

HB

23

<TARGET><BILL>HB 23</BILL><SUBJECT>HB
23</SUBJECT><COMM>SF IN28</COMM></TARGET>

SENATE FINANCE COMMITTEE REPORT

DATE: 4/12/13

FURTHER:

DATE TURNED
IN TO OFFICE: _____

Finance Committee considered 2d CS FOR HOUSE BILL NO. 23(RLS)

HB 23-KNIK ARM BRIDGE AND TOLL AUTHORITY

"An Act creating the Knik Crossing Development Corporation as a subsidiary corporation of the Alaska Housing Finance Corporation and relating to bonds of the Knik Crossing Development Corporation."

and recommends:

- be replaced with SCS 2d CS HB23 (FIN) [] Same Title [] Technical Title Change
 New Title/SCR No. _____
- [] adopt previous SCS _____ (_____) [] Same Title [] Technical Title Change
 New Title/SCR No. _____
- [] attached amendment(s)
- [] adopt _____ Letter of Intent
- [] further referral to _____ Committee

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

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

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
	Deborah	✓			
	FAIRCLOUGH	✓			
	HOFFMAN			✓	
	ORSON		✓		
CO-CHAIR:	Kelly	✓			
CO-CHAIR:	Meyer	✓			

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 23
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB023SCSCS(FIN)-DOT-KABATA 3-21-14
Title: KNIK ARM CROSSING; AHFC
Sponsor: NEUMAN, HUGHES
Requester: Senate Finance Committee

Department: Department of Transportation and Public Facilities
Appropriation: Design, Engineering and Construction
Allocation: Knik Arm Bridge/Toll Authority
OMB Component Number: 2715

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES							
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
---------------------------	--	--	--	--	--	--	--

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? no
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Updated for Senate Finance to reflect changes in Committee Substitute version 28-LS0141R from the original bill.
--

Prepared By:	Michael Rovito, Legislative Liaison	Phone:	(907)269-6698
Division:	Knik Arm Bridge and Toll Authority	Date:	03/21/2014 02:10 PM
Approved By:	Judy Dougherty, Acting Executive Director	Date:	03/21/14
Agency:	Knik Arm Bridge and Toll Authority		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. SCSCSHB23(FIN)

Analysis

This CS allows the State Bond Committee to sell Revenue Bonds in an amount not to exceed \$300 million for the purpose of financing part of the cost of the Knik Arm Crossing (KAC).

The CS sets the legal parameters for the bond sales by establishing the toll bridge revenue bond limit, a Toll Bridge Revenue Fund, a Toll Bridge Revenue Bond Redemption Fund, bond terms, a requirement for a bond resolution from the State Bond Committee, and a bond reserve fund. The CS also establishes the applicable enforcement by bond owners, amounts required for payments, a refunding mechanism for the bonds, and clarifies the bonds as legal investments that may be accepted as security for deposits of all money of the state and its political subdivisions.

The CS allows the Knik Arm Bridge and Toll Authority (KABATA) to enter into an agreement with the state, pledging residual toll revenue from the KAC to pay debt service incurred by the state to finance a portion of the KAC's costs. Passage of this bill will have no fiscal impact on KABATA.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 23
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB023SCSCS(FIN)-DOR-KABATA-03-25-14
Title: KNIK ARM CROSSING; AHFC
Sponsor: NEUMAN, HUGHES
Requester: Senate Finance

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Treasury Division
OMB Component Number: 121

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES								
Personal Services								
Travel		10.0	10.0					
Services				3,500.0				
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous				7,500.0	25,000.0	25,000.0	25,000.0	25,000.0
Total Operating	0.0	10.0	10.0	11,000.0	25,000.0	25,000.0	25,000.0	25,000.0

Fund Source (Operating Only)

1004 Gen Fund		10.0	10.0	7,500.0	25,000.0	25,000.0	25,000.0
1007 I/A Rcpts				3,500.0			
Total	0.0	10.0	10.0	11,000.0	25,000.0	25,000.0	25,000.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

--	--	--	--	--	--	--	--

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Updated for the SCS in S FIN.

Prepared By: Pam Leary, Director
Division: Treasury
Approved By: Angela Rodell, Commissioner
Agency: Department of Revenue

Phone: (907)465-3751
Date: 03/24/2014 03:00 PM
Date: 03/25/14

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. SCSCSHB023(FIN)

Analysis

The bill provides the Knik Arm Bridge and Toll Authority (KABATA), the authority to enter into agreements or contracts with the State, for purposes of securing bonds of the state and for the State Bond Committee to issue up to \$300 million in toll bridge revenue bonds based on the contract or agreement. The toll revenue bonds of the State would be backstopped by a moral obligation and subject to appropriation commitment of the State of Alaska.

Based on KABATA's total project plan of finance, the State will provide additional federal aid of approximately \$281 million and enter into a TIFIA loan for approximately \$341.3 million. KABATA may enter into contracts with the State to provide for the issuance of up to \$300 million of toll revenue bonds. The priority of payments from toll receipts of KABATA would be first to operations and maintenance, second to repay the TIFIA loan, and third to the contracts with the State.

Based on the structure it is anticipated that the State will have to pay all debt service on the authorized toll revenue bonds until the bridge is opened, and up to all of the debt service for some period after bridge completion. Due to the subordinated position of the toll revenue bonds and the uncertainty of predicting future traffic, the fiscal note contemplates that all debt would be paid by the State's general fund.

The fiscal note contemplates one series of bonds of up to \$300 million being issued in August 2016. The debt service is estimated at approximately \$7.5 million for the first interest payment in FY 2017 followed by annual debt service of \$25 million per year, based on a twenty year level amortization structure and an interest rate assumption of 5% which is approximately 1.5% above current rates. Using current interest rates diminishes total annual debt service to approximately \$21 million per year. The costs of issuing the bonds would be funded from bond proceeds.

It is assumed that the two funds contemplated in the bill, the Toll Bridge Revenue Fund and the Toll Bridge Revenue Bond Redemption Fund would be held in the Gefonsi or at an external bank and therefore no additional costs would be incurred.

Expenditures: FY15 travel expenditures are for travel for Treasury staff between Juneau and Anchorage to coordinate the contract for the transfer of excess revenue (over operations & maintenance and TIFIA). FY16 travel expenditures to negotiate credit rating with analysts prior to selling first series of bonds

Secretary: Matt Gruening

2014 SENATE FINANCE COMMITTEE VOTE SHEET

DATE: 4/2/14

Amendment: SCS 2d CS HB 23(FID)

MEMBER	Favor	Oppose
SEN. FAIRCOUGH	✓	
SEN. HOFFMAN	✓	
SEN. OLSON		✓
SEN. BISHOP		
SEN. DUNLEAVY	✓	
SEN. KELLY	✓	
SEN. MEYER	✓	

YEA 5
NAY 1

Adopted 4/2/14
AMENDMENT #2

28-LS0141\R.4
Martin
4/2/14

OFFERED IN THE SENATE

BY SENATOR MEYER

TO: SCS 2d CSHB 23(FIN), Draft Version "R"

1 Page 4, line 15:

2 Delete "Notwithstanding any other provision of law"

3 Insert "Subject to AS 19.75.211(c) [NOTWITHSTANDING ANY OTHER
4 PROVISION OF LAW]"

5

6 Page 4, following line 31:

7 Insert a new bill section to read:

8 "** Sec. 4. AS 19.75.211(c) is amended to read:

9 (c) The authority may not issue bonds under this chapter without prior
10 approval from the legislature. If the [THE] authority receives legislative approval,
11 the authority may issue bonds in an aggregate amount not to exceed \$500,000,000,
12 plus the cost of issuance."

13

14 Renumber the following bill sections accordingly.

adopted 3/18/14

objection by Olson

28-LS0141\R
Martin
2/13/14

**SENATE CS FOR 2d CS FOR HOUSE BILL NO. 23(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-EIGHTH LEGISLATURE - SECOND SESSION**

BY THE SENATE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): REPRESENTATIVES NEUMAN AND HUGHES, Keller, Stoltze

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to the Knik Arm Bridge and Toll Authority; relating to the bonding**
2 **authority of the Knik Arm Bridge and Toll Authority; relating to toll bridge revenue**
3 **bonds; creating the toll bridge revenue fund, the toll bridge revenue bond redemption**
4 **fund, and the bond reserve fund; relating to powers and duties of the state bond**
5 **committee; and providing for an effective date."**

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 *** Section 1.** AS 19.75.021(b) is amended to read:

8 (b) The authority may not be terminated as long as it has bonds, notes, or other
9 obligations outstanding, including obligations under an agreement with the state as
10 provided in AS 37.15.225. Upon termination of the authority, its rights and property
11 pass to the state.

12 *** Sec. 2.** AS 19.75.111(a) is amended to read:

13 (a) Except as otherwise explicitly made applicable to the authority, the

1 performance of the authority's duties and the exercise of its powers, including its
2 powers to issue bonds and otherwise incur debt, shall be governed exclusively by this
3 chapter. In furtherance of its purposes, the authority may

4 (1) own, acquire, construct, develop, create, reconstruct, equip,
5 operate, maintain, extend, and improve the Knik Arm bridge and its appurtenant
6 facilities;

7 (2) sue and be sued;

8 (3) adopt a seal;

9 (4) adopt, amend, and repeal regulations under AS 44.62 and establish
10 bylaws;

11 (5) make and execute agreements, contracts, and all other instruments
12 with any public or private person, the state or another governmental unit or agency,
13 corporation, or other business entity lawfully conducting business in the United States
14 for the exercise of its powers and functions under this chapter and for the financing,
15 design, construction, maintenance, improvement, or operation of facilities, properties,
16 or projects of the authority, including making and executing contracts with any person,
17 firm, corporation, the state or another governmental agency, or other entity for the
18 purpose of

19 (A) incurring indebtedness, obtaining financing for the
20 authority's projects, obtaining investments in the authority's projects,
21 acquiring or granting lump sum payments for services in advance or in arrears,
22 grants, and other financing; and

23 (B) entering into public-private partnerships or service
24 contracts in any form;

25 (6) in its own name acquire, lease, rent, sell, or convey real and
26 personal property;

27 (7) issue and refund bonds in accordance with this chapter, in order to
28 pay the cost of the Knik Arm bridge and its appurtenant facilities; the authority may
29 also secure payment of the bonds as provided in this chapter;

30 (8) incur other indebtedness, including lines of credit and indebtedness
31 to the Federal Highway Administration, United States Department of Transportation,

1 under 23 U.S.C. 601 - 610 (Transportation Infrastructure Finance and Innovation Act
2 of 1998), as amended, and secure that indebtedness as provided in this chapter;

3 (9) apply for and accept gifts, grants, or loans from a federal agency or
4 **the state or** an agency or instrumentality of the state, or from a municipality, private
5 organization, or other source, including obtaining title to state, local government, or
6 privately owned land, directly or through a department of the state having jurisdiction
7 of the land;

8 (10) fix and collect fees, rents, tolls, rates, or other charges for the use
9 of the Knik Arm bridge and appurtenant facilities, or for a service developed,
10 operated, or provided by the authority; notwithstanding AS 37.10.050(a), fees, rents,
11 tolls, rates, and other charges fixed and collected under this paragraph may exceed the
12 actual operating cost of the use of the bridge, facility, or service;

13 (11) bring civil actions, refer criminal actions to the appropriate
14 authority, and take other actions or enter into agreements with law enforcement and
15 collection agencies to enforce the collection of its fees, rents, tolls, rates, other
16 charges, penalties, and other obligations;

17 (12) pledge, encumber, transfer, or otherwise obligate revenue derived
18 by the authority from the ownership, use, or operation of toll facilities, including fees,
19 rents, tolls, rates, charges, or other revenue of the authority or money that the
20 legislature may appropriate, except a state tax or license, as security for bonds or other
21 indebtedness or agreements of the authority **or for bonds or other indebtedness or**
22 **agreements of the state on a senior, parity, or subordinate lien basis:**

23 (13) deposit or invest its funds, subject to agreements with
24 bondholders;

25 (14) procure insurance against any loss in connection with its
26 operation;

27 (15) contract for and engage the services of consultants, experts, and
28 financial and technical advisors that the authority considers necessary for the exercise
29 of its powers and functions under this chapter;

30 (16) apply for, obtain, hold, and use permits, licenses, or approvals
31 from appropriate agencies of the state, the United States, a foreign country, and any

- 1 other proper agency in the same manner as any other person;
- 2 (17) perform reconnaissance studies and engineering, survey, and
- 3 design studies with respect to the Knik Arm bridge and its appurtenant facilities;
- 4 (18) exercise powers of eminent domain or file a declaration of taking
- 5 as necessary for the Knik Arm bridge and appurtenant facilities under AS 09.55.240 -
- 6 09.55.460 to acquire land or an interest in land; the authority's exercise of powers
- 7 under this paragraph may not exceed the permissible exercise of those powers by the
- 8 state;
- 9 (19) confer with municipal and other governments, metropolitan
- 10 planning organizations, and the department, concerning the Knik Arm bridge;
- 11 (20) do all acts and things necessary to carry out the powers expressly
- 12 granted or necessarily implied in this chapter; nothing in this chapter limits the powers
- 13 of the authority that are expressly granted or necessarily implied.

14 * Sec. 3. AS 19.75.211(a) is amended to read:

amendment 2

15 (a) ~~Notwithstanding any other provision of law~~ the authority may borrow
 16 money and issue and refund bonds on which the principal and interest are paid out of
 17 and secured by the gross revenue derived by the authority from the ownership, use,
 18 and operation of its toll facilities, including money derived from the fees, rents, tolls,
 19 rates, charges, and other revenue of the authority under this chapter and any other
 20 revenue or money that the legislature may appropriate, except a state tax or license.
 21 Before issuing bonds for the Knik Arm bridge, the authority shall submit to the state
 22 bond committee a description of the bond issue and a preliminary prospectus, offering
 23 circular, or official statement relating to the bond issue. Bonds may not be issued
 24 unless the state bond committee finds, based upon the information submitted by the
 25 authority under this section and other information that is reasonably available to the
 26 committee, that the Knik Arm bridge revenue and other revenue available to the
 27 authority can be reasonably expected to be adequate for payment of the principal of
 28 and interest on the bonds to be issued by the authority and payments by the
 29 authority under an agreement under AS 37.15.255 for bonds issued by the state
 30 and that issuance of the bonds by the authority would not be expected to adversely
 31 affect the ability of the state or its political subdivisions to market bonds.

1 * **Sec. 4.** AS 19.75.221(b) is amended to read:

2 (b) Notwithstanding any other provisions of this chapter, the trust agreement
3 must contain an agreement by the authority that the authority will at all times maintain
4 fees, rents, tolls, rates, or other charges sufficient to

5 (1) pay the costs of operation and maintenance of the Knik Arm bridge
6 and its appurtenant facilities and the principal of and interest on bonds issued under
7 the trust agreement as the bonds severally become due and payable;

8 (2) provide for debt service coverage as considered necessary by the
9 authority for the marketing of its bonds; [AND]

10 (3) provide for renewals, replacements, and improvements of the Knik
11 Arm bridge, and to maintain reserves required by the terms of the trust agreement;
12 **and**

13 **(4) make payments to the state under an agreement under**
14 **AS 37.15.255 for bonds issued by the state.**

15 * **Sec. 5.** AS 19.75.231 is amended to read:

16 **Sec. 19.75.231. Validity of pledge.** It is the intention of the legislature that a
17 pledge made in respect of bonds **of the authority or bonds of the state** shall be
18 perfected and shall be valid and binding from the time the pledge is made, that the
19 money or property so pledged and after that received by the authority shall
20 immediately be subject to the lien of the pledge without physical delivery or further
21 act, and that the lien of the pledge shall be valid and binding against all parties having
22 claims of any kind in tort, contract, or otherwise against the authority irrespective of
23 whether the parties have notice. Neither the resolution, trust agreement, nor any other
24 instrument by which a pledge is created need be recorded or filed under the provisions
25 of the Uniform Commercial Code in order to be perfected or to be valid, binding, or
26 effective against the parties. This section does not affect title to or conveyances of real
27 property, and does not limit the applicability of AS 40.17.080(b).

28 * **Sec. 6.** AS 37.15 is amended by adding new sections to read:

29 **Article 1A. Toll Bridge Revenue Bonds.**

30 **Sec. 37.15.225. Bond authorization.** (a) For purposes of financing a portion
31 of the costs of the Knik Arm Crossing and appurtenant facilities or other toll bridges

1 as the legislature may designate, including the costs of bond issuance, the issuance and
2 sale of bonds of the state by the committee is authorized as provided in AS 37.15.225 -
3 37.15.285. The net proceeds of the sale of the bonds remaining after payment of costs
4 of issuance, capitalized interest, if any, and making deposits to the bond reserve fund
5 under AS 37.15.255, shall be transferred to the Knik Arm Bridge and Toll Authority
6 for the Knik Arm Crossing project facilities or another authority as the legislature may
7 designate for other projects approved by the legislature, or may be held by a trustee to
8 be disbursed to pay the costs of a toll bridge under the terms and conditions set out in
9 a trust agreement. Accrued interest paid on the bonds shall be paid into the bond
10 redemption fund.

11 (b) Prior to the issuance of bonds authorized under (a) of this section, the
12 committee shall send notice of the issuance to the legislature.

13 (c) The total unpaid principal amount of bonds, including refunding bonds, but
14 excluding refunded bonds, is limited as provided in AS 37.15.230. The bonds do not
15 constitute a general obligation of the state. Authorization by the voters of the state or
16 the legislature is not required.

17 (d) The committee may enter into agreements with other state agencies as
18 necessary or convenient to implement AS 37.15.225 - 37.15.285.

19 (e) The committee may contract for the services of underwriters, paying
20 agents, trustees, bond printers, rating agencies, bond insurance, credit enhancement
21 providers, accountants, financial advisors, and bond counsel, and other services as are
22 necessary to accomplish the bond issuance and sale. *Amendment # 1 (F)*

23 **Sec. 37.15.230. Toll bridge revenue bond limit.** The total unpaid principal
24 amount of revenue bonds issued under AS 37.15.225 - 37.15.285, including refunding
25 bonds but excluding refunded bonds, may not exceed \$300,000,000.

26 **Sec. 37.15.235. Toll bridge revenue fund.** (a) The toll bridge revenue fund is
27 established as a separate fund of the state. The revenue fund consists of all revenue,
28 fees, charges, and rentals received by the state, by contract with the authority or
29 otherwise, from the ownership or operation of toll bridges and facilities and
30 improvements used in connection with the toll bridges and facilities. Contracts or
31 other agreements with the authority may establish priorities for the payment of

1 operations and maintenance costs of the authority and for the payment of other
2 obligations, including debt obligations of the authority, senior to the payments to be
3 made by the authority to the state for deposit to the revenue fund. The money in the
4 revenue fund may be used only

5 (1) to pay or secure payment of the principal of and interest on bonds;

6 (2) to redeem bonds before their fixed maturities; and

7 (3) subject to appropriation by the legislature, for any other purpose for
8 which federal funds may be obligated by the state under 23 U.S.C. 129(a).

9 (b) The investment of money in the revenue fund may be made in the manner
10 that the committee or the committee's delegated representative may determine. The
11 interest earned on or any profits derived from the sale of this investment shall be
12 deposited in and become a part of the revenue fund.

13 (c) All references to the toll bridge revenue fund in this section include special
14 accounts within the toll bridge revenue fund that may be created by resolution or trust
15 agreement to secure the payment of particular bonds.

16 **Sec. 37.15.240. Toll bridge revenue bond redemption fund.** (a) The toll
17 bridge revenue bond redemption fund is established as a special fund of the state. The
18 bond redemption fund is a trust fund for paying and securing the payment of the
19 principal of and interest and redemption premium, if any, on the bonds and shall be at
20 all times completely segregated and set apart from all other funds of the state. The
21 bond redemption fund shall be drawn on only for the purpose of paying the principal
22 of and interest and redemption premium, if any, on the bonds, together with related
23 trustee fees, if any.

24 (b) Money in the bond redemption fund may be invested in the same manner
25 and on the same conditions as permitted for investment of money belonging to the
26 state or held in the treasury under AS 37.10.070; however, the committee may agree
27 with the bondholders to further limit these investments. Earnings on investments must
28 be retained in the bond redemption fund or a designated account in the bond
29 redemption fund.

30 (c) All references to the bond redemption fund in this section include special
31 accounts in the bond redemption fund that may be created by resolution or first

1 agreement to secure the payment of particular bonds.

2 **Sec. 37.15.245. Bond terms.** (a) The bonds may be issued and sold at public
3 or negotiated sale in the manner, in the amounts or series, and at the time or times that
4 the committee or the committee's delegated representative determines. The bonds, or
5 each series of them, shall be sold at the price and on the terms, conditions, and
6 covenants set by the committee or the committee's delegated representative after
7 considering market conditions. Interest rates may be fixed or variable.

8 (b) The bonds mature at the time or times fixed by the committee or the
9 committee's delegated representative. The bonds may be subject to redemption before
10 their fixed maturities, as determined by the committee or the committee's delegated
11 representative, with or without a premium or premiums. The bonds may be in
12 denominations determined by the committee or the committee's delegated
13 representative; may be issued in fully or partially registered form; must be payable as
14 to principal and interest at the place or places determined by the committee; must be
15 signed on behalf of the state in the manner provided by the committee; and must be
16 issued under and subject to the terms, conditions, covenants, and protective features
17 safeguarding payment of the bonds and relating to the funding of projects as found
18 necessary by the committee or the committee's delegated representative.

19 (c) If the committee or the committee's delegated representative finds it
20 reasonably necessary, the committee or the committee's delegated representative may
21 select a trustee or trustees for the holders of the bonds, or any series of them, for the
22 safeguarding and disbursement of any of the money in the bond redemption fund, or
23 for duties with respect to the enforcement, authentication, delivery, payment, and
24 registration of the bonds as the committee may determine. The committee or the
25 committee's delegated representative shall fix the rights, duties, powers, and
26 obligations of the trustee or trustees.

27 (d) In its determination of all matters and questions relating to the issuance
28 and sale of the bonds and the fixing of their maturities, terms, conditions, and
29 covenants as provided in (a) - (c) of this section, the decisions of the committee shall
30 be reasonably necessary for the best interests of the state and accomplish the most
31 advantageous sale of the bonds. Decisions of the committee, as expressed in a bond

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

resolution, are final and conclusively considered to comply with the requirements of AS 37.15.225 - 37.15.285.

Sec. 37.15.250. Bond resolution. The committee shall authorize the issuance of bonds by adopting a resolution and shall prepare all other documents and proceedings necessary for the issuance, sale, and delivery of the bonds or any part or series of them. The bond resolution may fix or the committee's delegated representative, subject to parameters set by the committee, may fix the principal amount, denominations, date, maturities, manner of sale, place or places of payment, rights of redemption, if any, terms, form, conditions, and covenants of the bonds or each series of bonds.

Sec. 37.15.255. Bond reserve fund. (a) The resolution authorizing the issuance of the bonds under AS 37.15.225 - 37.15.285 may provide for the establishment and maintenance of a special fund called the toll bridge revenue bond reserve fund in which there shall be deposited or transferred

(1) all money appropriated by the legislature for the purpose of the fund including appropriations in accordance with (g) of this section; and

(2) all proceeds of bonds required to be deposited in the fund by terms of the bond resolution or a trust agreement with respect to the proceeds of bonds.

(b) Subject to (h) of this section, money in the reserve fund shall be held and applied solely to the payment of the interest on and principal of bonds authorized under AS 37.15.225 - 37.15.285 as the interest and principal become due and payable to the retirement of bonds. Money may not be withdrawn if a withdrawal would reduce the amount in the reserve fund to an amount less than the required debt service reserve except for payment of interest then due and payable on bonds and the principal of bonds then maturing and payable and for the retirement of bonds in accordance with the terms of the bond resolution or trust agreement and for which payment is not then available.

(c) Money in the reserve fund in excess of the required debt service reserve as defined in (b) of this section, whether because of investment or otherwise, may be withdrawn at any time or may be transferred to the bond redemption fund subject to (h) of this section.

