

SB

13

<TARGET><BILL>SB 13</BILL><SUBJECT>
SB 13</SUBJECT><COMM>STRA28</COMM></TARGET>

SENATE COMMITTEE REPORT First Committee of Referral

DATE: 1/16/13

FURTHER: Finance

Date of 5-Day Notice: _____
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 3/21/13

Transportation Committee considered SENATE BILL NO. 13

SB 13-KNIK ARM BRIDGE AND TOLL AUTHORITY

"An Act relating to bonds of the Knik Arm Bridge and Toll Authority; relating to reserve funds of the authority; relating to taxes and assessments on a person that is a party to an agreement with the authority; and establishing the Knik Arm Crossing fund."

and recommends:

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

Dept Abbr.	
ADM	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 #
DOT	✓		1	1

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
	French				✓
	Bishop	✓		✓	
	Dyson				
	FAIRCLOUGH			✓	
CHAIR:	ECAN			✓	

Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: SB 13
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB013-DOT-KABATA-3-14-13
Title: KNIK ARM BRIDGE AND TOLL AUTHORITY
Sponsor: HUGGINS
Requester: Senate Transportation 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)

	FY2014 Appropriation Requested	Included in Governor's FY2014 Request	Out-Year Cost Estimates				
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES	FY 2014	FY 2014					
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							
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Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 10,000.0

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:

This is the initial version of the bill.

Prepared By: Michael Rovito, Legislative Liaison	Phone: (907)269-6698
Division: KABATA	Date: 03/11/2013 04:00 PM
Approved By: Andrew Niemiec, Executive Director	Date: 03/11/13
KABATA	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. SB 13 _____

Analysis

This bill will increase KABATA's bond issuance authority from \$500 million to \$600 million; it will clarify that the Knik Arm Crossing facility is exempt from local property taxes while operated by a private entity on behalf of the state; and it will establish a project reserve and detail the operation of the reserve.

Increase in Bonding Authority to \$600 million

- Increase to match \$600 million in federal Private Activity Bond (PABs) capacity allocated to the project.
- PABs require a public entity to act as conduit issuer for the private borrower.
- Any PABs issued are a liability of the private partner, not the State.

Property Tax Clarification

- Clarifies that the bridge and associated connectors are not subject to property taxes if operated by a private partner on behalf of the state (the facility is already exempt if operated by the state).
- Any private facilities of the developer not serving the public transportation purpose remain subject to property tax.

Project Reserve

- Location where toll revenue, appropriations and other funds are deposited.
- Establishes the Department of Revenue as the fiduciary to hold the appropriation until the agreement is executed.
- Requires annual reporting to the Legislature and Governor on the status of the reserve fund and provides process for replenishment subject to appropriation.

A \$10 million appropriation item in the Capital Budget meant for the proposed reserve established by this bill is not a capital cost associated with this legislation.

This legislation will have no fiscal impact to the Knik Arm Bridge and Toll Authority.

LEGAL SERVICES

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

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


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

MEMORANDUM

March 20, 2013

SUBJECT: Knik Arm Bridge and Toll Authority
(CSSB 13(TRA); Work Order No. 28-LS0259\U)

TO: Senator Dennis Egan
Attn: Dana Owen

FROM: Hilary Martin 
Legislative Counsel

You have asked for a Senate Transportation Committee Substitute that makes it clear that the Knik Arm Bridge and Toll Authority (Authority) cannot obligate the state in any way. As I understand from my conversation with Dana, and through listening to committee hearings, the Authority has stated that the state would be liable for any difference between the toll revenue and the amount due to the private partner through availability payments. I have added language in the bill that prevents the Authority from obligating the state in any agreement. However, I would note that the Authority does not appear to have the power to obligate the state even without these changes.

Under AS 19.75.241(b):

The bonds issued by the authority do not constitute an indebtedness or other liability of the state or of a political subdivision of the state other than the authority, but shall be payable solely from the income, receipts, or other money or property of the authority. All documents published by the authority or to which the authority is a signatory and used in or for the issuance of bonds by the authority must state that they are prepared by or for the authority.

Similarly, AS 19.75.241(c):

The authority may not pledge the faith or credit of the state or of a political subdivision of the state other than the authority, and the issuance of a bond by the authority does not directly, indirectly, or contingently obligate the state or a political subdivision of the state to apply money from, levy, or pledge any form of taxation to the payment of the bond or to make payments due on the bonds from any source of funds not pledged for repayment of the bonds.

These two subsections together make it clear that any bonds issued by the Authority are bonds of the Authority only and do not in any way obligate the state.

Senator Dennis Egan

March 20, 2013

Page 2

The language you were concerned about, in AS 19.75.261, states "All bonds of the authority are declared to be issued by a political subdivision of the state and for an essential public and governmental purpose." Although this section is being amended in the bill, this language is unchanged. AS 19.75.261 generally exempts property of the authority from taxation. This language does not, in itself, make bonds or debts of the Authority bonds or debts of the state.

If the Authority believed it was somehow able to obligate the state to pay debts of the Authority, this obligation would likely require approval by the voters. Article IX, sec. 8, Constitution on the State of Alaska, does not allow the state to take on debt without the approval of a majority of the voters. Bonds issued by a public corporation are specifically exempted from the voting requirement under art. IX, sec. 11.

To the extent that the Authority believes it can write a contract with a private partner that requires the state to pay if the toll revenues from the bridge are not sufficient to meet the availability payment, the Authority does not appear to have this power. Under AS 19.75.021(a), the Authority is a public corporation located within the Department of Transportation and Public Facilities, but it has a "separate and independent legal existence from the state." With a separate legal existence from the state, the Authority likely cannot enter into a contract that obligates the state.

If I may be of further assistance, please advise.

HVM:lnd
13-170.lnd

Enclosure

28-LS0259\U
Martin
3/20/13

CS FOR SENATE BILL NO. 13(TRA)

IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-EIGHTH LEGISLATURE - FIRST SESSION

BY THE SENATE TRANSPORTATION COMMITTEE

**Offered:
Referred:**

Sponsor(s): SENATORS HUGGINS, Dyson

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to bonds and other indebtedness of the Knik Arm Bridge and Toll**
2 **Authority; relating to reserve funds of the authority; relating to taxes and assessments**
3 **on a person that is a party to an agreement with the authority; and establishing the Knik**
4 **Arm Crossing fund."**

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

6 *** Section 1.** AS 19.75.111 is amended by adding a new subsection to read:

7 (c) A monetary indebtedness or obligation incurred by the authority in
8 exercising powers under this chapter is not an indebtedness or obligation of the state.

MORAL

9 *** Sec. 2.** AS 19.75.211(a) is repealed and reenacted to read:

10 (a) Notwithstanding any other provision of law, the authority may borrow
11 money and issue and refund bonds on which the principal and interest are paid out of
12 and secured by

13 (1) the gross revenue derived by the authority from the ownership, use,
14 and operation of its toll facilities, including money derived from the fees, rents, tolls,

1 rates, charges, and other revenue of the authority under this chapter;

2 (2) revenue received by a private person or enterprise that has entered
3 into a public-private partnership agreement with the authority; or

4 (3) any other revenue or money that the legislature has appropriated
5 for that purpose, except a state tax or license.

6 * **Sec. 3.** AS 19.75.211(c) is amended to read:

7 (c) The authority may issue bonds in an aggregate amount not to exceed
8 \$600,000,000 [\$500,000,000], plus the cost of issuance.

9 * **Sec. 4.** AS 19.75.211 is amended by adding a new subsection to read:

10 (e) Before issuing bonds for the Knik Arm bridge under this section, the
11 authority shall submit to the state bond committee a description of the bond issue, a
12 copy of the resolution of the board of directors of the authority supporting the bond
13 issue, a report setting out the sources and amounts of revenue that will be used for
14 payment of the principal of and interest on the bonds and the effect the issuance of the
15 bonds by the authority would have on the ability of the state or political subdivision of
16 the state to market bonds, and a preliminary prospectus, offering circular, or official
17 statement relating to the bond issue. Bonds may not be issued unless the state bond
18 committee finds, based on the information submitted by the authority under this
19 section and other information that is reasonably available to or requested by the
20 committee, that either the Knik Arm bridge revenue and other revenue available to the
21 authority or the revenue of the private person or enterprise under a public-private
22 partnership agreement entered into by the authority under AS 19.75.111(a) can be
23 reasonably expected to be adequate for payment of the principal of and interest on the
24 bonds to be issued and that issuance of the bonds by the authority would not be
25 expected adversely to affect the ability of the state or its political subdivisions to
26 market bonds.

27 * **Sec. 5.** AS 19.75.221(h) is amended to read:

28 (h) Notwithstanding any other provision of law, the authority may establish
29 other funds and reserves as the board of directors may determine reasonable and
30 prudent for the issuance of bonds or for the conduct of the business and affairs of the
31 authority. The interest earned on or profit derived from these funds and reserves shall

1 be the property of the authority. Deposits made into a reserve fund established
2 under this section may include

3 (1) revenue derived by the authority from the ownership, use, or
4 operation of toll facilities, including fees, rents, tolls, rates, charges, or other
5 revenue of the authority;

6 (2) money that the legislature has appropriated for that purpose;
7 and

8 (3) other money that may be made available to the authority from
9 other sources.

10 * **Sec. 6.** AS 19.75.221 is amended by adding new subsections to read:

11 (i) Money in a reserve fund established under (h) of this section

12 (1) shall be used only for

13 (A) the payment of monetary obligations, liabilities, and
14 indebtedness of the authority, including termination payment obligations,
15 under agreements for the financing, design, construction, maintenance,
16 improvement, or operation of facilities, properties, or projects of the authority;

17 (B) the performance of the authority's statutory functions,
18 including the authority's overhead and administrative costs and working
19 capital; and

20 (C) planning, permitting, design, acquisition, construction,
21 maintenance, improvement, or operation of transportation-related projects,
22 facilities, properties, systems, or equipment of the authority or other public
23 entities, including expansions, extensions, and capacity improvements, eligible
24 under applicable federal and state law to be funded from toll revenue;

25 (2) may not be used for the purpose of planning, permitting, design,
26 acquisition, construction, maintenance, improvement, or operation of projects,
27 facilities, properties, systems, or equipment under (1)(C) of this subsection if the
28 withdrawal would reduce the amount in the reserve fund to less than the reserve fund
29 requirement.

30 (j) Income or interest earned by, or increment to, a reserve fund established
31 under (h) of this section, from the investment of all or part of the fund, may be

1 transferred by the authority to other funds or accounts of the authority if the transfer
2 does not reduce the amount of a reserve fund below the reserve fund requirement.

3 (k) In computing the amount of a reserve fund established under (h) of this
4 section, securities in which all or a portion of the fund is invested shall be valued by a
5 reasonable method established by the authority by resolution or established by the
6 terms of the agreement for which the fund serves as security. Valuation must include
7 the amount of interest earned or accrued as of the date of the valuation.

8 (l) The chair of the board shall annually, not later than December 1, certify in
9 writing to the governor and the legislature the amount, if any, required to restore a
10 reserve fund established under (h) of this section to the reserve fund requirement. The
11 legislature may appropriate to the authority the amount certified by the chair of the
12 board that is needed to restore a reserve fund to the reserve fund requirement.

13 (m) In this section, "reserve fund requirement" means the amount required to
14 be on deposit in a reserve fund established under (h) of this section as of the date of
15 computation, as determined by resolution of the authority or by the terms of the
16 agreement for which the fund serves as security.

