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Knik Bridge Facts

6-8 minutes

Bob French attended the Anchorage Caucus Public Hearing on January 11, 2014, and was asked by several law makers to follow up by outlining his criticism of the First Southwest plan for public financing of the Knik Arm Bridge that has been taken up by Gov. Parnell.
This was his e-mailed response:

———- Original message ———-
From: Bob French
Date: Fri, Jan 17, 2014 at 12:22 AM
Subject: Bob French's Testimony on the Knik Arm Bridge from 1-11-14 Pre-Session Caucus
To: Sen.Kevin.Meyer, Sen.Anna.Fairclough, Sen.Johnny.Ellis, Sen.Bill.Wielechowski, Sen.Cathy.Giesse, Sen.Fred.Dyson, Sen.Hollis.French@akleg.gov, Sen.Lesil.McGuire,
Cc: Rep.Andy.Josephson, Rep.Bob.Lynn, Rep.Charisse.Millett, Rep.Chris.Tuck, Rep.Dan.Saddler, Rep.Gabrielle.LeDoux, Rep.Geran.Tarr, Representative.harriet.drummond, Rep.Lance.Pruitt, Rep.Les.Gara, Rep.Lindsey.Holmes, Rep.Lora.Reinbold, Rep.Max.Gruenberg, Rep.Mia.Costello, Rep.Mike.Hawker

Thanks for listening at the Pre-Session Caucus. Please feel free to contact me or Jamie Kenworthy if you have any questions or comments.

With 3 different and conflicting “visions” for KABATA, currently before the legislature, one thing is evident, there will be new opportunities to determine the future of the Knik Arm Bridge, and if it moves forward, to shape the state’s liability for it’s financing. Those visions are expressed by: HB 23 transferring the bridge to AHFC, but still a Public Private Partnership (P3); SB 13 being the original version for the P3; and the latest Public Financing version that is apparently supported by Gov. Parnell, based on a plan by First Southwest Corporation (FSC). Since the FSC version is pretty new, here is some background.

FSC’s recommendations came from a $50,000 contract with the Department of Revenue. In contrast to the dozens of pages of financial spreadsheets and hundreds of pages of backup information that KABATA has available, FSC’s November 11, 2013 report has only 4 pages. We used a PRA to request the backup spreadsheets, but were told that “No backup spreadsheets or financial analysis were provided to Revenue, just this summary.”. A highlighted version of those 4 pages is attached, with many important comments and questions, but it is evident that a lot more detail would be needed to provide the Legislature with an actual financial plan, which will certainly be necessary for the TIFIA application. So look for that info in the future.

Some considerations: Traffic forecasts are still critical. Imagine having as much traffic hitting the A-C Couplet Downtown as the Glenn Highway currently sees beneath the Eklutna overpass only 14 years after bridge opening. That is the scale of the traffic predictions that FSC accepted for their study.

Obviously, impacts to Downtown will be substantial, and not mitigated by KABATA. If that amount of traffic does not show up, then toll revenues are unlikely to be enough to pay back the bonding.

KABATA has spent a lot on what they are touting as an "independent review" being done by Cardno/Agnew:Beck that was supposed to have been completed this fall. That "new" Socio-economic data will then be turned over to CDM Smith to produce a revised Traffic & Revenue forecast. So, not only are the revenue forecasts that FSC used already out of date, the new forecast will still have been done by the same discredited firm that has a track record of having less than half of the forecasted revenues being achieved. The same CDM Smith who provided the T&R forecasts for at least 4 toll projects "Outside" that have gone bankrupt, or required major refinancing.

Here is the testimony that I gave:

My name is Bob French and I am speaking for myself. I have been concerned about the effects of the Knik Arm Bridge on state finances for many years.

Governor Parnell has apparently decided that giving an additional $600 million of state guaranteed profits to the bridge builder was not a great idea. Unfortunately the state financing plan proposed by the First Southwest Corporation, still has many of the same fatal flaws of KABATA's P3 plan.

The 1st SW plan is still relying on toll revenues to pay for all operations and maintenance costs as well as paying back a $276 million dollar TIFIA loan. Unfortunately 1st SW just accepted CDM Smith's toll revenue forecast that was described as "unreasonably optimistic" by the legislative audit. KABATA's forecasted toll revenues won't happen if new growth in the Mat-Su Borough is based on individual well and septic systems, it can only happen with centralized water and sewer systems.