1 (d) Money in the reserve fund may be invested in the same manner and on the
2 same conditions as permitted for investment of funds belonging to the state or held in
3 the treasury under AS 37.10.070; however, the committee or the committee's
4 delegated representative may agree with the bondholders to further limit these
5 investments.

6 (e) For purposes of valuation, investments in the reserve fund shall be valued
7 at par or, if purchased at less than par, at cost, unless otherwise provided by resolution
8 of the committee. Valuation on a particular date shall include the amount of interest
9 then earned or accrued to that date on the money or investments in the reserve fund.

10 (f) Notwithstanding any other provision of this Act, bonds may not be issued
11 under a trust agreement, indenture, or bond resolution unless there is in the reserve
12 fund the required debt service reserve for all bonds then issued under a trust
13 agreement, indenture, or bond resolution and outstanding and for the bonds to be
14 issued; however, the committee may satisfy this requirement by depositing as much of
15 the proceeds of the bonds to be issued, on their issuance, as is needed to meet the
16 required debt service reserve. The committee may at any time issue bonds or notes for
17 the purpose of increasing the amount in the reserve fund to the required debt service
18 reserve, or to meet whatever higher or additional reserve that may be fixed by a bond
19 resolution or trust agreement with respect to the fund.

20 (g) To ensure the required debt service reserve is maintained in the reserve
21 fund, the legislature may appropriate annually for deposit in the fund the sum, certified
22 by the commissioner of revenue to the governor and to the legislature, that is
23 necessary to restore the fund to an amount equal to the required debt service reserve.
24 The commissioner of revenue annually, before January 30, shall make and deliver to
25 the governor and to the legislature a certificate stating the sum required to restore the
26 fund to that amount, and the certified sum may be appropriated during the then current
27 state fiscal year. Nothing in this subsection creates a debt or liability of the state.

28 (h) All amounts received because of money appropriated to the reserve fund
29 shall be held and applied in accordance with (b) of this section.

30 (i) All references to the reserve fund in this section include special accounts
31 within the reserve fund that may be created by resolution or trust agreement to secure

1 the payment of particular bonds.

2 (j) The commissioner of revenue may, subject to appropriation, lend surplus
3 money in the general fund for deposit to an account in the reserve fund in an amount
4 equal to the required debt service reserve. The loans shall be made on the terms and
5 conditions that may be agreed on by the commissioner of revenue and the trustee,
6 including, without limitation, terms and conditions providing that the loans need not
7 be repaid until the obligations of the state secured and to be secured by the account in
8 the reserve fund are no longer outstanding.

9 (k) In this section, "required debt service reserve" means, on the date of
10 computation, the amount required to be on deposit in the reserve fund as provided by
11 resolution of the committee.

12 **Sec. 37.15.260. Enforcement by bond owner.** The holder of any bonds or the
13 trustee for the holders of the bonds or any series of them, may, by appropriate
14 proceedings in the superior court, compel the transfer, setting aside, and payment of
15 money and the enforcement of all of the terms, conditions, and covenants as required
16 and provided for in AS 37.15.225 - 37.15.285 and in the bond resolution or trust
17 agreement.

18 **Sec. 37.15.265. Amounts required for payments.** The committee shall,
19 before June 30 of each year or from time to time within the year, as appropriate,
20 commencing with the year in which the bonds are issued, certify to the commissioners
21 of revenue and administration the amounts required in the current fiscal year and the
22 next ensuing fiscal year by the bond resolution or resolutions or trust agreements to be
23 paid out of toll bridge revenue or capitalized amounts into the bond redemption fund
24 and to be paid into and maintained in any reserve fund or account or other fund or
25 account created by the bond resolution or resolutions. The committee shall also certify
26 to the commissioners the last date or dates on which payments may be made.

27 **Sec. 37.15.270. Refunding.** (a) The committee may refund the bonds or any
28 part of the bonds at or before their maturity or redemption dates by issuing refunding
29 revenue bonds of the state if the committee determines the refunding to be
30 advantageous to and in the best interest of the state.

31 (b) The issuance of refunding bonds need not be authorized by the voters of

1 the state or by an act of the legislature. The committee shall adopt the resolution or
2 resolutions and prepare all other documents and proceedings necessary for the
3 issuance, exchange or sale, and delivery of the refunding bonds. All provisions of
4 AS 37.15.225 - 37.15.285 applicable to revenue bonds are applicable to the refunding
5 bonds and to the issuance, sale, or exchange of the refunding bonds, except as
6 otherwise provided in this section.

7 (c) The committee may issue refunding bonds in a principal amount sufficient
8 to provide money for the advance or current refunding of all bonds to be refunded and
9 interest on the refunded bonds and to pay the costs of issuance and administration of
10 the refunding bonds. These expenses also include the difference in amount between
11 the par value of the refunding bonds and any amount less than par for which the
12 refunding bonds are sold; the premium, if any, necessary to be paid in order to call or
13 retire the outstanding bonds and the interest accruing on them to date of the call or
14 retirement; and other costs. The committee is authorized to incur the expenses.

15 (d) The committee or the committee's delegated representative may contract
16 with a refunding trustee to hold the proceeds of refunding bonds in trust until the
17 proceeds, together with earnings on the proceeds, are applied to pay the principal of,
18 premium, if any, and interest on the bonds to be refunded. Until the refunding bond
19 proceeds are applied, the proceeds may be invested in direct obligations of, or
20 obligations guaranteed by, the United States or an agency or corporation of the United
21 States whose obligations constitute direct obligations of, or obligations guaranteed by,
22 the United States.

23 **Sec. 37.15.275. Bonds as legal investments.** The bonds are legal investments
24 for all banks, trust companies, savings banks, savings and loan associations, and other
25 persons carrying on a banking business, all insurance companies and other persons
26 carrying on an insurance business, and all executors, administrators, trustees, and other
27 fiduciaries. The bonds may be accepted as security for deposits of all money of the
28 state and its political subdivisions.

29 **Sec. 37.15.280. Statutory construction.** AS 37.15.225 - 37.15.285 shall be
30 liberally construed in order to carry out the purposes for which they were enacted.

31 **Sec. 37.15.285. Definitions.** In AS 37.15.225 - 37.15.285,

- 1 (1) "authority" means
2 (A) the Knik Arm Bridge and Toll Authority established in
3 AS 19.75.021 with respect to the Knik Arm Bridge and its appurtenant
4 facilities; or
5 (B) an authority established by the legislature for any other toll
6 bridge project;
- 7 (2) "bond redemption fund" means the toll bridge revenue bond
8 redemption fund established in AS 37.15.240;
- 9 (3) "bond resolution" means a resolution adopted by the committee
10 under AS 37.15.250 to authorize the issuance of bonds;
- 11 (4) "bonds" means the toll bridge revenue bonds authorized in
12 AS 37.15.225 - 37.15.285;
- 13 (5) "committee" means the state bond committee created in
14 AS 37.15.110, or any other committee, body, department, or officer of the state that
15 succeeds to the rights, powers, duties, and obligations of the state bond committee by
16 law;
- 17 (6) "costs of issuance and administration" means all costs associated
18 with issuance and administration of toll bridge revenue bonds and refunding bonds,
19 including costs of bond printing, official statements, financial advisors, travel costs,
20 rating agencies, bond insurance, letters and lines of credit for credit enhancement,
21 underwriters, legal services, paying agents, bond registrars, bond and escrow trustees,
22 arbitrage rebate, and all other costs, including administrative costs, both direct and
23 indirect;
- 24 (7) "reserve fund" means the toll bridge revenue bond reserve fund
25 authorized in AS 37.15.255;
- 26 (8) "revenue fund" means the toll bridge revenue fund established in
27 AS 37.15.235.

28 * **Sec. 7.** This Act takes effect July 1, 2014.

Adopted 4/2/14
AMENDMENT #1

28-LS0141\R.5
Martin
4/2/14

OFFERED IN THE SENATE

BY SENATOR OLSON

TO: SCS 2d CSHB 23(FIN), Draft Version "R"

1 Page 6, following line 22:

2 Insert a new subsection to read:

3 "(f) The state may not issue bonds under (a) of this section for financing the
4 Knik Arm Crossing until the Knik Arm Bridge and Toll Authority has been approved
5 for a loan for construction of the Knik Arm Crossing from the Federal Highway
6 Administration, United States Department of Transportation, under 23 U.S.C. 601 -
7 609 (Transportation Infrastructure Finance and Innovation Act of 1998)."

ADOPTED 3/18/14

28-LS0141R
Martin
2/13/14

SENATE CS FOR 2d CS FOR HOUSE BILL NO. 23(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-EIGHTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVES NEUMAN AND HUGHES, Keller, Stoltze

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the Knik Arm Bridge and Toll Authority; relating to the bonding
2 authority of the Knik Arm Bridge and Toll Authority; relating to toll bridge revenue
3 bonds; creating the toll bridge revenue fund, the toll bridge revenue bond redemption
4 fund, and the bond reserve fund; relating to powers and duties of the state bond
5 committee; and providing for an effective date."

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 * Section 1. AS 19.75.021(b) is amended to read:

8 (b) The authority may not be terminated as long as it has bonds, notes, or other
9 obligations outstanding, including obligations under an agreement with the state as
10 provided in AS 37.15.225. Upon termination of the authority, its rights and property
11 pass to the state.

12 * Sec. 2. AS 19.75.111(a) is amended to read:

13 (a) Except as otherwise explicitly made applicable to the authority, the

1 performance of the authority's duties and the exercise of its powers, including its
2 powers to issue bonds and otherwise incur debt, shall be governed exclusively by this
3 chapter. In furtherance of its purposes, the authority may

4 (1) own, acquire, construct, develop, create, reconstruct, equip,
5 operate, maintain, extend, and improve the Knik Arm bridge and its appurtenant
6 facilities;

7 (2) sue and be sued;

8 (3) adopt a seal;

9 (4) adopt, amend, and repeal regulations under AS 44.62 and establish
10 bylaws;

11 (5) make and execute agreements, contracts, and all other instruments
12 with any public or private person, the state or another governmental unit or agency,
13 corporation, or other business entity lawfully conducting business in the United States
14 for the exercise of its powers and functions under this chapter and for the financing,
15 design, construction, maintenance, improvement, or operation of facilities, properties,
16 or projects of the authority, including making and executing contracts with any person,
17 firm, corporation, the state or another governmental agency, or other entity for the
18 purpose of

19 (A) incurring indebtedness, obtaining financing for the
20 authority's projects, obtaining investments in the authority's projects,
21 acquiring or granting lump sum payments for services in advance or in arrears,
22 grants, and other financing; and

23 (B) entering into public-private partnerships or service
24 contracts in any form;

25 (6) in its own name acquire, lease, rent, sell, or convey real and
26 personal property;

27 (7) issue and refund bonds in accordance with this chapter, in order to
28 pay the cost of the Knik Arm bridge and its appurtenant facilities; the authority may
29 also secure payment of the bonds as provided in this chapter;

30 (8) incur other indebtedness, including lines of credit and indebtedness
31 to the Federal Highway Administration, United States Department of Transportation,

1 under 23 U.S.C. 601 - 610 (Transportation Infrastructure Finance and Innovation Act
2 of 1998), as amended, and secure that indebtedness as provided in this chapter;

3 (9) apply for and accept gifts, grants, or loans from a federal agency or
4 **the state or** an agency or instrumentality of the state, or from a municipality, private
5 organization, or other source, including obtaining title to state, local government, or
6 privately owned land, directly or through a department of the state having jurisdiction
7 of the land;

8 (10) fix and collect fees, rents, tolls, rates, or other charges for the use
9 of the Knik Arm bridge and appurtenant facilities, or for a service developed,
10 operated, or provided by the authority; notwithstanding AS 37.10.050(a), fees, rents,
11 tolls, rates, and other charges fixed and collected under this paragraph may exceed the
12 actual operating cost of the use of the bridge, facility, or service;

13 (11) bring civil actions, refer criminal actions to the appropriate
14 authority, and take other actions or enter into agreements with law enforcement and
15 collection agencies to enforce the collection of its fees, rents, tolls, rates, other
16 charges, penalties, and other obligations;

17 (12) pledge, encumber, transfer, or otherwise obligate revenue derived
18 by the authority from the ownership, use, or operation of toll facilities, including fees,
19 rents, tolls, rates, charges, or other revenue of the authority or money that the
20 legislature may appropriate, except a state tax or license, as security for bonds or other
21 indebtedness or agreements of the authority **or for bonds or other indebtedness or**
22 **agreements of the state on a senior, parity, or subordinate lien basis;**

23 (13) deposit or invest its funds, subject to agreements with
24 bondholders;

25 (14) procure insurance against any loss in connection with its
26 operation;

27 (15) contract for and engage the services of consultants, experts, and
28 financial and technical advisors that the authority considers necessary for the exercise
29 of its powers and functions under this chapter;

30 (16) apply for, obtain, hold, and use permits, licenses, or approvals
31 from appropriate agencies of the state, the United States, a foreign country, and any

1 other proper agency in the same manner as any other person;

2 (17) perform reconnaissance studies and engineering, survey, and
3 design studies with respect to the Knik Arm bridge and its appurtenant facilities;

4 (18) exercise powers of eminent domain or file a declaration of taking
5 as necessary for the Knik Arm bridge and appurtenant facilities under AS 09.55.240 -
6 09.55.460 to acquire land or an interest in land; the authority's exercise of powers
7 under this paragraph may not exceed the permissible exercise of those powers by the
8 state;

9 (19) confer with municipal and other governments, metropolitan
10 planning organizations, and the department, concerning the Knik Arm bridge;

11 (20) do all acts and things necessary to carry out the powers expressly
12 granted or necessarily implied in this chapter; nothing in this chapter limits the powers
13 of the authority that are expressly granted or necessarily implied.

14 * **Sec. 3.** AS 19.75.211(a) is amended to read:

15 (a) Notwithstanding any other provision of law, the authority may borrow
16 money and issue and refund bonds on which the principal and interest are paid out of
17 and secured by the gross revenue derived by the authority from the ownership, use,
18 and operation of its toll facilities, including money derived from the fees, rents, tolls,
19 rates, charges, and other revenue of the authority under this chapter and any other
20 revenue or money that the legislature may appropriate, except a state tax or license.
21 Before issuing bonds for the Knik Arm bridge, the authority shall submit to the state
22 bond committee a description of the bond issue and a preliminary prospectus, offering
23 circular, or official statement relating to the bond issue. Bonds may not be issued
24 unless the state bond committee finds, based upon the information submitted by the
25 authority under this section and other information that is reasonably available to the
26 committee, that the Knik Arm bridge revenue and other revenue available to the
27 authority can be reasonably expected to be adequate for payment of the principal of
28 and interest on the bonds to be issued **by the authority and payments by the**
29 **authority under an agreement under AS 37.15.255 for bonds issued by the state**
30 and that issuance of the bonds by the authority would not be expected to adversely
31 affect the ability of the state or its political subdivisions to market bonds.

1 * **Sec. 4.** AS 19.75.221(b) is amended to read:

2 (b) Notwithstanding any other provisions of this chapter, the trust agreement
3 must contain an agreement by the authority that the authority will at all times maintain
4 fees, rents, tolls, rates, or other charges sufficient to

5 (1) pay the costs of operation and maintenance of the Knik Arm bridge
6 and its appurtenant facilities and the principal of and interest on bonds issued under
7 the trust agreement as the bonds severally become due and payable;

8 (2) provide for debt service coverage as considered necessary by the
9 authority for the marketing of its bonds; [AND]

10 (3) provide for renewals, replacements, and improvements of the Knik
11 Arm bridge, and to maintain reserves required by the terms of the trust agreement;
12 **and**

13 **(4) make payments to the state under an agreement under**
14 **AS 37.15.255 for bonds issued by the state.**

15 * **Sec. 5.** AS 19.75.231 is amended to read:

16 **Sec. 19.75.231. Validity of pledge.** It is the intention of the legislature that a
17 pledge made in respect of bonds **of the authority or bonds of the state** shall be
18 perfected and shall be valid and binding from the time the pledge is made, that the
19 money or property so pledged and after that received by the authority shall
20 immediately be subject to the lien of the pledge without physical delivery or further
21 act, and that the lien of the pledge shall be valid and binding against all parties having
22 claims of any kind in tort, contract, or otherwise against the authority irrespective of
23 whether the parties have notice. Neither the resolution, trust agreement, nor any other
24 instrument by which a pledge is created need be recorded or filed under the provisions
25 of the Uniform Commercial Code in order to be perfected or to be valid, binding, or
26 effective against the parties. This section does not affect title to or conveyances of real
27 property, and does not limit the applicability of AS 40.17.080(b).

28 * **Sec. 6.** AS 37.15 is amended by adding new sections to read:

29 **Article 1A. Toll Bridge Revenue Bonds.**

30 **Sec. 37.15.225. Bond authorization.** (a) For purposes of financing a portion
31 of the costs of the Knik Arm Crossing and appurtenant facilities or other toll bridges

1 as the legislature may designate, including the costs of bond issuance, the issuance and
2 sale of bonds of the state by the committee is authorized as provided in AS 37.15.225 -
3 37.15.285. The net proceeds of the sale of the bonds remaining after payment of costs
4 of issuance, capitalized interest, if any, and making deposits to the bond reserve fund
5 under AS 37.15.255, shall be transferred to the Knik Arm Bridge and Toll Authority
6 for the Knik Arm Crossing project facilities or another authority as the legislature may
7 designate for other projects approved by the legislature, or may be held by a trustee to
8 be disbursed to pay the costs of a toll bridge under the terms and conditions set out in
9 a trust agreement. Accrued interest paid on the bonds shall be paid into the bond
10 redemption fund.

11 (b) Prior to the issuance of bonds authorized under (a) of this section, the
12 committee shall send notice of the issuance to the legislature.

13 (c) The total unpaid principal amount of bonds, including refunding bonds, but
14 excluding refunded bonds, is limited as provided in AS 37.15.230. The bonds do not
15 constitute a general obligation of the state. Authorization by the voters of the state or
16 the legislature is not required.

17 (d) The committee may enter into agreements with other state agencies as
18 necessary or convenient to implement AS 37.15.225 - 37.15.285.

19 (e) The committee may contract for the services of underwriters, paying
20 agents, trustees, bond printers, rating agencies, bond insurance, credit enhancement
21 providers, accountants, financial advisors, and bond counsel, and other services as are
22 necessary to accomplish the bond issuance and sale.

23 **Sec. 37.15.230. Toll bridge revenue bond limit.** The total unpaid principal
24 amount of revenue bonds issued under AS 37.15.225 - 37.15.285, including refunding
25 bonds but excluding refunded bonds, may not exceed \$300,000,000.

26 **Sec. 37.15.235. Toll bridge revenue fund.** (a) The toll bridge revenue fund is
27 established as a separate fund of the state. The revenue fund consists of all revenue,
28 fees, charges, and rentals received by the state, by contract with the authority or
29 otherwise, from the ownership or operation of toll bridges and facilities and
30 improvements used in connection with the toll bridges and facilities. Contracts or
31 other agreements with the authority may establish priorities for the payment of

1 operations and maintenance costs of the authority and for the payment of other
2 obligations, including debt obligations of the authority, senior to the payments to be
3 made by the authority to the state for deposit to the revenue fund. The money in the
4 revenue fund may be used only

5 (1) to pay or secure payment of the principal of and interest on bonds;

6 (2) to redeem bonds before their fixed maturities; and

7 (3) subject to appropriation by the legislature, for any other purpose for
8 which federal funds may be obligated by the state under 23 U.S.C. 129(a).

9 (b) The investment of money in the revenue fund may be made in the manner
10 that the committee or the committee's delegated representative may determine. The
11 interest earned on or any profits derived from the sale of this investment shall be
12 deposited in and become a part of the revenue fund.

13 (c) All references to the toll bridge revenue fund in this section include special
14 accounts within the toll bridge revenue fund that may be created by resolution or trust
15 agreement to secure the payment of particular bonds.

16 **Sec. 37.15.240. Toll bridge revenue bond redemption fund.** (a) The toll
17 bridge revenue bond redemption fund is established as a special fund of the state. The
18 bond redemption fund is a trust fund for paying and securing the payment of the
19 principal of and interest and redemption premium, if any, on the bonds and shall be at
20 all times completely segregated and set apart from all other funds of the state. The
21 bond redemption fund shall be drawn on only for the purpose of paying the principal
22 of and interest and redemption premium, if any, on the bonds, together with related
23 trustee fees, if any.

24 (b) Money in the bond redemption fund may be invested in the same manner
25 and on the same conditions as permitted for investment of money belonging to the
26 state or held in the treasury under AS 37.10.070; however, the committee may agree
27 with the bondholders to further limit these investments. Earnings on investments must
28 be retained in the bond redemption fund or a designated account in the bond
29 redemption fund.

30 (c) All references to the bond redemption fund in this section include special
31 accounts in the bond redemption fund that may be created by resolution or first

1 agreement to secure the payment of particular bonds.

2 **Sec. 37.15.245. Bond terms.** (a) The bonds may be issued and sold at public
3 or negotiated sale in the manner, in the amounts or series, and at the time or times that
4 the committee or the committee's delegated representative determines. The bonds, or
5 each series of them, shall be sold at the price and on the terms, conditions, and
6 covenants set by the committee or the committee's delegated representative after
7 considering market conditions. Interest rates may be fixed or variable.

8 (b) The bonds mature at the time or times fixed by the committee or the
9 committee's delegated representative. The bonds may be subject to redemption before
10 their fixed maturities, as determined by the committee or the committee's delegated
11 representative, with or without a premium or premiums. The bonds may be in
12 denominations determined by the committee or the committee's delegated
13 representative; may be issued in fully or partially registered form; must be payable as
14 to principal and interest at the place or places determined by the committee; must be
15 signed on behalf of the state in the manner provided by the committee; and must be
16 issued under and subject to the terms, conditions, covenants, and protective features
17 safeguarding payment of the bonds and relating to the funding of projects as found
18 necessary by the committee or the committee's delegated representative.

19 (c) If the committee or the committee's delegated representative finds it
20 reasonably necessary, the committee or the committee's delegated representative may
21 select a trustee or trustees for the holders of the bonds, or any series of them, for the
22 safeguarding and disbursement of any of the money in the bond redemption fund, or
23 for duties with respect to the enforcement, authentication, delivery, payment, and
24 registration of the bonds as the committee may determine. The committee or the
25 committee's delegated representative shall fix the rights, duties, powers, and
26 obligations of the trustee or trustees.

27 (d) In its determination of all matters and questions relating to the issuance
28 and sale of the bonds and the fixing of their maturities, terms, conditions, and
29 covenants as provided in (a) - (c) of this section, the decisions of the committee shall
30 be reasonably necessary for the best interests of the state and accomplish the most
31 advantageous sale of the bonds. Decisions of the committee, as expressed in a bond

1 resolution, are final and conclusively considered to comply with the requirements of
2 AS 37.15.225 - 37.15.285.

3 **Sec. 37.15.250. Bond resolution.** The committee shall authorize the issuance
4 of bonds by adopting a resolution and shall prepare all other documents and
5 proceedings necessary for the issuance, sale, and delivery of the bonds or any part or
6 series of them. The bond resolution may fix or the committee's delegated
7 representative, subject to parameters set by the committee, may fix the principal
8 amount, denominations, date, maturities, manner of sale, place or places of payment,
9 rights of redemption, if any, terms, form, conditions, and covenants of the bonds or
10 each series of bonds.

11 **Sec. 37.15.255. Bond reserve fund.** (a) The resolution authorizing the
12 issuance of the bonds under AS 37.15.225 - 37.15.285 may provide for the
13 establishment and maintenance of a special fund called the toll bridge revenue bond
14 reserve fund in which there shall be deposited or transferred

15 (1) all money appropriated by the legislature for the purpose of the
16 fund including appropriations in accordance with (g) of this section; and

17 (2) all proceeds of bonds required to be deposited in the fund by terms
18 of the bond resolution or a trust agreement with respect to the proceeds of bonds.

19 (b) Subject to (h) of this section, money in the reserve fund shall be held and
20 applied solely to the payment of the interest on and principal of bonds authorized
21 under AS 37.15.225 - 37.15.285 as the interest and principal become due and payable
22 to the retirement of bonds. Money may not be withdrawn if a withdrawal would
23 reduce the amount in the reserve fund to an amount less than the required debt service
24 reserve except for payment of interest then due and payable on bonds and the principal
25 of bonds then maturing and payable and for the retirement of bonds in accordance
26 with the terms of the bond resolution or trust agreement and for which payment is not
27 then available.

