

House Bill 158 – KABATA Bill

House Finance Committee Testimony

March 22, 2012

3:36:030: Michael Foster, Chairman of KABATA: The state's obligation or the state's liability is that we make that [availability] payment to the private developer. We ask the private developer to finance, design, build, operate, maintain and basically spend seven hundred, eight hundred million dollars. From the time they start spending it it's about four or five years before they actually get the first payment. You don't get an availability payment until the bridge actually opens for use. It's actually a quarterly payment.

3:37:42: Michael Foster: I think as Mr. Kenworthy mentioned if you add up the sum total of area under the curve it's two point nine-eight, if I believe the number is right, or roughly \$3 billion would be the total payment. And I equate it to a house payment, when you go finance your house, if you add up all the payments for thirty years on your mortgage that would be the same type of approach. You have to make those payments or else you're in default. So the state would be in default if we did not make those payments to the developer. But it is not a model tied to return on investment or tied to shortfall of toll. If not one car goes across [the Bridge] the state is still required to make that payment. Our prediction or our model shows that there will be enough toll in the long term to make that. We know in the beginning that there is shortfall as you open it but traffic will build. So the availability payment is the obligation of the state.

3:38:42: Rep. Gara: Let's just say that Mr. French and Mr. Kenworthy are correct in their estimates as to traffic. Let's say if tolls fall \$1.5 billion short of the cost of construction and operation; if they fell that much short, is that what the state's liability would be?

3:39:26: Michael Foster: If the tolls fell short, the state makes up the difference.

3:39:20 : Michael Foster: But also look at it as - there has been some testimony if the state built it themselves - and if you used the federal highway model and the state built it, and you used matching funds from federal highways, the state would have to invest about \$100 million in capital in order to build it. And then the state would also have the ongoing operation and maintenance of that facility. If there is a toll collection they'd also have the toll collection part of it.

Distributed by Rep. Gara for HB 158

(1)

Memo

Date: March 22, 2011.

To: Michael Foster, Knik Arm Bridge and Toll Authority

CC. Governor Sean Parnell, Commissioner Marc Luiken, Randall Ruaro

From: Professor Scott Goldsmith, Institute of Social and Economic Research, University of Alaska Anchorage

Subject: Distribution of Misinformation Regarding KABATA Population Predictions

Mr. Foster

Please stop implying that the KABATA population projections for the Matsu Borough, whatever they are, are "in line with other forecasts" including those of the Institute of Social and Economic Research (ISER). Also please stop characterizing the KABATA population prediction as essentially equal to the ISER projections as you did in the Anchorage Daily News (ADN) Compass piece published on November 2, 2011 and in a recent e-mail to Anchorage community council presidents.

THE KABATA PREDICTION IS NOT WITHIN 1% OF THE ISER PROJECTION, as you have stated. THE ISER 2035 PROJECTION OF 170 THOUSAND IS 12% LOWER THAN YOUR STATED KABATA PREDICTION OF 191 THOUSAND.

I have compiled all the population projections for the Matsu Borough that I can find published since 2005 (see graph). They show a dramatic variation in population projected for the Borough for 2030. In fact the range is from about 130 thousand to 250 thousand—a difference of nearly 100 %. Clearly there has not been consensus among the experts on the expected growth of the Borough. So to say that the KABATA projections are "in line with other forecasts" is not correct.

Curiously, there are two projections missing from the graph because, although you mention them, they can not be found. One is the population projections used in the most recent Wilber Smith Update of the Traffic and Toll Revenues Study (2011) done for KABATA. Whatever those projections may be, to the best of my knowledge, they have never been made public. They certainly are not in the published report. As I have indicated elsewhere, it is impossible to assess the validity of the Wilber Smith analysis of traffic and tolls without even this basic information about what is driving their analysis.

