INFORMATION ON KNIK ARM BRIDGE

What is the status of the Knik Arm Bridge?

The Knik Arm Bridge and Toll Authority (KABATA) project is stalled awaiting financing. The legislation, (HB 158) to provide a state guarantee to KABATA's obligations, passed the House but died in the Senate Finance Committee. KABATA has now spent $70 million of the original $116 million in federal and state matching funds.

Although the legislature in 2011 and 2012 turned down the project's request for state financing, KABATA drew down $15 million dollars in federal funds last summer to buy residential and commercial properties on Government Hill.

***Why is KABATA seeking a state guarantee to finance the Bridge*?**

The 2003 legislation that established KABATA as a state agency envisioned that the agency could finance the Bridge through up to $500 million in bonds that would be sold by KABATA. When the bond sale approach proved problematic, KABATA moved to a public-private partnership structure in which the private sector would take the risk of constructing and financing the Bridge after receiving a long-term contract from KABATA.

However, the three consortiums that have been pre-qualified to bid on the project do not want to take the risk of a toll shortfall, which would mean insufficient revenue to pay off the Bridge bonds. For the last two years, KABATA has unsuccessfully asked the legislature to obligate the state to fully guarantee the expected 35-year contract to build the Bridge.

In effect, the high cost of the Bridge and the expected toll shortfall make the state, not the bondholders or the contractor, the entity now being asked to assume the financial risk of the project.

When the Alaska Railroad, AIDEA, and AHFC issue bonds for their own projects, they issue them in their own name, not in the state's name. However, buyers of those state agency bonds believe the state has a moral obligation to back up a state agency's bonds since if the agency bonds fail, the state's high AAA credit rating would likely take a hit and raise the cost of state borrowing. So an uncapped direct state guarantee for a one project state agency would be unprecedented.

What will the Bridge cost?

KABATA estimates it will cost approximately a billion dollars (if paid up front) to build a 8200' Bridge and issue financing.

However because the toll shortfall in the early years will require financing – i.e. more debt – and because the contractor will earn a KABATA- estimated 12% compounded return to finance the Bridge, the public-private partnership structure KABATA has chosen makes it far more expensive. Using KABATA's numbers, a billion dollar Bridge will cost a cumulative $3 billion in annual payments before the contract is paid off in 2050.

KABATA believes toll surpluses in the far out years will be sufficient to pay back the additional $150 million they have requested from the legislature and even generate surplus funds for other transportation projects.

So why do critics believe the Bridge will end up costing the state at least $2.5 billion?

Rather than KABATA's estimate that the Bridge will eventually pay for itself, independent analysis conservatively estimates that the Bridge will cost the state at least $2.5 Billion for four reasons:

1. Every KABATA Financial Plan to date has included a $300 million low cost federal TIFIA loan, even though KABATA's request for this loan has already been turned down four times. It is unlikely this nationally notorious "Bridge to Nowhere" will receive federal funding from the highly competitive TIFIA program.
2. Traffic and toll revenue is likely to be about half what KABATA projects. When CH2MHill used projected population and employment data from ISER's Scott Goldsmith, they concluded that 17,400 trips would cross the Bridge in 2035. In contrast, KABATA consultant Wilbur Smith projected 36,000 trips a day in 2035. Based on Smith's traffic projection, KABATA estimates cumulative toll revenue of $4.5 billion to 2050. Wilbur Smith, now CD Smith, has a national track record of *overestimating toll revenue by 118%.* Using CH2M's traffic projection, the cumulative toll revenue by 2050 would come up short $2.2 billion.
3. KABATA's financial plan assumes *four* lanes of toll revenue but the costs of only a *two* lane Bridge. Four lanes are necessary when traffic on a restricted highway exceeds about 18,000 trips a day. (The Glenn is now about 28,000 trips a day between the Valley and Anchorage.) KABATA's financial plan shows the Bridge will be 18,700 trips a day in 2022. But KABATA's financial plan states four lanes will not be built until 2030, when 30,300 trips a day are projected. None of the cost of expanding the northern approach road and the Bridge to four lanes is included in KABATA's billion dollar cost of the Bridge. Yet KABATA's Financial Plan includes revenue from what has to be four lanes of traffic after 2022.
4. The Bridge is now 1000' longer or 9200'. While KABATA does have a Record of Decision on its environmental impact statement, it does not yet have the necessary permits from the U.S. Army Corps of Engineers. The current Bridge design includes 230 acres of fill in Knik Arm. The Army Corps has built a model

of Knik Arm and is concerned about the fill exacerbating the siltation problems, which require continued dredging near the Port of Anchorage and Port MacKenzie. Three federal agencies and the Alaska Department of Fish and Game are also concerned about the impact of the Bridge on juvenile salmon and beluga whales. It is not yet clear whether the Bridge will have to be longer than the 9200' span KABATA has now agreed to.