28 (c) Money in the reserve fund in excess of the required debt service reserve as
29 defined in (b) of this section, whether because of investment or otherwise, may be
30 withdrawn at any time or may be transferred to the bond redemption fund subject to
31 (h) of this section.

1 (d) Money in the reserve fund may be invested in the same manner and on the
2 same conditions as permitted for investment of funds belonging to the state or held in
3 the treasury under AS 37.10.070; however, the committee or the committee's
4 delegated representative may agree with the bondholders to further limit these
5 investments.

6 (e) For purposes of valuation, investments in the reserve fund shall be valued
7 at par or, if purchased at less than par, at cost, unless otherwise provided by resolution
8 of the committee. Valuation on a particular date shall include the amount of interest
9 then earned or accrued to that date on the money or investments in the reserve fund.

10 (f) Notwithstanding any other provision of this Act, bonds may not be issued
11 under a trust agreement, indenture, or bond resolution unless there is in the reserve
12 fund the required debt service reserve for all bonds then issued under a trust
13 agreement, indenture, or bond resolution and outstanding and for the bonds to be
14 issued; however, the committee may satisfy this requirement by depositing as much of
15 the proceeds of the bonds to be issued, on their issuance, as is needed to meet the
16 required debt service reserve. The committee may at any time issue bonds or notes for
17 the purpose of increasing the amount in the reserve fund to the required debt service
18 reserve, or to meet whatever higher or additional reserve that may be fixed by a bond
19 resolution or trust agreement with respect to the fund.

20 (g) To ensure the required debt service reserve is maintained in the reserve
21 fund, the legislature may appropriate annually for deposit in the fund the sum, certified
22 by the commissioner of revenue to the governor and to the legislature, that is
23 necessary to restore the fund to an amount equal to the required debt service reserve.
24 The commissioner of revenue annually, before January 30, shall make and deliver to
25 the governor and to the legislature a certificate stating the sum required to restore the
26 fund to that amount, and the certified sum may be appropriated during the then current
27 state fiscal year. Nothing in this subsection creates a debt or liability of the state.

28 (h) All amounts received because of money appropriated to the reserve fund
29 shall be held and applied in accordance with (b) of this section.

30 (i) All references to the reserve fund in this section include special accounts
31 within the reserve fund that may be created by resolution or trust agreement to secure

1 the payment of particular bonds.

2 (j) The commissioner of revenue may, subject to appropriation, lend surplus
3 money in the general fund for deposit to an account in the reserve fund in an amount
4 equal to the required debt service reserve. The loans shall be made on the terms and
5 conditions that may be agreed on by the commissioner of revenue and the trustee,
6 including, without limitation, terms and conditions providing that the loans need not
7 be repaid until the obligations of the state secured and to be secured by the account in
8 the reserve fund are no longer outstanding.

9 (k) In this section, "required debt service reserve" means, on the date of
10 computation, the amount required to be on deposit in the reserve fund as provided by
11 resolution of the committee.

12 **Sec. 37.15.260. Enforcement by bond owner.** The holder of any bonds or the
13 trustee for the holders of the bonds or any series of them, may, by appropriate
14 proceedings in the superior court, compel the transfer, setting aside, and payment of
15 money and the enforcement of all of the terms, conditions, and covenants as required
16 and provided for in AS 37.15.225 - 37.15.285 and in the bond resolution or trust
17 agreement.

18 **Sec. 37.15.265. Amounts required for payments.** The committee shall,
19 before June 30 of each year or from time to time within the year, as appropriate,
20 commencing with the year in which the bonds are issued, certify to the commissioners
21 of revenue and administration the amounts required in the current fiscal year and the
22 next ensuing fiscal year by the bond resolution or resolutions or trust agreements to be
23 paid out of toll bridge revenue or capitalized amounts into the bond redemption fund
24 and to be paid into and maintained in any reserve fund or account or other fund or
25 account created by the bond resolution or resolutions. The committee shall also certify
26 to the commissioners the last date or dates on which payments may be made.

27 **Sec. 37.15.270. Refunding.** (a) The committee may refund the bonds or any
28 part of the bonds at or before their maturity or redemption dates by issuing refunding
29 revenue bonds of the state if the committee determines the refunding to be
30 advantageous to and in the best interest of the state.

31 (b) The issuance of refunding bonds need not be authorized by the voters of

1 the state or by an act of the legislature. The committee shall adopt the resolution or
2 resolutions and prepare all other documents and proceedings necessary for the
3 issuance, exchange or sale, and delivery of the refunding bonds. All provisions of
4 AS 37.15.225 - 37.15.285 applicable to revenue bonds are applicable to the refunding
5 bonds and to the issuance, sale, or exchange of the refunding bonds, except as
6 otherwise provided in this section.

7 (c) The committee may issue refunding bonds in a principal amount sufficient
8 to provide money for the advance or current refunding of all bonds to be refunded and
9 interest on the refunded bonds and to pay the costs of issuance and administration of
10 the refunding bonds. These expenses also include the difference in amount between
11 the par value of the refunding bonds and any amount less than par for which the
12 refunding bonds are sold; the premium, if any, necessary to be paid in order to call or
13 retire the outstanding bonds and the interest accruing on them to date of the call or
14 retirement; and other costs. The committee is authorized to incur the expenses.

15 (d) The committee or the committee's delegated representative may contract
16 with a refunding trustee to hold the proceeds of refunding bonds in trust until the
17 proceeds, together with earnings on the proceeds, are applied to pay the principal of,
18 premium, if any, and interest on the bonds to be refunded. Until the refunding bond
19 proceeds are applied, the proceeds may be invested in direct obligations of, or
20 obligations guaranteed by, the United States or an agency or corporation of the United
21 States whose obligations constitute direct obligations of, or obligations guaranteed by,
22 the United States.

23 **Sec. 37.15.275. Bonds as legal investments.** The bonds are legal investments
24 for all banks, trust companies, savings banks, savings and loan associations, and other
25 persons carrying on a banking business, all insurance companies and other persons
26 carrying on an insurance business, and all executors, administrators, trustees, and other
27 fiduciaries. The bonds may be accepted as security for deposits of all money of the
28 state and its political subdivisions.

29 **Sec. 37.15.280. Statutory construction.** AS 37.15.225 - 37.15.285 shall be
30 liberally construed in order to carry out the purposes for which they were enacted.

31 **Sec. 37.15.285. Definitions.** In AS 37.15.225 - 37.15.285,

- 1 (1) "authority" means
2 (A) the Knik Arm Bridge and Toll Authority established in
3 AS 19.75.021 with respect to the Knik Arm Bridge and its appurtenant
4 facilities; or
5 (B) an authority established by the legislature for any other toll
6 bridge project;
- 7 (2) "bond redemption fund" means the toll bridge revenue bond
8 redemption fund established in AS 37.15.240;
- 9 (3) "bond resolution" means a resolution adopted by the committee
10 under AS 37.15.250 to authorize the issuance of bonds;
- 11 (4) "bonds" means the toll bridge revenue bonds authorized in
12 AS 37.15.225 - 37.15.285;
- 13 (5) "committee" means the state bond committee created in
14 AS 37.15.110, or any other committee, body, department, or officer of the state that
15 succeeds to the rights, powers, duties, and obligations of the state bond committee by
16 law;
- 17 (6) "costs of issuance and administration" means all costs associated
18 with issuance and administration of toll bridge revenue bonds and refunding bonds,
19 including costs of bond printing, official statements, financial advisors, travel costs,
20 rating agencies, bond insurance, letters and lines of credit for credit enhancement,
21 underwriters, legal services, paying agents, bond registrars, bond and escrow trustees,
22 arbitrage rebate, and all other costs, including administrative costs, both direct and
23 indirect;
- 24 (7) "reserve fund" means the toll bridge revenue bond reserve fund
25 authorized in AS 37.15.255;
- 26 (8) "revenue fund" means the toll bridge revenue fund established in
27 AS 37.15.235.

28 * Sec. 7. This Act takes effect July 1, 2014.

MEMORANDUM

STATE OF ALASKA DEPARTMENT OF REVENUE

TO: Senate Finance Committee

DATE: March 27, 2014

TEL. NO.: (907) 465-3750

FROM: Deven Mitchell
Debt Manager
Department of Revenue

SUBJECT: Debt Ratio

On March 18, 2014 during discussion of Senate CS for 2d CS for House Bill No. 23 (FIN) Senator Hoffman requested a summary of how the proposed Knik Arm Bridge, the proposed Susitna-Watana Hydroelectric project, and the Alaska natural gas project authorized by SB 138 would impact the State's ratio of debt to unrestricted revenue. This analysis has proven difficult as two of the proposals' plans of finance are still being developed, two of the projects have potential to generate revenue that results in their being self-sustaining, and one of the projects is being pursued as it is expected to generate significant general fund revenue. Additional considerations that don't translate into the limited ratio analysis well are that historically the largest movement in this ratio have been the result of revenue volatility rather than debt service fluctuation and that the State's annual debt service declines relatively quickly following the forecast period. That said the answer is being provided in three parts.

First, the potential impact of a \$300 million state supported bond issue to fund KABATA is shown in the table below. In the table below total authorized State supported debt includes general obligation bonds, annual appropriation reliant debt, and the school & transportation debt reimbursement programs. The plan of finance for the project assumes that the tolls are only sufficient to pay for operations and maintenance and the senior lien debt in the form of a TIFIA loan. The debt service increment would increase the ratio by approximately ½% beginning in FY 2017. If tolls exceeded O&M and TIFIA payments this impact would diminish.

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Total Unrestricted Revenues based on Spring 2014 Revenue Forecast	6,928.50	5,338.88	4,522.93	4,744.16	5,097.81	5,258.12	5,242.35	4,925.70	4,586.07	4,715.27	4,230.53	4,108.00
Total Annual Payments on Current and Authorized State Supported Debt	229.50	229.90	233.70	249.08	248.32	244.42	243.62	231.42	231.22	221.02	221.12	224.02
Current and Authorized Percentage of Annual Debt Payments to GFUR	3.31%	4.31%	5.17%	5.25%	4.87%	4.65%	4.65%	4.70%	5.04%	4.69%	5.23%	5.45%
Potential Debt Service on KABATA (\$300 Million Par Amount)	-	-	-	-	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00
Total Annual Payments on Current and Authorized State Supported Debt Plus \$300 Million	229.50	229.90	233.70	249.08	273.32	269.42	268.62	256.42	256.22	246.02	246.12	249.02
Percentage of Debt : GFUR with KABATA Projection	3.31%	4.31%	5.17%	5.25%	5.36%	5.12%	5.12%	5.21%	5.59%	5.22%	5.82%	6.06%

Second, the current preliminary plan of finance for the Susitna-Watana Hydroelectric project doesn't include a direct reliance on the State's general fund for the annual payment of debt service and so the impact is zero. The project would be financed through a combination of direct revenue supported debt and AEA debt that would carry a moral obligation commitment of

the State. The moral obligation of the state would be intended for use as a credit enhancement only and any future use of UGF to replenish the AEA debt service reserve would only be due to a financial default of the project. Given the size of the proposed project this issue would at least triple the amount of moral obligation debt that the State of Alaska has outstanding resulting in a considerable increase and concentration of risk in this category of state contingent liability.

Third, the natural gas pipeline project as envisioned by Senate Bill 138. The plan of finance for the project is quite uncertain at this time. Debate on how much the state should participate in the proposed project, and how that participation would be achieved is in the process of being determined. As this proposed financing is anticipated to result in a sizable amount of debt and also generate significant excess revenue it is not something that the Department believes should be examined in isolation on the expense side. The firm of Black and Veatch has conducted analysis on the various permutations and the debt requirements as well as potential impact on future revenue. The latest analysis of this firm is attached.

5901 Barry Avenue
Anchorage
Alaska 99507
March 25, 2014

Reference: The Senate Finance Committee Hearing on the HB23 - Knik Arm Crossing Bill

Dear Committee Members,

Firstly I'd like to apologize for not being able to attend in person, but would like my testimony that follows presented to the Committee:

The latest "new" bridge cost is \$900M. However, the real cost of the bridge based on filings given to the LB&A committee is \$1.6B. The cost difference is the result of building the bridge out to four lanes, which is necessary to make their revenue projections. Thus the predicted revenue is from a 4 lane bridge, but the bridge cost of \$900M is for a two lane bridge. This is typical of the confusing information coming from KABATA. This organization has wasted enough of our money and needs to go. The only people profiting from this gravy train are the staff, those who see years of lucrative state money going into their pockets, and land speculators on the other side Knik Arm. That this is a pet project of Senate President Charlie Huggins is no reason for the legislature to ignore the facts that this project makes poor business sense for Alaska. Further, the fact that our governor wants to make this fully funded by the public purse shows that he has no understanding of the costs and potential (expected) cost overruns of such a large project. I'm sorry, but I don't want to still be paying for this bridge through property taxes in 25 years-time. Shut KABATA down now before it's too late.

Sincerely,

A handwritten signature in cursive script that reads "Dave Catchpole". The signature is written in black ink and is positioned above the printed name.

Dave Catchpole

Doniece Gott

From: Sen. Pete Kelly
Sent: Tuesday, March 25, 2014 3:11 PM
To: Senate Finance Committee
Subject: FW: Full Testimony from Bob French for Today's Sen. Finance Hearing on HB23

Public testimony



Joe Byrnes
Staff for Senator Pete Kelly
907-456-3709



From: Bob French [mailto:bgkfrench@gmail.com]
Sent: Tuesday, March 25, 2014 14:43
To: Sen. Anna Fairclough; Sen. Donny Olson; Sen. Kevin Meyer; Sen. Lyman Hoffman; Sen. Mike Dunleavy; Sen. Pete Kelly; Sen. Click Bishop
Subject: Full Testimony from Bob French for Today's Sen. Finance Hearing on HB23

I appreciate your attention to public testimony during this morning's hearing.

Co-Chair Meyer indicated that I should submit my entire planned testimony to the committee, so here it is.

Please let me know if you have any questions or comments.

Bob French,
907-240-1744

My name is Bob French, and these comments are my own. I have been following the Knik Arm Bridge for over 10 years now, and have reviewed many financial plans done by KABATA, but this is the first time to have only 1 page to review. The latest two financial plans included along with the Committee Substitute are even more interesting regarding what the answers they do not provide, than in the information shown.

While you have heard that truck travel time to Fairbanks will be quicker, you only partially heard that the time savings won't happen until the Burma Road is built (and it is only 7 minutes faster!). The costs for the Burma road (or any alternate route that doesn't dump more cars onto the already unsafe Knik Goose Bay road) are not included in any costs you have in front of you. You have heard that the bridge will facilitate building the gas pipeline, but the fact is that trucks carrying pipe will not use the bridge, they will transit between a lay-down area and where the pipe is needed. You have heard about the lack of developable land in Anchorage, but have not heard that Eklutna Inc. owns 90,000 acres of land in the Municipality of Anchorage. While you heard about truck traffic going through Downtown Anchorage, that is not necessary, much of the traffic going north is currently routed through Ship Creek, bypassing Downtown. You have heard about how the bridge will facilitate a "Road to Resources" on the west side of Cook Inlet, but did not hear that the routes being considered

run north and west of Houston, and it will not be shorter or faster to use the bridge. You have heard from Labor Union Representatives, that they support the bridge, but did not hear that KABATA's own studies for the Environmental Impact Statement indicated that 2/3 of the workers might come from "Outside" Alaska, or that smaller projects typically employ more Alaskans.

But let's take this discussion back to Finance, since you are the Senate Finance Committee.

When has the Senate Finance Committee ever looked at a Billion dollar project with a one page financial plan?

The information provided by KABATA for the past bills have included detailed cash flow analyses, along with hundreds of pages of background data. KABATA previously provided their "Pro-Forma" estimates to pay off a *Transportation Infrastructure Finance and Innovation Act* (TIFIA) loan, and provided year by year estimates of the differences between the required payments and the estimated toll revenues, as well as the estimated drains on the Reserve Fund, and how much the State would have to put into that Reserve Fund to make up for the lack of toll revenues.

It is interesting that your packet does not include a Fiscal Note to estimate the potential costs to the state. How can the Senate Finance Committee make a decision without that information?

As Senator Fairclough stated last week, you don't have the cash flow to provide information about yearly State Bond and Federal TIFIA payments. You don't have any information about the estimated Toll Revenues, and while this new CS to HB23 refers to a Reserve Fund, there is no information about how much the Legislature will need to pay to establish or maintain that Reserve Fund.

I realize that Mr. Jeff Ottesen, from the Dept of Transportation testified last week that his estimate was that they would "only" need 10,000 daily trips to pay off the TIFIA loan. In your packet, on the map with a bunch of colored lines and numbers, you can see the number of average daily trips on the Knik Arm Bridge that was estimated in 2013 for another Dept of Transportation project, for the Wasilla Bypass. The estimated daily trips was only 9,400 trips in 2035, compared to the 36,000 daily trips in KABATA's 2011 estimate. But, you say, KABATA's 2011 estimate is nearly 3 years old, why not compare it to KABATA's current traffic estimate? Well, despite paid media advertisements touting their new, so-called, "independent and peer reviewed" Socio-Economic Data, and new traffic and revenue forecasts that were to be based on that new data, KABATA has not yet released even the new Socio-Economic data, much less the revenue forecasts. KABATA's press release that is in your packet, promised the new Socio-Economic data by September 30, 2013: This Sunday, that data will be 6 months late, for a project that was supposed to take three and a half months.

Why is the new information not in your packet? Based on the traffic data manipulation done by KABATA and their consultants that we have previously documented, my belief is that KABATA does not want you to see new information, because it does not show high enough traffic counts to cover Operations & Maintenance costs, and the TIFIA payments. KABATA likes to talk about “excess toll revenues” being able to pay back the State Bonds, but the actual revenues will be so low that we will likely need additional state funds to pay back TIFIA. Those additional funds would be beyond the \$450 million that Mr. Deven Mitchell of the Department of Revenue indicated was the maximum state liability for the State Bonds (i.e. not the maximum state liability for the entire project).

So, what happens when the 9,400 daily traffic counts in 2035 are still not enough to pay back the TIFIA loans? Are you ready to gamble with the State’s credit rating? Do you believe that the Feds will not somehow either reduce transportation funding for Alaska, or require some other re-structuring of the TIFIA loan after NOT being paid year after year after year? Let’s not forget that at least 3 toll projects have gone bankrupt and more have needed to be refinanced, by relying on toll revenue forecasts produced by CDM Smith, the same firm that KABATA is using.

What happens if KABATA does not get the \$341 Million dollar TIFIA Loan to cover 1/3 of what they say the project cost will be? Mr. Deven Mitchell, testified last week, that without the TIFIA loan, the project would not go forward. If that is true, why is there no mention of TIFIA in this Committee Substitute? If that is true, why would there be any objection to making it clear that without a TIFIA loan, that the state allocations for this project will be held until the TIFIA loan comes in? If KABATA is turned down for the 7th time in their application for that low-interest federal TIFIA Loan, then the State costs will certainly be much higher than \$600 million.

To paraphrase Senator Olson, from last week’s hearing: Why would the state jump into such a huge project when it's facing budget deficits of \$1 billion to \$2 billion a year?, especially when we have no idea of how much the Knik Arm Crossing will cost.

I am an engineer, and I understand the level of detail that is provided in a 35% design for a project. KABATA’s design is considered to be only 35% complete, and can be described as being the “Pretty Picture” stage. By creating the “Pretty Pictures” showing the typical road cross sections, preliminary route drawings and using average unit costs for cubic yards of gravel, tons of armor rock for the causeways, and estimated costs to install the steel bridge piles, and other project elements, the cost estimators come up with what is commonly called a “WAG” in the engineering field. “WAG” stands for a “Wild Ass Guess”. If the preliminary design is particularly well developed, the estimators can sometimes come up with a “SWAG”, or a “Sophisticated Wild Ass Guess”.

If the Legislature chooses to guarantee KABATA’s loans and bonds, my guess is that the \$55 Million that is currently in the Governor’s Capital Budget will be mainly used by KABATA to take their design from that 35% level to the 100% design that can actually be considered “Shovel Ready”. You can see that as the investigations continue, and the design progresses, the cost estimates also begin to include more details about costs, and thus

become more accurate. It is that natural design progression that helps explain why a project's estimated cost almost invariably goes up from the initial 35% cost estimate to the final cost estimate. The economic factors during the bids, and the unforeseen or hidden costs that are discovered during construction, typically causes the change orders or cost over-runs that can double or triple a project cost when the accounting is finally finished. Should we be spending \$55 Million on a project that may never get 1/3 of it's proposed funding? Should we perhaps allow KABATA to move the design forward to a 65% level, so that the actual cost of the bridge and it's various phases and approach roads can be more accurately estimated?

So, What is the total cost that the state will take on if this bill is approved? The November 2013 First Southwest Plan (*you can refer to the annotated version in the file named "HB23 KABATA-Summary-12 13-1st-SW-Annotated.pdf" in your packet*) shows a total project cost of \$838 Million dollars. The joint KABATA-DOT/PF proposal in your packet shows a total project cost of \$895 million, and references a KABATA cost estimate from February 2014 that is NOT in your packet. Since KABATA's previous financial plans showed revenue from traffic that can only fit on a 4 lane bridge, but their cost estimates only including building a 2 lane bridge and approach roads, the cost shown in the April 2013 Legislative Audit was \$1.62 Billion, which included costs of building the 4 lane bridge and approach roads.

Without KABATA's latest estimate, or a more complete design, how can we know if the bridge will cost \$838 Million, \$895 Million or \$1.62 Billion, and do those costs reflect the changes to the design of the project since the last detailed cost estimate was done 7 years ago? A key cost factor for building the bridge is how deep the bridge support piles need to be. Obviously costs differ if you need 300 foot deep piles, or 150 foot deep. KABATA's geotechnical consultant in 2007 made a front page recommendation to conduct more core drilling on the east side of Cook Inlet to find out how deep those piles will need to go. That drilling has not yet been done, and same the Bootlegger Cove clay that required that the piles installed for the Port of Anchorage be pulled out and replaced is certainly a large cost factor here.

You have heard that KABATA's previous Traffic and Revenue forecasts were described by the Legislative Audit as "Unreasonably Optimistic". I talked about the 9,400 average traffic on the bridge in 2035 that was predicted for the Wasilla Bypass project, compared to the 36,000 daily trips estimated by KABATA, but why else should you believe that the Audit's conclusion true? Let's look at the Traffic Analysis Zone (TAZ) data on the Maps that are in your packet. As an indication of the differences between KABATA's predictions, and population and employment data done for 2 other Dept of Transportation projects, the 2nd page of those maps highlight 3 TAZ areas where KABATA's population and employment data is strikingly different.

KABATA's land use projections for the greater Port MacKenzie area included major retail, high-tech research parks and significant amounts of Class A office space that are used to justify the 14,337 jobs at Point MacKenzie (discussed on pg 27 of the audit). 10,455 of those jobs are shown in the TAZ area in the lower right corner of the 2nd page. The job forecast done for AMATS includes only 2,469 jobs, while the forecast by HDR for the Wasilla Bypass project shows only 1,249. KABATA's job projections are in direct conflict with all adopted Borough planning documents in the Point MacKenzie Special Use District regulations and the Point MacKenzie Master Plan. Both of those plans are oriented to heavy industrial uses, which complements Port MacKenzie as a bulk commodities port. KABATA's land use plans are in conflict with the new 6 million gallon fuel tank farm being developed by the Alaska Industrial Development and Export Authority and Central

Alaska Energy, and the blast zone that needs to surround such a tank farm. KABATA's land-use projections are also in conflict with their own assumptions that were stated in the project's Environmental Impact Statement from 2007. The type and rate of growth projected by KABATA would require complete re-writing of the Borough's development code that guides land use decisions in the Point Mackenzie area.