The other missing projection is the Woods & Poole projection that you mention on the KABATA website on March 12 of this year, implying that it is "in line" with the KABATA projection. However that projection does not, to the best of my knowledge, appear on your website nor can it be found

Wilbur Smith Assoc forecasting record slammed in report for Reston VA group (ENLARGED REPORT)

Posted on Fri, 2012-01-27 16:30

CDMSMITH DULLES TOLL ROAD | MAYNARD RAIL RESTON TRAFFIC AND REVENUE FORECASTS WILBUR SMITH ASSOCIATES



Wilbur Smith Associates (WSA) record of traffic and revenue forecasting is blasted in a study done by a retired federal government economist Terry Maynard for the Reston Citizens Association (CRA) in northern Virginia. The report supports a call for an independent review of the WSA/CDMSmith traffic and revenue forecast of the Dulles Toll Road.

The analysis titled *Traffic and Revenue Forecasts: Plenty of Room for Error* by Terry Maynard finds that forecasts of revenue by WSA as it then was (just recently merged to form CDMSmith) are on average 2.27 times - or 127% too high - as compared with subsequently realized toll revenues.

This is based on the first five years of 12 toll projects forecast.

In addition Maynard finds that WSA had a pattern of understating the sensitive profit maximizing toll initially, then subsequently raising those estimates.

Maynard says that WSA routinely uses the highest population and employment forecasts for forecasting traffic.

Despite poor forecasts tollroads stuck with WSA.

WSA estimates for Dulles Toll Road revenues are suspect, Maynard writes, because they are already using numbers overstating Fairfax County employment by 25%.

What it calls the "pattern of overestimates" in WSA forecasting suggests a "substantial risk" in proceeding with the MWAA financial plan, Maynard writes.

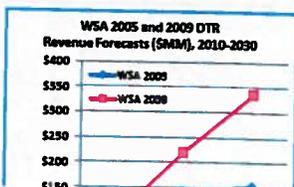
Risks are:

- lenders won't fund the project without state guarantees or at investment grade rates
- tolls much higher than those forecast will emerge
- corridor economic growth will be hampered by the high costs
- MWAA may default and face much higher costs than cited

Terry Maynard: "RCA has long been enthusiastic about Metrorail to Dulles via Reston, but we do not want a rail line at any price, especially one that forces Dulles Toll Road users to absorb most of the financial burden and area communities to absorb added traffic on already crowded local roads. The prospects are even worse if the WSA forecasts overestimate revenues as much as our research suggests. We hope that an independent forecast, combined with 'value engineering' for Phase 2 and restructuring the financial arrangements will lead to a better outcome for everyone."

2nd stage of Dulles Rail at stake

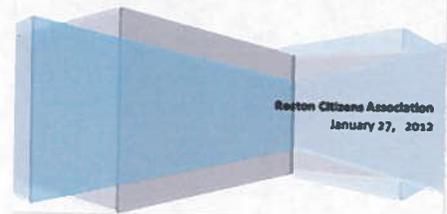
Future Dulles toll road revenues are being used as the security for selling the debt needed to fund a \$5 billion Dulles Metrorail branch line from West Falls Church through Reston County to Dulles Airport and out into Loudoun County. Over half the capital cost is proposed to be covered by toll revenue bonds of the Dulles Toll Road issued by the Metropolitan Washington Airports Authority (MWAA) that has a 50 year franchise on the tollroad and is building the rail line.

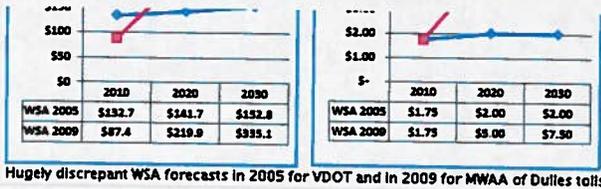


Half of the rail line is a done deal, financed and under construction but the second half remains to be approved and financed. The WSA/CDMSmith investment grade traffic and revenue study to be released any week now will be key to whether the project proceeds.



Wilbur Smith Associates' Traffic and Revenue Forecasts: *Plenty of Room for Error*





Hugely discrepant WSA forecasts in 2005 for VDOT and in 2009 for MWAA of Dulles tolls

A cover letter addressed to Governor Bob McDonnell, FHWA administrator Victor Mendez and top officials of MWAA and the two local counties charges that "WSA has made many very large errors in its forecasts that have been costly to investors, bondholders, governments, and toll road users who have relied on them to approve construction of major toll road projects."

