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Knik Bridge Facts

7-9 minutes

Jamie Kenworthy asked the Department of Revenue several questions and made several comments following the Mid December public release of the four page “Financing Plan for Knik Arm Bridge” that was created for the DOR through a contract with First Southwest Company.
As of the date of this posting, there has been no response to this e-mail from the Dept. of Revenue.

—– Original Message —–
From: “James Kenworthy”
To: angela.rodell, deven.mitchell
Sent: Tue, 07 Jan 2014 06:10:03 -0900
Subject: Comments on First Southwest Plan for Knik Arm Crossing Project

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

SUMMARY

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

- The plan utilizes the same employment and population data which was identified as overly optimistic by the Legislative Budget and Audit Committee's Audit. CDM Smith's documented national record is to overestimate traffic and toll revenue by 118%.
- The plan's entire financial foundation is predicated upon unrealistically high toll revenues to cover operational costs, bond servicing, and TIFIA loan repayments.
- The plan perpetuates the egregious error of including four lanes of toll revenue while accounting for the cost of only a two lane bridge. To correct that error, either $500 million for the additional two lanes needs to be added to the cost or toll revenue needs to be reduced by $674 million (45%) over twenty years.
- It is not clear why First Southwest argues a major feature of the FSC Plan is lower interest rates than the Public Private Partnership (P3) structure if the FSC Plan also requires a $300 million down payment from the state or over 40% of the alleged project cost.

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

ANALYSIS

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

2 Lanes of Cost, 4 Lanes of Revenue

The FSC Plan uses a $706 million cost for a 2 lane Bridge and 2 lane northern approach road. But the August, 2011 CDM Smith revenue base forecast (p. 33) which FSC Plan uses, includes revenue from 4 full lanes of tolled traffic on the Bridge in the ninth year the Bridge opens. By bridge year 9 CDM Smith shows revenue from 21,100 vehicles a day which is over capacity on a restricted 2 lane highway; by year 20 CDM Smith shows revenue from 36,000 daily tips, 6000 more than Mat-Su-Anchorage trips at Eklutna Flats on the 4 lane Glenn Highway today. How are 36,000 daily trips possible on a 2 lane Bridge?

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

CDM Smith Track Record: Projections 2x Reality

The FSC plan says even if toll revenue is 75% of CDM Smith's projection, the bond cover ratio is a comfortable 1.6. But CDM Smith, per the Transportation Research Board data, has a national track record of overestimating revenue by a 118% (see http://knikbridgefacts.org/kabata-traffic-consultant-has-average-

118-overestimation-error-rate-for-us-projects/) or more than a factor of 2 for the first years tolled projects were open. That 2 times overestimation is consistent with Smith's estimate of 2035 daily Bridge traffic of 36,000 trips a day versus the Highway to Highway number from CH2MHill using ISER data of 17,700 trips a day. So without fixing the 2 lane of cost-4 lanes of revenue problem, even a more realistic 50% factor on CDM Smith revenue estimate puts the minimum bond cover ratio at 1.07 or way below the investment grade ratio necessary to sell state or TIFIA bonds without a state guarantee.

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

No $276 Million TIFIA Loan Without State Guarantee

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

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

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

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

What's the Real Cost?

How will the different elements of the FSC Plan be sequenced? Is the legislature to commit to a 20 year $262 million bond but if the TIFIA loan does not materialize then the state bond amount will be increased to about $540 million? Without a detailed "amortization schedule" (deliverable #5 in the Department of Revenue RFP) and "detailed financial calculations" and bond cover ratios (deliverable # 3 in the RFP) it is hard to understand how the Plan adds up and predict what the final cost to the state will be.

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

Request

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

Jamie Kenworthy