17 * **Sec. 7.** AS 19.75.261 is amended to read:

18 **Sec. 19.75.261. Exemption from taxation.** The real and personal property of
19 the authority and its assets, income, and receipts are declared to be the property of a
20 political subdivision of the state and are exempt from all taxes and special assessments
21 of the state or a political subdivision of the state. Notwithstanding any law to the
22 contrary, rights and interests in real and personal property, assets, income, and
23 receipts, including concession, franchise, leasehold, or other real or personal
24 property rights and interests, held by a private person or enterprise under a
25 public-private partnership agreement entered into under this chapter, except any
26 rights and interests of the private person in property serving a business,
27 commercial, or other purpose not necessary to operate the facilities, properties,
28 or projects of the authority, shall be exempt from all ad valorem taxes on real or
29 personal property and special property tax assessments of the state or a political
30 subdivision of the state. All bonds of the authority are declared to be issued by a
31 political subdivision of the state and for an essential public and governmental purpose.

1 The bonds, the interest on the bonds, the income from the bonds and the transfer of the
2 bonds, and all assets, income, and receipts pledged to pay or secure the payment of the
3 bonds or interest on the bonds are, at all times, exempt from taxation by or under the
4 authority of the state, except for inheritance and estate taxes and taxes on transfers by
5 or in contemplation of death. Nothing in this section affects or limits an exemption
6 from license fees, property taxes, or excise, income, or other taxes provided under any
7 other law [, NOR DOES IT CREATE A TAX EXEMPTION WITH RESPECT TO
8 THE INTEREST OF ANY BUSINESS ENTERPRISE OR OTHER PERSON,
9 OTHER THAN THE AUTHORITY, IN ANY PROPERTY, ASSETS, INCOME,
10 RECEIPTS, PROJECT, OR LEASE, REGARDLESS OF WHETHER FINANCED
11 UNDER THIS CHAPTER].

12 * **Sec. 8.** AS 19.75 is amended by adding a new section to article 2 to read:

13 **Sec. 19.75.345. Knik Arm Crossing fund.** (a) The Knik Arm Crossing fund is
14 established as a separate fund in the general fund. The fund consists of

15 (1) money appropriated to the fund by the legislature;

16 (2) gifts, bequests, contributions from other sources, and federal
17 money appropriated to the fund;

18 (3) interest earned on the fund balance and appropriated to the fund;

19 and

20 (4) investments, to be managed by the Department of Revenue, which
21 shall be the fiduciary of the fund under AS 37.10.071.

22 (b) The fund is not a dedicated fund.

23 (c) Money in the fund may be transferred by the Department of Revenue to the
24 authority for the purposes listed in this section.

25 (d) On a date determined by the authority, but not before the board of directors
26 of the authority executes a public-private partnership agreement under
27 AS 19.75.111(a)(5)(B) for design, construction, and maintenance of the Knik Arm
28 Crossing, the Department of Revenue shall transfer money from the fund to the
29 authority in an amount necessary to meet the reserve fund requirement. The authority
30 shall deposit the money into the reserve fund established in AS 19.75.221(h).

SB 13, An Act relating to the Knik Arm Bridge and Toll Authority
and establishing the Knik Arm Crossing Fund.

WITNESS LIST

- Michael Foster, Chair, Board of Directors, Knik Arm Bridge and Toll Authority
- Kevin Hemenway, Chief Financial Officer, Knik Arm Bridge and Toll Authority

— JEFF STARK, DEPT. OF LAW.

SB 13 KABATA

Papers in Opposition

Jamie Kenworthy and Bob French

“Reserve Fund” established by HB 23 and SB 13 still provides an unlimited State Guarantee

What are “Availability Payments”?

As long as the bridge is “available” for use, HB23/SB13 sets up periodic “Availability Payments” from KABATA’s “Reserve Fund” to the bridge developer/contractor. KABATA describes this financing structure in their August 2012 TIFIA application “Letter of Interest” (LOI) (available at KABATA’s website at http://www.knikarmbridge.com/documents/KnikArmCrossingFY2013-2014TIFIALOIFINAL_001.pdf) with the following description on the bottom of page 11, “the private partner will design, build, finance, operate and maintain the Project under a concession of approximately 35 years after substantial completion in exchange for availability payments from KABATA and potentially a milestone payment(s) during or at completion of construction. The availability payments will be paid from a Project reserve fund that will hold in trust appropriated funds as well as toll revenues. The Project reserve fund will set forth minimum reserve requirements that, if not met, will trigger a **request for appropriation** from the State of Alaska under the mechanism set forth in the anticipated legislation.”

KABATA’s financial plans rely upon receiving TIFIA financing at 3% interest. Given \$41 billion of project costs (33 to 50% fed share) in requests (http://www.fhwa.dot.gov/ipd/tifia/letters_interest_applications/letters_submitted_2013.htm) for the available \$1 billion in TIFIA loans, it is HIGHLY unlikely that HALF of the federal TIFIA loans will be given to the “Bridge to Nowhere”. KABATA’s financial plans need to be re-done to show all funding coming from non-TIFIA sources. KABATA admits on Page 13 of their LOI that TIFIA funds are critical to their current financial plan, and if not provided, the project may require further federal funds: “The amount of TIFIA assistance requested will optimize the Project’s capital structure, thus allowing for lower availability payments. Lower availability payments translate into an **increased probability** that toll revenues will be sufficient to meet them, especially during the early years of service, while maintaining the minimum Project reserve requirements under the Project Trust. These will also ensure a **lower probability** that federal-aid funds will be needed in the future to meet critical needs for capacity improvements and extensions within the Project and in the region. Even if federal-aid funds are ultimately needed, the amount required will be lower if the Project receives the maximum amount of TIFIA credit assistance authorized by law in its capital structure.”

On that same Page 13, KABATA admits that without the State guarantee provided by HB23/SB13, the project is so risky that it would not be deemed “creditworthy”. “Optimized TIFIA financing also reduces the potential that the availability payments will need legislative appropriations. This lower level of risk to the State will enhance the legislative package being presented to the Legislature next session. The passage of the legislative package contemplated is fundamental to Project creditworthiness under current market conditions and risk tolerance levels.”

Where is the “Unlimited State Guarantee”? It comes from the continually replenished “Reserve Fund”.

If there is any question that HB23/SB13 provides a State obligation to replenish the “Reserve Fund”, which establishes the State guarantee, the following from the middle of Page 16 of the LOI makes it clear:

“The pro forma plan of finance submitted with this LOI demonstrates the senior lien obligations of the private partner will be able to achieve investment grade because of the following (the “Credit Structure”):

- The State of Alaska’s current appropriation credit rating of AA by Standard and Poors and Aa3 by Moodys;
- Establishment of the Project reserve fund to assure the appropriated funds and toll revenues are pledged toward monetary obligations under the PPA, including any milestone payment(s) and the availability payments;
- An assumed initial \$150 million appropriation by the State of Alaska Legislature deposited to the Project reserve;
- A **statutory trigger** for KABATA to request the Governor and State Legislature to act on **supplemental appropriations** if necessary to **replenish** the Project reserve fund to the minimum requirement, **representing an obligation** of the State;”

Page 17 of the LOI actually minimizes the importance that the Knik Arm Bridge was supposed to be entirely financed by tolls: “It is important to recognize that while there is a **tolling portion** to the Project, it is structured as an availability payment **backed by an appropriation pledged by the State of Alaska.**”

Mr. Jeff Stark, of the AG’s office was accurate in his statements on March 22, 2012 before the House Finance Committee that if the Toll Revenues fall short, the State will need to make up the difference.

HB23/SB13 allows KABATA to issue \$600 million in Private Activity Bonds WITHOUT any further action by the Legislature.

KABATA projects a 3% TIFIA loan for \$500 M resulting in an overall interest rate is 5.9% because in early years the amount of principal owed actually increases because of the toll shortfall. Without TIFIA’s 3% loan for half the construction costs, the overall interest rate to jumps to at least 8.6% and project financing costs balloon. See the following from the bottom of page 22 and top of page 23 of LOI:

If enacted, the legislation would accomplish the following:

- Authorize KABATA to establish a Project reserve fund to hold toll revenues, appropriated funds and other KABATA revenues, and available to pay PPA monetary obligations and KABATA’s own operating costs, with surplus available to pay for capacity improvements and expansions related to the Project and other Title 23 eligible transportation improvements and transit;
- Establish for KABATA a procedure, comparable to that available to other public corporations under Alaska law, to report to the Legislature and **request further appropriations** if the Project reserve fund falls below a **minimum reserve fund** requirement;
- Increase KABATA’s bonding authority to **\$600 million**, enabling KABATA to act as conduit issuer for the **full amount of the PABs** allocation to the Project;

The following pages show annotated versions of the traffic forecast and “Pro-Forma” from KABATA’s August 2012 TIFIA application, which highlight problems with KABATA’s current financial plan.

Traffic Forecast is at: <http://www.knikarmbridge.com/documents/MemoforAugust2012TandRforecastupdated8.23.2012.pdf>

Pro-Forma is at: http://www.knikarmbridge.com/documents/KnikArmCrossingProFormaModel_000.pdf

The 4 lane Glenn Highway had 29,664 Average daily traffic at Eklutna in 2010

Table 1
Estimated Average Daily Transactions and Gross Toll Revenue
Base Forecast using Probable Economic Assumptions
Proposed Knik Arm Crossing
Assuming Year 2017 Opening

KABATA predicts equaling Glenn Hwy in only 15 years

Year	Estimated Annual Average Daily Transactions			Estimated Annual	
	Passenger Car	Commercial Vehicle	Total	Transactions	Gross Toll Revenue
2017 (1)	5,900	800	6,700	2,445,500	16,024,000
2018(2)	8,800	1,200	10,000	3,650,000	24,543,000
2019	11,300	1,500	12,800	4,672,000	32,007,000
2020	13,100	1,800	14,900	5,438,500	38,457,000
2021	14,300	2,000	16,300	5,949,500	43,317,000
2022	15,400	2,100	17,500	6,387,500	47,428,000
2023	16,500	2,200	18,700	6,825,500	51,689,000
2024	17,600	2,300	19,900	7,263,500	56,124,000
2025	18,700	2,400	21,100	7,701,500	60,778,000
2026	19,800	2,700	22,500	8,212,500	67,251,000
2027	21,000	2,900	23,900	8,723,500	73,444,000
2028	22,200	3,100	25,300	9,234,500	79,882,000
2029	23,400	3,300	26,700	9,745,500	86,556,000
2030	24,600	3,500	28,100	10,256,500	93,560,000
2031	25,900	3,500	29,400	10,731,000	99,229,000
2032	27,100	3,700	30,800	11,242,000	106,822,000
2033	28,300	3,900	32,200	11,753,000	114,681,000
2034	29,500	4,100	33,600	12,264,000	122,930,000
2035	30,700	4,300	35,000	12,775,000	131,459,000
2036	31,700	4,300	36,000	13,140,000	137,619,000
2037	32,400	4,400	36,800	13,432,000	144,232,000
2038	33,100	4,500	37,600	13,724,000	151,137,000
2039	33,800	4,600	38,400	14,016,000	158,254,000
2040	34,500	4,700	39,200	14,308,000	165,550,000

Ramp up Schedule:

2017 assumes a ramp-up factor of 61.0 percent.
 2018 assumes a ramp-up factor of 81.3 percent.
 2019 assumes a ramp-up factor of 94.5 percent.
 No ramp-up is assumed in 2020 or beyond.

Per Fed. Traffic Manual, 22,500 ADT is the maximum that a 2 lane road can handle

This column of toll revenues is used with slightly revised numbers in KABATA's 2012 MAP-21 TIFIA Pro Forma

(1) Bridge assumed opened to traffic on January 1, 2017 with a Passenger Car Toll of \$5.00; tolls proportionately higher for Commercial Vehicles.
 (2) Assumes a Toll Schedule increased by 2.5 percent annually beginning January 1, 2018; tolls proportionately higher for Commercial Vehicles.