It continues: "we believe that it is imperative that a second, independent T&R forecast be completed by another forecasting group before any decision is made to move forward with the construction of Phase 2 of the Silver (Dulles Rail) Line."

The citizens association says that given Wilbur Smith's record of overestimating revenues and the unexplained discrepancies between the first two WSA studies the various parties to the Dulles project - FHWA, MWAA, the two counties Fairfax and Loudoun as well as Virginia DOT - should defer any further commitments until Wilbur Smith's forecasts have been checked against those of an independent forecaster.

VDOT is called to take the lead in having WSA's results checked out.

It calls on FHWA to develop a process of 'best practices' for traffic and revenue forecasts given that the problem of gross exaggeration of traffic and revenue (T&R) prospects is seen across the whole T&R forecasting business.

Maynard devastating about track record of forecasting

A key finding of the Maynard Report (named after principal author Terry Maynard) is that "optimism bias" is endemic in the toll forecasting business, and that Wilbur Smith which does about half the industry's forecasts is typical of the industry - driven by sponsors to produce the exaggerated forecasts they want. It cites work by Robert Bain, Bent Flyvbjerg, NHCPR, and ourselves but goes into several forecasts with original work.

Bain using work he started at Standard and Poors found that of 100 tollroad forecasts worldwide the average actual traffic was 77% of forecast or an overestimate of about 30% for year 1 and only minor improvement after that.

NCHRP looked at 26 toll road forecasts in the US over the first five years and found worse results.

Writes Maynard: "The atrocious overestimates of revenue by all the forecasters reflected in this data highlight the difficulty in forecasting demand in the 'ramp-up' period of a new toll road. They are inadequate for planning future revenues, financing, and toll rates."

And there is little indication forecasts improve much over time.

On the Dulles Toll Road forecasting WSA starts with an inflated number for current employment in the major county served (900k vs 700k) and then inflates that faster than others with a higher growth rate (see graph nearby). Similarly on the Knik Arm bridge in Alaska WSA used exaggerated population and employment data, claiming to base them on numbers from a local University institute, which has denied its numbers are used.

Maynard picks up on what we reported (2011-04-11) as huge inconsistency in Dulles forecasting between WSA's modest projections of traffic and revenue for VDOT in 2005 and their highly bullish projections in 2009 for the new concessionaire MWAA. (see graphing of the inconsistency nearby)

Growth prospects declined in that period, and forecasts should have been lowered, not raised. WSA has never explained the basis for their large upward revisions.

"Our examination of vital population and employment input data used by WSA in its forecasts indicates it has almost always used the most optimistic data available to make its forecasts.

Appendix A: Revenue Forecast Error in NHCPR Data, WSA and Non-WSA, in Percent

Wilbur Smith Associates	Year Opened	Revenue Forecast Error					Average Error
		Year 1	Year 2	Year 3	Year 4	Year 5	
NHCPR County Toll Road Authority (Texas/Handy (6)	1988	342%	212%	140%	115%	340%	202%

"This includes its 2005 and 2009 forecasts for

Recommendations

We believe the significant number of cases in which WSA has made major errors in its traffic and revenue (T&R) forecasts, including errors in its forecasts for the Dulles Toll Road, warrants a series of actions before MWAA, Fairfax County, and Loudoun County move to approve construction of Phase 2 of the Silver line. These recommendations involve actions by federal, state, local, and MWAA officials.

US Department of Transportation/Federal Highway Administration

- Do not approve TIFIA funding for the Metrorail funding partners until a second independent T&R forecast for the DTR has been prepared by Virginia and any material substantive differences between it and WSA's next forecast have been satisfactorily resolved.
- Longer term, oversee a process involving transportation T&R forecasting practitioners, toll facility operators, toll facility bond financing rating and issuing companies, and appropriate federal, state, and local government transportation officials to develop concrete and transparent national "best practice" standards for the forecasting of toll facility traffic demand and revenue forecasts. Make strict adherence to these "best practices" a requirement for federal funding. If necessary, pursue Congressional legislation to implement these "best practices."

