

**Testimony of Susanne DiPietro**  
**House and Senate Transportation Committees**  
**March 2013**

My name is Susanne DiPietro. I live in Anchorage and have been following this project since 2004. I am testifying today for myself.

I have carefully reviewed SB13 and want to bring to your attention some specific language that takes the unprecedented and needless approach of obligating the State to cover unlimited shortfalls in the Knik Bridge project's expenses. I am referring to Sections 4 and 5 of SB13. I'd like to walk you through those sections.

Starting on page 2 at lines 25-26 of your bill you will see that KABATA has the power to create what I'll call a "plain vanilla" project reserve fund - that's existing AS 19.75.221(h).

At the bottom of page 2 and the top of page 3 we see our first new item, which establishes that you will appropriate money into this reserve fund. Then continuing down a bit on page 3, at lines 8-17, we see that KABATA must use this money you've appropriated into the reserve fund to pay its debts and obligations. So now with these two additions, we've created a special kind of reserve fund into which you will deposit money and out of which KABATA will pay its operations and maintenance, including contractual "availability payments" to its private partner.

Continuing on to page 4, in paragraph (l) at lines 5-9 of the bill, we learn that KABATA each year must tell you and the governor how much it needs to cover its debts, and you may appropriate that amount. While this procedure may seem innocuous on its face, this is the language that signals to the rating agencies your pledge to step in and appropriate money to the reserve fund for each and every year that the revenues are insufficient to cover debts.

So although you will not see the words "moral obligation" anywhere in this bill, if you pass SB13 as currently written, the markets will understand that when KABATA signs its contract with its private partner, you are pledging to appropriate money to cover KABATA's obligation to make availability payments or whatever obligations KABATA incurs. In other words, the markets will understand that KABATA's operating debt is backed by the State of Alaska.

Now it is true that this legislation does not require you to appropriate the money every year, and you could decide not to. However, a failure by the State to honor the moral obligation is treated as a default, and the markets would be expected to react adversely by downgrading the credit rating of the State of Alaska in general. On that point, I would refer you to Commission of Revenue Butcher's letter to Senator Thomas in your packet, which warns about this hazard. So by passing this bill you will be setting yourselves up for a Hobson's choice - refuse to appropriate and damage the State's credit rating, or continue to spend the money that we may not be able to afford.

Using a "moral obligation" reserve fund to cover operating expenses has never been allowed in Alaska for any other moral obligation reserve fund and should not be allowed for this project. It

would greatly expand the already significant financial risk to which the State will be exposed by this project.

And even aside from any question of default, just passing this bill creates the type of financial exposure that could cause the national rating agencies to have a negative reaction when reviewing the State's credit rating for future bonds issued by the State.

If KABATA needs a project reserve fund, existing law already allows it to create one, without roping you into continuous appropriations for the life of the project. Please delete sections 4, 5, and 7 of this bill.