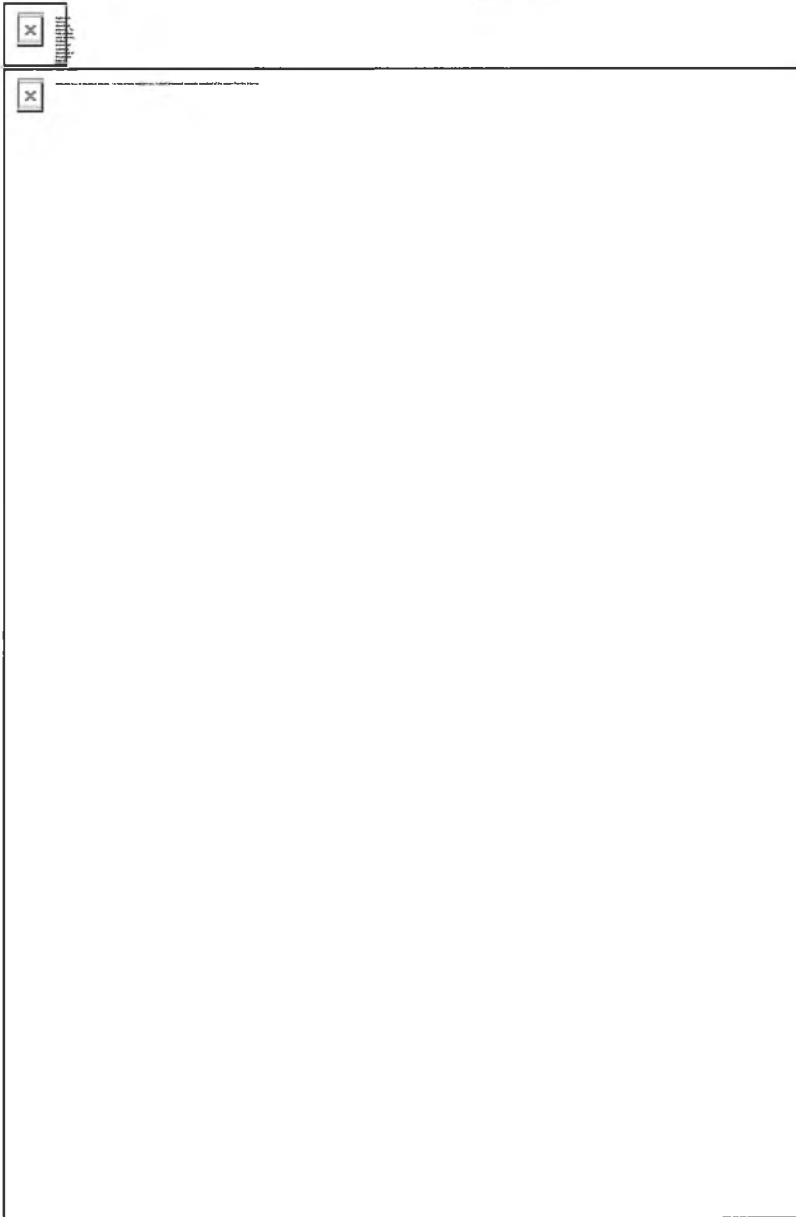
"This is a vital infrastructure project, a bridge that will connect Alaska and help create jobs and encourage smart growth and economic development, while improving the environment and the quality of life for the people who will be served," he said.

He said the state will own the toll revenue and give the developer an annual payment to finance, design, construct, maintain and operate the bridge. There would be bids to see which potential developer asks for the lowest payment.

The bridge authority says two international consortia have shown interest. One is headed by **Bouygues Travaux Publics of France, the other by Macquarie Bank of Australia.**

Find Sean Cockerham online at adn.com/contact/scockerham or call him at 257-4344.