Virginia Department of Transportation

- Conduct an independent T&R study from another T&R consultant to be completed before approval of Phase 2 of Metrorail construction.
- Resolve any substantive material differences between the outside T&R forecast and the new WSA T&R forecast before authorizing the use of state funds on Phase 2.

Dulles Metrorail Funding Partners (Fairfax County, Loudoun County, & MWAA)

- Do NOT approve work on Phase 2 of Metrorail until a second Virginia state-sponsored independent T&R forecast has been completed and material substantive issues between it and WSA's forecast have been resolved.
- Present the new (third) WSA DTR T&R forecast to the public as soon as possible for comment and feedback, and well before any consideration of approval of Phase 2 of Metrorail.
- Conduct a public outreach program to elicit community comment on toll, tax, and other issues raised by the possible construction of Phase 2, and adjust the current funding agreement accordingly.



The ~~Real~~ Finances of the Knik Arm Bridge

Summary

In contrast to KABATA's predictions of surpluses, this analysis projects a minimum \$2.5 Billion shortfall for the state in covering the cost of the proposed Bridge before the final contractor payment in 2050. The shortfall between when the Bridge would open in 2016 and 2035 is \$1.1 Billion, or an average of \$55 million a year. That is about what Anchorage and Mat Su have both received on average over the last ten years in federal and state dollars for all road and pedestrian projects.

KABATA goes out to 2075 to project a huge surplus. In reality, the project is so far "Under Water" in the early years it can never pay for the \$672 million Phase 2 costs, so the Bridge will never pay off

Last month an independent study was released that documents that Wilbur Smith Associates, the traffic and toll consultant the Knik Arm Bridge and Toll Authority (KABATA) relies on for its financial plan, has a national track record of overestimating toll revenue by 2.27 times the actual revenue received in the first five years a facility is open. This finding is consistent with Wilbur Smith Associates (WSA) projecting more than twice the Bridge traffic by 2035 compared to the traffic counts modeled by Ch2MHill based on population estimates by Scott Goldsmith of UAA's ISER.

The huge expected toll shortfall projected in this realistic estimate makes any state guarantee on a Bridge contract or any commitment to continually replenish the \$150 Million line of credit that KABATA is seeking from the legislature, to be a serious financial commitment of at least \$2.5 Billion in State funds.

ANALYSIS

Common Assumptions between the KABATA estimate¹ and this Realistic estimate:

- Phase 1 Bridge cost of \$713 M and same amount Bridge costs including O&M, tolling operations, capital expenditures, and administrative costs. With having to capitalize interest to pay for the toll shortfall and other bond issuance costs the total cost is \$1,086,152,719 plus a cumulative \$170 million in cumulative KABATA administrative costs until Phase 1 is paid off in 2050.
- Passage of HB 158-9 or SB 79-80 that provides an additional \$150 million "Reserve Fund" to the project and a state guarantee on a KABATA estimated 36 years of availability payments of a cumulative \$2.98 Billion for Phase 1 since KABATA obligations would become "obligations of the state."
- Same deal structure, that is a private partner putting in \$79 million equity and receiving net cash flow for 36 years estimated to be \$920 million in KABATA estimate or \$767 million in this realistic estimate
- Same amount of senior debt and capital accretion bonds and same debt schedule to pay off those bonds and same 6.426% in total true interest cost
- One way car toll of \$5 and \$18 commercial vehicle in Year 1 with tolls rising 2.5% per year to a one way car toll of \$12.16 and a \$43.79 commercial toll 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.



Three Differing Assumptions between the KABATA estimate and this Realistic estimate

The three following changes drive a \$2.5 Billion increase in the cost to the state of the guarantee to backstop the toll shortfall and meet the cumulative availability payments to the contractor that KABATA estimates at \$2.98 Billion for Phase 1.