Because KABATA predicts that it will expand from 2 lane bridges and approach roads to 4 lanes in approximately 2030, the predicted revenues from more than 22,500 ADT between 2027 and 2030 includes \$70 million of "Impossibly Derived Revenue"!

KABATA received TIFIA rejection for the FIFTH time in Sept 2012, and was told that if they ever do qualify for a loan, it would be for 33% of project cost, not the 49% that \$500 million (m) represents. At best, that's \$200 m missing from their financial plan.

SOURCES AND USES

SOURCES	GOV PURPOSE	PRIVATE ACTIVITY BONDS	SHORT-TERM FINANCING	TIFIA (1)	EQUITY	TOTAL PRIVATE FINANCING	PUBLIC INVESTMENT	TOTAL
Current Interest Bonds	-	153,435,000	-	-	-	153,435,000	-	153,435,000
Capital Accretion Bonds	-	-	-	-	-	-	-	-
Short-Term Financing	-	-	-	-	-	-	-	-
TIFIA	-	-	-	500,473,670	-	500,473,670	-	500,473,670
Equity	-	-	-	-	72,787,288	72,787,288	-	72,787,288
Premium / Original Issue Discount	-	-	-	-	-	-	-	-
Public Funds Available	-	-	-	-	-	-	-	-
1) Federal	-	-	-	-	-	-	112,572,342	112,572,342
2) State Match	-	-	-	-	-	-	17,324,917	17,324,917
3) State Grant (Milestone Payment)	-	-	-	-	-	-	-	-
4) State Grant (Reserve Fund)	-	-	-	-	-	-	150,000,000	150,000,000
5) State Commerce Grant	-	-	-	-	-	-	15,000,000	15,000,000
6) TIGER-TIFIA Grant	-	-	-	-	-	-	-	-
Total	-	153,435,000	-	500,473,670	72,787,288	726,695,959	294,897,259	1,021,593,218

USES	GOV PURPOSE	PRIVATE ACTIVITY BONDS	SHORT-TERM FINANCING	TIFIA (1)	EQUITY	TOTAL PRIVATE FINANCING	PUBLIC INVESTMENT	TOTAL
Deposit to Construction Fund	-	109,357,485	-	499,723,670	70,494,245	679,575,400	25,419,013	704,994,413
Right of Way	-	-	-	-	-	-	15,250,000	15,250,000
KABATA PPA Oversight	-	-	-	-	-	-	11,826,000	11,826,000
Deposit for Port MacKenzie Road Upgrade	-	-	-	-	-	-	15,000,000	15,000,000
Deposit for KABATA Development Costs	-	-	-	-	-	-	77,402,246	77,402,246
Deposit to State Reserve Fund	-	-	-	-	-	-	150,000,000	150,000,000
Repay Short-Term Financing	-	-	-	-	-	-	-	-
TIFIA Credit Subsidy (2)	-	-	-	-	-	-	-	-
Deposit to Capitalized Interest Fund	-	25,051,575	-	-	-	25,051,575	-	25,051,575
Deposit to Prepaid Interest Fund	-	-	-	-	-	-	-	-
Debt Service Reserve Fund	-	15,343,500	-	-	-	15,343,500	-	15,343,500
Bond Insurance Premium	-	-	-	-	-	-	-	-
Cost of Issuance	-	2,301,525	-	750,000	-	3,051,525	-	3,051,525
Underwriter's Discount	-	767,175	-	-	-	767,175	-	767,175
KABATA FA Success Fee	-	613,740	-	-	2,293,044	2,906,784	-	2,906,784
Concession (Shortfall)/Surplus	-	-	-	-	-	-	-	-
Total	-	153,435,000	-	500,473,670	72,787,288	726,695,959	294,897,259	1,021,593,218

Equity Contribution (12% IRR)	72,787,288							
Construction Fund Surplus / (Shortfall)	8,416							
Equity as % of Financing, Including Public Funds	7.125%							
Equity as % of Financing, Excluding Public Funds	10.016%							
Delivery Date	12/1/13							
Rates as of	2/1/12							
Cap I Date	12/1/2016	12/1/2016						
Cap I Earnings Rate	0.50%	0.50%						
Bond Yield	-	5.846%						
Arbitrage Yield	-	5.846%		2.850%				3.386%
True Interest Cost	-	5.895%		2.850%				3.393%
Minimum Coverage	2.09x			1.33x				
Average Coverage	2.90x			1.47x				
Final Maturity	12/1/2034			12/1/2046				
Total Qualified Project Costs	1,021,374,837							
TIFIA 49% Limitation	500,473,670							

(1) TIFIA rate assumed at 4.00% (current market + 140bps)
 (2) For subsidy cost of credit assistance

It is not appropriate for a State agency, like KABATA to give themselves a "Success Fee". This needs to be explained.

\$72.8 million is Private Equity Contribution from P3 Contractor, See Page 4

With half their projected funds coming from the TIFIA 3% federal loan, the overall rate is 5.846%. Without the \$500 M from TIFIA the average loan rate is 8.6%. KABATA needs to provide a new Pro-Forma!

The Red boxed comments of this document were created by Jamie Kenworthy and Bob French. This Annotated version is available at http://knikbridgefacts.org/wp-content/uploads/2013/02/KnikArmCrossingProFormaModel_000-Annotated.pdf
 KABATA's original of this document available at: http://www.knikarmbridge.com/documents/KnikArmCrossingProFormaModel_000.pdf

Knik Arm Bridge and Toll Authority
Base Case: Normal Traffic Projections-TIFIA at 49%
Private Model - Availability Payment Structure

Phase I

ASSUMPTIONS

Derivation of DSRF Requirement	
Gov. Purpose	
10% of Par	-
Maximum Annual Debt Service	-
125% of Average Annual Debt Service	-
Minimum of 3 tests	-
PABs	
10% of Par	15,343,500
Maximum Annual Debt Service	25,507,352
125% of Average Annual Debt Service	17,907,483
Deposit	15,343,500
TIFIA Eligible Costs	
Project Costs	705,526,033
Right of Way	15,250,000
KABATA PPA Oversight	11,826,000
KABATA Debt Service Reserve Fund Deposit	15,343,500
KABATA Capitalized Interest Deposit	25,051,575
Bond Insurance	-
Cost of Issuance	2,301,525
Development Phase: Public investment (1)	92,402,246
Underwriter's Discount	767,175
Upfront Payment	2,906,784
State Funded Reserve Fund	150,000,000
Total Eligible TIFIA Costs	1,021,374,837
Maximum Capacity Constraint	500,473,670
Actual TIFIA Loan Amount Used	500,473,670
Percentage for proration of indirect costs	
Urban	42.4%
Rural	57.6%
Total	100.0%
2017 Initial Toll Rate	\$5.00
2011 Initial Toll Rate (PV @ 2.50%)	\$4.53
Annual Toll Rate Increase After 2016	2.500%
Costs of Issuance	
Bonds	1.500%
TIFIA	750,000
Underwriter's Discount	
Bonds	0.500%
Insurance (% of Total DS)	
	0.000%

(1) Includes \$15 million commerce grant for Pt Mackenzie Rd upgrade

NOTE: Both the September 25, 2012 and December 11, 2012 letters to KABATA from the Federal FHWA DOT regarding KABATA's 2012 TIFIA Letter of Interest indicate that IF KABATA does get a TIFIA loan, KABATA will NOT receive more than 33% of project cost. Because KABATA has no TIFIA funds, that \$500 m should not be included in their Financial Plan, or if TIFIA is included, the State should be listed as the alternate source of that \$500 million.

The Federal TIFIA program is highly popular and typically gets "letters of Interest" requesting 10 times more money than what is available.

KABATA has now been turned down FIVE times in their TIFIA applications, and despite KABATA's assertions, it is not a first-come, first-served program.

Refer to <http://www.knikarmbridge.com/documents/>

[Knik Arm LOI Response 9-25-12.pdf](http://www.knikarmbridge.com/documents/Knik_Arm_LOI_Response_9-25-12.pdf) and [http://www.knikarmbridge.com/documents/Knik Arm Response from USDOT-12-11-12.pdf](http://www.knikarmbridge.com/documents/Knik_Arm_Response_from_USDOT-12-11-12.pdf)

Knik Arm Bridge and Toll Authority
Base Case: Normal Traffic Projections-TIFIA at 49%
Private Model - Availability Payment Structure

Phase I

Toll Revenue is not shown here, possibly because they don't want to directly compare revenue with the "Availability Payments" that the State is guaranteeing. See pg. 6.

EBITDA							
Date	Toll Revenue	Availability Payment	Interest Income Earnings	2.50% O&M	2.50% Tolling Operations	2.50% Renewal CapEx	Cash Available for Debt Service
Total	-	2,332,602,885	23,628,990	(122,228,256)	(196,731,032)	(112,054,849)	1,925,217,738
12/1/14	-	-	-	-	-	-	-
12/1/15	-	-	-	-	-	-	-
12/1/16	-	-	-	-	-	-	-
12/1/17	-	24,729,500	460,305	(1,908,268)	(1,746,600)	(889,193)	20,645,744
12/1/18	-	28,118,680	460,305	(2,219,973)	(1,952,625)	(890,084)	23,516,304
12/1/19	-	33,563,427	460,305	(2,070,627)	(2,143,275)	(898,535)	28,911,296
12/1/20	-	35,065,964	460,305	(2,198,735)	(2,319,575)	(900,343)	30,107,617
12/1/21	-	40,628,603	460,305	(2,159,774)	(2,472,300)	(901,316)	35,555,517
12/1/22	-	42,253,747	460,305	(2,457,230)	(2,616,825)	(1,216,140)	36,423,856
12/1/23	-	43,943,897	460,305	(2,330,510)	(2,766,475)	(1,217,173)	38,090,044
12/1/24	-	45,701,653	460,305	(2,630,133)	(2,924,325)	(2,464,241)	38,143,259
12/1/25	-	47,529,719	460,305	(2,472,437)	(3,089,350)	(2,464,473)	39,963,763
12/1/26	-	49,430,908	460,305	(2,774,865)	(3,289,225)	(2,465,602)	41,361,521
12/1/27	-	51,408,144	460,305	(2,623,009)	(3,496,275)	(2,458,082)	43,291,083
12/1/28	-	53,464,470	460,305	(2,840,533)	(3,713,575)	(2,459,279)	44,911,387
12/1/29	-	55,603,048	460,305	(2,782,750)	(3,940,100)	(1,206,974)	48,133,529
12/1/30	-	57,827,170	460,305	(3,223,756)	(4,178,925)	(1,208,244)	49,676,550
12/1/31	-	60,140,257	460,305	(2,848,581)	(4,407,500)	(1,209,552)	52,134,929
12/1/32	-	62,545,867	460,305	(3,197,045)	(4,634,025)	(1,962,682)	53,212,421
12/1/33	-	65,047,702	460,305	(3,132,011)	(4,870,800)	(1,964,070)	55,541,127
12/1/34	-	67,649,610	15,803,805	(3,628,366)	(5,119,875)	(1,965,499)	72,739,675
12/1/35	-	70,355,595	-	(3,322,750)	(5,379,200)	(2,055,333)	59,598,312
12/1/36	-	72,114,485	-	(3,478,155)	(5,685,675)	(3,844,095)	59,106,560
12/1/37	-	73,917,347	-	(3,525,104)	(5,955,250)	(4,944,285)	59,492,708
12/1/38	-	75,765,280	-	(4,083,758)	(6,238,150)	(4,945,894)	60,497,479
12/1/39	-	77,659,412	-	(3,739,783)	(6,534,375)	(4,947,551)	62,437,703
12/1/40	-	79,600,898	-	(4,049,921)	(6,841,875)	(4,860,896)	63,848,206
12/1/41	-	81,590,920	-	(3,828,253)	(7,165,944)	(3,075,409)	67,521,314
12/1/42	-	83,630,693	-	(4,596,306)	(7,505,363)	(2,226,345)	69,302,679
12/1/43	-	85,721,460	-	(4,209,159)	(7,860,859)	(2,340,144)	71,311,299
12/1/44	-	87,864,497	-	(4,558,221)	(8,233,192)	(2,342,065)	72,731,018
12/1/45	-	90,061,109	-	(4,465,497)	(8,623,162)	(2,344,044)	74,628,407
12/1/46	-	92,312,637	-	(5,011,714)	(9,031,603)	(2,346,082)	75,923,238
12/1/47	-	94,620,453	-	(4,737,446)	(9,459,390)	(6,626,429)	73,797,188
12/1/48	-	96,985,964	-	(5,130,318)	(9,907,439)	(9,064,843)	72,883,365
12/1/49	-	99,410,613	-	(5,025,956)	(10,376,710)	(9,067,070)	74,940,878
12/1/50	-	101,895,879	-	(5,822,461)	(10,868,208)	(9,069,363)	76,135,846
12/1/51	-	104,443,276	-	(5,144,852)	(11,382,987)	(9,213,520)	78,701,917
12/1/52	-	-	-	-	-	-	-

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

The \$2,332,602,885 in "Availability Payment" is what KABATA predicts will be established by the P3 contract, and will be paid to the P3 over the life of the project. However with half the toll revenue and higher interest Private Activity Bonds rather than TIFIA loans, these State Guaranteed payments are what Jeff Stark of the AG's office said the state will need to pay into the unlimited "Reserve Fund" in the proposed HB 23 / S 13, regardless of how much toll revenue is received.