The Data Manipulation that I referenced earlier is clearly shown when you look at KABATA's earlier job forecasts in the Point MacKenzie area. In 2007, when KABATA's estimate of the 2035 Mat-Su population was 250,700, their estimate of the new jobs in that same area was only 6,740, less than half their 2011 prediction, when the borough population was estimated to be approximately 190,000 in 2035! It is clear that when faced with lower population forecasts, KABATA's consultants raised the job forecasts, so that they could keep the same high number of daily traffic counts, and thus higher toll revenues.

There are big differences between the rate of growth and population density allowed by individual lots with their own well and sewer systems, and community water and sewer systems. The long lead time and capital costs for water and sewer infrastructure necessary to get to KABATA's population density hinders that rate of growth. The one area that the Wasilla Bypass population and job estimate predicts that kind of growth is near the Goose Creek Correctional Facility which has a newly built water and a sewer treatment plant. The Wasilla Bypass model accommodates this expected density. This is also the projected location of a new townsite recently identified formally by the Borough Assembly, the plat of which is posted on BASIS as HB23 Pt. MacKenzie Townsite.pdf.

KABATA has criticized the Audit and said that the Wasilla Bypass estimates did not include the growth effects of the bridge, but the audit indicates that the MSB's updated land use and transportation model was specifically created to study the growth that is expected if the bridge is built. The Wasilla Bypass model was based on 2010 Census data, and built on a new model which was verified with local information from Business People, Realtors, Bankers, Land Use and Transportation Planners, Borough Ordinances and Community Plans. In contrast, KABATA's population and employment estimates are described in the audit as being based on a model originally created in 2000, and updated in 2007 by a Texas firm, with changes by CDM Smith and KABATA since then.

In closing, one final key question to consider is: Does the legislature have veto power, if either the construction or financing costs turn out to be much higher than what you are being told right now? Can you stop the project before it bankrupts the state?

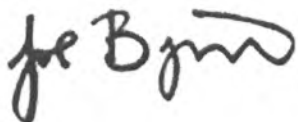
I can't see that you have the information necessary to even vote on this bill.

Thanks, and I can try to answer any questions you might have.

Doniece Gott

From: Sen. Pete Kelly
Sent: Saturday, March 29, 2014 3:26 PM
To: Senate Finance Committee
Subject: FW: Kabata letter for the Senate Finance Committee members

Public testimony



Joe Byrnes

Staff for Senator Pete Kelly
907-456-3709



From: Phyllis Adams [<mailto:pmadams@aci.net>]
Sent: Friday, March 28, 2014 22:10
To: Sen. Donny Olson; Sen. Click Bishop; Sen. Anna Fairclough; Sen. Lyman Hoffman; Sen. Pete Kelly; Sen. Kevin Meyer; Sen. Mike Dunleavy
Subject: Kabata letter for the Senate Finance Committee members

To the Senate Finance Committee: KABATA

Thank you Senators Olson and Hoffman for listening to facts and questioning those testifying at the finance committee hearing concerning KABATA. I hope everyone on this committee will take the time to read this.

I am writing to express my concerns about building the Knik Arm Bridge (KABATA). I am a retired Anchorage School District teacher, always a super voter, and have lived on Government Hill for 40 years. I also owned property in Willow for 35 years.

I ask that you STOP spending money on **excessive KABATA salaries, KABATA's biased studies, and the purchasing of Government Hill houses for demolition** which devalues neighborhood homes.

I also ask that you carefully consider the following:

Unknown total costs of the bridge for our state

National Security issues: close to huge fuel tank farms and Elmendorf AFB runways (has never been addressed)

Phase II Bridge (Gov Hill to Gamble St) tunnels through the neighborhood where the old neighborhood school crumpled during the 1964 earthquake

More traffic to C Street which is already congested

Increased Air pollution downtown (has never been addressed)

Overall deterioration of the Government Hill neighborhood (Kabata purchased houses and a lodge)

Number of construction jobs for Nonresidents

Re-examine the proposed ferry to evaluate traffic demand and costs (highly recommended by many)

So far KABATA has shown wasteful spending which the State does not need at this time. Please put a stop to KABATA as soon as possible and spend this money where it is needed.

Thank you,

Phyllis Adams

720 Birch Street

Anchorage, AK 99501

Senate Finance Committee

Hearing to consider ~~HB 23~~ A Plan to Finance the Knik Arm Bridge

March 25, 2014

Prepared Testimony of Scott Goldsmith, Professor Emeritus of Economics

My name Scott Goldsmith and I am a Professor Emeritus of Economics. I worked for 37 years at the Institute of Social and Economic Research at the University of Alaska Anchorage.

I am testifying today as an individual.

My concern is with state fiscal health.

This year we have a \$2 billion shortfall in the general fund and we are currently drawing down our cash reserves at the rate of about \$7 million per day. We don't yet seem to realize the path we are on and where it is taking us.

As a retiree, I am concerned that unless we get our fiscal house in order I will soon lose my dividend and be forced to start paying income and sales taxes. I am concerned that a fiscal crash will lead to an economic crash that will cut the value of my house in half. I am concerned that my children may be unable to find jobs in Alaska and be forced to leave the state.

And the more I learn about the cost, financing, and so-called benefits of this project the more concerned I become.

Now is not the time to take on new obligations that require the state to write blank checks.

There is one blank check of up to \$450 million if bridge tolls fail to repay \$300 million in new state debt.

A second blank check of unknown amount would be to repay the TIFIA loan if bridge tolls fail to cover that obligation.

A third blank check of unknown amount would be to cover the cost of connector road upgrades to access the bridge on both ends.

A fourth blank check of unknown amount would be to cover the cost of potential cost overruns on bridge construction.

A fifth blank check of unknown amount would be to cover the cost of bridge expansion from 2 to 4 lanes.

A sixth check would be to pay for the highway projects we won't be able to fund because of the diversion of federal highway funds to this project.

And finally a seventh blank check would be just to keep this project on life support-- even if it eventually expires.

How can we evaluate the so-called benefits of this project unless we know the potential ultimate cost?

Project proponents tell us not to worry and assure us that the project actually will be generating enough tolls to pay for other road projects around the state. But no bank would write a check based on assurances without analysis. And it would be irresponsible for the state to do so, particularly as we face a future of growing deficits.

Unfortunately we have no credible project analysis against which to measure the toll projections of project advocates or to evaluate the financing proposal.

Last year at this time an audit requested by the legislature concluded, and I quote,

“The audit concludes that KAC toll and revenue projections are unreasonably optimistic, and the projected cash flow to the State are likely overstated as a result. These are important considerations for policymakers since the P3 compensation arrangement requires KABATA to make payments to the private partner regardless of the projects ability to generate toll revenues. The deficiencies in KABATA methodology for generating toll and revenue projections are addressed in Recommendation No 1.”

Recommendation No 1 said--KABATA management should revise traffic and toll revenue projections to address deficiencies.

Subsequent to publication of that audit KABATA hired a consulting firm to conduct an independent peer review and update socioeconomic data used in the Knik Arm Crossing Traffic and Toll Revenue projections.

In the press release announcing the study KABATA stated “It is important to periodically update this information as time passes and new facts become known.”

Time has passed. The final report of that peer review was due September 20, 2013, but 6 months later it has still not surfaced. The Alaska partner in the preparation of that report—Agnew Beck—is a well-known and respected planning firm. They would not be six months late on a three month contract. We can only speculate as to why we don't have that study in front of us today.

The bottom line is that there is no new information today to address and evaluate the concerns raised by the legislative audit a year ago.

Why are we even here today trying to make policy based on a foundation of known discredited information?

Thank you.

March 31, 2014

Senator Kevin Meyer, Co-Chairman
Senate Finance Committee
Alaska State Senate
State Capitol Building
Juneau, Alaska 99801

Dear Senator Meyer,

Information was presented to your committee during a hearing on HB 23, legislation relating to the Knik Arm Crossing, about traffic forecasting that HDR completed for DOT&PF on a potential highway bypass of the Parks Highway around downtown Wasilla. I'm writing to tell you about the purpose of that traffic forecast and what I believe to be a misapplication of the information presented to you on March 25th.

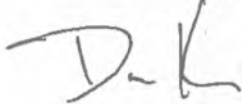
HDR was hired by DOT&PF to perform planning level analysis for a potential rerouting of the Parks Highway south of downtown Wasilla for the Parks Highway Alternative Corridor Project. As part of that contract, HDR developed traffic forecasts for potential east-west bypass alignments of the Parks Highway. The purpose of the forecast was to predict traffic that would use highway routes to travel around Wasilla. The data collection and updates were at a planning level and focused on this area of the borough.

The forecast was not intended to produce a regional traffic model for South-Central Alaska as we would not consider our effort to be a reliable prediction of traffic on the Knik Arm Crossing. We were not retained by DOT&PF to predict traffic on the Knik Arm Crossing and we believe attempts to use the work we produced to characterize traffic on the bridge to be misleading and an inappropriate use of the data. Moreover, the traffic model used in the Parks Highway Alternative Corridor Project study was not calibrated or validated to account for tolls or the complexity of the travel patterns anticipated. Such an analysis is complicated, especially in the case of the Knik Arm Crossing which will have very unique and complex travel demand synergy between industrial areas, ports, rail, and correctional/court facilities on both sides of the bridge. Nor did the traffic model examine changes that might occur in the Anchorage Bowl that would affect traffic on the bridge.

Senator Kevin Meyer
March 31, 2014
Page 2 of 2

In closing, HDR stands behind our work on the travel forecasts completed for the Parks Highway Alternative Corridor Project. The forecasts are accurate for their intended purpose and should not be used as an indicator for predicting traffic on the Knik Arm Crossing.

Sincerely,
HDR Alaska, Inc.

A handwritten signature in black ink, appearing to read 'D. Hippe', is written over the typed name.

Duane Hippe, P.E.
Senior Vice President

2035 Level of Service and Daily Traffic Flow

This document provided by Jamie Kenworthy.

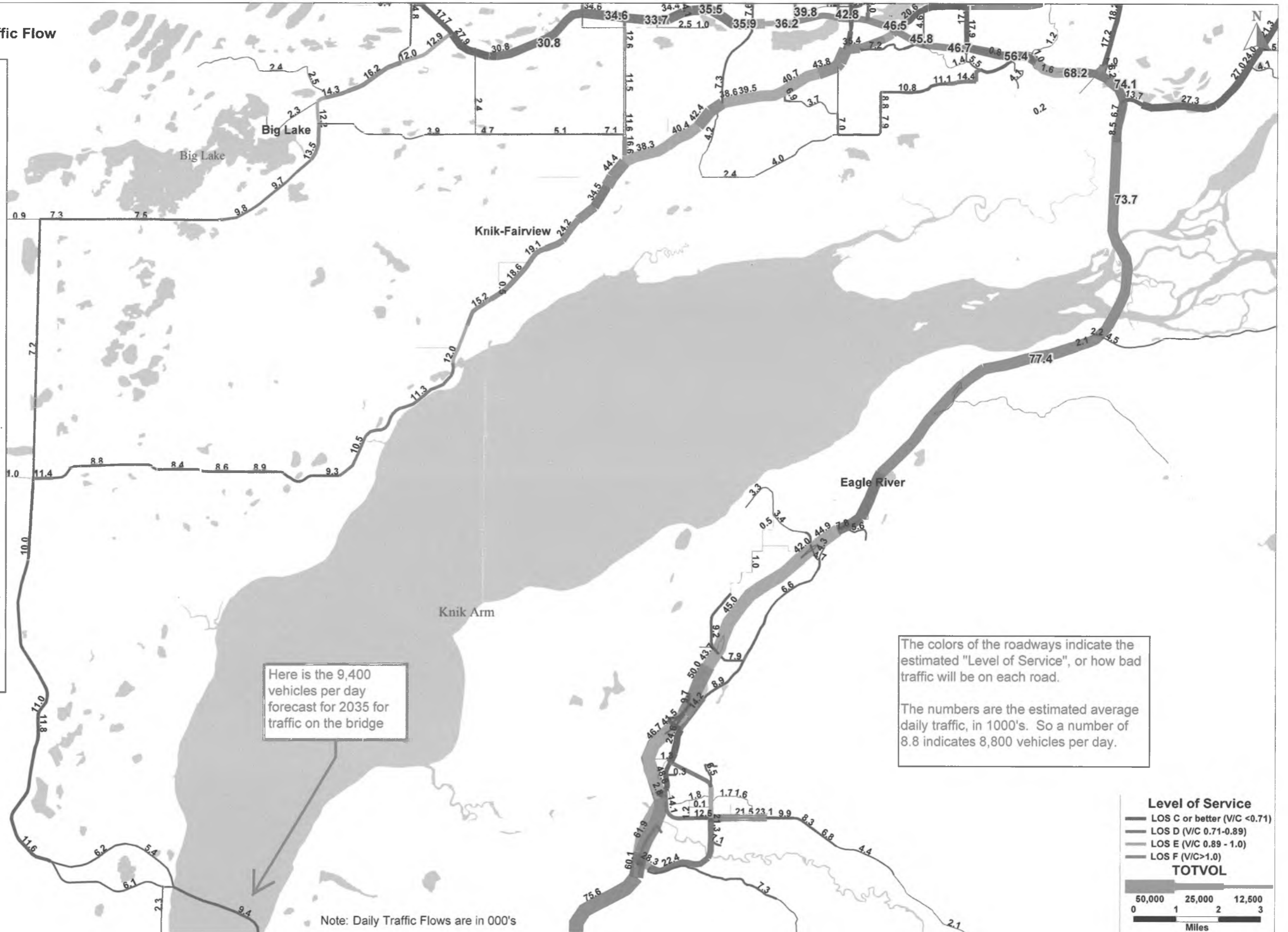
This map was created by HDR to estimate traffic counts for the Wasilla Bypass project, and was obtained through a Public Records Act request to DOT&PF. The map shows 9,400 vehicles a day (lower left corner) crossing a tolled Bridge in 2035. KABATA's last traffic estimate was 36,000 trips a day in 2035. The HDR number is 74% lower than KABATA's 36,000 number. The traffic estimate on the Knik Arm Bridge done for the 2009 Highway to Highway project (ISER data modeled by Ch2MHill was 17,700 vehicles a day.)

In providing this data, DOT&PF stated that they consider this 9,400 vehicles a day number as misleading since it was only done to model numbers for the Wasilla Bypass and is not a regional forecast. However, this number was based on updated population, household, and employment data from the April 2010 Census and Alaska Department of Labor data. HDR then used the latest actual traffic counts to correlate and update the traffic model used. Jamie Kenworthy thinks this is the latest and best estimate for the traffic on the proposed Knik Arm Crossing because it was based on the latest census data, included socioeconomic input from local stakeholders including realtors & business leaders, and represents professional traffic modeling work.

What happens when tolls are 74% less than what KABATA projected? The 26,600 vehicles a day difference between HDR and KABATA in traffic forecast in 2035 represents over \$250,000 PER DAY or \$90 Million in that year. (Based on a \$7.80 car toll and \$28 commercial vehicle toll (toll costs taken from KABATA's financial plan) for the year 2035. The toll deficits in earlier years would be higher, because of the lower volume of traffic.

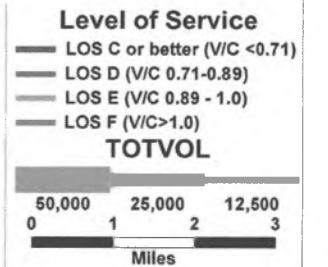
Here is the 9,400 vehicles per day forecast for 2035 for traffic on the bridge

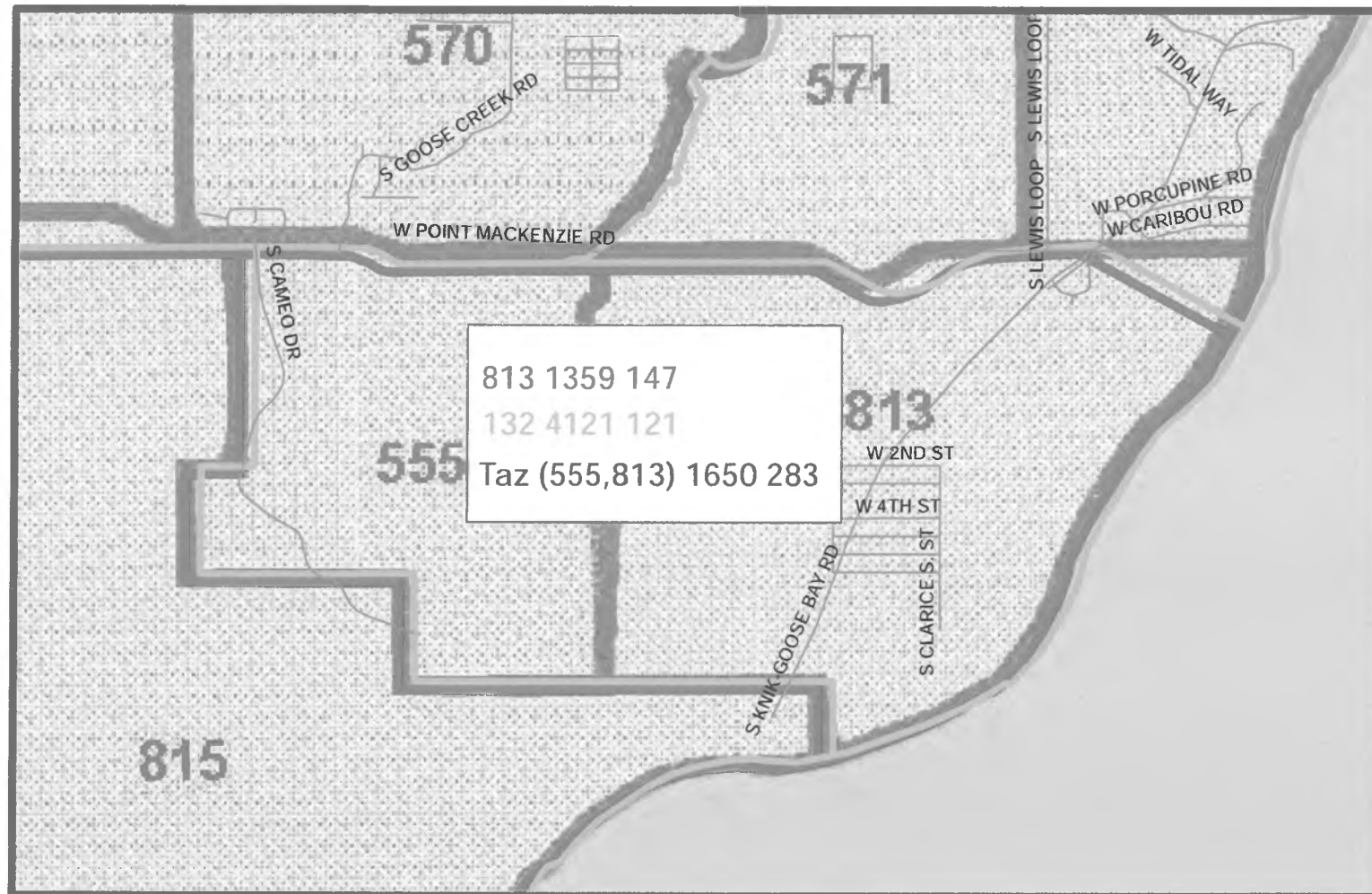
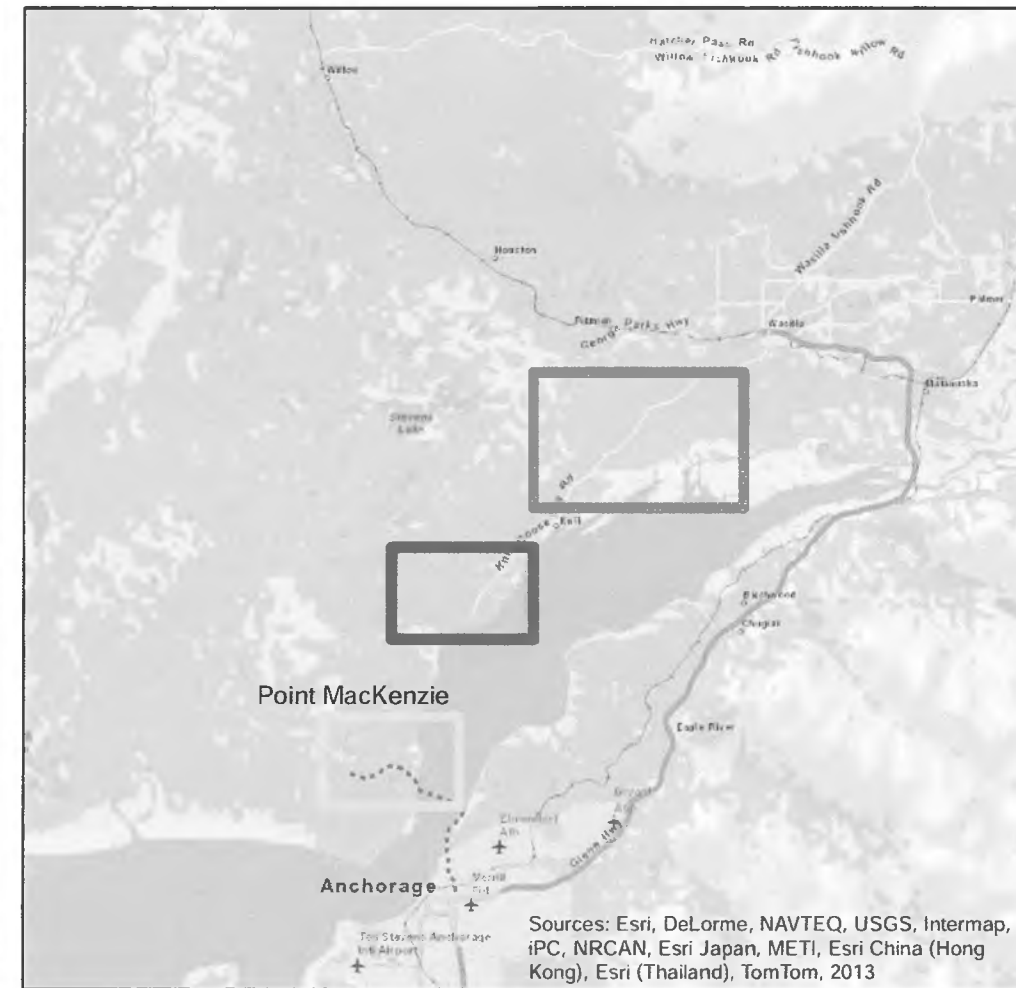
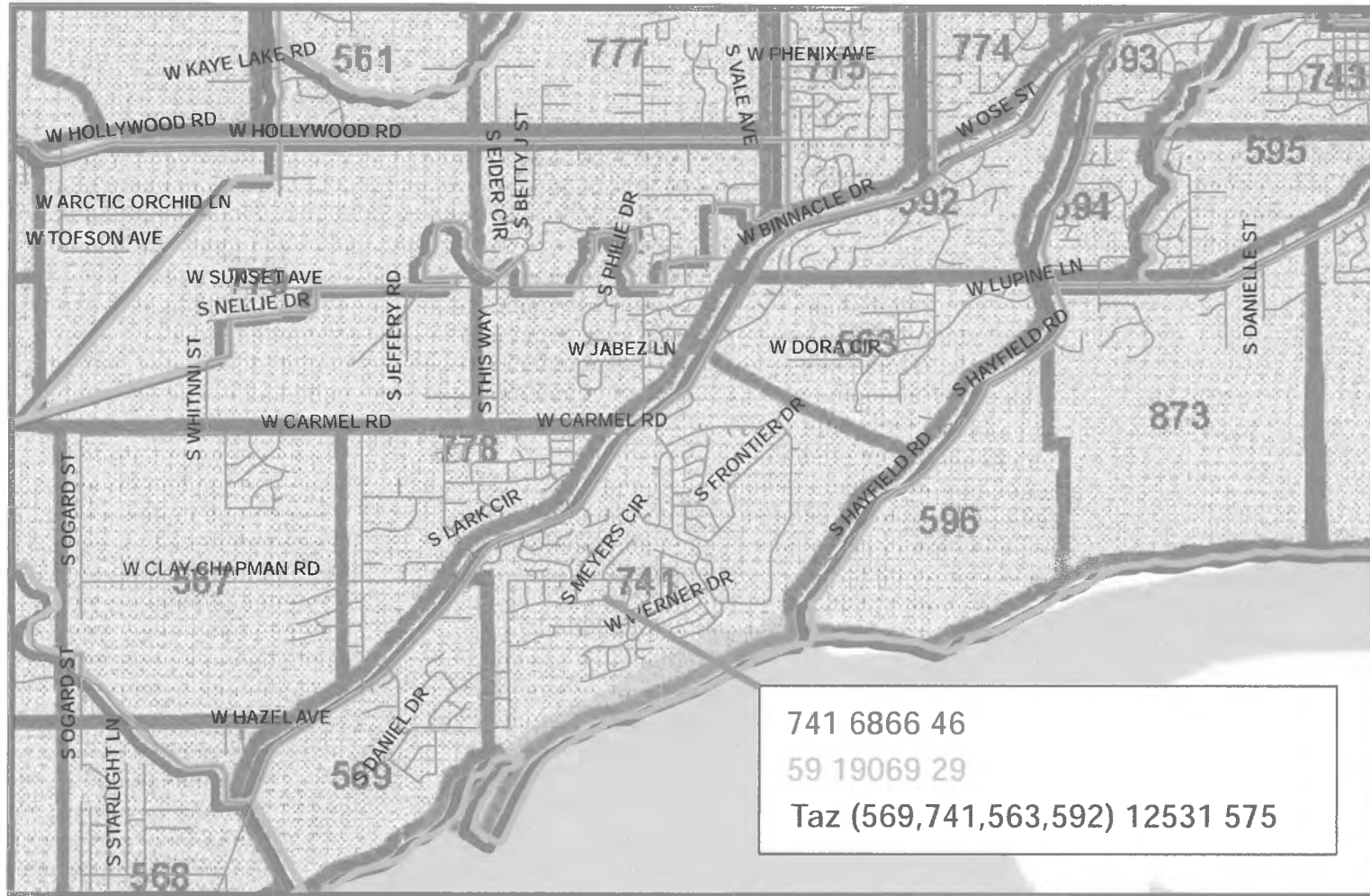
Note: Daily Traffic Flows are in 000's



The colors of the roadways indicate the estimated "Level of Service", or how bad traffic will be on each road.