1. Loss of Federal Loans and Grants, Add \$340 Million to State Cost

KABATA has been turned down for an over \$300 Million federal TIFIA loan in 2007, 2010, and 2011 and at least two different TIGER grants for over \$40 Million. Both programs are highly competitive with 10-20 times more money applied for than available. KABATA on 12/30/11 again sent in a preliminary application for a \$308 million TIFIA loan. *KABATA's financial plan includes receipt of these funds.*

The \$308 million TIFIA loan is particularly valuable to making the financial plan work since TIFIA loans bear a low interest rate and do not require repayment to start until five years after the Bridge opens.

Projects that win federal loans and grants usually show: private sector risk taking, flat as opposed to ballooning annual payments to the concessionaire, and a project which solves significant existing congestion problems. KABATA's application fails each of these key attributes and in addition shows the contractor taking out equity before the federal loan payments start which appears to contradict federal program guidelines.

Politically, the Knik Arm Bridge is *even more challenged*. In his 2011 infrastructure program speech to Congress, the President pledged "no more "Bridges to Nowhere." Last month Senator Coburn (R-OK) highlighted the recent release by the Federal Highway Administration (FHWA) of \$15 Million in right of way money to KABATA, and the Senator rated the project # 6 in his list of Top 100 in his "Wastebook" of federal spending.

Do you believe that <i>any</i> Federal Administration will provide over \$353 Million in Federal Loans or Grants to the "Bridge to Nowhere"?
--

2. Realistic Toll Forecast, Add \$2.3 Billion to State Cost

Revenue forecasts are based on population and employment projections, which in turn, drive trip and toll projections.

KABATA uses a Mat Su population or household forecast for 2030 that is 30% higher than the state demographer's December 2010 forecast or Scott Goldsmith's Institute of Social and Economic Research's (ISER's) 2009 forecast used for the Highway to Highway project². Also, Wilbur Smith Associates, KABATA's traffic consultant, changed its traffic model between 2007 and 2011 so the same population number now generates 9% more trips and lowered the number of people per household from 2.7 from the 2010 Census to 2.5 in 2035 to appear to be consistent with ISER numbers. The result is higher toll revenue projections than realistic.

In doing the Highway to Highway traffic forecast, CH2M HILL, using Scott Goldsmith's population and employment data, projected 17,700 trips a day on the Bridge in 2035. KABATA's financial plan is based on a traffic forecast of 36,000 trips in 2035, *more than double*. Another forecast where the state Department of Transportation modeled ISER data (falsely labeled AMATS/ISER in the Anchorage Metropolitan Transportation Plan) said there would be 36,600 trips a day in 2035 but that forecast *assumed no toll* thereby *inflating* trip numbers.

Since KABATA's population forecast is an outlier and tolls reduce demand, a projected 18,000 daily trips in 2035 paying the higher \$8.19 one way auto toll used in KABATA's pro forma seems the best, conservative, *realistic* estimate of toll revenue. It also makes sense to use the 18,000 figure for 2035 since that is about the maximum traffic that a restricted 2 lane highway can serve and KABATA's financial plan included only the cost of a 2 lane Bridge.

A *realistic* toll estimate reduces cumulative toll revenue 2016-2050 by half from \$4.525 Billion to \$2.263 Billion.

3. Lower Profit to Private Partner, Subtract \$153 Million from State Cost

KABATA's financial plan projects that they will pay out a total of \$920 Million (labeled as net cash flow) to the winning bidder for their \$79 M equity in the project.

This 12% cumulative rate of return is excessive given that the state guarantee (subject to annual legislative appropriation) largely removes the financing risk to the project and leaves the concessionaire with only the customary construction cost risk. The state has traditionally paid no more than 10% when it asks the contractor to front project costs and competition among the three bidding teams and is likely to reduce this return on equity to 10%.

With typical Savings accounts paying less than 1% interest rates, does it make sense to give the P3 contractor 12%? Not if their annual payments are guaranteed by the State of Alaska.