Knik Arm Bridge and Toll Authority
Base Case: Normal Traffic Projections-TIFIA at 49%
Private Model - Availability Payment Structure

Phase I

\$72.8 M, or 7% of project cost is what the P3 partner is "investing"

COVERAGE

Date	Cash Available for Debt Service	PABs Debt Service	Senior PABs Lien Coverage	TIFIA DS	Total Coverage	Total Coverage (inc. O&M)	Net Cashflow	PV of Net Cash Flow 12.0%
Total	1,925,217,738	(274,193,572)		(913,116,806)			737,907,360	72,787,288
12/1/14	-	-	-	-	-	-	-	-
12/1/15	-	-	-	-	-	-	-	-
12/1/16	-	-	-	-	-	-	-	-
12/1/17	20,645,744	(8,884,049)	2.32x	-	2.32x	2.32x	11,761,695	7,379,433
12/1/18	23,516,304	(8,884,049)	2.65x	-	2.65x	2.65x	14,632,255	8,170,575
12/1/19	28,911,296	(8,884,049)	3.25x	-	3.25x	3.25x	20,027,247	9,952,928
12/1/20	30,107,617	(14,434,049)	2.09x	(8,120,768)	1.33x	1.33x	7,552,800	3,340,611
12/1/21	35,555,517	(10,500,984)	3.39x	(16,127,688)	1.34x	1.34x	8,926,845	3,514,019
12/1/22	36,423,856	(11,162,677)	3.26x	(16,124,840)	1.33x	1.33x	9,136,340	3,200,860
12/1/23	38,090,044	(12,409,621)	3.07x	(16,121,992)	1.34x	1.34x	9,558,432	2,980,364
12/1/24	38,143,259	(12,453,395)	3.06x	(16,119,144)	1.33x	1.33x	9,570,721	2,655,924
12/1/25	39,963,763	(13,814,220)	2.89x	(16,116,296)	1.34x	1.34x	10,033,248	2,477,997
12/1/26	41,361,521	(14,870,392)	2.78x	(16,113,448)	1.33x	1.33x	10,377,682	2,281,119
12/1/27	43,291,083	(16,315,907)	2.65x	(16,110,600)	1.34x	1.34x	10,864,577	2,125,439
12/1/28	44,911,387	(17,536,893)	2.56x	(16,107,751)	1.33x	1.33x	11,266,743	1,961,654
12/1/29	48,133,529	(19,951,179)	2.41x	(16,104,903)	1.33x	1.33x	12,077,447	1,871,490
12/1/30	49,676,550	(21,105,435)	2.35x	(16,102,055)	1.34x	1.34x	12,469,060	1,719,627
12/1/31	52,134,929	(22,956,606)	2.27x	(16,099,207)	1.33x	1.33x	13,079,116	1,605,341
12/1/32	53,212,421	(23,761,622)	2.24x	(16,096,359)	1.34x	1.34x	13,354,440	1,458,824
12/1/33	55,541,127	(25,507,352)	2.18x	(16,093,511)	1.34x	1.34x	13,940,264	1,355,303
12/1/34	72,739,675	(10,761,099)	6.76x	(43,725,955)	1.33x	1.33x	18,252,621	1,579,352
12/1/35	59,598,312	-	-	(44,642,930)	1.34x	1.34x	14,955,382	1,151,700
12/1/36	59,106,560	-	-	(44,274,576)	1.34x	1.34x	14,831,983	1,016,552
12/1/37	59,492,708	-	-	(44,563,826)	1.34x	1.34x	14,928,882	910,638
12/1/38	60,497,479	-	-	(45,316,463)	1.34x	1.34x	15,181,015	824,152
12/1/39	62,437,703	-	-	(46,769,815)	1.34x	1.34x	15,667,888	757,017
12/1/40	63,848,206	-	-	(47,826,371)	1.34x	1.34x	16,021,834	688,962
12/1/41	67,521,314	-	-	(50,577,763)	1.34x	1.34x	16,943,551	648,449
12/1/42	69,302,679	-	-	(51,912,119)	1.34x	1.34x	17,390,560	592,343
12/1/43	71,311,299	-	-	(53,416,703)	1.34x	1.34x	17,894,596	542,463
12/1/44	72,731,018	-	-	(54,480,163)	1.34x	1.34x	18,250,855	492,402
12/1/45	74,628,407	-	-	(55,901,428)	1.34x	1.34x	18,726,979	449,668
12/1/46	75,923,238	-	-	(56,871,340)	1.34x	1.34x	19,051,899	407,147
12/1/47	73,797,188	-	-	(55,278,790)	1.34x	1.34x	18,518,398	352,212
12/1/48	72,883,365	-	-	-	-	-	72,883,365	1,233,724
12/1/49	74,940,878	-	-	-	-	-	74,940,878	1,129,007
12/1/50	76,135,846	-	-	-	-	-	76,135,846	1,020,834
12/1/51	78,701,917	-	-	-	-	-	78,701,917	939,160

P3 Contractor receives net cashflow

The \$737 M shows what a great deal this public private "partnership" is for the contractor, not so much for the state. Subtracting the contractor's \$73 M equity from the contractor's \$737 M net cash flow gives a Profit of \$664 Million.

Why should a AAA credit state that can borrow long term at 3%, guarantee a contract that promises 12% cumulative interest? The "Real Cost" paper uses "only" a 10% return, because that is the one cost that we think KABATA underestimated.

This \$46,421,197 being taken out by the P3 Contractor BEFORE the first payment of Federal TIFIA loans is not allowed by present TIFIA guidelines KABATA claims that they are "grandfathered". In the Real World, no one is allowed to take out equity before the creditors start to be repaid.

Knik Arm Bridge and Toll Authority
Base Case: Normal Traffic Projections-TIFIA at 49%
Private Model - Availability Payment Structure

Phase I

ANNUAL DEBT SERVICE

Date	GP Tax-Exempt CIB Annual DS	GP Tax-Exempt CAB Annual DS	GP Capi Interest Draws	Total GP Tax-Exempt Annual DS	PABS Tax-Exempt CIB Annual DS	Capl Interest Draws	Prepaid Interest Draws	PABs Annual DS	TIFIA Annual DS	Net Annual DS
Total	-	-	-	-	300,845,719	(26,652,147)	-	274,193,572	913,116,806	1,187,310,378
12/1/14	-	-	-	-	8,884,049	(8,884,049)	-	-	-	-
12/1/15	-	-	-	-	8,884,049	(8,884,049)	-	-	-	-
12/1/16	-	-	-	-	8,884,049	(8,884,049)	-	-	-	-
12/1/17	-	-	-	-	8,884,049	-	-	8,884,049	-	8,884,049
12/1/18	-	-	-	-	8,884,049	-	-	8,884,049	-	8,884,049
12/1/19	-	-	-	-	8,884,049	-	-	8,884,049	-	8,884,049
12/1/20	-	-	-	-	14,434,049	-	-	14,434,049	8,120,768	22,554,817
12/1/21	-	-	-	-	10,500,984	-	-	10,500,984	16,127,688	26,628,672
12/1/22	-	-	-	-	11,162,677	-	-	11,162,677	16,124,840	27,287,516
12/1/23	-	-	-	-	12,409,621	-	-	12,409,621	16,121,992	28,531,612
12/1/24	-	-	-	-	12,453,395	-	-	12,453,395	16,119,144	28,572,538
12/1/25	-	-	-	-	13,814,220	-	-	13,814,220	16,116,296	29,930,515
12/1/26	-	-	-	-	14,870,392	-	-	14,870,392	16,113,448	30,983,839
12/1/27	-	-	-	-	16,315,907	-	-	16,315,907	16,110,600	32,426,506
12/1/28	-	-	-	-	17,536,893	-	-	17,536,893	16,107,751	33,644,644
12/1/29	-	-	-	-	19,951,179	-	-	19,951,179	16,104,903	36,056,082
12/1/30	-	-	-	-	21,105,435	-	-	21,105,435	16,102,055	37,207,490
12/1/31	-	-	-	-	22,956,606	-	-	22,956,606	16,099,207	39,055,813
12/1/32	-	-	-	-	23,761,622	-	-	23,761,622	16,096,359	39,857,981
12/1/33	-	-	-	-	25,507,352	-	-	25,507,352	16,093,511	41,600,863
12/1/34	-	-	-	-	10,761,099	-	-	10,761,099	43,725,955	54,487,054
12/1/35	-	-	-	-	-	-	-	-	44,642,930	44,642,930
12/1/36	-	-	-	-	-	-	-	-	44,274,576	44,274,576
12/1/37	-	-	-	-	-	-	-	-	44,563,826	44,563,826
12/1/38	-	-	-	-	-	-	-	-	45,316,463	45,316,463
12/1/39	-	-	-	-	-	-	-	-	46,769,815	46,769,815
12/1/40	-	-	-	-	-	-	-	-	47,826,371	47,826,371
12/1/41	-	-	-	-	-	-	-	-	50,577,763	50,577,763
12/1/42	-	-	-	-	-	-	-	-	51,912,119	51,912,119
12/1/43	-	-	-	-	-	-	-	-	53,416,703	53,416,703
12/1/44	-	-	-	-	-	-	-	-	54,480,163	54,480,163
12/1/45	-	-	-	-	-	-	-	-	55,901,428	55,901,428
12/1/46	-	-	-	-	-	-	-	-	56,871,340	56,871,340
12/1/47	-	-	-	-	-	-	-	-	55,278,790	55,278,790
12/1/48	-	-	-	-	-	-	-	-	-	-
12/1/49	-	-	-	-	-	-	-	-	-	-
12/1/50	-	-	-	-	-	-	-	-	-	-
12/1/51	-	-	-	-	-	-	-	-	-	-
12/1/52	-	-	-	-	-	-	-	-	-	-
12/1/53	-	-	-	-	-	-	-	-	-	-
12/1/54	-	-	-	-	-	-	-	-	-	-
12/1/55	-	-	-	-	-	-	-	-	-	-
12/1/56	-	-	-	-	-	-	-	-	-	-
12/1/57	-	-	-	-	-	-	-	-	-	-
12/1/58	-	-	-	-	-	-	-	-	-	-
12/1/59	-	-	-	-	-	-	-	-	-	-
12/1/60	-	-	-	-	-	-	-	-	-	-
12/1/61	-	-	-	-	-	-	-	-	-	-
12/1/62	-	-	-	-	-	-	-	-	-	-

Refer to the \$4,232,333,723 Toll Revenue shown in the 2nd column of the next page, page 6. KABATA's "Pro-Forma" in their 2011 TIGER grant application (available at <http://www.knikarmbridge.com/2011TIGER/ExhibitD.pdf>) showed a forecasted Toll Revenue of \$4.8 billion. This 2012 Pro-Forma shows \$4.2 billion, a drop of nearly \$600 million.