The numbers are the estimated average daily traffic, in 1000's. So a number of 8.8 indicates 8,800 vehicles per day.





- Amats 2011
- Kabata 2011
- HDR 2013

The Numbers Represent

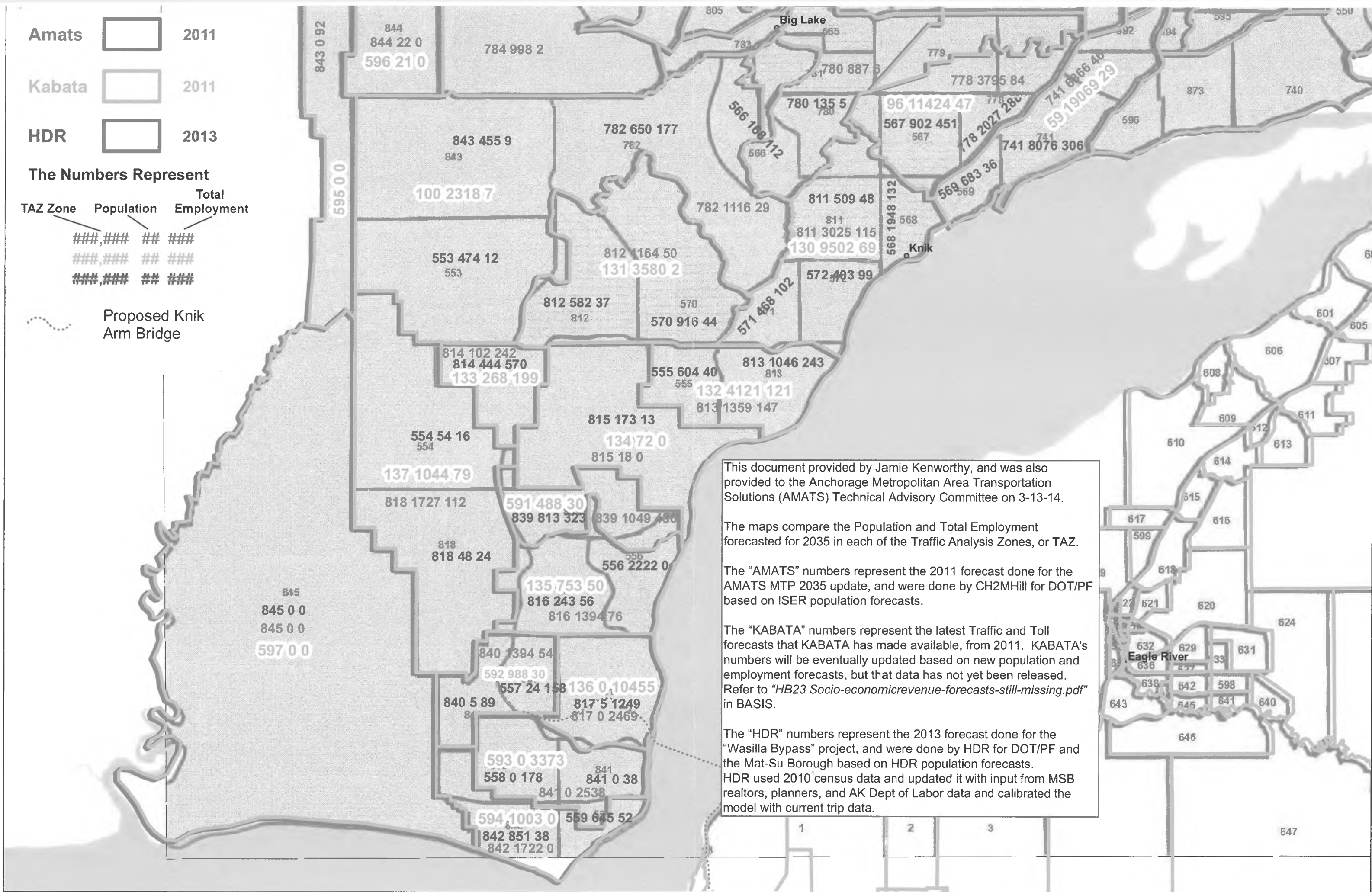
TAZ Zone Population Total Employment

####,### ## ###

####,### ## ###

####,### ## ###

Proposed Knik Arm Bridge



5901 Barry Avenue
Anchorage
Alaska 99507
March 25, 2014

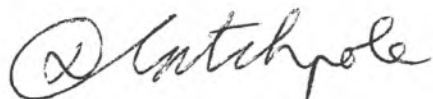
Reference: The Senate Finance Committee Hearing on the IIB23 - Knik Arm Crossing Bill

Dear Committee Members,

Firstly I'd like to apologize for not being able to attend in person, but would like my testimony that follows presented to the Committee:

The latest "new" bridge cost is \$900M. However, the real cost of the bridge based on filings given to the LB&A committee is \$1.6B. The cost difference is the result of building the bridge out to four lanes, which is necessary to make their revenue projections. Thus the predicted revenue is from a 4 lane bridge, but the bridge cost of \$900M is for a two lane bridge. This is typical of the confusing information coming from KABATA. This organization has wasted enough of our money and needs to go. The only people profiting from this gravy train are the staff, those who see years of lucrative state money going into their pockets, and land speculators on the other side Knik Arm. That this is a pet project of Senate President Charlie Huggins is no reason for the legislature to ignore the facts that this project makes poor business sense for Alaska. Further, the fact that our governor wants to make this fully funded by the public purse shows that he has no understanding of the costs and potential (expected) cost overruns of such a large project. I'm sorry, but I don't want to still be paying for this bridge through property taxes in 25 years-time. Shut KABATA down now before it's too late.

Sincerely,

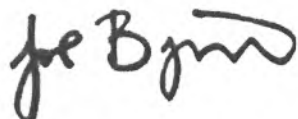
A handwritten signature in cursive script that reads "Dave Catchpole". The signature is written in dark ink and is positioned above the printed name.

Dave Catchpole

Doniece Gott

From: Sen. Pete Kelly
Sent: Tuesday, March 25, 2014 8:34 AM
To: Senate Finance Committee
Subject: FW: HB 23 - Knik Arm Bridge

Public testimony



Joe Byrnes

Staff for Senator Pete Kelly

907-456-3709



From: beth@bethsvalleyviews.com [mailto:beth@bethsvalleyviews.com]

Sent: Tuesday, March 25, 2014 07:11

To: Sen. Pete Kelly; Sen. Kevin Meyer; Sen. Anna Fairclough; Sen. Mike Dunleavy; Sen. Click Bishop; Sen. Donny Olson; Sen. Lyman Hoffman

Cc: Sen. Charlie Huggins; Rep. Bill Stoltze; Rep. Lynn Gattis; Rep. Mark Neuman; Sen. Mike Dunleavy; Rep. Shelley Hughes; Rep. Eric Feige; Mayor Larry DeVilbiss

Subject: HB 23 - Knik Arm Bridge

Honorable Members of the

Senate Finance Committee,

Now is the time to invest in infrastructure that will last generations and be a boon toward ameliorating and diversifying our single-industry economy. Now is not the time to falter. Unless the nation's and state's economy collapses, now is the time when it is the most cost-effective to build infrastructure that adds to our health, welfare and economic well-being. Consider the following points:

COST EFFECTIVE/ HEALTH - removing 30% (or more) of the traffic, in the form of commercial trucking, from the Glenn and sending it across the Knik Arm reduces maintenance requirements and increases safety on the Glenn Highway. This alone frees up space for roughly the 30% of the MSB residents (and those in the northern MOA) who commute into Anchorage each day.

Additionally, the Crossing would allow for residents and workers of Houston, Big Lake and Point MacKenzie quicker and more direct access to the health services and commerce available in Anchorage. The shorter commute will also reduce time away from family, vehicle maintenance and fuel consumption for those residents in the MSB.

WELFARE - since the Glenn closes in one direction or another (sometimes both) at twice each month (on average), due to an over-burdened road system, this endangers these commuters, our emergency services support personnel and the residents of both communities in the event of an earthquake or less natural disaster in Southcentral Alaska. Remember, families and safety.

ECONOMIC WELL BEING - my friends in the San Francisco Bay Area laugh at us when they hear about Anchorage's fear of suffering a devastating economic loss if the bridge were built. Even those in Manhattan would raise an eyebrow at this inaccurate depiction of the impact on communities building crossings, or bridges. History has proven that the opening of commerce and expansion of land development opportunities only diversifies and increases the economic viability of an area. In truth, it is the communities that used to be on the path of commerce that tend to falter when alternate routes are built. In Alaska, those communities are crying out for this crossing to be built.

There are so many opportunities available to us if we have the courage and strength to move forward with the Knik Arm Crossing. It is a project that, in combination with the Port MacKenzie Rail Extension and the Port itself, will benefit all of Alaska in the form of increased commerce, the beginning of a true alternate to the Glenn and Parks Highways, and another bedroom community for Anchorage, like Eagle River and JBER.

Thank you for considering these points as you deliberate today.

Sincerely,

bethf ;-)

Beth Fread

1981 S. Jensen Rd.

Palmer, AK 99645

907.354.7759

Beth@BethsValleyViews.com



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Knik Arm Bridge and Toll Authority

820 East 15th Avenue
Anchorage, Alaska 99501
Main: 907.269.6698
Fax: 907.269.6697

For immediate release: June 12, 2013

13-4

Intent to Award issued for Knik Arm Crossing RFP to Review & Update Socioeconomic Forecast

Anchorage – The global consulting firm Cardno Inc., teamed with Alaska firm Agnew::Beck, has received an Intent to Award letter for a contract to peer review and update socioeconomic data used in the Knik Arm Crossing Traffic and Toll Revenue projections.

Cardno is a global infrastructure and environmental service company with more than 8,000 employees headquartered in Australia. They will staff the project out of their Portland, Oregon office. Agnew::Beck is an Anchorage-based community planning consultancy. The two firms will work as a team for the socioeconomic study.

The updated socioeconomic data developed by the Cardno/Agnew::Beck team will be incorporated into ongoing traffic and revenue forecasts for the Crossing. Variables such as changes in the regional, Alaska and national population, employment and economies since the last independent socioeconomic study for the Crossing was completed will all be factored in to the update.

“KABATA has engaged the Cardno/Agnew::Beck team to conduct a socioeconomic study to ascertain baseline information and generate forecasts of potential future results,” said Kevin Hemenway, KABATA’s chief financial officer. “The outcomes of that work will be used as inputs to updating the traffic and toll revenue forecasts over a range of possibilities.”

The final report from the Cardno study is due by September 30, 2013.

“It’s important to periodically update this information as time passes and new facts become known,” Hemenway said. “We want our traffic and toll revenue forecasts to reflect the best and most current information available.”

For more information contact the Knik Arm Bridge and Toll Authority at 907-269-6698.

###

250 West 57th Street
Suite 1420
New York, NY 10107

212 642 4350 Direct
917 545 2864 Cell
212 642 4357 Fax

Steven J. Kantor
Managing Director

steven.kantor@firstsw.com

Date: November 11, 2013

To: Angela Rodell, Commissioner of Revenue
Deven Mitchell, Director of Debt

Cc:

Subject: Financing Plan for Knik Arm Bridge

The State of Alaska (the "State") has examined the possibility of constructing a bridge from the Municipality of Anchorage to the Matanuska-Susitna ("Mat-Su") Borough for many years. The State proceeded with various legal, environmental and engineering studies to approve a 1.74 mile crossing across the Cook Inlet at Knik Arm (the "Project"). The State also created the Knik Arm Bridge and Toll Authority (the "Authority") in 2003.

First Southwest Company ("FirstSouthwest") has been retained by the Alaska Department of Revenue ("DOR") to examine the financing assumptions advanced by the Authority and to propose an alternative financing model. FirstSouthwest has created a model ("FSC Plan") based upon a design-build procurement process ("DB") and a more traditional public financing option. Our proposed model will offer the State a lower cost of financing, provide budget certainty and enable the State to secure its financing sooner. Under the FSC Plan, the bonds issued to investors will be backed by direct appropriations of the State, therefore enjoying the benefit of the State's sterling credit rating to achieve high AA credit ratings. State support for the debt service will be a finite, predictable amount based on the debt service for these bonds alone. The FSC plan calls for the State to have no ongoing obligation for the remaining funding of the Project, which will come from other sources.

First Southwest has used the following assumptions in developing our plan:

- Toll Revenues and Project Costs as forecasted in the CDM Smith Study dated August 31, 2011("CDM Study")
- Interest rates at levels as of close of business October 21, 2013
- Funding of operations and maintenance and toll operations per the CDM Study

First Southwest proposes a financing plan with the following components:

1. Application to the United States Department of Transportation for the maximum loan under the Transportation Infrastructure Finance and Innovation Act (“TIFIA”). Based upon the CDM Study’s most recent costs projections and our revised financing model, we have assumed an amount of the TIFIA loan will be approximately \$276 million, sized at 33% of the eligible project costs.

The security for the TIFIA loan will be limited to the tolls collected from the operation of the Project (“Toll Revenues”). If the full amount of Toll Revenues predicted in the CDM Study materialize, the coverage on the TIFIA loan would be over two times debt service. Even if only 75% of the CDM Smith projections are collected, the TIFIA loan coverage will be 1.6 times debt service. We believe that the strength of the pledge of the toll revenues will enable USDOT to fund a TIFIA loan without additional State support.

We have assumed that Toll Revenues will be used to fund maintenance and operations of the Project, tolling operations and TIFA debt service and that the debt service on the TIFIA loan will be subordinated to the funding of operating and maintenance and tolling operations. Any Toll Revenues not needed to pay tolling operations, operations and maintenance and debt service on the TIFIA loan will be available for any other Title 23 transportation projects in the State and/or to reimburse the State for debt service on the State’s appropriation backed bonds described below.

2. Appropriations of \$300 million in available Federal and State transportation moneys. This amount includes approximately \$112 million already appropriated and used by KABATA to advance the Project. The balance of this appropriation would come from moneys that are currently assigned to State projects that are not ready to fund at this time. FirstSouthwest proposes that these moneys be reassigned and used to finance the Project. To ensure that projects that are currently designated with these expiring funds but aren’t shovel-ready at this time retain their viability, the State could use the Advance Construction financing technique. Advance Construction financing would be designed to holistically assist the funding of the State’s Department of Transportation capital program when projects are ready.

3. Issuance by the State of Alaska, through the State Bond Committee, of approximately \$262 million of 20 year subject-to-appropriation bonds (the “Bonds”). At current rates, the State would need to appropriate approximately \$19 million per year in debt service for the next 20 years. These appropriations could be reimbursed from toll revenues to the extent the collections exceed the cost of operating and maintaining the bridge and tolls and the TIFIA loan payments.

4. We would recommend the creation of a Local Improvement District in the Mat-Su Borough to capture the anticipated growth in property values as a result of the completion of the Project. The Borough could leverage the growth in property values to provide for costs of improved Borough infrastructure as a result of the Project.

By comparison, the Authority has proposed a plan that calls for the selection of a private consortium to enter into a series of agreements to design, build, finance and operate the Project. This arrangement, known as a public-private partnership or P3, has been used to develop certain transportation developments across the country. Under the P3 proposed for the Project, the State would be obligated to make an annual availability payment. This availability payment would be used to pay all debt payments (TIFIA and PABs), equity return, operation and maintenance and toll collection. The availability payment is expected to start in 2017 at \$34 million and increase to \$131 million in 2051, the final year of the partnership.

This communication is for information only, not an offer, solicitation or recommendation, nor an official confirmation of any financial transaction. It is not to be considered research. The information is considered to be reliable, but First Southwest Company does not warrant its completeness or accuracy, prices and availability are subject to change without notice. We may trade, have long or short positions, or act as a market maker in any financial instrument discussed herein. Clients should consult their own advisors regarding any accounting, legal or tax aspects. Investors are instructed to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

There are several noteworthy challenges with the Authority's model. The structure of the availability payment requires that the State be obligated to cover projected and potential toll revenue shortfalls. Despite the State being obligated to make up deficient toll revenue, it is expected that debt issued under the Authority's plan will result in low investment grade credit ratings in the BB to BBB range. Additionally, the State Legislative Budget and Audit Committee's report dated March 7, 2013 identified concerns about the feasibility of achieving the projected toll revenues in CDM Study. The uncertainty associated with these factors makes it likely that State funds will be needed to fund shortfalls, that those shortfalls may be greater than expected, and that the P3 debt structure will have higher project and interest costs. By comparison, the FSC Plan calls for fixed payments from the State of approximately \$19 million for 20 years.

	Authority Plan (Amounts in Millions)	FSC Plan (Amounts in Millions)
Project Costs		
Construction	\$706	\$706
Reserves	\$185	\$20
Other Costs	\$190	\$112
Total	\$1,081	\$838
State Funds Contribution		
	\$295	\$300
TIFIA Bonds		
Amount	\$357	\$276
	Tolls plus State	
Security	Support	Tolls
Maturity	30 years	20 years
Interest Rate*	3.61%	3.41%
Equity		
Amount	\$79	None
Rate of Return	12%	0%
Other Debt		
Amount	\$351	\$262
	Private Activity	
Type	Bonds	Appropriation
Issued By	Private Consortium	State Bond Committee
Rating	BBB	AA+
Final Maturity	2051	2034
Interest Rate*	6.20%	3.36%

This communication is for information only, not an offer, solicitation or recommendation, nor an official confirmation of any financial transaction. It is not to be considered research. The information is considered to be reliable, but First Southwest Company does not warrant its completeness or accuracy, prices and availability are subject to change without notice. We may trade, have long or short positions, or act as a market maker in any financial instrument discussed herein. Clients should consult their own advisors regarding any accounting, legal or tax aspects. Investors are instructed to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

* Estimated as of 10/23/13

We believe the FSC Plan has several advantages for the State. The direct State funding for a portion of the Project will enable a lower cost of financing and known debt service obligations in comparison to the unknown obligations under the Authority's P3 structure. State funding will also provide for quicker financing of the project since funding can be provided expediently. Finally, the State will be able to retain any toll revenues in excess of the expenses of operations and maintenance, toll collections, and debt service on the TIFIA loan from the Project, allowing those revenues to be reinvested in other State transportation projects.

The Authority's P3 proposal places an uncertain burden on the State, as the amount and the duration of the State's commitment is not fixed. Under the FSC Plan, the federal government would assume the risk of toll collections meeting the CDM Study expectations. The State would also control the distribution of excess toll revenues under the FSC plan, as opposed to having the tolls be used to repay the debt of the project. Other risks can be delegated or accepted, as the State desires.

State of Alaska Department of Revenue		
Comparison of Plans		
Risks		
	<u>KABATA</u>	<u>FSC Plan</u>
Toll Revenue Fails to meet Projections	State	TIFIA
Design	Developer	Developer
Cost Overrun	Developer/State	Developer/State
Operations	Developer	State
Environmental	State	State
Term of State Payments	2051	2034
Annual State Payment	Uncertain	\$19 million
Initial Contribution	\$295 million	\$300 million
Maximum State Payment	\$3,238 million	\$689 million
(including Initial Contribution)		
Toll Revenue after Debt Service	\$2,221 million	\$3,105 million
(100% CDM Study)		
Toll Revenue after Debt Service	\$1,666 million	\$2,329 million
(75% CDM Study)		

This communication is for information only, not an offer, solicitation or recommendation, nor an official confirmation of any financial transaction. It is not to be considered research. The information is considered to be reliable, but First Southwest Company does not warrant its completeness or accuracy, prices and availability are subject to change without notice. We may trade, have long or short positions, or act as a market maker in any financial instrument discussed herein. Clients should consult their own advisors regarding any accounting, legal or tax aspects. Investors are instructed to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

On January 7, 2013, Jamie Kenworthy asked the Department of Revenue several questions and made several comments following the Mid December public release of the four page "Financing Plan for Knik Arm Bridge" that was created for the DOR through a contract with First Southwest Company. The response from DOR follows this copy of Jamie's e-mail.

--- Original Message ---

From: "James Kenworthy"

To: angela.rodell, deven.mitchell

Sent: Tue, 07 Jan 2014 06:10:03 -0900

Subject: Comments on First Southwest Plan for Knik Arm Crossing Project

What follows is an analysis of the 11/11/13 First Southwest memo to you on the proposed public financing plan for the Knik Arm Crossing. In initial conversation with Lacy Wilcox of your department, it is not clear to me whether the 11/11/13 memorandum represents the final work product for the Department of Revenue on this \$50 K contract to First Southwest or whether the issues identified below can still be addressed.

SUMMARY

The analysis below shows the 11/11/13 First Southwest Plan (FSC Plan) is flawed because of four factors:

The plan utilizes the same employment and population data which was identified as overly optimistic by the Legislative Budget and Audit Committee's Audit. CDM Smith's documented national record is to overestimate traffic and toll revenue by 118%.

The plan's entire financial foundation is predicated upon unrealistically high toll revenues to cover operational costs, bond servicing, and TIFIA loan repayments.

The plan perpetuates the egregious error of including four lanes of toll revenue while accounting for the cost of only a two lane bridge. To correct that error, either \$500 million for the additional two lanes needs to be added to the cost or toll revenue needs to be reduced by \$674 million (45%) over twenty years.

It is not clear why First Southwest argues a major feature of the FSC Plan is lower interest rates than the Public Private Partnership (P3) structure if the FSC Plan also requires a \$300 million down payment from the state or over 40% of the alleged project cost.

Because of these issues and because no spreadsheet or backup financial calculations that appear to be deliverables in the Department's RFP were included in the 11/11/13 memorandum, I think it is hard if not impossible to determine what the cost of the project with the PSC Plan will be within any acceptable range.

ANALYSIS

The FSC Plan appears to have the following flawed assumptions or undocumented work:

2 Lanes of Cost, 4 Lanes of Revenue

The FSC Plan uses a \$706 million cost for a 2 lane Bridge and 2 lane northern approach road. But the August, 2011 CDM Smith revenue base forecast (p. 33) which FSC Plan uses, includes revenue from 4 full lanes of tolled traffic on the Bridge in the ninth year the Bridge opens. By bridge year 9 CDM Smith shows revenue from 21,100 vehicles a day which is over capacity on a restricted 2 lane highway; by year 20 CDM Smith shows revenue from

36,000 daily trips, 6000 more than Mat-Su-Anchorage trips at Eklutna Flats on the 4 lane Glenn Highway today. How are 36,000 daily trips possible on a 2 lane Bridge?