CONCLUSIONS

Totaling the above three items adds an additional \$2.5 billion to be paid out by the state over 36 years for Phase 1, which breaks down to be *\$1.1 Billion* or an average of \$55 million/year between 2016-2035 and \$1.4 Billion in the years between 2036-2051. (3) *None of this additional amount would be covered by toll revenue.*

It is unclear how much of that \$2.5 Billion would come out of state transportation funds for Anchorage which historically has received 28% of federal and state transportation funds or the Mat-Su which in recent years has received about the same amount of state and federal transportation dollars.

The Anchorage Metropolitan Transportation Plan (MTP) *assumes* KABATA's estimates of toll revenue and Bridge costs are accurate and further assumes that KABATA will receive over \$300 Million in federal loans it has been turned down on to date. Most importantly, the MTP stated assumption is that *if* there is a toll shortfall that doesn't meet contracted availability payments, and the state must make good on its guarantee, that those funds will not decrease the amount going to Anchorage or Mat-Su or affect the overall state transportation budget.

So, to summarize this paper to **one critical question:** If as here estimated, the state must make up \$1.1 Billion in toll shortfall revenues between 2016 to 2035 to meet contractor payments, *how much of that amount will come from Anchorage's or Mat-Su's federal and state transportation funding?*

Even though there are predicted cutbacks in federal funding, including earmarks, the Anchorage 2035 MTP Update counts on the ratio of state funding to federal funding *actually increasing* from 18% state money historically to 56%.state money in the 2035 MTP Update.

RECENT DEVELOPMENTS ADD TO BRIDGE RISKS & COSTS

Three recent developments will likely add to the cost of the project.

1. Bridge Span has increased from 8,200' to 9,200'

In response to U.S. Army Corps of Engineering concerns about the effect of the Bridge on additional siltation challenges in Cook Inlet, in November KABATA signed an agreement with the Corps to increase the Bridge span to 9,200'. While this will reduce a rock-constructed causeway by 1000', it also will require 4 more expensive additional Bridge pilings and spans. Using a rough estimate of the 35% design costs from the TIFIA application, an additional \$15 million will be required which is not included in the \$713 million Bridge cost which is an unchanged number from the earlier KABATA financial plan showing a 8,200' bridge.

2. KABATA's Financial Plan still assumes 2 lanes of cost, 4 lanes of revenue

Phase 2 had been defined as the expansion of the Bridge and approaches from 2 lanes to 4 lanes and adding the Anchorage connection to the Ingra-Gambell couplet. KABATA estimates the cost of Phase 2 at \$673 Million.

Generally, a restricted access highway at around 18,000 trips a day needs to move to 4 lanes to accommodate any increase in traffic; for example, the Glenn Hwy traffic at Eklutna flats, the dividing line between Mat Su and Anchorage, is now about 28,000 trips a day.

The AMATS Technical Advisory Committee in August, 2011 heard my presentation that the KABATA Pro Forma Financial Plan submitted in February, 2011 to the federal government for a TIFIA loan had assumed 4-6 lanes of toll revenue in its toll projection to 2051 but its financial plan included only the cost of a 2 lane Bridge and northern approach roads.

The December, 2011 TIFIA preliminary grant application also includes the revenue from 18,700 trips a day in 2022 rising to 30,300 trips a day in 2030 when they estimate Phase 2 will be implemented at a cost of \$672 million that is not included in this realistic or KABATA estimate. For those eight years between 2022-2030, how is it possible to include the revenue from 4 lanes while including only the cost of 2 lanes on the Bridge and the northern approach roads to connect with Knik Goose Bay Road?

In order to count the revenue from over 18,000 trips a day, the financial plan has to include the cost of 4 lanes from downtown Anchorage to Knik Goose Bay Road.

3. National Track Record of KABATA's consultant Wilbur Smith Associates: Revenue projections 127% greater than actual Toll Revenues

Drawing on a 2006 study of the National Transportation Research Board (a division of the National Academy of Sciences) and adding updated information from recent toll facilities, an independent economist last month documented that the track record of Wilbur Smith Associates (WSA) on US projects is to overestimate revenue by 2.27 times in the first five years a toll facility is open to project. That is, WSA projected 127% **more** revenue than **actual** performance.³

The 2012 study "*Wilbur Smith Associates' Traffic and Revenue Forecast: Plenty of Room for Error*" was developed by Terry Maynard, a retired federal economist. The WSA track record is slightly better

(18)

than the industry in projecting the first year revenue of projects and worse than industry averages after five years and later.