Source: <http://www.adn.com/2011/02/12/1699393/supporters-seek-150m-for-knik.html#ixzz1Dx4skjon>





CITY OF WASILLA

MAYOR VERNE E. RUPRIGHT

290 E. Herning Avenue

Wasilla, AK 99654-7091

Phone: (907) 373-9055

Fax: (907) 373-9096

February 14, 2011

Senator Linda Menard
Alaska State Capitol, Room 9
Juneau, Alaska 99801

Re: SB 79 and 80

Dear Senator Menard:

I am pleased to offer my support for the Knik Arm Crossing project. We believe that the project will facilitate the more efficient movement of people, goods and services between Anchorage, the Matanuska Susitna Borough and in particular the City of Wasilla. Much of the freight traffic could take a more direct route to the Interior, rather than going through the center of Wasilla.

My Administration firmly believes in economic development, job creation and connectivity between our communities. The Knik Arm Crossing meets these threshold goals as well as improving the efficiency of freight movements to and from Ted Stevens International Airport, the Port of Anchorage and Port MacKenzie.

The legislation you have introduced, SB79 and SB 80, accomplish the goals of lowering the cost of capital on the project, reducing project costs, facilitating timely procurement for a 2015 opening and reducing the tolls on the project for end users. All of the statute language changes are aimed at delivering a sustainable project for our communities.

Matanuska-Susitna is one of the fastest growing population centers in Alaska and Wasilla is a major part of a pro-development mindset for the Borough. We do not have the fully developed infrastructure provided to other cities around our nation. This project will create thousands of jobs, promote sustainable economic development and provide the connectivity between our region that is absent today.

There are many benefits of SB79 and SB 80. In order to expedite a major transportation project under a public-private partnership arrangement, the focus needs to be on lowering the cost of capital, placing a check on toll pricing, and optimize the financability of the project by using the State's moral obligation via the establishment of a reserve fund.

In conclusion, my Administration supports the passage of SB79 and 80 in order to facilitate the progression of the project forward in a timely and beneficial manner.

Sincerely,

A handwritten signature in black ink, appearing to read 'Verne E. Rupright', with a large, sweeping flourish extending to the right.

Mayor Verne E. Rupright
City of Wasilla

Questions Posed to and Answered by the Knik Arm Bridge and Toll Authority in regards to Senate Bills 79 and 80 by a representative in the House

- I would like to request that KABATA provide to us the most recent sources and uses of funds document being used to demonstrate the project's financial status.

KABATA is updating the financial model for submission with the TIFIA Letter of Interest (LOI) due March 1st. That model will be provided to the legislature through the finance committees of the house and senate. We will also provide a copy directly to you and to any legislator who requests the information once it is ready. This will be not later than March 2, as the filing deadline is close of business on March 1.

- I realize that KABATA is applying for a TIFIA loan this March 1. If you do not have a recent sources and uses of funds document, I would like to ask that you please provide the sources and uses of funds document that you will include in the application.

Please refer to the previous response.

- In the TIFIA application, will KABATA be pledging an annual appropriation from the Alaska State Legislature as it did in its March 2010 application?

We would like to clarify that KABATA did not pledge an appropriation from the Alaska Legislature to directly back the TIFIA financing in the March 2010 TIFIA Letter of Interest (LOI), nor will it do so in the March 2011 LOI. Only the legislature can appropriate. KABATA did indicate that it expected the state will back the annual payments to the private partner, subject to appropriation. After all, the state will be the owner of the bridge and it should be willing to meet its contractual obligations to the partnership. Even though the pro forma financial plan indicates more than adequate toll revenue coverage of expected annual payments over the partnership term, having a financial backing helps credit ratings and adds certainty to proposers that they will be paid, especially during the start up years. This lowers the costs of capital to the private partner and results in more competitive proposals for the partnership.

The TIFIA LOI was and is being submitted on behalf of the project by KABATA under an agreement between FHWA, KABATA and ADOT&PF using FHWA's Special Experimental Project (SEP-15). This allows KABATA to apply on behalf of the project for the private partner ahead of procurement allowing prospective partners to have a degree of certainty that low cost and patient TIFIA financing will likely be available to them. The result is lower financial offers to the state from the proposer to finance, build, operate and maintain the toll bridge in exchange for an annual payment. The private partner – not the state – will be the borrower of the TIFIA loan and it will be non-recourse to the state. In the event of the private partner bankrupting, they will have to work it out with their lenders under normal Chapter 11 proceedings and the debt would not become an obligation of the state.