That is 4 times the \$150 million that KABATA is requesting for the "Reserve Fund" that would be established by HB 23 / SB 13. This was because of lower traffic forecasts as well as other factors, but shows how "flexible" both the estimated Toll Revenues as well as construction and financing costs can be. While KABATA's various "Pro-Forma" over the years are inching closer to reality, we still think that toll revenues are still overestimated by at least a factor of 2.

If different crystal balls, only a year apart, show revenue forecast differences of \$600 million, this "flexibility" should concern legislators, especially because the Toll Revenues that go into the "Reserve Fund are likely to be far less than the annual "Availability Payments".

Through the "Reserve Fund" proposed in HB 23 / SB 13, the State would be guaranteeing all the funds necessary to meet the annual "Availability Payments". We expect that KABATA will annually be asking the State to "Replenish" the "Reserve Fund".

Knik Arm Bridge and Toll Authority
Base Case: Normal Traffic Projections-TIFIA at 49%
Private Model - Availability Payment Structure

Phase I

Receipts predicted to exceed costs only after 9 years of operation, and this kind of "Negative Equity" or "Negative Amortization" loans are no longer made, at least in the Residential Housing Market.

The P3 contractor is responsible for Toll Collection, O&M, etc.
 Why \$3 to \$7 million a year for KABATA to administer a contract?

AVAILABILITY PAYMENT SURPLUS (SHORTFALL)

See comment pg. 5

Date	Toll Revenue	Availability Payment	GP Total Annual DS	KABATA Administrative Costs	Net State Surplus (Shortfall)	PV @ 5.000%	Cumulative Deficit/Return
Total	4,232,444,723	(2,332,602,885)	-	(174,928,270)	1,724,913,568	436,668,726	
12/1/14	-	-	-	-	-	-	-
12/1/15	-	-	-	-	-	-	-
12/1/16	-	-	-	-	-	-	-
12/1/17	16,018,701	(24,729,500)	-	(3,019,041)	(11,729,840)	(9,627,226)	(11,729,840)
12/1/18	22,836,943	(28,118,680)	-	(3,103,849)	(8,385,586)	(6,550,806)	(20,115,426)
12/1/19	29,655,186	(33,563,427)	-	(3,191,057)	(7,099,299)	(5,278,725)	(27,214,725)
12/1/20	36,473,428	(35,065,964)	-	(3,280,734)	(1,873,270)	(1,325,764)	(29,087,995)
12/1/21	43,291,671	(40,628,603)	-	(3,372,949)	(709,881)	(478,194)	(29,797,876)
12/1/22	48,083,795	(42,253,747)	-	(3,467,776)	2,362,272	1,514,608	(27,435,604)
12/1/23	52,875,920	(43,943,897)	-	(3,565,289)	5,366,734	3,275,162	(22,068,870)
12/1/24	57,668,044	(45,701,653)	-	(3,665,563)	8,300,828	4,821,658	(13,768,041)
12/1/25	62,460,169	(47,529,719)	-	(3,768,680)	11,161,771	6,171,068	(2,606,271)
12/1/26	67,252,294	(49,430,908)	-	(3,874,718)	13,946,668	7,339,221	11,340,398
12/1/27	74,284,285	(51,408,144)	-	(3,983,762)	18,892,380	9,462,773	30,232,778
12/1/28	81,316,277	(53,464,470)	-	(4,095,897)	23,755,911	11,325,457	53,988,688
12/1/29	88,348,269	(55,603,048)	-	(4,211,212)	28,534,009	12,947,893	82,522,697
12/1/30	95,380,261	(57,827,170)	-	(4,329,797)	33,223,293	14,349,318	115,745,990
12/1/31	102,412,252	(60,140,257)	-	(4,451,746)	37,820,249	15,547,667	153,566,240
12/1/32	109,444,244	(62,545,867)	-	(4,577,155)	42,321,222	16,559,656	195,887,462
12/1/33	116,476,236	(65,047,702)	-	(4,706,122)	46,722,412	17,400,857	242,609,873
12/1/34	123,508,228	(67,649,610)	-	(4,838,750)	51,019,867	18,085,769	293,629,741
12/1/35	130,540,220	(70,355,595)	-	(4,975,143)	55,209,482	18,627,887	348,839,222
12/1/36	137,572,211	(72,114,485)	-	(5,115,408)	60,342,318	19,378,680	409,181,541
12/1/37	144,182,963	(73,917,347)	-	(5,259,657)	65,005,959	19,870,447	474,187,500
12/1/38	151,085,615	(75,765,280)	-	(5,408,003)	69,912,332	20,340,448	544,099,832
12/1/39	158,200,196	(77,659,412)	-	(5,560,563)	74,980,221	20,763,746	619,080,053
12/1/40	165,493,715	(79,600,898)	-	(5,717,458)	80,175,360	21,132,564	699,255,413
12/1/41	169,631,058	(81,590,920)	-	(5,878,811)	82,161,327	20,612,515	781,416,740
12/1/42	173,871,834	(83,630,693)	-	(6,025,781)	84,215,360	20,109,771	865,632,100
12/1/43	178,218,630	(85,721,460)	-	(6,176,426)	86,320,744	19,619,288	951,952,844
12/1/44	182,674,096	(87,864,497)	-	(6,330,837)	88,478,763	19,140,769	1,040,431,606
12/1/45	187,240,948	(90,061,109)	-	(6,489,108)	90,690,732	18,673,921	1,131,122,338
12/1/46	191,921,972	(92,312,637)	-	(6,651,335)	92,958,000	18,218,460	1,224,080,338
12/1/47	196,720,022	(94,620,453)	-	(6,817,619)	95,281,950	17,774,107	1,319,362,288
12/1/48	201,638,022	(96,985,964)	-	(6,988,059)	97,663,999	17,340,592	1,417,026,286
12/1/49	206,678,973	(99,410,613)	-	(7,162,761)	100,105,599	16,917,651	1,517,131,885
12/1/50	211,845,947	(101,895,879)	-	(7,341,830)	102,608,239	16,505,025	1,619,740,123
12/1/51	217,142,096	(104,443,276)	-	(7,525,375)	105,173,445	16,102,464	1,724,913,568
12/1/52							

Max amount of revenue from a 2 lane bridge

2030 is when KABATA says they will build the 4 lane bridge

CDM Smith's forecast stops at 2040

These are basically the toll revenue number from CDM Smith's Aug. 23, 2012 revised Toll Estimate. Compared to 2011 TIGER grant application, the toll revenues are slightly lower for 2027 to 2031, and increased between 2032 and 2036. Note that KABATA Traffic & toll consultant, CDM Smith's, predictions stop at 2040 and the revenues shown here are apparently an extrapolation, without documented substantiation. KABATA's Document available at: <http://www.knikarmbridge.com/documents/MemoforAugust2012TandRforecastupdated8.23.2012.pdf>

As discussed on Table 1 of CDM Smith's Aug 23, 2012 revised Toll Estimate, between 2027 and 2030 KABATA is counting on getting the Toll Revenue from more than 22,500 Average Daily Trips traffic that will only fit on a 4 lane road and bridge, however, they are not predicting that the expansion from 2 lane to 4 lanes will occur until 2030 and do not show the costs of that expansion. That is "Impossibly Derived Revenue". Note also that KABATA is predicting that the 2 lane bridge will be "maxed out" just after their predicted revenue exceeds their costs!

Based on CDM Smith's track record, We believe these Toll Revenue amounts are at least double what actual revenue will be. See: <http://www.scribd.com/doc/79582705/RCA-Study-Wilbur-Smith-Traffic-amp-Revenue-Forecasts-012712>

STATE RESERVE FUND

Date	Minimum Reserve Fund Requirement	Reserve Fund Release Requirement	Beginning Balance	Excess Revenues	Interest @ 3.000%	State Replenish (1)	Draws on Reserve (2)	General Surplus Withdrawals (3)	Ending Balance
Total				1,754,711,444	119,583,276	-	(29,797,876)	(1,994,496,844)	
12/1/14	-	-	150,000,000	-	4,500,000	-	-	-	154,500,000
12/1/15	-	-	154,500,000	-	4,635,000	-	-	-	159,135,000
12/1/16	-	-	159,135,000	-	4,774,050	-	-	-	163,909,050
12/1/17	38,290,222	47,862,778	163,909,050	-	4,917,272	-	(11,729,840)	-	157,096,481
12/1/18	26,510,784	37,143,155	157,096,481	-	4,712,894	-	(8,385,586)	-	153,423,790
12/1/19	24,804,151	36,714,424	153,423,790	-	4,602,714	-	(7,099,299)	-	150,927,205
12/1/20	21,572,724	34,379,701	150,927,205	-	4,527,816	-	(1,873,270)	-	153,581,751
12/1/21	18,419,476	32,142,702	153,581,751	-	4,607,453	-	(709,881)	-	157,479,322
12/1/22	13,747,499	28,007,292	157,479,322	2,362,272	4,724,380	-	-	-	164,565,974
12/1/23	11,186,125	26,003,605	164,565,974	5,366,734	4,936,979	-	-	-	174,869,688
12/1/24	8,712,576	24,109,700	174,869,688	8,300,828	5,246,091	-	-	-	188,416,606
12/1/25	6,330,327	22,329,920	188,416,606	11,161,771	5,652,498	-	-	-	205,230,875
12/1/26	4,042,990	20,668,780	205,230,875	13,946,668	6,156,926	-	-	-	225,334,470
12/1/27	1,854,319	19,130,972	225,334,470	18,892,380	6,760,034	-	-	-	250,986,884
12/1/28	-	15,481,512	250,986,884	23,755,911	7,529,607	-	-	-	282,272,401
12/1/29	-	11,965,338	282,272,401	28,534,009	8,468,172	-	-	-	319,274,582
12/1/30	-	8,587,727	319,274,582	33,223,293	9,578,237	-	-	-	362,076,113
12/1/31	-	5,354,164	362,076,113	37,820,249	10,862,283	-	-	-	410,758,646
12/1/32	-	2,270,351	410,758,646	42,321,222	12,322,759	-	-	(463,132,276)	2,270,351
12/1/33	-	-	2,270,351	46,722,412	68,111	-	-	(49,060,873)	-
12/1/34	-	-	-	51,019,867	-	-	-	(51,019,867)	-
12/1/35	-	-	-	55,209,482	-	-	-	(55,209,482)	-
12/1/36	-	-	-	60,342,318	-	-	-	(60,342,318)	-
12/1/37	-	-	-	65,005,959	-	-	-	(65,005,959)	-
12/1/38	-	-	-	69,912,332	-	-	-	(69,912,332)	-
12/1/39	-	-	-	74,980,221	-	-	-	(74,980,221)	-
12/1/40	-	-	-	80,175,360	-	-	-	(80,175,360)	-
12/1/41	-	-	-	82,161,327	-	-	-	(82,161,327)	-
12/1/42	-	-	-	84,215,360	-	-	-	(84,215,360)	-
12/1/43	-	-	-	86,320,744	-	-	-	(86,320,744)	-
12/1/44	-	-	-	88,478,763	-	-	-	(88,478,763)	-
12/1/45	-	-	-	90,690,732	-	-	-	(90,690,732)	-
12/1/46	-	-	-	92,958,000	-	-	-	(92,958,000)	-
12/1/47	-	-	-	95,281,950	-	-	-	(95,281,950)	-
12/1/48	-	-	-	97,663,999	-	-	-	(97,663,999)	-
12/1/49	-	-	-	100,105,599	-	-	-	(100,105,599)	-
12/1/50	-	-	-	102,608,239	-	-	-	(102,608,239)	-
12/1/51	-	-	-	105,173,445	-	-	-	(105,173,445)	-
12/1/52	-	-	-	-	-	-	-	-	-

1) General Surplus Withdrawals begin once all of Phase II has been financed.