Either at least \$500 M needs to be added to cost to build a 4 lane Bridge (plus more for 4 lanes northern approach) or no revenue can be shown on a 2 lane Bridge over at most 20,000 trips a day. If the \$706 million 2 lane Bridge cost is used with a maximum 20,000 daily trips capped at year 8, that reduces toll revenue by \$674 million or 45% over 20 years per CDM Smith numbers. This basic 2 lane/4 lane problem is why KABATA in December, 2012 submitted a \$1.6 billion bridge cost to be included in the LB&A audit.

CDM Smith Track Record: Projections 2x Reality

The FSC plan says even if toll revenue is 75% of CDM Smith's projection, the bond cover ratio is a comfortable 1.6. But CDM Smith, per the Transportation Research Board data, has a national track record of overestimating revenue by a 118% (see <http://knikbridgefacts.org/kabata-traffic-consultant-has-average-118-overestimation-error-rate-for-us-projects/>) or more than a factor of 2 for the first years tolled projects were open. That 2 times overestimation is consistent with Smith's estimate of 2035 daily Bridge traffic of 36,000 trips a day versus the Highway to Highway number from CH2MHill using ISER data of 17,700 trips a day. So without fixing the 2 lane of cost-4 lanes of revenue problem, even a more realistic 50% factor on CDM Smith revenue estimate puts the minimum bond cover ratio at 1.07 or way below the investment grade ratio necessary to sell state or TIFIA bonds without a state guarantee.

The 2 times overestimating rate is similar to CDM Smith recently providing the Oregon legislature with a traffic and revenue public projection twice what it had provided private investors, (see <http://knikbridgefacts.org/was-kabata-traffic-and-toll-consultant-cdm-smith-keeping-2-sets-of-books-to-hoodwink-oregon-legislators/>)

No \$276 Million TIFIA Loan Without State Guarantee

The FSC Plan projects a \$276 million low interest federal TIFIA loan based only on toll revenue. Can First Southwest identify one successful federal TIFIA award to a toll project in the last five years that was not backed by a public or private guarantee or both? The Knik Arm Crossing project has now been rejected 5 times for a TIFIA loan; without a public guarantee to cover the toll shortfall the sixth TIFIA application will almost surely meet the same fate.

Why Wasn't Information from the LB&A Audit and Latest Socio-Economic Data Used?

The LB&A audit had some concrete findings as to the overly optimistic population and employment projections that underlay the P3 financial projections. (It should also be noted that the numbers for operations, maintenance, and toll collection which First Southwest relied on came from KABATA and Citi, not CDM Smith.) Without consulting the audit work of independent traffic consultant Timothy James, how is it possible for First Southwest to examine the "credit worthiness" and "underlying economics" of the project?

Since KABATA has contracted with Cardno and Agnew:Beck for new socio-economic data that was due 11/30/13, when First Southwest completes its final financing plan, would it not make sense that the new population and employment data be used by a truly independent firm to estimate toll revenue?

What's the Real Cost?

How will the different elements of the FSC Plan be sequenced? Is the legislature to commit to a 20 year \$262 million bond but if the TIFIA loan does not materialize then the state bond amount will be increased to about \$540 million? Without a detailed "amortization schedule" (deliverable #5 in the Department of Revenue RFP)

and "detailed financial calculations" and bond cover ratios (deliverable # 3 in the RFP) it is hard to understand how the Plan adds up and predict what the final cost to the state will be.

Just listing the two plans of finance on p. 3 of First Southwest 11/11/13 memorandum does not appear to meet the evaluation of amortization schedules for the two scenarios promised in deliverable # 5 and # 6. Since the state putting down \$300 million up front significantly lowers interest costs in any scenario, at a minimum a net present value calculation on that down payment should be part of any fair evaluation of P3 vs state finance scenarios. The wording of the RFP deliverables appears to require the contractor to show their financial work.

Request

I hope the above issues can be addressed before a final report from First Southwest is accepted by the Department of Revenue. Thank you for any consideration these comments receive.

Jamie Kenworthy

The following is the response from the Department of Revenue

----- Original Message -----

From:

"Wilcox Lacy J (DOR)" <lacy.wilcox@alaska.gov>

To:

"James Kenworthy" <jamiek@alaska.com>

Sent:

Thu, 06 Feb 2014 19:23:09 +0000

Subject:

RE: Question

Hi Jamie,

The 11/11/2013 report prepared by FSC is the only deliverable received thus far under this contract. The other deliverables mentioned are available to the Department upon request. We have not done so because we were fully briefed verbally and did not feel the need to see detailed schedules prepared in order to provide the final report. We are satisfied that the contract is being completely fulfilled. The period of performance for this contract begins September 10, 2013 and ends September 9, 2014 with two (2) one (1) year renewal options, to be exercised at the State's sole discretion.

Please let me know if I may further assist.

Thank you most kindly for your patience.

Lacy

Lacy Wilcox

Special Assistant

Department of Revenue

907.465.2301

ADN.com

[Previous Story](#)

[Next Story](#)

First in an occasional series

Anchorage doesn't have enough homes to meet demand

By DEVIN KELLY

dkelly@adn.com March 8, 2014

[Facebook](#) [Twitter](#) [Google Plus](#) [Reddit](#) [E-mail](#) [Print](#)



Shawn Hood his wife Ashley Hood and their two children Dylan and Ethan Hood and their cat Bugsy are living in a 3 bedroom townhouse in south Anchorage. The family would like to move up in the housing market but are having trouble finding a suitable home in their price range. Photographed on Saturday, February 8, 2014. 140208

BOB HALLINEN — Anchorage Daily News Buy Photo

Climbing the staircase to the second floor of her family's South Anchorage duplex, Ashley Hood glanced over at the toys scattered across the living room.

"You see why we need to move?" she asked.

The Anchorage hairstylist and her husband, Shawn, an aircraft mechanic, moved into the three-bedroom,

townhouse-style unit in 2011, several months after the birth of their first child. It was a good fit for the family of three and a calico cat named Buggy.

Now Dylan is 3, an observant toddler who repeats phrases he overhears. Last July, a second child, Ethan, was born.

"This has been a great first-time-buyer home," Hood, 28, said in a recent interview, balancing Ethan on her lap, "but we've outgrown it."

The couple earns about \$80,000 a year. Every day, Hood checks the Trulia app on her phone for homes for sale in their price range.

The results are frustrating.

"There's just, like, nothing," she said. "It seems like people are holding on to what you want."

The Hoods' situation reflects the increasingly visible problem of "housing gridlock" in Anchorage. People at all income levels can't afford to move up in the market, so the buyers below them can't move up, either.

Not enough houses and apartments are being built to meet current and future demand, analysts say. Housing costs are rising, forcing families to make tough financial decisions.

Local business leaders are warning that the trend threatens to hurt the local economy. When it comes to housing, Anchorage is the 20th most expensive city in the United States, according to a recent national cost-of-living survey. Businesses large and small say the cost of housing is making it more difficult to hire and keep workers.

A growing pool of data compiled by United Way of Anchorage consultants hints at the scope of the problem. Some examples:

- An Anchorage household must earn \$100,000 a year to afford an average-priced home, \$65,000 a year to afford a condo and \$50,000 a year to rent a two-bedroom apartment.
- According to the U.S. Department of Housing and Urban Development, "affordable" is defined as paying 30 percent or less of household income for housing. About half of Anchorage renters pay 30 percent of their income in housing. A fifth of Anchorage renters pay 50 percent or more.
- Workers in 21 of the 25 most common jobs in Anchorage cannot afford a two-bedroom apartment, and workers in 18 of these jobs cannot afford a one-bedroom rental apartment.
- The average sale price for a home in Anchorage in 2013 was \$346,977, a 7.8 percent increase from 2011, according to data from the Multiple Listing Service. Between 2008 and 2012, the median cost of an Anchorage rental increased 13.2 percent.
- The housing stock is deteriorating. Ten percent of Anchorage's rental housing stock was built before 1960. More than half of it was built before 1980.
- Construction of new housing, particularly multi-family, has slowed overall since 2007 and currently falls well below the projected need. In 2013, for example, analysts projected a need for 418 multi-family units; just 72 were built.

Exactly how Anchorage reached the point of housing gridlock is complex and open to debate. But there is growing recognition from analysts that the problem exists, and it's poised to get worse.

One key study, the 2012 Anchorage Housing Market Analysis, projected that the Anchorage Bowl will need about 18,000 new housing units by 2030. The analysis observed that without more dense construction and increased rates of redevelopment, the Anchorage Bowl will meet less than half that demand.

Based on the projections, the Anchorage Bowl needs to gain about 909 new units of housing per year. For five straight years, Anchorage has fallen well short of that mark, building fewer than 350 new housing units a year. A surplus of land exists in Chugiak and Eagle River but the 2012 report concluded that neither area is an ideal location to meet the Bowl's needs for urban multi-family development.

The last time per-capita housing production was this low, analysts say, was in the 1980s, on the tail end of a recession and exodus that reshaped the state. In the wake of a crash in oil prices and the collapse of the housing market, the Anchorage population plunged from 248,000 people in 1985 to about 219,000 people in 1988. The vacancy rate vaulted to 25 percent.

Nearly three decades later, the situation is reversed. The economy is humming, interest rates are low and the vacancy rate, 3.3 percent in 2013, is below the healthy average. The city has more than made up the lost population of the 1980s, with more than 301,000 people and counting.

But there has been relatively little building activity in recent years, particularly among private developers and in multi-family rental units.

DEVELOPING IN ANCHORAGE

In the last six years, Anchorage's private developers pulled back on housing construction. Only five private developers built more than 100 units of housing in Anchorage between 2007 and 2013. Most of those units were pre-sold, an indication of high demand.

The construction of new multi-family rental developments has been chiefly taken on by the public sector and not-for-profit developers, with the help of government programs and subsidies. Public money, however, will not be enough to meet the production demands of the future, and greater activity among private developers will be critical, analysts say.

But much of the easy-to-develop land in the Bowl is gone. And developers describe the building and permitting process in Anchorage as burdensome, time-consuming and expensive.

"There's so many barriers," Andre Spinelli of Spinell Homes, a member of the Anchorage Neighborhood Development Commission, said in a January interview. "Too many to list."

Cost, which increases the longer a project lasts, has been identified as one of the most fundamental obstacles. According to United Way, builders and developers currently confront, for various reasons, a 25 percent to 50 percent gap between the cost of building multi-family rental housing and what the majority of Anchorage renters can afford.

Regulators say the municipality is already adopting changes to address issues of expense and density, pointing to the sweeping rewrite of the Anchorage land use code that took effect on Jan. 1. The rules include a new zoning category meant for denser projects, and ways to allow developers to reduce the number of required parking spaces, often a big cost driver in multi-family developments.

"Our city is going to become more urban but that's a sensitive process," said Jerry Weaver, city planning director, in a recent interview.

He said the planning division has been working to talk more with developers before a project starts, and is examining ways to introduce tax abatement tools to ease high construction costs.

Meanwhile, in Midtown -- an area viewed as one of the hot spots for future growth, along with Spenard and Fairview -- an early test for the new code has cropped up. Weidner Apartment Homes, one of the city's largest private owners of rental properties, wants to add more than 250 units and some commercial space to an existing apartment complex under the new regulations.

The project is being closely watched as something of a litmus test for how denser development will play out.

But within the development, social services and financial communities, there is a growing sense that much more needs to be done to jump-start production. It's led to the launch of a campaign, with a name meant to catch the attention of policymakers: Housing Anchorage.

HOUSING ANCHORAGE

An awareness of the critical need to kick-start housing production dates back to 2009, when Mayor Dan Sullivan convened a "kitchen Cabinet," or task force, to address homelessness. A series of recommendations followed, as well as a striking new understanding about the severity of Anchorage's housing shortage.

"We basically said, 'We cannot truly make progress on homelessness if we don't address this underlying insufficient stock and unaffordability,'" said United Way President Michele Brown, a task force participant, "because there is no place for people to go."

Four years and various reports and work groups later, the rising sense of urgency has fostered a new coalition that involves public and private developers, lenders, builders and community and government organizations and officials.

The coalition, which calls itself Housing Anchorage, is led by United Way, Cook Inlet Housing Authority, the Rasmuson Foundation, the Anchorage Community Development Corp. and the Alaska Housing Finance Corp. A \$250,000 grant from the Rasmuson Foundation is underwriting the coalition's activities, which include the coordination of team members, the development of outreach materials, and research, said Jordan Marshall, the foundation's external affairs manager.

In coming months, the coalition plans to convene work groups and hold public community discussions. The chief goals: Find ways to boost construction of all types of housing, especially multi-family and work force housing, and remove barriers to development, through financial incentives or regulatory changes.

Much discussion on housing production has swirled in recent years. But Brown, of United Way, said the Housing Anchorage campaign is intended to break down the regulatory, policy and infrastructure challenges more systematically than ever before.

"We're not here because we have solutions," Brown said recently. "We need to have a process by which we have a very thoughtful, data-driven, rigorous community discussion on these key issues."

A PRICE TO PAY

The call for comprehensive action comes amid mounting concern that the housing shortage is hurting the city's economy.

Anchorage is already a pricey city -- the 23rd most expensive in the U.S. overall, according to the 2013 cost-of-living index published by the Council for Community and Economic Research, which surveyed about 300 cities nationwide.

In the housing category, Anchorage ranks 20th, 55 percent more expensive than the national average, Bill Popp, director of the Anchorage Economic Development Corp. pointed out at a recent panel.

"That's a real headwind for attracting new investment in our city," Popp said, noting that the city's housing placement in the survey is an all-time high.

In a recent survey conducted by AEDC, nearly 60 percent of employers thought the cost of housing in Anchorage had become a detriment to hiring or retaining workers, a particular concern for members of the finance industry.

"When you do get so tight in an economy that cannot facilitate growth and employment, you are at a point you cause inflation," said Joseph Beedle, president and CEO of Northrim Bank, which supports the goals

of Housing Anchorage. "You cause challenges for business to grow."

It ties back into the effect of families feeling the pinch. Over the last several years, a rising number of families have reported going without at least one basic need a month, Brown said. Between 2008 and 2012, rental costs increased 13.2 percent, while the median household income of renters increased 4.7 percent. And spending more on housing means spending less on food, health care and other goods and services, as a 2012 housing task force report pointed out.

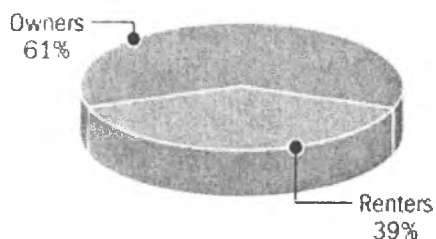
Hood, the South Anchorage resident, said she looked recently at listings and spotted a house that interested her. A day later, it was off the market.

That house was probably more than she and her husband could afford, Hood said. "But that just goes to show," she said, "we'll probably buy a house that's more than we can afford."

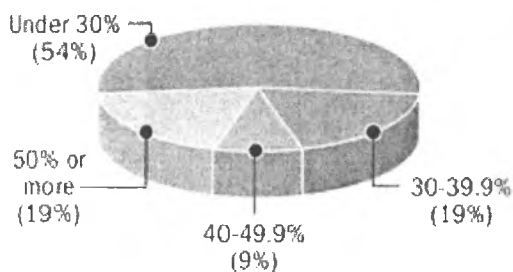
We'd like to hear about your experiences with housing in Anchorage. Share your stories with reporter Devin Kelly at dkelly@adn.com

Anchorage housing

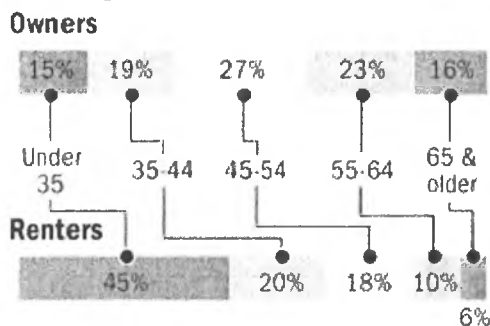
Owner and renter households in 2012 totaled 113,070



Anchorage 2012 gross rent as percent of household income



Age of head of household

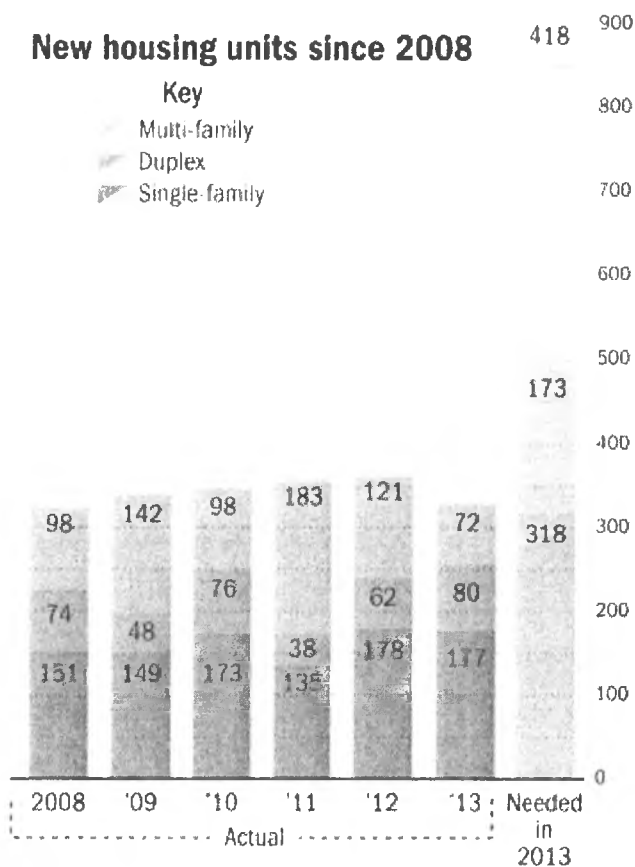


*Due to rounding not all percentages equal 100

Sources: Susan Fison, Fison & Associates; MOA Building Permit Data

New housing units since 2008

Key
 Multi-family
 Duplex
 Single-family



Average apartment vacancy rate



KEVIN POWELL / Anchorage Daily News

Facebook Twitter Google Plus Reddit E-mail Print

Join The Conversation

Anchorage Daily News is pleased to provide this opportunity to share information, experiences and observations about what's in the news. Some of the comments may be reprinted elsewhere in the site or in the newspaper. We encourage lively, open debate on the issues of the day, and ask that you refrain from profanity, hate speech, personal comments and remarks that are off point. Thank you for taking the time to offer your thoughts.

Commenting FAQs | Terms of Service

Today's Circulars



SPORTS AUTHORITY
VALID UNTIL APR 24
[View All Circulars](#)

[Email Newsletters >](#)

[Manage newsletter subscriptions](#)

[Tablets >](#)

[Apps and services for tablet devices](#)

[Mobile >](#)

[Apps and services for your mobile phone](#)

[Social Media >](#)

[Get updates via Facebook and Twitter](#)

[e-Edition >](#)

[Your daily paper delivered to your computer](#)

[Home Delivery >](#)

[Manage your home delivery account](#)

[Digital Subscriptions >](#)

[Manage your online subscriptions](#)

[careerbuilder](#)

[cars.com](#)

[HomeFinder.com](#)

[apartments.com](#)

[dealsaver](#)

[FIND & SAVE](#)

Senate CS for 2d CS for House Bill 23 (FIN)
Version 28-LS0141\R

Section 1: Amends AS 19.75.021 Establishment of the Authority (KABATA)

Amends existing law to prevent the dissolution of KABATA until bonds issued by the State are satisfied.

Section 2: Amends AS 19.75.111 Powers and Duties of Authority (KABATA)

Amends existing law to allow KABATA to enter into an agreement with the State to pledge residual toll revenues to pay debt service incurred by the State.

Section 3: Amends AS 19.75.211 Bonds of the Authority (KABATA)

Amends existing law to require the State Bond Committee to evaluate whether toll revenues are adequate for payment of the principal and interest on bonds issued by the State before KABATA may issue additional toll revenue bonds.

Section 4: Amends AS 19.75.221 Trust Indentures and Trust Agreements; Funds and Reserves (KABATA)

Amends existing law to require that if KABATA issues bonds in addition to the toll revenue bonds issued by the State, KABATA's trust agreement would require the authority to agree to keep tolls at a level sufficient to cover any prior toll revenue pledges made to support previously issued State toll revenue bonds.

Section 5: Amends AS 19.75.231 Validity of Pledge

Amends existing law to express the Legislature's intent that a toll revenue pledge made by KABATA to support bonds issued by the State is valid and shall give rise to a lien against toll revenues.

Section 6: Establishes the Framework for Issuance of Toll Revenue Bonds for a Toll Bridge

AS 37.15.225 – Bond Authorization

Net proceeds of the sale of bonds remaining after payment of costs of issuance and after deposit to the Bond Reserve Fund, shall be transferred to the Knik Arm Bridge & Toll Authority. The net proceeds may be held by a trustee to be disbursed to pay the costs of a toll bridge, as set out in a trust agreement.

Accrued interest paid on the bonds shall be deposited into the Bond Redemption Fund.

Prior to the issuance of bonds, the State Bond Committee will notify the Legislature.

AS 37.15.230 – Provides for a Toll Bridge Revenue Bond Limit

The total unpaid principal amount of revenue bonds may not exceed \$300,000,000.

AS 37.15.235 Establishes a Toll Bridge Revenue Fund

Revenue received by the State, by contract with the authority, from the ownership or operation of the toll bridge and facilities, shall be deposited in this fund.

Senate CS for 2d CS for House Bill 23 (FIN)
Version 28-LS0141\R

Contracts or other agreements with the authority may establish priorities for the payment of operations and maintenance costs and for the payment of other obligations (including debt obligations of the authority), prior to payments to be made by the authority to the State for deposit into this fund.

Revenue in the fund may be used only for:

1. Pay or secure payment of the principal of and interest on bonds;
2. Redeem bonds before the fixed maturity date; and
3. Subject to appropriation by the Legislature, for any other purpose for which federal funds may be obligated by the State under 23 U.S.C. 129(a)(3).

AS 37.15.240 Establishes the Toll Bridge Revenue Bond Redemption Fund

A trust fund for paying and securing the payment of the principal and interest on the bonds authorized under AS 37.15.225 - 37.15.285 is created. There is no limitation on the source of funds that may be deposited into the fund, only that funds in this account are to be used to pay principal and interest on bonds issued under AS 37.15.225 – 37.15.285.

AS 37.15.245 Establishes Bond Terms

Provides discretion for the state bond committee to determine the manner, amount, timing, and maturity date for the issuance of bonds under AS 37.15.225 – 37.15.285. Interest rates may be fixed or variable.

Requires the state bond committee to consider the best interests of the State when setting the terms of bond issuance and requires the final bond terms be expressed through a resolution of the bond committee.

AS 37.15.250 Bond Resolution

Provides that the bond committee shall authorize the issuance of the bonds by adopting a resolution. The resolution may fix the principal amount, denominations, date, maturities, manner of sale, place or places of payment, terms, form, conditions and covenants of the bonds.

AS 37.15.255 Bond Reserve Fund

The resolution authorizing the issuance of bonds, may provide for the establishment and maintenance of a special fund – The Toll Bridge Revenue Bond Reserve Fund.

The fund will consist of:

1. All proceeds of the bonds required to be deposited into the fund by terms of the bond resolution or a trust agreement;
2. An amount equal to the required debt service reserve, as determined by the Commissioner of Revenue; and
3. Appropriations approved by the Legislature.

Money in the fund will be applied solely to the payment of the interest and principal on bonds authorized and issued under AS 37.15.225 – 37.15.285.

Senate CS for 2d CS for House Bill 23 (FIN)
Version 28-LS0141\R

Money in the reserve fund, excess of what is required for the debt service reserve, may be withdrawn or may be transferred to the bond redemption fund.

Bonds may not be issued under a trust agreement, indenture, or bond resolution unless the required debt service reserve for the bonds is in the reserve fund.