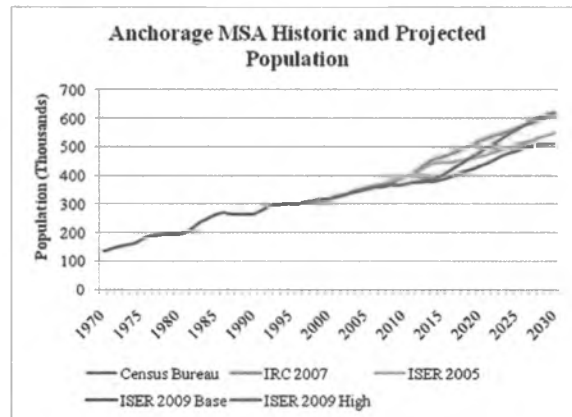
SB 80 and HB 158 clarify the moral obligation of the state to back its contractual obligations under the public-private agreement, subject to appropriation, should a proposal to the RFP be accepted. The main contractual obligation is to make the annual payment, and toll revenue is forecast to be more than sufficient to do so over the term of the agreement. The State is the owner of the facility. The private sector needs a degree of certainty that the State will meet its contractual obligations under the agreement. The annual payments are to compensate them for financing, building, operating and maintaining the facility over the term of the agreement. The source for these annual payments is toll revenue owned by the State. No contractual commitment of the State can or will be made until a

satisfactory proposal has been evaluated and accepted, but having this language in statute will let the private sector know that the state is a serious and responsible partner.

- The project's finances are based on toll revenues predicated on traffic data dependent on Mat-Su population figures. The Mat-Su 2030 population forecast that KABATA used for its current revenue forecast is 250,700 as compared with UAA's ISER estimate of 169,000 and the state's demographer Elisabeth Weaver's 12/10 estimate of 156,000 in 2034.

KABATA's traffic and toll revenue forecast is based on an independent investment grade study prepared by Wilbur Smith Associates (WSA) in 2007 and is being updated now. WSA is the preeminent traffic and toll revenue forecaster accepted by ratings agencies and the bond market. Their traffic and toll revenue studies have supported \$33 billion of toll road financings during the last 10 years, \$22 billion of that in just the last five in the face of the economic downturn. Over 22 Greenfield (start-up) toll road traffic and revenue studies, actual traffic has averaged 96% of their base forecast, with the vast majority within +/- 25% - well within the margin of safety for the Knik Arm Crossing. The 2007 study did not use a point estimate for population, but considered population forecasts from ISER (2005), Insight Research Corporation (2007) and from Woods and Poole (2006). They used this information to develop household data by traffic analysis zones (TAZ). Employment by TAZ was also analyzed. Households and employment are the primary inputs to the traffic model. The update they are currently undertaking considers the ISER 2010 forecast and other population inputs.

One thing that all of the population forecasts agree on is that the regional population will grow significantly between now and 2030, as demonstrated by the chart provided below comparing some of the various forecasts. This growth means the State, the Municipality of Anchorage, and Mat-Su Borough will have to plan for transportation to accommodate the growth, whether the toll bridge is built or not. The alternatives to the toll bridge will cost about the same as the bridge but have no source of funding other than the State Transportation Improvement Plan federal and state funding.



Will KABATA be waiting for upcoming Spring 2011 census figures to provide to Wilbur Smith, who I understand is redoing the traffic and revenue forecast? When will that revision be done and what is the process for informing the federal government and the state legislature of the new estimated revenue numbers?

Wilbur Smith Associates will have updated figures for traffic and toll revenue by March 1. The 2010 Census information will be evaluated once available and the traffic and toll revenue forecast refined if necessary.

Distributed by:
Senator Linda Menard