This column shows KABATA's prediction that the \$150 Million appropriated to the "Reserve Fund" will eventually be paid back. Our estimate is that average annual deficits will be \$58 million per year between 2017 and 2035, and an average of \$94 million per year between 2036 and 2051 because of sharply rising annual "Availability Payments". With toll revenues likely to be no more than half of what KABATA predicts, we anticipate the "Reserve Fund" will require annual "replenishment" from the Legislature.

State Replenishment, that KABATA describes as a "Moral Obligation" to pay the P3 Contractor their annual "Availability Payments" is estimated by the "Real Costs" paper at \$2.6 Billion over the life of the contract. Replenishment costs WILL NOT be zero with no TIFIA funding. KABATA needs to provide "Pro-Forma without TIFIA."

The rest of the pages of the Pro-Forma were not annotated, but can be viewed from KABATA's website. See link on the first page. Pages 18 to 20 does show KABATA's estimate of Phase 2 costs to connect to Ingra/Gambell, but the costs to expand the bridge and approach roads from 2 lanes to 4 lanes need to be included in the Phase 1 "Pro-Forma" because \$1.9 billion in Toll Revenue is included in that Phase 1 Pro-Forma after 2026, when the 2-lane bridge is over capacity at 22,500 Average Daily Trips.

The Real Cost of the Knik Arm Bridge

\$2.6 Billion PLUS \$X

January 28, 2013, by Jamie Kenworthy and Bob French, (*Revised 2-8-13 to add boxed highlights and on 2-18-13 to fix slight errors in p. 4 population box and footnotes 16 and 23.*)

This 2013 update estimate of the cost to the state of the project is \$2.6 billion plus a new \$X factor.

The following recent developments **add** to the state's cost:

- In September 2012, the Knik Arm Bridge and Toll Authority (KABATA) was turned down for a \$500 million low cost federal loan, leaving a \$500 million hole in KABATA's latest August 2012 Financial Plan.¹
- \$35 Million higher Bridge and approach costs. The original bridge design was for an 8200' span. In November 2011, KABATA agreed to a 9200' span,² slightly longer than San Francisco's Golden Gate Bridge, which would add at least \$15 million³ to the cost. A Settlement with the Municipality of Anchorage for the east approach road to take less Port of Anchorage land will require a longer and larger retaining wall against the bluff, which would add roughly \$20 million.
- KABATA's current proposal includes an initial 6 lane "cut and cover" tunnel under Government Hill. KABATA's 2007 itemized cost estimate was for an initial 2 lane tunnel.
- In 2007, KABATA contracted with the Geotechnical firm Shannon and Wilson to do soil borings every 500 feet in Knik Arm and along approach roads. The first page of the 323 page document from Shannon and Wilson's 2007 Geotech Memorandum recommended that additional soil borings be done on the east side of Knik Arm to better determine the extent of the inconsistent sub-soils and to determine the depth of the unstable Bootlegger Cove Formation Clay (Bootlegger Clay) deposits once the exact route of the Bridge was known.⁴ That additional geotechnical work was not done and in December 2012, KABATA stated that this geotechnical risk will *now be borne by the project developer*.⁵ Presumably this would result in higher cost bids.
- Based on the Shannon and Wilson geotech work, the firm of PND in 2007 did a 35% design cost estimate that, inflation corrected to 2012, is now \$710 million. With financing costs included, Phase I of the project now totals \$1 billion. PND also did the design and cost estimate for the Port of Anchorage project. As detailed in the recent CH2MHill review of the Port project, the instability of Bootlegger Clay and presence of "boulders" are factors in the failure of the Port's sheet piles, which led to huge and ongoing cost overruns.⁶ In regards to the Knik

TIFIA loan turn-down for 5th time, leaves KABATA with a \$500 million dollar hole in their finance plan. **Half** of their estimate! They will need to turn to Legislature in 2014 to fill that hole

KABATA has not provided an itemized, complete cost estimate since 2007! They need to provide one in the same format, so changes are clear

Arm Crossing, until the depth and the consistency of the deposit of Bootlegger Clay in Knik Arm is firmly understood, engineers cannot estimate how deep and difficult it will be to drill the pilings to engineer against clay liquefaction in a seismic event. So, added to this \$2.6 Billion cost estimate is + \$X to represent additional costs for changes in design, this incomplete investigation, and the resultant uncertainties of project costs.

- Those additional costs have not been detailed in an itemized form since 2007. KABATA needs to provide a revised cost estimate to itemize these additional costs, as well as materials and labor costs that have changed since 2007.

A third party review by CH2MHill has sharply critiqued the reliability of PND's design and cost estimate on the Port of Anchorage project and the engineering and installation failures of PND's design. The installation failures of the sheet piles in Bootlegger Clay in Knik Arm at the Port mean that 2 years work will need to be completely removed and the costs to fix this massive failure is still unknown.

PND designed the Port of Anchorage Expansion. Should we trust their bridge design?

Should the legislature rely on a Bridge Design and Cost Estimate from PND on another public project where they also failed to complete recommended Knik Arm geotech work?

Still waiting on the Legislative Budget & Audit Report

On January 16, 2012, Representative Mike Hawker requested an audit⁷ of KABATA's finances and its toll revenue analyses "for reasonableness." HB 23 / SB 13 should not even be considered until the results of that audit are in, and the full range of possible costs to the state are known.

Determining the Real Cost of the Knik Arm Bridge

Both KABATA's estimate of project cost and this realistic estimate share the following common elements:

- Passage of HB 23 and SB 13 to create an unlimited reserve fund to make up the toll shortfall and provide 36 years of guaranteed "availability payments" to a private investor that KABATA estimates will total \$2.3 Billion
- Same deal structure with \$607 million for Operations & Maintenance, Tolling Operations, capital expenditures and KABATA administrative costs until bonds and contractor obligations are retired in 2051.⁸
- One way tolls of \$5 for cars/pickups and ~\$18 for commercial vehicles (varying depending on the number of axles) in Year 1 with tolls rising 2.5% per year to one way tolls of \$12.16 and a \$43.79, respectively, in Year 36. So a commuter driving a car 200 days a year between Anchorage and Mat Su would pay \$2000 in Year 1 and \$4832 in Year 36.

For comparison's sake, most base assumptions between this "Real Cost" Paper and KABATA's financial plan are the same.

Four Different Assumptions between KABATA's Cost Estimate and this Realistic estimate

KABATA's financial plan projects that a \$150 million reserve fund would be repaid and the project will pay for itself. This *Realistic* estimate details how the unlimited state guarantee in HB 23/SB 13 will end up costing the state \$2.6 Billion + \$X because of the *four following changes from KABATA's assumptions:*

1. Loss of Federal TIFIA \$500 Million Loans and Grants, Add \$500 Million to State Cost

On September 25, 2012 KABATA was rejected for a \$500 million federal TIFIA loan.⁹ Since 2007 KABATA has been turned down *five times* for low cost federal TIFIA loans of \$300-500 million. TIFIA loans are low cost because they are below market interest rates and require no payments until the fifth year after a project opens.

With our national infrastructure crumbling, do you think the Fed's will give HALF of the available \$1 Billion in TIFIA loans to the "Bridge to Nowhere"?

In competing for low cost TIFIA loans where requests average ten times the available TIFIA funds, the Bridge will continue to be uncompetitive against other projects that can promise to relieve existing congestion, show real private sector risk sharing, leverage more public dollars, and/or serve far larger numbers of vehicles or mass transit users. With bridges on lower 48 interstates needing immediate repairs, it's unrealistic to assume that any administration will commit half the annual TIFIA budget to the infamous "Bridge to Nowhere."¹⁰

The state now has a choice of replacing the \$500 million Federal TIFIA loan with a state appropriation, or somehow financing that amount, which would result in far more than \$500 million in additional interest costs.

In either case, the project lacks a current project budget showing realistic financial feasibility.

2. Realistic Toll Forecast, Add \$2.116 Billion to State Cost

KABATA's toll and revenue consultant CDM Smith this year lowered its cumulative revenue forecasts from \$4.8 billion over 36 years to \$4.23 billion over 37 years.¹¹ The following evidence suggests that this revenue estimate *is still approximately 50% too high.*

- The track record of KABATA consultant CDM Smith (formerly Wilbur Smith) is to *overestimate toll revenue by an average of 118 % for the first five years all US projects were open.* This data was provided by the Transportation Research Board of the National Academy of Sciences and analyzed by a former CIA economist in 2012.¹² Already two CDM Smith projects in California and South Carolina have gone *bankrupt* when the CDM Smith toll forecast proved woefully short.¹³

2 projects went bankrupt by relying on CDM Smith's projections. Should Alaska rely on them?

- Revenue forecasts are based on population and employment projections that drive trip forecasts that then result in the toll revenue projections. KABATA consultant CDM Smith projects far more population growth in Mat Su than any other source.

Source	Estimated Mat-Su Population in 2035	Includes all Borough?	Comments
AK Dept. of Labor	160,693 ¹⁴	Yes	Estimate of State Demographer
ISER, Institute of Social & Economic Research	159,050 ¹⁵	No	Basis of 2035 Anchorage Metropolitan Transportation Plan
CDM	191,656 ¹⁶	No	Extrapolated from CDM Smith traffic zone data

- Even with a much higher growth rate for Mat Su, CDM Smith’s prediction has put almost all future growth in the western part of the Borough away from the Palmer-Wasilla core to show the traffic necessary to make their financial projection work. To show high traffic counts, CDM Smith projected more jobs in 2035 at Point MacKenzie, the western terminus of the Bridge, than exist in either the Kenai or Juneau Boroughs today.¹⁷ The Mat-Su Borough has planned for the Port MacKenzie area to be dedicated to light manufacturing and industrial uses. Instead CDM Smith plunked down 1.7 million square feet of retail, or the equivalent of 2.4 Dimond Centers, the state’s largest mall, in an area being reserved by the Borough for tank farms and coal loading.¹⁸
- When CH2MHill modeled ISER’s Scott Goldsmith’s population and employment data, it projected 17,700 trips a day on the Bridge in 2035. KABATA’s estimate of toll revenue is based on a Bridge traffic forecast of 36,000 trips in 2035, or more than double the Goldsmith-CH2MHill number¹⁹.
- A two lane restricted highway Bridge can serve a maximum of about 22,500 vehicles a day²⁰ which KABATA estimates occurs in 2026.²¹ (As a comparison, there are about 30,000 vehicles a day between Mat Su and Anchorage on the 4 lane Glenn Highway at Eklutna Flats.) But KABATA’s Financial Plan shows the revenue from over two lanes worth of traffic after 2026 but does not include of the cost of the Phase 1B expansion to 4 bridge lanes or Phase 2.