If the funds in the fund fall below the required debt service reserve amount, as determined by bond committee, the Commissioner of Revenue will notify the Governor and the Legislature of the amount of funds necessary to restore the account to an amount sufficient to meet the required debt service. The Legislature then has the discretion of appropriating funds to replenish the fund to an amount equal to the required debt service reserve.

AS 37.15.260 Enforcement by Bond Owner

Provides that bondholders, or their trustees, may enforce their rights (transfer, set aside, payment of money, and the enforcement of all terms, conditions, and covenants) in superior court.

AS 37.15.265 Amounts Required for Payments

Starting with the year in which bonds are issued, the bond committee will certify to the Commissioners of Revenue and Administration, the amount, required for the next two fiscal years, to be paid from toll revenues or other state appropriations to:

1. The Bond Redemption Fund – to pay the principal and interest
2. The Bond Reserve Fund – to maintain the required debt service reserve

AS 37.15.270 Refunding

Provides the bond committee with the authority to refund parts or all of the bonds at or before the maturity or redemption date, if refunding is advantageous to or in the best interest of the State. All of the provisions that relate to the issuance of bonds under AS 37.15.225 – 37.15.285 are applicable to the refunding bonds.

AS 37.15.275 Bonds as Legal Investments

Provides that the bonds are legally enforceable securities that can be purchased by individual and institutional investors.

AS 37.15.285 Definitions

Section 7: Effective Date Clause

Provides for a July 1, 2014 effective date.

KABATA Funding: Joint KABATA- DOT&PF Proposal, March 1, 2014

	UGF	Federal Formula	Other	Total
Estimated Project Cost Needed to Construct (From KABATA February 27, 2014)				\$ 894,424,715
Remaining Authority Available for Construction		\$ 18,932,260		\$ 18,932,260
FY2015 Budget Proposed Authority	\$ 5,000,000	\$ 50,000,000		\$ 55,000,000
Additional Federal-Aid Needed		\$ 226,067,740		\$ 226,067,740
State Issued Bonds*			\$ 251,495,401	\$ 251,495,401
TIFIA Loan**			\$ 341,348,576	\$ 341,348,576
Interest earnings on construction bond fund			\$ 1,580,738	\$ 1,580,738
Totals	\$ 5,000,000	\$ 295,000,000	\$ 594,424,715	\$ 894,424,715

*In addition \$20,269,048 raised to cover one year P&I payment held in reserve by DOR. \$ 20,269,048

*In addition, \$4,140,551 raised to pay for debt issuance costs for the bonds. \$ 4,140,551

** TIFIA loan payments will come from toll revenue. In addition, \$2,123,890 raised to pay for TIFIA debt issuance costs. \$ 2,123,890

Note: Project costs prior to this estimate are not shown for clarity.

Total Fed Funds	\$ 295,000,000
Less earmark unused	\$ 18,932,260
Less FY2015 Proposed Federal Authority	\$ 50,000,000
Total forward fed funds needed	\$ 226,067,740
Federal funds needed over 5 years ('16 - '20)	\$ 45,213,548

Advantages of this revised approach:

Would use state bonds for all match after 2015 (Saves about \$24 M UGF)

Would use TIFIA at 33% of total costs up to award.

Revisions

1) Revised March 7, 2014 to separate TIFIA and bond debt issuance costs from capital cost estimate. (KABATA jjd)

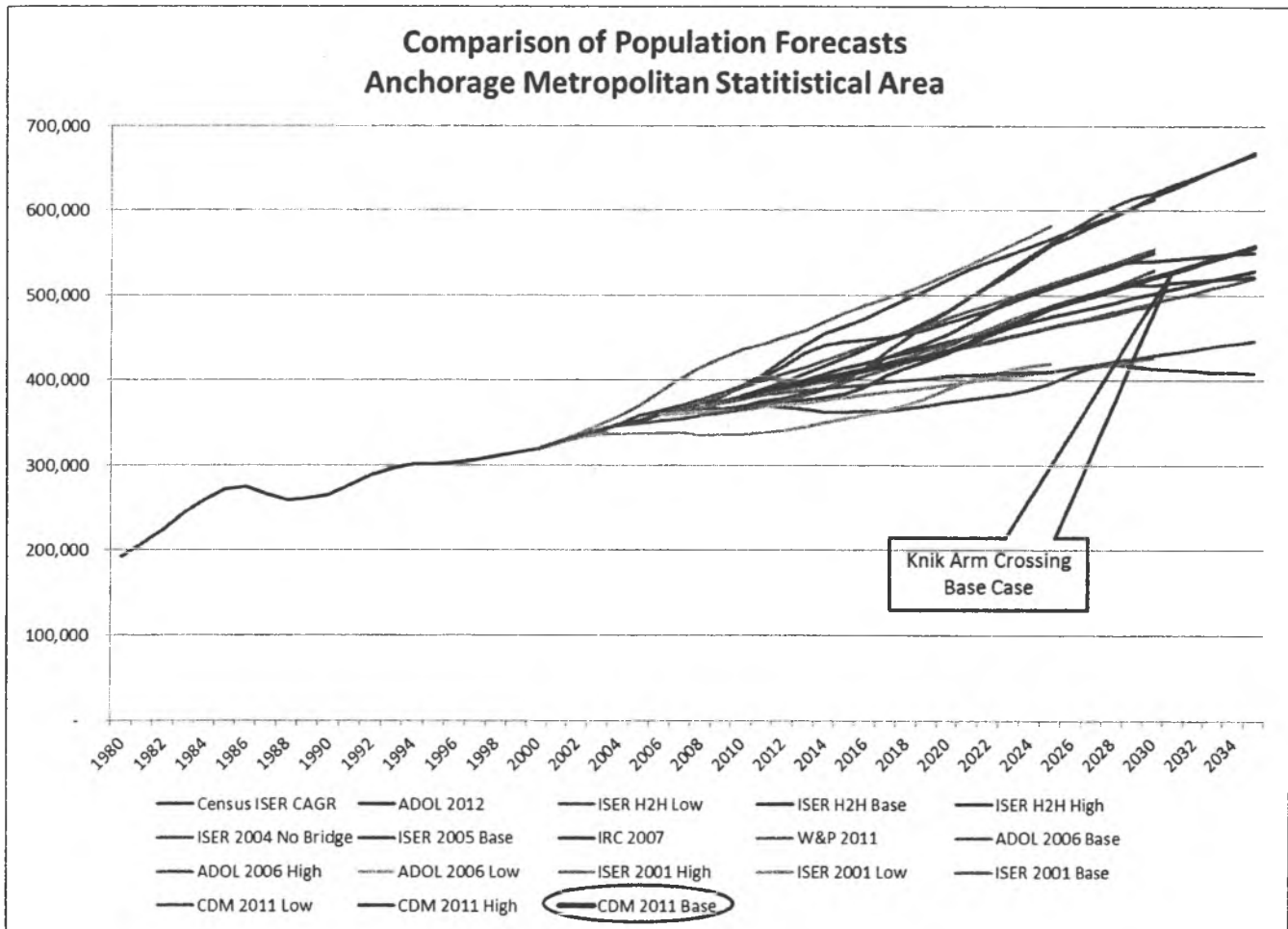
Knik Arm Crossing Traffic Study FAQ's

Who is KABATA?

The Knik Arm Bridge and Toll Authority (KABATA) is a State agency created on September 15, 2003 under Alaska Statute 19.75 to construct a bridge across Knik Arm (the KAC project) connecting the Municipality of Anchorage and the Mat-Su Borough. Using a P3 delivery method is a way to pay for this project over time, rather than paying for it up front like all other transportation projects in the state.

What's happening with growth in the MatSu?

- State forecasts predict that the MatSu Borough population will nearly double in the next 25 years.
- Knik-Fairview area has more residents than Wasilla and Palmer combined, and if incorporated, would be the fourth largest city in Alaska.
- Traffic on Knik-Goose Bay Road (KGB) is growing rapidly. At the KGB/Fairview Loop intersection, traffic volumes doubled between 1998 and 2011. 2-lane KGB currently carries more than half of the 4-lane traffic volume carried by the Glenn Highway at Eklutna, and more than 150% of the Seward Highway 2-lane traffic.



What work has been done to determine how much traffic will be on the bridge?

Since 2005, there have been six travel demand forecasts developed that predict traffic volumes on the KAC. All of these forecasts anticipate the need for 4 lanes on the KAC before 2035.

Knik Arm Crossing Travel Forecasts

Date Published	Purpose	Client	Firm	Socioeconomics	Model Base	Forecast Year	Tolls Incorporated	Bridge Forecast
Oct. 2005	KAC EIS	KABATA	HDR	ISER, 2002 base year data – published 2005	2002 MOA & MSB models	2030	No	46,652 trips/day
Nov. 2005	Preliminary Traffic and Toll Revenue Study	KABATA	WSA	ISER, 2002 base year data – published 2005	2005 KABATA/EIS Model	2039	Yes	42,000 trips/day (39,000 in 2035)
Sept. 2007	Final Traffic and Toll Revenue Forecast	KABATA	WSA	Insight Research Corporation, 2006 base year data	2005 KABATA/EIS Model	2039	Yes	46,400 trips/day (43,400 in 2035)
Sept. 2010	H2H EIS	DOT&PF	HDR/CH2M	ISER Dec. 2009	2005 KAC Model	2035	No	37,200 trips/day
Feb. 2011	KAC TRS Update	KABATA	WSA	IRC & 2010 Census	H2H Model	2035	Yes	36,000 trips/day
May 2012	MOA LRTP	MOA/ DOT&PF	CH2M	ISER Dec. 2009 & 2000 Census	H2H Model	2035	No	37,100 trips/day

Why is an economic and demographic study important to us?

Economic and demographic studies provide insight that anticipates the growth trends for an area. While local planners update their studies every few years to react to the short term changes in the economy, an investment grade study must look at the long term trends to provide confidence to the financial market. We prepared an investment grade study because the financial marketplace requires these robust studies that reflect the long term trends.

Why is the Division of Legislative Audit (DLA) recommending the KAC traffic study be revised?

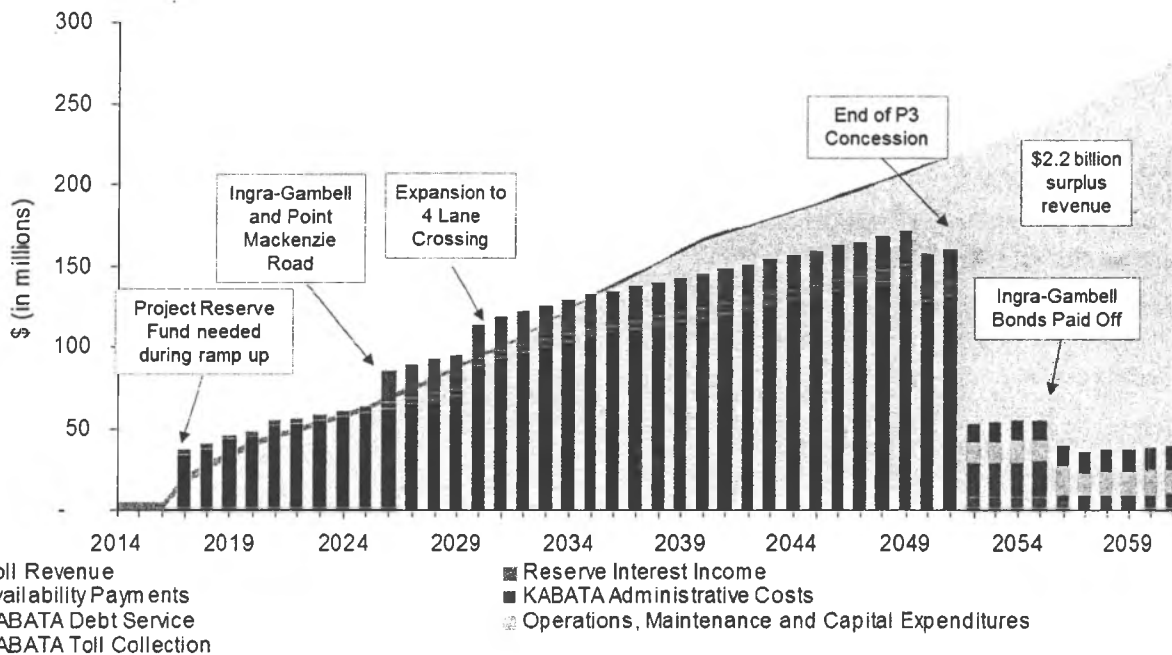
DLA has learned that the MatSu Borough school district recently conducted an economic and demographic study to plan for future schools and public buildings. Their plan assumes that there will be no change to the historical population and economic growth in the Point Mackenzie area after the KAC is built. The traffic model being prepared for an ADOT project in Wasilla also uses the school district economic and demographic study. It does not consider any increased growth in population or jobs in the Point Mackenzie area as a result of the Knik Arm Crossing.

Why did the MSB not consider growth from the KAC in their traffic model? KABATA met with the MSB to discuss the differences between the models. Until the bridge project is certain, they are choosing to assume there is no bridge. Once the bridge is constructed, they can plan accordingly.

Why did KABATA select the base case traffic and revenue forecast?

KABATA and its advisors have utilized the base (expected) revenue forecast for its base financial model and for determining the level of project reserve funding necessary. This case results in the need for a \$150 million project reserve and anticipates additional appropriations totaling around \$37 million will need to be requested in about 2031, when traffic grows to a level that would require widening the road to 4 lanes. Since this is the expected case derived from an extensive traffic and revenue forecasting effort, it is an appropriate basis for a legislative request.

KABATA Projected Obligations and Toll Revenues – Alternate (33% TIFIA)



Impact of KABATA on the State's Credit

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P.O. Box 113300
Juneau, AK 99811-3300
(907) 465-3830
FAX (907) 465-2347
legaudit@akleg.gov

SUMMARY OF: A Special Report on the Department of Transportation and Public Facilities, Knik Arm Bridge and Toll Authority (KABATA), Knik Arm Crossing (KAC) Project

PURPOSE OF THE REPORT

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of KABATA's KAC Project. The audit objectives were to:

1. Provide a historical summary of major KAC Project milestones;
2. Identify significant changes to the project scope;
3. Evaluate the adequacy of public participation;
4. Provide a detailed summary, by source, of KAC authorized, expended, and remaining funding, including the level of funding necessary to complete the project;
5. Ascertain the reasonableness of KAC toll and revenue projections and the KAC projected financial plan;
6. Evaluate the KAC private-public-partnership (P3) agreement; and
7. Outline the balance of risks and rewards between public and private partner entities as outlined in the P3 agreement.

REPORT CONCLUSIONS

The audit concludes that KAC toll and revenue projections are unreasonably optimistic, and the projected cash flows to the State are likely overstated as a result. These are important considerations for policymakers since the P3 compensation arrangement requires KABATA to make payments to the private partner regardless of the project's ability to generate toll revenues. The deficiencies in KABATA's methodology for generating toll and revenue projections are addressed in Recommendation No. 1.

KABATA's FY 03 through FY 12 expenses total \$70.4 million and authorized funding totals \$131 million. The project is expected to require an additional \$1.4 billion from a variety of sources including bonds, loans, grants, and private equity. A discussion of key project planning and development milestones is provided as part of this report's Background Information section. Appendix A provides a list of significant KAC Project milestones.

The audit was unable to fully outline the balance of risks and rewards embodied in the final P3 agreement because the procurement process is not complete, and the P3 agreement has not been finalized. However, the general structure of the P3 agreement has been defined by KABATA's governing board and provides that the State will bear the risk of lower-than-expected toll revenues.

It is important to note that a final P3 agreement will also contain rewards and additional risks that are not addressed in this report due to the scope limitation already discussed. This report is not concluding whether or not this specific risk is justified when considering the P3 agreement's balance of risks and rewards for the agreement as a whole. The risk of lower-than-expected toll revenues is an important aspect of understanding the potential effect of deficiencies in projections and should be considered in that context.

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

KABATA management should revise traffic and toll revenue projections to address deficiencies.

The audit of key assumptions and inputs used in KABATA's transportation modeling process identified several concerns regarding the validity of assumptions and inputs used as a basis for projecting KAC toll revenues. Overstated traffic volume in KABATA's modeling process has the effect of overstating projected toll revenues.

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

Knik Arm Bridge and Toll Authority (KABATA) management should revise traffic and toll revenue projections to address deficiencies.

The audit of key assumptions and inputs used in KABATA's transportation modeling process identified several deficiencies regarding the validity of assumptions and inputs used as a basis for projecting toll revenues. Deficiencies are as follows.

- The household levels and growth rate KABATA projected for 2035 were overly optimistic when compared to the household growth rates and levels projected by University of Alaska's Institute of Social and Economic Research and the State's Department of Labor and Workforce Development. The discrepancy stems from KABATA's economic growth rate projections in the Point MacKenzie region, specifically in the Port MacKenzie (Port) area.
- KABATA's estimated traffic growth rate of five percent is significantly higher than the actual growth rate of 2.5 percent based on the Department of Transportation and Public Facilities' traffic counts. The differences are partially caused by the anticipated growth in population and employment in the Point MacKenzie area.
- A projected 50 percent KAC market share of traffic is unsupported.
- The estimate of a 12 percent split for commercial vehicle traffic for the KAC is high compared to actual traffic count data for the Glenn Highway which indicates a split of 4.9 to 6.6 percent. KABATA's 12 percent split is based on DOTPF's 2003 through 2006 traffic data. Since then, DOTPF has improved its traffic data collection methodology and now reports much lower traffic count splits that better reflect the actual count between personal and commercial vehicles.
- KABATA's projected 2035 Point MacKenzie area employment level of 14,337 is significantly higher than the level noted in the Matanuska-Susitna Borough plan of 4,515. A majority of KABATA's employment (13,828) is based on projected Port economic development which is inconsistent with the Port's master plan and regulations.

All of the above concerns have the effect of overstating traffic volume. Overstated traffic volume in KABATA's modeling process has the effect of overstating projected toll revenues.

The Federal Highway Administration's (FHWA) guidelines for P3s²⁰ state:

Inaccurate or overly optimistic traffic projections and underestimated project costs can lead to the development of pro forma financials that appear to justify the investment decision, but that do not reflect the project's actual ability to repay debt or to meet equity investor's return requirements.

Under KABATA's planned P3 arrangement, lower than expected toll revenues would necessitate the need for additional funding as availability payments must be paid to the private partner regardless of how much the bridge is used.

In recognition of the risk that overstated toll revenues pose to the State, we recommend KABATA management revise the traffic and toll revenue projections to address noted concerns.

²⁰The FHWA's Innovative Program Delivery, *Risk Assessment for Public-Private Partnerships: A Primer*, September 10, 2012.

REPORT CONCLUSIONS

In an effort to provide legislators with the knowledge necessary to make informed decisions on future KABATA-related legislation, an audit of the KAC Project was requested. The audit objectives were to:

1. Provide a historical summary of major KAC Project milestones;
2. Identify significant changes to the project scope;
3. Evaluate the adequacy of public participation;
4. Provide a detailed summary, by source, of KAC authorized, expended, and remaining funds, including the level of funding necessary to complete the project;
5. Ascertain the reasonableness of KAC toll and revenue projections and the KAC projected financial plan (financial plan);
6. Evaluate the KAC private-public-partnership (P3) agreement; and
7. Outline the balance of risks and rewards between public and private partner entities outlined in the P3 agreement.

The audit concludes that KAC toll and revenue projections are unreasonably optimistic, and the projected cash flows to the State are likely overstated as a result. These are important considerations for policymakers since the P3 compensation arrangement requires KABATA to make payments to the private partner regardless of the project's ability to generate toll revenues. The deficiencies in KABATA's methodology for generating toll and revenue projections are addressed in Recommendation No. 1.

KABATA's FY 03 through FY 12 expenses total \$70.4 million and authorized funding totals \$131 million. The project is expected to require an additional \$1.4 billion from a variety of sources including bonds, loans, grants, and private equity. A discussion of key project planning and development milestones is provided as part of this report's Background Information section. Appendix A provides a list of significant KAC Project milestones.

The audit was unable to fully outline the balance of risks and rewards embodied in the final P3 agreement because the procurement process is not complete, and the P3 agreement has not been finalized. However, the general structure of the P3 agreement has been defined by KABATA's governing board and provides that the State will bear the risk of lower-than-expected toll revenues.

It is important to note that a final P3 agreement will also contain rewards and additional risks that are not addressed in this report due to the scope limitation already discussed. This report is not concluding whether or not this specific risk is justified when considering the P3 agreement's balance of risks and rewards for the agreement as a whole. The risk of lower-than-expected toll revenues is an important aspect of understanding the potential effect of deficiencies in projections and should be considered in that context.

Detailed report conclusions are presented below.

Approximately \$1.4 billion in funding is needed to complete the KAC Project.

KABATA management, with assistance from a financial advisory firm, developed the KAC financial plan.¹² The total, necessary projected KAC funding is identified in the financial plan as approximately \$1.6 billion. (See the schedule of proposed sources and uses in Exhibit 3 on page 19.) This estimate includes both phases of construction. Phase I is scheduled to begin immediately, and Phase II will be completed incrementally. Per Exhibit 5 on page 25, KABATA has secured \$131 million of the \$1.6 billion necessary for the project. The remaining unsecured funding sources of \$1.4 billion are discussed in detail below.

Bonds (\$846.9 Million – 52 Percent of Proposed Funding)

According to the KAC financial plan, the private partner will borrow \$350.7 million of the total projected private bond funding of \$516 million through a private activity bond (PAB) bond issuance for Phase I of the project. The remaining private and public bond financing in the plan (\$496.2 million) for Phase II of the project will need to come from other sources. According to KABATA management, potential bond sources may be secured through KABATA (tax exempt municipal revenue bonds or TIFIA loans) or through the private partner (a syndicated bank credit facility, TIFIA loans, or taxable corporate bonds).

TIFIA Loan (\$356.7 Million – 22 Percent of Proposed Funding)

In 2005, KABATA management pursued TIFIA funding on behalf of the future private partner by filing a loan request without success. Since 2005, eight separate applications have been unsuccessful. In July 2012, the United States Congress enacted¹³ several changes to the TIFIA program. Changes increased funding levels, increased federal participation in eligible project costs from 33 percent to a 49 percent ceiling, and eliminated subjective selection criteria.

¹²The financial plan referred to in this report is the December 2012 version KABATA for a credit rating.

¹³Public Law 112-141.

Exhibit 3

Knik Arm Crossing Project Proposed Funding Sources and Uses				
	Total Private Financing	Total Public Investment	KAC Project Total	Percent of Total Funding
<u>Proposed Funding Sources</u>				
Bonds	\$516,094,545	\$330,790,000	\$ 846,884,545	52%
TIFIA Loan	356,747,052	0	356,747,052	22%
P3 Private Partner Equity	96,912,560	0	96,912,560	6%
Public Funds:				
1) Federal	0	112,572,342	112,572,342	7%
2) State Match	0	17,324,917	17,324,917	1%
3) State Grant (Reserve Fund)	0	150,000,000	150,000,000	9%
4) State Commerce Grant	0	15,000,000	15,000,000	1%
5) Municipality Contribution	0	26,000,000	26,000,000	2%
Total Proposed Funding Sources	<u>\$969,754,157</u>	<u>\$651,687,259</u>	<u>\$1,621,441,416</u>	<u>100%</u>
<u>Proposed Funding Uses</u>				
Construction	\$860,272,443	\$378,898,963	\$1,239,171,406	
Right-of-Way	0	15,250,000	15,250,000	
KABATA P3 Construction				
Oversight Costs	0	11,826,000	11,826,000	
Port MacKenzie Road Upgrade	0	15,000,000	15,000,000	
KABATA Project Costs Prior to P3 Award	0	77,402,246	77,402,246	
State Reserve Fund for Toll Revenue Shortfalls	0	150,000,000	150,000,000	
Capitalized Interest	60,815,537	0	60,815,537	
Prepaid Interest	848,868	0	848,868	
Debt Service Reserve	35,072,500	0	35,072,500	
Cost of Bond Issuance	6,928,575	1,653,950	8,582,525	
Underwriter's Discount	2,671,325	1,653,950	4,325,275	
Financial Advisory Firm Fee	3,144,857	0	3,144,857	
P3 Agreement (Shortfall)/Surplus	0	0	0	
Contingency	52	2,150	2,202	
Total Proposed Funding Uses	<u>\$969,754,157</u>	<u>\$651,687,259</u>	<u>\$1,621,441,416</u>	

Source: KABATA December 2012 Financial Plan

In August 2012, KABATA management submitted a TIFIA loan request for \$500 million at a 49 percent participation rate in eligible costs. In a letter to KABATA, dated September 25, 2012, the Federal Highway Administration (FHWA) pended reviewing the request stating that:

- KABATA's loan request "*did not present a compelling justification*" for providing assistance above a 33 percent participation level.