Maynard made the WSA's work on the Knik Arm Bridge one of his two "case studies" of questionable forecasting methodology and of the use of overly optimistic population data.

Two toll road projects that WSA provided the toll projections for have now gone bankrupt (the Greenville, SC Southern Connector and the San Diego Freeway) and two more have had changes in ownership and/or debt restructuring when insufficient toll revenues took revenue below required minimum bond cover ratios (the San Joaquin Hills Toll Road, CA and the Pocahontas Parkway, VA).

Jamie Kenworthy
February 15, 2012
jamiiek@alaska.com

Note: Revisions from earlier posts of this paper reflect slight number changes between the Citigroup 10/17/2011 financial plan for KABATA's TIGER loan application and the 12/16/2011 Citigroup financial plan for KABATA's TIFIA loan application. Also included in this revision is discussion of the January 29, 2012 Maynard paper on the Wilbur Smith Associates' national track record.

Endnotes:

¹KABATA cost estimate numbers are from the Citigroup financial plan done 12/16/11 for KABATA's TIFIA preliminary federal loan application, see <http://knikarmbridge.com/TIFIA/2011/12-2011-KABATA-Model-PABs.pdf>

² The history of this project's use of population estimates does not inspire confidence in KABATA's revenue forecasts which are based on their consultant trip and toll forecasts. In 2007, Scott Goldsmith of ISER estimated that 204,400 people would live in the Mat Su in 2030. KABATA then hired the Insight Research Corporation of Dallas, Texas to come up with the number of 250,700 for the Mat Su in 2030, see p. 26 of <http://www.knikarmbridge.com/documents/IndependentEconomicOverviewandDevelopmentForecast07022007.pdf>.

³ The full study is available at <http://www.scribd.com/doc/79582705/RCA-Study-Wilbur-Smith-Traffic-amp-Revenue-Forecasts-012712>. The 2006 NTRB of the National Academies of Science toll study is at http://onlinepubs.trb.org/onlinepubs/nchrp/nchrp_syn_364.pdf.

Two media stories summarize the poor track record of the traffic and toll projection industry; see <http://www.tollroadsnews.com/node/5726S> and http://www.denverpost.com/tollroads/ci_3876477

STATE OF ALASKA

KNIK ARM BRIDGE AND TOLL AUTHORITY

SEAN PARNELL, GOVERNOR

820 East 15th Avenue
Anchorage, Alaska 99501
Phone: (907) 269-8678
FAX: (907) 269-8687
www.knikarmbridge.com

October 3, 2011

Re: Knik Arm Crossing Project
Lot
Tax Identification No.

Dear

There has been so much information in the press about the Knik Arm Crossing project, that some of the more important points have been lost in the shuffle. Unfortunately, many homeowners were left with a false impression that we are acquiring Phase II Right of Way, while that is at least a decade away.

Currently, the Knik Arm Bridge and Toll Authority has authority from the Federal Highway Administration to acquire whole parcels and perform the necessary relocations for the initial roadway, bridge, and tunnel construction, also known as Phase I. All of these property owners have already been contacted and appraisers have been in the area. We expect all acquisition and relocations to be completed by summer 2012.

Homeowners that are affected by Phase II of the project, which involves connecting Ingra and Gambell to the Government Hill tunnel, will not be contacted by an assessor at this time, as it will be a number of years before bridge traffic warrants additional upgrades to the downtown Anchorage transportation network. However, due to the age of existing survey information and the considerable changes that have occurred in the neighborhood over the years, surveyors will be working in the area, confirming property corners throughout most of the neighborhood. Additionally, photographers may be the area in the next few weeks or months to create an historical record of Government Hill as it appears today.

(10)