The result of these four problems is a $2.5 Billion cost to the state and that cost *will only increase if the Bridge costs more to build than KABATA estimates or interest rates increase.*

If the state fully guarantees KABATA's obligations under HB 158 when the toll revenues fall short, the contractor is still guaranteed the full amount of a 35 year contract. Unfortunately, the legislature is expected to vote on whether they should give that state guarantee, before knowing how big that contract will be. The State of Alaska would be left holding the bag.

How much toll will Bridge drivers pay?

KABATA's financial plan projects a one way $5 car toll and an $18 commercial toll in Year 1 when the Bridge opens. The toll will increase 2.5% a year or $8 for a car and $29 for a commercial vehicle by 2035.

For example, a car commuter working 200 days a year would pay $2,000 in tolls the first year. By comparison, the slightly shorter 8981' Golden Gate Bridge in San Francisco charges about half that ($5 round trip or $6 without an electronic Pass). The Knik Arm Bridge would have among the highest bridge tolls in the country.

If the state guarantees KABATA's obligations, how would the state make up the toll shortfall?

The independent estimate of $2.5 billion to build and finance the Bridge assumes deficits would average $55 million a year until 2035. During the last 10 years, Anchorage and Mat-Su have each received an average of about $25 to $30 million per year state and federal transportation funds. A future legislature could make up Bridge deficits from transportation funds flowing to Southcentral Alaska or add the Bridge debt to the state's debt service and so require the whole state to bear the Bridge debt.

Concern about the impact of expected Bridge deficits on local funding is a key reason the Anchorage Assembly voted 7-2 in April 2012 to prevent Bridge deficits from undermining state and federal funds for the Anchorage's 2035 metropolitan transportation plan.

What's the polling show on support for the Knik Arm Bridge?

At best, Alaskans narrowly support the bridge – until they are asked whether the state should pay for it. A March, 2012 Dittman poll done for the House Majority shows only 37% believe the Bridge should be built now compared to 32% later, 26% never, and 5% unsure. Another March, 2012 poll by Ivan Moore asked whether the state should just pay for a no-toll billion dollar bridge. Respondents were 48% opposed to 39% in favor.

An earlier Moore poll from June 2011 asked about the KABATA bills then before the legislature. Fifty percent opposed a state guarantee with 27% in favor. In the same poll, 49% opposed an additional $150 million in state dollars compared to 32% in favor. (One of the KABATA bills asked for $150 million in General Funds for a reserve fund for the Bridge although KABATA's failed federal loan application noted that the state "will replenish" the reserve fund when it dipped below $50 million.) A majority opposition to state dollars for the Bridge held across every region of the state and across the political spectrum.

What happens next?

The Legislative Budget and Audit is now doing a full audit of the reasonableness of the KABATA traffic and toll projections underlying its financial plan and reviewing KABATA's expenditures to date. That audit is expected to be public before the next legislative session.

The KABATA Board recently announced plans to renew its legislative requests for an unlimited state guarantee for KABATA obligations.

What questions will the next legislature face on the Knik Arm Bridge?

Questions for legislative candidates could include:

- Do you support an unlimited guarantee for any size contract KABATA could sign with a contractor?
- Do you believe the state should acquire homes and business from property owners, even before the state has approved such a large, controversial project?
- Should the legislature decide on any level of state support for the Bridge before making decisions on the Susitna-Watana dam, an in-state gas line, oil taxes, as well as the state's operating and capital budgets?

The sources for all information cited here is at www.knikbridgefacts.org
More Questions?:

Jamie Kenworthy, Ph.D., Independent Analyst, jamiek@alaska.com, 907-360-5661
Bob French, P.E., Government Hill Resident, bgkfrench@gmail.com, 907-240-1744