Another major concern I have, is KABATA pulling a "bait and switch" on the Legislature. That is, getting the Legislature to guarantee payments based on "potential" future sources of funding, and then needing to change to more expensive funding, with the resulting higher payments still being guaranteed by the state. That is still the case with public financing of the bridge.

What happens if the Legislature doesn't shift $300 million dollars for existing planned transportation projects over to KABATA? If the legislature can't decide on those suddenly "un-necessary" projects, where is that $300 million coming from?

What happens if KABATA is turned down by the feds for a 6th time for the $276 Million dollar low-interest TIFIA loan?

Even if they get the TIFIA loan, CDM Smith has a track record of less than half of the toll revenues they predict, actually showing up. What happens when tolls are not enough to pay back those loans?

Most importantly, does the legislature have veto power, if either the construction or financing costs turn out to be much higher than what you are being told right now? Can you stop the project before it bankrupts the state?

Many folks here today are asking for additional funding. I'm asking you to disband and cut all funding to KABATA, and use the remaining $55 Million to fund needed transportation projects.

End Testimony….

Because of time constraints, I obviously couldn't provide a long summary. Click here for a more detailed critique from an e-mail from financial analyst Jamie Kenworthy to Commissioner Rodell from last week.

Below is the annotated FSC plan:

FirstSouthwest
A PlainsCapital Company

Memorandum

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

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

Steven J. Kantor
Managing Director

steven.kantor@firstsw.com

Date: November 11, 2013

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

Cc:

Subject: Financing Plan for Knik Arm Bridge

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

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

Costs are only for Phase 1, which is 2 lanes, but FSC relies on traffic revenues that only fit on 4 lanes. Not feasible.

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

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

KABATA will have new Socio-Economic data from Cardno & Agnew:Beck (should have been completed last fall) that will be used by CDM Smith in a new Traffic & Revenue forecast. FSC's assumptions are already out of date.

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CDM Smith has a national track record of over-estimating future toll revenues by more than double, collecting less than 50% of projected revenue

This summary does NOT identify the debt service cost.

The chances of the "Bridge to Nowhere" getting any additional federal funds is politically unlikely at best. What happens when 1/3 of project funding does not appear?

First Southwest proposes a financing plan with the following components:

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

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

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

It is unusual to have TIFIA payments 3rd in line for toll revenues. Any "excess" revenue is purely speculative, with no info on TIFIA payments

What are these "un-necessary projects?

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

The Knik Arm Bridge is presently at a 35% design stage, hardly "shovel-ready"

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

Again, CDM Smith's track record is less than half of forecast revenues.

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

Higher Taxes are necessary to pay for infrastructure

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

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There are several noteworthy challenges with the Authority's model. The structure of the availability payment requires that the State be obligated to cover projected and potential toll revenue shortfalls. Despite the State being obligated to make up deficient toll revenue, it is expected that debt issued under the Authority's plan will result in low investment grade credit ratings in the BB to BBB range.

Additionally, the State Legislative Budget and Audit Committee's report dated March 7, 2013 identified concerns about the feasibility of achieving the projected toll revenues in CDM Study. The uncertainty associated with these factors makes it likely that State funds will be needed to fund shortfalls, that those shortfalls may be greater than expected, and that the P3 debt structure will have higher project and interest costs. By comparison, the FSC Plan calls for fixed payments from the State of approximately $19 million for 20 years.

Construction cost including the Phase 2 expansion to 4 lanes was listed as $1.6 billion in the Leg. Audit.

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

Is this "reserve" for construction cost over-runs or for toll short-falls?

What are these "other costs"?

TIFIA Payments are not detailed. What happens if tolls are not sufficient to make those payments? Does Alaska lose federal transportation funds?

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* Estimated as of 10/23/13

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

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

State of Alaska Department of Revenue Comparison of Plans Risks		
	KABATA	**FSC Plan**

Really? If toll revenues don't cover TIFIA payments, it seems that there would be pressure for the state to make

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

payments or that there would be a reduction of Fed transportation $$ to Alaska.

Not only is this NOT a recommendation or research, but they may profit by other means if this goes forward.

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