You can’t fit 4 lanes of traffic on a 2 lane bridge. KABATA’s plans rely on “Impossibly Derived Revenue”

- KABATA indicates that the 4 lane expansion will happen in 2030 when it estimates 30,300 vehicles a day, but their Pro-Forma Financial plan does not show those costs. So within the 2026 to 2030 time period, the KABATA’s Financial Plan includes an extra \$70 million of impossibly derived revenue from 4 lanes of traffic crossing a two lane bridge. And after 2030, none of the costs of the expansion from 2 lanes to 4 lanes, or the Phase 2 connection to Ingra/Gambell are included in the Financial Plan although the revenue of a 4 lane Bridge is included in the Phase 1 plan that counts on the revenue of up to 48,000 vehicles a day (6 lanes) in 2051.²²
- An accurate financial plan would include one of two options:
 - Include the cost of Phase 2 which KABATA estimates at \$540 million (median Federal Highway Administration 2009 estimate \$815 million) to be on line in 2026, or
 - Not include Phase 1B and Phase 2 and cap revenue at the 2026 estimate of vehicle traffic with toll revenue only increasing with the 2.5% annual toll increase. The result is \$1.88 billion less cumulative toll

revenue than the \$4.23 billion in cumulative toll revenue to 2051 that KABATA projects.

- The final cost of expanding from 2 lanes to 4 lanes is not known, because we cannot predict interest rates in 2026, nor the exact amount of toll shortfall and the costs to finance the 2 lane to 4 lane expansion of Phase 1 and for Phase 2, which includes the connection to Ingra/Gambell. Therefore, it is not certain which of the above options would be least costly to the state. Under either option, the problem of 2 bridge lanes of cost and 4 lanes of revenue adds \$500 million to \$2 billion of additional cost to KABATA's Phase 1 budget.

To be consistent with other professional work cited above, (all from parties who have no interest in the Knik Arm Bridge project), a realistic toll estimate reduces cumulative toll revenue 2017-2051 by half from KABATA's \$4.232 billion to \$2.116 billion.

3. Higher Bridge Cost, Add \$80 Million

There are \$35 million of new costs as a result of a 1000' longer Bridge and the Anchorage Muni settlement to preserve more Port land by moving the 4 lanes into the cliff of unconsolidated and contaminated soils. Such amounts could be contained within the 15% or \$81 million in budgeted contingency funds. But it is imprudent to assess against the contingency such large ticket items before the project is even bid.

By KABATA's numbers, a billion dollar initial project results in \$2.3 billion in annual availability payments to the contractor, because the deficit between low toll revenue and high contractor payments must be financed, so interest must be paid on interest.²³ Using the same factor (2.3 times), a \$35 million costlier bridge results in total project costs increasing to \$80 million.

4. Lower Profit to Private Partner, Subtract \$123 Million from State Cost

KABATA's Financial Plan projects that it will pay out a total of \$738 million in net cash flow to the private investor in return for \$79 million of equity in the project or \$615 million in positive cash flow to the investor.²⁴ This 12% cumulative rate of return over 35 years is excessive given that the state guarantee (subject to annual legislative appropriations) largely removes the financing risk to the project and leaves the contractor with only the customary construction cost risk.²⁵ The state has traditionally paid no more than 10% when it has asked a contractor to front project costs. A 10% cumulative return would still be a \$615 million return or \$123 Million less than KABATA's estimate. *And why should a state with a AAA credit rating that can borrow long term around 3%, guarantee a 35 year contract paying even 10%?*²⁶

The sum of these four items results in a total cost to the state of \$2,572,000,000 plus the \$X factor of geotechnical risk discussed above.

CONCLUSIONS

To summarize this paper to one critical question: *How will the Bridge's (\$2.6 Billion + \$X) deficit be paid for?*

Of that deficit, \$1.1 billion or an average \$58 million/year occurs between 2017 to 2035; \$1.5 billion will occur between 2036-2051. To finance these shortfalls, the legislature will have some combination of two bad choices:

1. Anchorage and Mat Su have together averaged about \$55 million a year in state and federal transportation funds for roads, trails, and mass transit through the past decade. **The Bridge deficits will dwarf that.** The State of Alaska in the past provided 18% of that transportation funding, the recently adopted 2035 Anchorage Metropolitan Transportation Plan (MTP), anticipating declining federal transportation revenues and earmarks, assumes that the state support will now jump to 54%. Because the percentage of State funding over Federal funding is anticipated to increase, competition will be fierce for Transportation money throughout the state. Before adopting the MTP Plan, the Anchorage Assembly on a 9-2 vote approved an amendment stating that Bridge deficits could not impact local transportation funding. While the amended MTP tries to fence off AMATS funds from Bridge funds, it is not clear how the MTP can guarantee that a future legislature will not cut funds to AMATS or Mat Su before they are passed on to local government. Depending on how disproportionately a future legislature might take Bridge deficits out of Southcentral transportation funding, the Anchorage and Mat Su transportation budgets will either be severely curtailed or decimated.
2. Alaska now has \$31,141 state debt per capita, the highest in the nation.²⁷ A \$2.6 billion bridge deficit totals over \$3500 for every current Alaska resident. If the legislature decides to put the estimated \$2.6 Billion + \$X deficit on the state debt service, Alaska is likely to retain our dubious #1 ranking to perennial contender Massachusetts. More importantly, future legislatures will have at least \$2.6 billion less for current needs as they dedicate that much to pay off past Bridge obligations that will be established if HB 23 and SB 13 are passed.

Jamie Kenworthy; (907) 360-5661; jamiek@alaska.com

Bob French; (907) 240-1744; bgkfrench@gmail.com

¹ http://www.knikarmbridge.com/documents/KnikArmCrossingProFormaModel_000.pdf

² The Army Corps of Engineers has yet to issue a permit for the Bridge. However January, 2012 comments from the State of Alaska's Department of Fish and Game and federal resource agencies express continuing concern about the effect of 230 acres of proposed Bridge causeway fill would have on beluga whales and juvenile salmon forced into deeper waters.

<http://knikbridgefacts.org/documents-relating-to-the-knik-bridge-proiect/#US>. So if the bridge is permitted, it's possible that the permit will be for between 9200' and 14400' with any

resulting increase over 9200' necessitating more piers needing to be installed in Knik Arm and so resulting in higher Bridge costs.

³ From December 27, 2012 letter from KABATA Exec. Director Niemiec to Sen. Ellis.

<http://knikbridgefacts.org/wp-content/uploads/2013/01/12.28.12-Response-to-Senator-Ellis-cost-estimate-inquiry.pdf>

⁴ <http://www.knikarmbridge.com/documents/FINALMarch2007Memo.pdf>

⁵ From December 27, 2012 letter from KABATA Exec. Director Niemiec to Sen. Ellis.

⁶ The final CH2MHill report is scheduled for release mid-February; this conclusion comes from the draft report now being circulated.

⁷ Audit request at: <http://www.legaudit.state.ak.us/pages/memos/30068audmemo.pdf>

⁸ P. 1 and 4

http://www.knikarmbridge.com/documents/KnikArmCrossingProFormaModel_000.pdf

⁹ http://www.knikarmbridge.com/documents/Knik_Arm_LOI_Response_9-25-12.pdf

¹⁰ The head of the federal TIFIA program recently wrote KABATA that even IF KABATA qualifies for a federal loan, it would be for a third of the project cost (\$300 M), not the 49% support (\$500 Million) KABATA recently unsuccessfully requested.

http://www.knikarmbridge.com/documents/Knik_Arm_Response_from_USDOT-12-11-12.pdf

¹¹ KABATA's estimate on toll revenues from the project have moved \$600 million in less than a year after traffic consultant CDM Smith revised projections downward. Compare the October, 2011 project budget <http://www.knikarmbridge.com/2011TIGER/ExhibitD.pdf> with the August, 2012 budget

http://www.knikarmbridge.com/documents/KnikArmCrossingProFormaModel_000.pdf. This

\$600 million difference is four times the \$150 million "reserve fund" KABATA request. This analysis suggests that the legislators should focus more on the true cost of the unlimited state guarantee in HB 23/SB 13 rather than any amount for a loan fund which this analysis shows will never be paid back.

¹² The report criticizes Wilbur Smith's the overly optimistic toll projections for the Dulles Toll road expansion. An Appendix on the Knik Arm bridge project details the same unorthodox and undocumented methods for Wilbur Smith's population and toll projections on the Alaska project as the author sees by the KABATA consultant in the Virginia project

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

¹³ <http://www.tollroadsnews.com/node/5726> and <http://www.tollroadsnews.com/node/4808>

. How is it possible that one of the nation's largest traffic and toll consulting firms can average overestimating future traffic and toll revenue by a factor of 2? CDM Smith's track record is not notably worse than the industry. Media reports make clear that the traffic projection industry serves clients who want to build tolled projects, not necessarily serve the interests of bond holders or units of government relying on the accuracy of the consultants work

http://www.denverpost.com/tollroads/ci_3876477. A Transportation Research Board study cites the "over optimism bias" to the industry which is even worse when the project accesses vacant land such as the north terminus of the Knik Arm project

http://onlinepubs.trb.org/onlinepubs/nchrp/nchrp_syn_364.pdf.

¹⁴p.46 <http://labor.alaska.gov/research/pop/projected/pub/popproi.pdf>

¹⁵ Both the ISER and CDM Smith number is for the AMATS area of Mat Su Borough so directly comparable P. 5-2

http://www.muni.org/Departments/OCPD/Planning/AMATS/2035%20MTP/AMATS%20Chapter-5_20120511_s.pdf

¹⁶ Remarkably, in 2011 CDM Smith *never stated a population number* for the Mat Su Borough. When the Technical Committee of AMATS, the Anchorage-state transportation planning body, urged CDM Smith to release the traffic zone data that served as the basis for their traffic forecast, those zones totaled 191,656 people. However, the TAZ zones left out the non-AMATS areas of the Borough north of Willow and east of Chickaloon. That area contained 3,823 people of the Borough's 88,995 people counted in the 2010 Census. Extrapolating that same share of population in 2010 as 2035, CDM Smith's 191,656 in 2035 for the partial area of the Borough becomes 200,259 for the full Borough. In 2007 KABATA hired Scott Goldsmith of ISER to estimate Mat Su population in 2030. Scott's number of 204,400 proved too low for KABATA purposes so KABATA then hired a small firm of Insight Research Corporation of Dallas, Texas who produced a number of 250,700.

<http://www.knikarmbridge.com/documents/IndependentEconomicOverviewandDevelopmentForecast07022007.pdf>. Since then both ISER as well as KABATA consultant CDM Smith have reduced the Borough's projected growth rate but the CDM Smith numbers have been consistently 20-30% higher than non-KABATA sources.

¹⁷ <http://knikbridgefacts.org/13828-iobs-at-point-mackenzie-in-2035-release-of-traffic-analysis-zone-data-raises-more-questions-on-kabata%E2%80%99s-revenue-projections/>

¹⁸ <http://knikbridgefacts.org/point-mackenzie-tank-farms-and-coal-loading-or-2-4-diamond-centers-of-retail/>

¹⁹ It took extensive discussions and two rounds of Public Record Act requests for this data to be released. The authors have a map with the 17,700 Bridge trips a day in 2035 that was generated for the Highway to Highway project.

²⁰ National Transportation Research Board, [Highway Capacity Manual 2010](#)

²¹ Table 1 from KABATA's revised Toll & Revenue Forecast from their August 2012 TIFIA LOI.

<http://www.knikarmbridge.com/documents/MemoforAugust2012TandRforecastupdated8.23.2012.pdf>

²² Consider what the legal consequences might be to a private business person submitting loan documents to a bank which misleadingly shows the revenue from a business being expanded to twice its size without showing the cost of doubling the firm's space to earn that extra revenue. KABATA has always been clear that Phase 1 will construct a 2 lane Bridge with the superstructure to later add 2 lanes in what they are now calling Phase 1B (The new Phase 1A and Phase 1B do not exist in KABATA's EIS or the FHWA Record of Decision). But despite pointing out to KABATA (at multiple public hearings) that showing toll revenue from traffic that will only fit on 4 lanes, while including only 2 lanes of cost is misleading at best, KABATA continues to submit a letter of interest loan applications to the Federal TIFIA loan program that includes those same errors.