- The request cannot be considered further until the \$150 million reserve fund is appropriated by the State or it becomes clear that the funding is “reasonably likely” to be appropriated.

State Grant - Reserve Fund (\$150 Million – Nine Percent of Proposed Funding)

KABATA intends to capitalize a reserve fund through a general fund appropriation of \$150 million. Legislation was unsuccessfully introduced for the appropriation during the 27th Legislature and has been re-introduced during the 28th Legislature. If an appropriation is approved, the funds, along with interest earned on the funds, will be used to cover the net deficiencies in projected toll revenues for 2017 through 2030. According to the State Reserve Fund cash flows schedule in Appendix C, additional appropriations totaling \$41.2 million will be needed to replenish the fund for 2031 through 2035 (State Replenish column in Appendix C of the State Reserve Fund cash flows).

Municipality of Anchorage Contribution (\$26 Million – Two Percent of Proposed Funding)

Both the KAC plan and the 2035 Anchorage Metropolitan Area Transportation Solutions (AMATS) plan include an Ingra-Gambell couplet connection project. The \$26 million identified in the financial plan is the amount the municipality expects to spend on the project in conjunction with KABATA and has included the project in its AMATS plan. However, the \$26 million is not funded by the Municipality of Anchorage at this time.

P3 Private Partner Equity (\$96.9 Million – Six Percent of Proposed Funding)

As discussed earlier, the procurement of the P3 partner has not resulted in an RFP; however, KABATA has identified three prequalified prospective P3 partners through the request-for qualification process. The private partner will invest equity of \$96.9 million to construct the KAC and operate the project for a specified amount of time.

KABATA’s Schedule of Cash Flows shows a net surplus of \$2.2 billion for the KAC Project.

KABATA’s Schedule of Cash Flows is included as Exhibit 4 on page 24.¹⁴ The purpose of a Schedule of Cash Flows is to demonstrate how the flow of expected revenues will be used to meet expected expenditures. KAC traffic and toll revenue projections for 2017 through 2035 are based on a transportation model produced by KABATA’s traffic and toll consultant. These projections include capacity improvements including the Ingra-Gambell connector and upgrading the road and bridge to four lanes. Projections for 2036 through 2061, a period covering 60 percent of total cash flows, were performed internally by KABATA management. This approach was taken because KABATA did not expect further growth in traffic volume for the KAC after 2040. KABATA’s traffic volume projections for 2035

¹⁴The Schedules of Cash Flows presented in Exhibit 4 on page 24 and Appendices B and C use the base case traffic and toll revenue projections. This base case is discussed in the Background Section and used by KABATA for the KAC’s financial plan.

through 2040 include an approximately 12 percent increase for personal vehicles and nine percent increase for commercial vehicles.

The toll revenue projections for 2041 through 2061 include toll fee increases based on a 2.5 percent annual inflation factor. Private vehicle toll fees would increase from \$8.82 per crossing in 2040 to \$14.82 per crossing in 2061, while commercial vehicle toll fees would increase from \$31.76 per crossing to \$53.25 per crossing for the same period.

The 2041 through 2051 annual “*net surplus*” on the Schedule of Cash Flows are primarily due to increases in toll fees. After 2051, the availability payments to the private partner would end, and KATABA would incur the toll collection costs which would result in higher annual net surplus amounts. The Schedule of Cash Flows in Exhibit 4 shows that 92 percent of the net surplus for the project would occur from 2051 through 2061.

The analysis of toll revenues raises concerns that toll revenues are overstated in KABATA’s Schedule of Cash Flows. Overstated toll revenues overstate the net surplus amount identified in KABATA’s Schedule of Cash Flows and may lead to a shortfall rather than a net surplus.

Deficiencies in the assumptions and inputs used by KABATA for the toll and revenue projections likely overstate projected cash flows.

Accuracy of the traffic and toll revenue projections is paramount to the success of the KAC Project. Under the anticipated P3 agreement, KABATA must pay the private partner availability payments totaling \$3.3 billion over the life of the agreement (through 2051). These payments must be made regardless of the level of collected toll revenues.

An analysis of key assumptions and inputs used in KABATA’s modeling process was performed in conjunction with an independent consultant hired by the Division of Legislative Audit (DLA). A complete copy of the consultant’s report is included in Appendix E. Appendix F contains the consultant’s professional qualifications. The KABATA consultant’s review of the DLA consultant’s report and further responses by the consultants are documented in Appendices G through I.

The DLA consultant’s report identified several concerns regarding the validity of assumptions and inputs used as a basis for projecting toll revenues. The most important concern was the potential for the KAC traffic volume to be overstated based on overly optimistic assumptions for household and employment levels. Overstating traffic volume in KABATA’s modeling process has the effect of overstating projected toll revenues.

Households and Employment. Two inputs that drive demand for the transportation system are (1) the number of households and (2) the level of employment. Population levels impact both of these inputs. DLA’s consultant concluded that KABATA’s estimated growth rate and 2035 household levels were higher than the rate and levels projected by the University of Alaska’s Institute of Social and Economic Research (ISER). KABATA’s estimate of employment growth rate compared to the rate forecast by ISER was also higher – however to

a lesser degree. To help understand the source of the differences and to further support this conclusion, DLA's consultant compared KABATA's estimated population growth rates and 2035 population levels with ISER and the State of Alaska, Department of Labor and Workforce Development's estimations. This comparison supported a lower forecast of households and employment.

Lower forecasts of households and employment are further supported by consultants that conducted Matanuska-Susitna Borough (MSB) planning studies. In 2012, the MSB, with the assistance of a consultant, produced a density and build-out study that projects future land use and predicts population and housing quantities. Also in 2012, the MSB, in conjunction with DOTPF, updated its transportation model which included estimated population and employment data. When MSB planning staff noted that MSB population and employment projections were lower than KABATA's estimates from the KAC transportation model, MSB staff directed their consultant to evaluate and report on the differences. The consultant produced a summary document outlining the conceptual differences between the MSB and KABATA. The summary is included as Appendix D. Key differences that support lower forecasts include: density basis using the MSB rather than Anchorage; nominal water and sewer availability in the Knik Goose Bay (KGB) Corridor; lower population and employment in Port MacKenzie (Port); limited retail in the Port; limited office land use to serve local industrial concerns; less extensive and longer term upgrades to the KGB Corridor and the Point MacKenzie road.

Compared to independent sources discussed above, KABATA's assumptions and inputs for households and employment are overly optimistic. (See Recommendation No. 1.)

KABATA's projected traffic growth rate, the KAC market share, the split for commercial traffic, and the economic growth in the Point MacKenzie area are not supported by independent sources.

DLA's consultant evaluated the reasonableness of KABATA's traffic projections using the Glenn Highway as an indicator of the current and potential market for the KAC. The Glenn Highway is currently the only effective route into and out of Anchorage for trips to and from the MSB. The average actual traffic growth rate for the Glenn Highway, calculated by DOTPF for 2001 through 2011, was 2.5 percent. Average projected traffic growth rates for the KAC, produced by KABATA for 2021 through 2040, is significantly higher at five percent. The five percent traffic growth rate does not appear to be supported by household growth rates or population growth rates. Additionally, DLA's consultant concluded that KABATA projects the KAC's market share to be approximately 50 percent. No evidence was found to support the 50 percent market share.

Furthermore, KABATA's estimate of a 12 percent split for commercial vehicle traffic is outdated and much higher than actual traffic count data supports. Updated traffic count data provided by DOTPF suggests a range of 4.9 to 6.6 percent. This is troubling given that commercial vehicles pay a higher toll. Overestimating the split for commercial traffic has the effect of overestimating projected toll revenues.

Additionally, DLA's consultant concluded that the validity of KABATA's employment projections was dependent on strong growth in the Point MacKenzie area. Our review of MSB planning documents indicates KABATA's employment growth projections for the Point MacKenzie area are inconsistent with MSB projections and plans.¹⁵ The 2012 MSB transportation model data projects the employment level in the Point MacKenzie area to be 4,515 in 2035. The KAC's transportation model projects the employment level in the Point MacKenzie area to be 14,337 in 2035. Of this total, 13,828 relates to the employment level in the Port.

To help evaluate the reasonableness of KABATA's projected economic development of the Port, the projected development was compared to the MSB plan for the Port and the related regulations¹⁶ for the Port area. The plan and regulations do not allow for the type of development that supports KABATA's employment projections. (See Recommendation No. 1.)

KABATA's risk analysis was too limited to provide assurance of achieving projected toll revenues.

Risk analyses are an important component of traffic and toll revenue projections. When conducted properly, risk analyses shed considerable light on the likelihood of achieving different levels of traffic and toll revenues. KABATA did not conduct a risk analysis with its original traffic and toll projections in 2007. The 2011 projections¹⁷ evaluated as part of this audit did include a risk analysis. However, DLA's consultant concluded that the set of variables used in the risk analysis was too limited to provide a useful analysis.

¹⁵The MSB 2012 traffic model update and the *Port MacKenzie Master Plan Update* (February 2011).

¹⁶*Matanuska Susitna Borough Code*, Chapter 17.23: Port Mackenzie Special Use District.

¹⁷*Proposed Knik Arm Crossing Traffic and Toll Revenue Study Update* (Wilbur Smith Associates, August 2011).

Exhibit 4

KABATA Cash Flows from KAC for Calendar Years 2017 – 2061

Date	Toll Revenues	Total Availability Payments	KABATA Administrative Costs	Phase II KABATA Bonds Debt Service	KABATA Toll Collection Costs	KABATA O&M/ CAPEX Costs	Net Surplus/ (Shortfall)	Cumulative Net Surplus/ (Shortfall)
Totals	\$6,715,668,795	(\$ 3,303,670,307)	(\$ 261,345,664)	(\$ 645,550,500)	(\$ 130,310,614)	(\$ 142,768,535)	\$2,232,023,175	\$ 0
12/1/2017	16,024,000	(33,712,500)	(3,019,041)	0	0	0	(20,707,541)	(20,707,541)
12/1/2018	24,543,000	(37,461,000)	(3,103,849)	0	0	0	(16,021,849)	(36,729,390)
12/1/2019	32,007,000	(43,279,440)	(3,191,057)	0	0	0	(14,463,497)	(51,192,887)
12/1/2020	38,457,000	(45,170,618)	(3,280,734)	0	0	0	(9,994,352)	(61,187,239)
12/1/2021	43,317,000	(51,137,442)	(3,372,949)	0	0	0	(11,193,391)	(72,380,630)
12/1/2022	47,428,000	(53,182,940)	(3,467,776)	0	0	0	(9,222,716)	(81,603,346)
12/1/2023	51,689,000	(55,310,257)	(3,565,289)	0	0	0	(7,186,546)	(88,789,892)
12/1/2024	56,124,000	(57,522,668)	(3,665,563)	0	0	0	(5,064,231)	(93,854,123)
12/1/2025	60,778,000	(59,823,575)	(3,768,680)	0	0	0	(2,814,255)	(96,668,378)
12/1/2026	67,251,000	(62,216,518)	(3,874,718)	(21,519,500)	0	0	(20,359,736)	(117,028,114)
12/1/2027	73,444,000	(64,705,178)	(3,983,762)	(21,520,500)	0	0	(16,765,440)	(133,793,554)
12/1/2028	79,882,000	(67,293,385)	(4,095,897)	(21,519,000)	0	0	(13,026,282)	(146,819,836)
12/1/2029	86,556,000	(69,985,121)	(4,211,212)	(21,519,500)	0	0	(9,159,833)	(155,979,669)
12/1/2030	93,560,000	(72,784,526)	(4,329,797)	(21,516,250)	0	0	(5,070,573)	(161,050,242)
12/1/2031	99,229,000	(93,471,010)	(4,451,746)	(21,518,750)	0	0	(20,212,506)	(181,262,747)
12/1/2032	106,822,000	(96,524,957)	(4,577,155)	(21,516,000)	0	0	(15,796,112)	(197,058,860)
12/1/2033	114,681,000	(99,700,175)	(4,706,122)	(21,517,500)	0	0	(11,242,797)	(208,301,657)
12/1/2034	122,930,000	(103,000,203)	(4,838,750)	(21,517,250)	0	0	(6,426,203)	(214,727,860)
12/1/2035	131,459,000	(106,433,775)	(4,975,143)	(21,519,500)	0	0	(1,469,418)	(216,197,278)
12/1/2036	137,619,000	(108,671,194)	(5,115,408)	(21,518,250)	0	0	2,314,148	(213,883,130)
12/1/2037	144,232,000	(110,968,570)	(5,259,657)	(21,517,750)	0	0	6,486,023	(207,397,107)
12/1/2038	151,137,000	(113,325,323)	(5,408,003)	(21,517,000)	0	0	10,886,674	(196,510,433)
12/1/2039	158,254,000	(115,740,909)	(5,560,563)	(21,520,000)	0	0	15,432,528	(181,077,905)
12/1/2040	165,550,000	(118,209,819)	(5,717,458)	(21,520,500)	0	0	20,102,223	(160,975,683)
12/1/2041	169,688,750	(120,746,912)	(5,878,811)	(21,517,500)	0	0	21,545,527	(139,430,156)
12/1/2042	173,930,969	(123,346,094)	(6,025,781)	(21,520,000)	0	0	23,039,094	(116,391,062)
12/1/2043	178,279,243	(126,011,639)	(6,176,426)	(21,516,500)	0	0	24,574,678	(91,816,384)
12/1/2044	182,736,224	(128,742,533)	(6,330,837)	(21,516,000)	0	0	26,146,854	(65,669,529)
12/1/2045	187,304,630	(131,537,799)	(6,489,108)	(21,517,000)	0	0	27,760,723	(37,908,806)
12/1/2046	191,987,245	(134,411,504)	(6,651,335)	(21,518,000)	0	0	29,406,406	(8,502,400)
12/1/2047	196,786,927	(137,351,768)	(6,817,619)	(21,517,500)	0	0	31,100,040	22,597,640
12/1/2048	201,706,600	(140,362,414)	(6,988,059)	(21,519,000)	0	0	32,837,127	55,434,767
12/1/2049	206,749,265	(143,451,979)	(7,162,761)	(21,515,750)	0	0	34,618,775	90,053,542
12/1/2050	211,917,996	(146,618,387)	(7,341,830)	(21,516,250)	0	0	36,441,529	126,495,071
12/1/2051	217,215,946	(131,458,175)	(7,525,375)	(21,518,500)	0	0	56,713,896	183,208,967
12/1/2052	222,646,345	0	(7,713,510)	(21,520,500)	(11,631,364)	(12,221,421)	169,559,550	352,768,517
12/1/2053	228,212,503	0	(7,906,347)	(21,520,250)	(11,922,148)	(12,526,956)	174,336,802	527,105,319
12/1/2054	233,917,816	0	(8,104,006)	(21,520,750)	(12,220,202)	(12,940,806)	179,132,052	706,237,371
12/1/2055	239,765,761	0	(8,306,606)	(21,519,750)	(12,525,707)	(13,166,455)	184,247,243	809,484,614
12/1/2056	245,759,906	0	(8,514,271)	0	(12,838,850)	(18,485,367)	205,921,418	1,096,406,032
12/1/2057	251,903,903	0	(8,727,128)	0	(13,159,821)	(13,922,721)	216,094,233	1,312,500,265
12/1/2058	258,201,501	0	(8,945,306)	0	(13,488,817)	(14,597,231)	221,170,147	1,533,670,412
12/1/2059	264,656,538	0	(9,168,939)	0	(13,826,037)	(14,634,413)	227,027,149	1,760,697,561
12/1/2060	271,272,952	0	(9,398,163)	0	(14,171,688)	(14,890,614)	232,812,487	1,993,510,048
12/1/2061	278,054,775	0	(9,633,117)	0	(14,525,980)	(15,382,551)	238,513,127	2,232,023,175

Source: KABATA December 2012 Financial Plan

KABATA's FY 03 through FY 12 expenditures total approximately \$70.4 million.

KABATA received preliminary planning funds through congressional appropriations. The federal funds are administered by the FHWA and matched with \$10 million of state general funds. Additionally, DOTPF provided \$8.5 million in general fund monies to cover costs that are not allowed for participation under the FHWA federal-aid highway program. This includes a DOTPF \$7 million general fund "loan" for P3 procurement costs not covered by the federal program. The DOTPF commissioner approved the general fund loan of \$7 million to KABATA in 2006. KABATA expended \$2.5 million of the loan by the end of FY 12. In September 2012, DOTPF's commissioner determined that the department did not have the legal authority to make loans to itself. (KABATA is organizationally located within DOTPF.) The commissioner forgave the loan and allowed the \$2.5 million expenditures and the \$4.5 million unexpended balance to be funded by DOTPF's existing general fund appropriations.

Exhibit 5 provides a schedule of KAC authorized, expended, and remaining funds through June 30, 2012.

Exhibit 5

Knik Arm Crossing Project Authorized, Expended, and Remaining Funds FY 03 through FY 12			
	Authorized	Expended	Remaining
Federal Funds	\$ 112,572,342	\$ 61,425,631	\$ 51,146,711
State General Funds	18,494,082	8,957,202	9,536,880
Total	\$ 131,066,424	\$ 70,382,833	\$ 60,683,591

Public participation in the environmental impact statement (EIS) and the pre-construction phases complied with federal and state requirements.

As discussed in the Background Information section, the KAC planning process included input and participation by federal, state, and local agencies; any affected native groups; and the general public. Various planning documents were publicly noticed per federal requirements. Public comments were considered when finalizing the EIS preferred alternative and the record of decision.

Additionally, KABATA management publicly noticed its board meetings in accordance with the *Open Meetings Act*.¹⁸ Requests for proposals for major contracts (greater than \$500,000) issued by KABATA management during FY 04 through February 2012 were publicly noticed in accordance with the *State Procurement Act*.¹⁹

¹⁸Alaska Statute 44.62.310-312.

¹⁹Alaska Statute 36.30.130.

(Intentionally left blank)

Doniece Gott

From: Sen. Kevin Meyer
Sent: Saturday, April 06, 2013 9:07 AM
To: Senate Finance Committee
Subject: FW: Knik Bridge

From: Kibe A. Lucas [<mailto:kal@kibelucas.com>]

Sent: Friday, April 05, 2013 5:43 PM

To: Sen. Click Bishop; Sen. John Coghill; Sen. Mike Dunleavy; Sen. Fred Dyson; Sen. Dennis Egan; Sen. Johnny Ellis; Sen. Anna Fairclough; Sen. Hollis French; Sen. Berta Gardner; Sen. Cathy Giessel; Sen. Lyman Hoffman; Sen. Charlie Huggins; Sen. Pete Kelly; Sen. Lesil McGuire; Sen. Kevin Meyer; Sen. Peter Micciche; Sen. Donny Olson; Sen. Bert Stedman; Sen. Gary Stevens; Sen. Bill Wielechowski; Rep. Alan Austerman; Rep. Mike Chenault; Rep. Mia Costello; Rep. Harriet Drummond; Rep. Bryce Edgmon; Rep. Eric Feige; Rep. Neal Foster; Rep. Les Gara; Rep. Lynn Gattis; Rep. Max Gruenberg; Rep. David Guttenberg; Rep. Mike Hawker; Rep. Bob Herron; Rep. Pete Higgins; Rep. Lindsey Holmes; Rep. Shelley Hughes; Rep. Doug Isaacson; Rep. Craig Johnson; Rep. Andy Josephson; Rep. Scott Kawasaki; Rep. Wes Keller; Rep. Beth Kerttula; Rep.Jonathon.Kreiss-Tomkins@akleg.gov; Rep. Gabrielle LeDoux; Rep. Bob Lynn; Rep. Charisse Millett; Rep. Cathy Munoz; Rep. Benjamin Nageak; Rep. Mark Neuman; Rep. Kurt Olson; Rep. Lance Pruitt; Rep. Lora Reinbold; Rep. Dan Saddler; Rep. Paul Seaton; Rep. Bill Stoltze; Rep. Geran Tarr; Rep. Steve Thompson; Rep. Chris Tuck; Rep. Peggy Wilson; Rep. Tammie Wilson

Subject: Knik Bridge

Dear Senators and Representatives,

I am writing in support of the passage of HB23 I believe this to be a critical piece of infrastructure for the future of Anchorage and the Valley. The cost/benefit is a no brainer when it comes to future needs. The thing about dealing with the future is, vision is required. I am hoping you see the vision.

Thank you,

Kibe Lucas

Doniece Gott

From: Sen. Kevin Meyer
Sent: Friday, April 05, 2013 4:54 PM
To: Senate Finance Committee
Subject: FW: KABATA support

From: Carl E Brent [<mailto:carlbrent@gmail.com>]

Sent: Friday, April 05, 2013 4:35 PM

To: Sen. Click Bishop; Sen. John Coghill; Sen. Mike Dunleavy; Sen. Anna Fairclough; Sen. Hollis French; Sen. Berta Gardner; Sen. Cr Sen. Pete Kelly; Sen. Lesil McGuire; Sen. Kevin Meyer; Sen. Pete Gary Stevens; Sen. Bill Wielechowski; Rep. Alan Austerman; Re Drummond; Rep. Bryce Edgmon; Rep. Eric Feige; Rep. Neal Foster, Gruenberg; Rep. David Guttenberg; Rep. Mike Hawker; Rep. Bob Herron; Rep. Shelley Hughes; Rep. Doug Isaacson; Rep. Craig Johnson; Rep. Andy Josephson; Rep. Scott Kawasaki; Rep. Wes Keller; Rep. Beth Kerttula; Rep.Jonathon.Kreiss-Tomkins@akleg.gov; Rep. Gabrielle LeDoux; Rep. Bob Lynn; Rep. Charisse Millett; Rep. Cathy Munoz; Rep. Benjamin Nageak; Rep. Mark Neuman; Rep. Kurt Olson; Rep. Lance Pruitt; Rep. Lora Reinbold; Rep. Dan Saddler; Rep. Paul Seaton; Rep. Bill Stoltze; Rep. Geran Tarr; Rep. Steve Thompson; Rep. Chris Tuck; Rep. Peggy Wilson; Rep. Tammie Wilson

Subject: KABATA support

HB
23

Hi,

I'm sending this out because of the importance of sending a message of support today to the House members to pass HB 23 tomorrow and then continue that support in the Senate next week. Through many misconceptions, not all of the House and Senate Representatives understand the state wide necessity of this project. The State is being handed a \$8 Billion piece of infrastructure for \$150 Million. The State should build this out of pocket just like the Parks Highway was and pay the whole bill. (I know there was Federal money in the Parks but what is San Francisco without the The Golden Gate Bridge or The Bay Bridge? Citizens there do not know a life without those bridges. In a generation Alaskans will wonder why it took 55 years to build this one.) This infrastructure has a State wide impact with the connectivity of the 2 largest ports in Alaska to the Interior. Any one with friends in the interior should be passing this message on. Some Legislative Members are nit picking the type of financing, wondering if the State is responsible for payments. Why cares? The State should pick up the whole tab, but because of programs in place in both the private and public sectors (Bonding and TIFA) we get a chance to get this done now with minimum out of pocket or really, possible out of pocket. Let the Representatives and Senators in your District know how much you support this. The Bridge could be building in 2014, if we do not dither now. The window of low interest rates will pass.

Carl Brent

--

Carl E Brent
Kibe Lucas Team
Keller Williams Realty
165 E Parks Hwy
Suite 106
Wasilla, AK 99654
carlbrent@gmail.com
Fax 907-373-4084
Cell 907-841-6644
Website
<http://carlbrent.kwrealty.com/>