²³ P. 3 http://www.knikarmbridge.com/documents/KnikArmCrossingProFormaModel_000.pdf. KABATA's own financial plans (p. 6) shows that bridge costs will exceed bridge revenue for the first nine years the Bridge is open, even with the annual contractor payments being held down in early years so annual payments balloon from \$25 million in year one to \$104 million in year 35. Such deals where the principal owed grows instead of declines in early years are called negative equity or negative amortization and at least in the housing market, banks wisely no longer finance those types of deals. When the state finances capital projects by selling bonds, the

amount of principal owed each year declines over time. So why should the state get into the additional interest costs of a negative amortization deal now?

²⁴ P. 4 http://www.knikarmbridge.com/documents/KnikArmCrossingProFormaModel_000.pdf.

²⁵ Perhaps the biggest misnomer in the selling of the Knik Arm bridge project is KABATA's continual claim that the developer will "finance" the project. This is technically true but completely misleading since it is the *state that bears the full downside risk of the project*. If HB 23/ SB 13 passes, with its unlimited guarantee to cover the toll shortfalls while making 35 years of contractor payments, then the developer will take that contract with a AAA credit state to a Wall Street rating firm which will then provide the investment grade rating necessary to sell the bonds. While the developer will technically sell the bonds, in reality it is HB 23 / SB 13 and their state guarantee that allows that investment grade necessary to meet the statutory test of a market rate. So in effect, if the legislature passes HB 23 / SB 13, it will be substituting its own review (or lack thereof) on whether or not KABATA's traffic and toll forecasts are valid. Would it not be better to rely on the market-based judgment of a private firm to see if they are willing to risk their own capital on both the cost of the bridge and the reliability of the toll revenue forecast? CDM Smith has provided "investment grade" projections to some projects, but in 2011 Wilbur Smith submitted their Toll & Revenue forecast to KABATA with the following disclaimer, "*The results contained in this report are not intended to be used to secure or obtain project financing and should be used for planning purposes only.*" P. 48

<http://www.knikarmbridge.com/2011TIGER/T&RStudv.pdf>

If the state is guaranteeing that the annual "availability Payments" will be paid to the developer, regardless of the amounts of Toll revenue received, and the traffic consulting firm will not allow its report to be used to obtain financing, why should the legislature substitute it's judgment for the private sector's?

Where are the results of the **2012 LB&A Audit** that was tasked with evaluating the reasonableness of KABATA's Toll and Revenue Forecasts? If HB 23 / SB 13 passes in it's current form, the state takes on the full downside risk on the amount of annual payments, and the private sector has the upside of a 35 year 10-12% return.

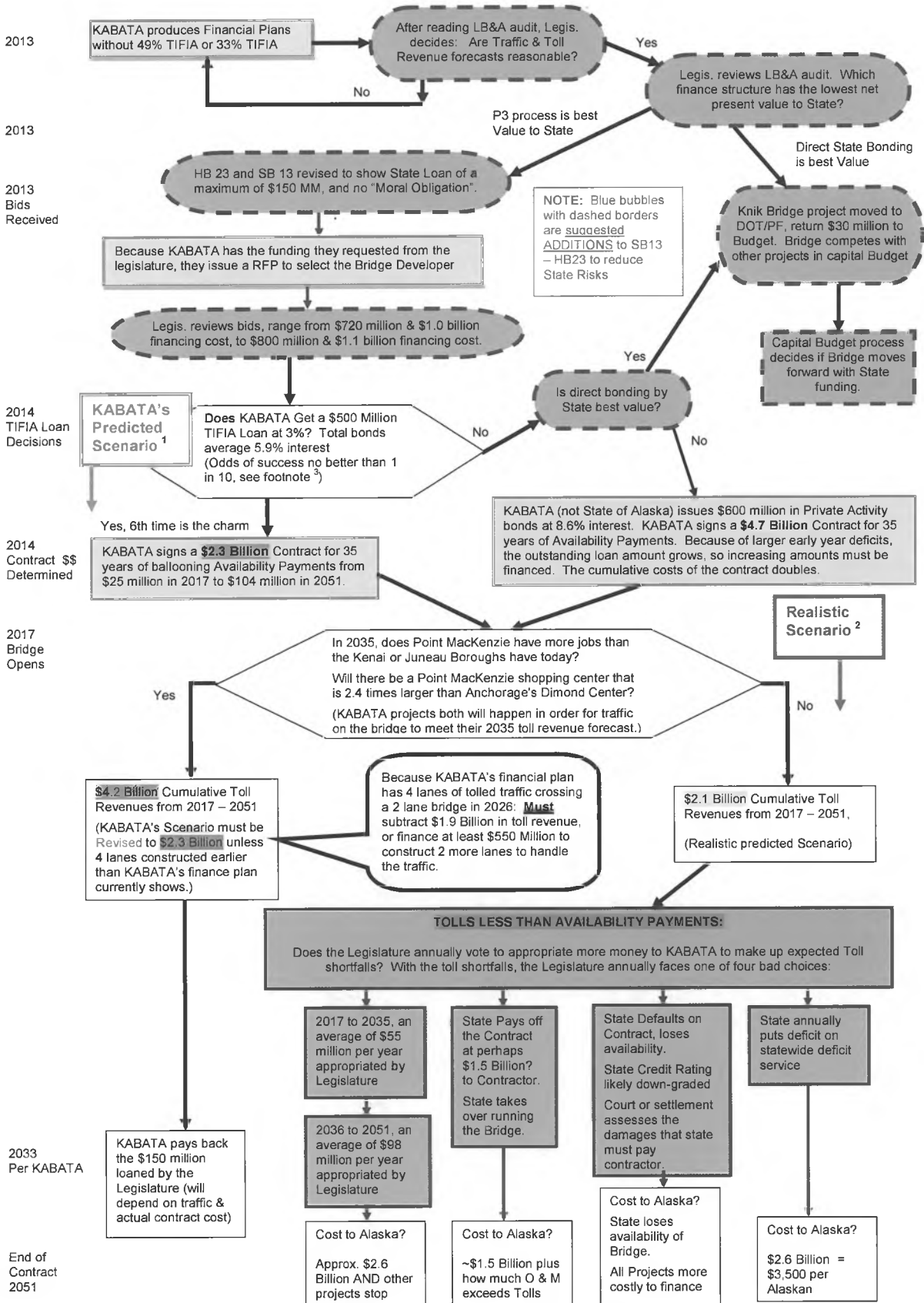
²⁶ The KABATA Financial Plan shows the public-private partnership (P3) deal structure costs the project an extra \$665 million (\$738 million in net cash flow to contractor minus \$73 million equity). Anchorage's Mayor Sullivan supports the project but questions the more expensive P3 structure. So rather than have the state directly finance the project by selling bonds using its AAA credit at 3%, why add an extra \$300-500 million of additional cost to finance the project at 10-12% cost? One possible explanation for KABATA's preference for the higher cost P3 structure is that without the P3 structure KABATA would have to admit that the project will not pay for itself and the project's billion dollar cost must compete with other state projects in the state's transportation and capital budget.

²⁷ <http://www.statebudgetsolutions.org/publications/detail/state-debt-more-than-37000-per-private-worker-13000-per-capita>

Knik Arm Bridge Financial Flowchart

Possible changes to SB13 – HB23 to reduce State Risk

Time Line



¹ All KABATA figures are from their latest 8-14-2012 financial plan: See http://www.knikarmbridge.com/documents/KnikArmCrossingProFormaModel_000.pdf

² All "Realistic Scenario" figures are from the "Real Cost" analysis by Jamie Kenworthy and Bob French: See <http://knikbridgefacts.org/wp-content/uploads/2013/02/13-02-08-KABATA-2013-REAL-COST.pdf>

³ This year TIFIA has about \$1 billion for \$13-\$20 Billion of requests for \$41 Billion of projects (33-49% fed share), so it's unlikely that next year KABATA will be successful. See http://www.fhwa.dot.gov/od/tifia/letters_interest_applications/letters_submitted_2013.htm for current national project list. KABATA has now been turned down five times for this nationally competitive program. The head of TIFIA wrote KABATA saying the **most** that they will get would be 33% of project cost, not the 49% shown in the KABATA Scenario.

Note: Blue boxes are decisions for Legislature, Blue boxes with dashed lines are NOT YET part of HB 23 / SB 13, Red are for Administration or KABATA, White boxes are not controlled by Legislature or Administration.

Created by Bob French and Jamie Kenworthy – February 22, 2013. Go to <http://knikbridgefacts.org/> for more information and links to backup data.

ALASKA STATE LEGISLATURE



SENATOR JOE THOMAS

March 8, 2011

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

SB 80 is nearly identical to the current SB 13. While the specific wording about the obligations of the state were removed, the "Reserve Fund" created by HB23 / SB13 is recognized by the financial markets as a legal structure for establishing the state's "moral obligation" to pay KABATA's debts.

Dear Commissioner Butcher,

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

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

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

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

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

Thank you for your assistance, Commissioner.

Regards,



Senator Joe Thomas

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

State of Alaska
Department of Revenue

Commissioner Bryan Butcher



SEAN PARNELL, GOVERNOR

333 Willoughby Avenue, 11th Floor

P.O. Box 110400

Juneau, Alaska 99811-0400

Phone: (907) 465-2300

Fax: (907) 465-2389

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

Dear Senator Thomas:

SB 80 is nearly identical to the current SB 13. While the specific wording about the "obligations of the state" were removed, the "Reserve Fund" created by HB23 / SB13 is recognized by the financial markets as a structure for establishing the state's "moral obligation" to pay KABATA's debts. Refer to ¶s 19.75 221 (h), (i), (j), (k), (l), and (m) in HB23 / SB13.

March 30, 2010

↑
TYPO

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

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

MORAL OBLIGATION

The moral obligation structure is used when a more credit worthy entity wants to lend credit support to a less credit worthy entity. The moral obligation is created by mandating a specific structure in law. Specifically, requiring that a reserve dedicated to the liability be created, that the issuer of the reserve have a reporting requirement to the moral obligor, and that in the event of a deficiency in the reserve that a replenishment must be requested from the moral obligor.

By creating this legal structure the moral obligor is inferring to investors that while they are not legally guaranteeing the debt, in the event of a shortfall that there will be an appropriation to replenish. If there is a failure of the moral obligor to replenish a reserve based on a moral obligation there would be negative credit ramification, and reduced access to capital. In essence, a moral obligation authority is creating a contingent liability on the moral obligor's balance sheet.

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

← i.e. the State

Note that Commissioner Butcher indicates that adding a "moral obligation" liability to make \$2.3 billion in "availability payments" to the private partner would likely affect the state's credit rating EVEN before a failure to replenish the "reserve fund". The "moral obligation debt" includes obligations that KABATA will incur when it signs the contract with the private partner.

Senator Joe Thomas
March 30, 2011
Page 2

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

STATE SUPPORTED

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

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

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

SB 80

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

The specific portion of SB 80 that stated " the monetary obligations incurred by the authority under the partnerships or contracts are obligations of the state, and satisfaction of those obligations from funds other than authority funds is subject to appropriation" was removed from HB23 / SB13, but the "Moral Obligation" structure remains.

Senator Joe Thomas
March 30, 2011
Page 3

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

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

Sincerely,



Bryan Butcher
Commissioner

KABATA's Letter of Interest to TIFIA and the testimony of KABATA's Chair, Mr. Foster and Dept. of Law, Mr. Stark, make it clear that if tolls do not meet the forecasted levels, the state will need to make up the difference.