

Senate Finance Committee

Hearing to consider SB 80, A Plan to Finance the Knik Arm Bridge

March 25, 2014

Prepared Testimony of Scott Goldsmith, Professor Emeritus of Economics

My name Scott Goldsmith and I am a Professor Emeritus of Economics. I worked for 37 years at the Institute of Social and Economic Research at the University of Alaska Anchorage.

I am testifying today as an individual.

My concern is with state fiscal health.

This year we have a \$2 billion shortfall in the general fund and we are currently drawing down our cash reserves at the rate of about \$7 million per day. We don't yet seem to realize the path we are on and where it is taking us.

As a retiree, I am concerned that unless we get our fiscal house in order I will soon lose my dividend and be forced to start paying income and sales taxes. I am concerned that a fiscal crash will lead to an economic crash that will cut the value of my house in half. I am concerned that my children may be unable to find jobs in Alaska and be forced to leave the state.

And the more I learn about the cost, financing, and so-called benefits of this project the more concerned I become.

Now is not the time to take on new obligations that require the state to write blank checks.

There is one blank check of up to \$450 million if bridge tolls fail to repay \$300 million in new state debt.

A second blank check of unknown amount would be to repay the TIFIA loan if bridge tolls fail to cover that obligation.

A third blank check of unknown amount would be to cover the cost of connector road upgrades to access the bridge on both ends.

A fourth blank check of unknown amount would be to cover the cost of potential cost overruns on bridge construction.

A fifth blank check of unknown amount would be to cover the cost of bridge expansion from 2 to 4 lanes.

A sixth check would be to pay for the highway projects we won't be able to fund because of the diversion of federal highway funds to this project.

And finally a seventh blank check would be just to keep this project on life support-- even if it eventually expires.

How can we evaluate the so-called benefits of this project unless we know the potential ultimate cost?

Project proponents tell us not to worry and assure us that the project actually will be generating enough tolls to pay for other road projects around the state. But no bank would write a check based on assurances without analysis. And it would be irresponsible for the state to do so, particularly as we face a future of growing deficits.

Unfortunately we have no credible project analysis against which to measure the toll projections of project advocates or to evaluate the financing proposal.

Last year at this time an audit requested by the legislature concluded, and I quote,

“The audit concludes that KAC toll and revenue projections are unreasonably optimistic, and the projected cash flow to the State are likely overstated as a result. These are important considerations for policymakers since the P3 compensation arrangement requires KABATA to make payments to the private partner regardless of the projects ability to generate toll revenues. The deficiencies in KABATA methodology for generating toll and revenue projections are addressed in Recommendation No 1.”

Recommendation No 1 said--KABATA management should revise traffic and toll revenue projections to address deficiencies.

Subsequent to publication of that audit KABATA hired a consulting firm to conduct an independent peer review and update socioeconomic data used in the Knik Arm Crossing Traffic and Toll Revenue projections.

In the press release announcing the study KABATA stated “It is important to periodically update this information as time passes and new facts become known.”

Time has passed. The final report of that peer review was due September 20, 2013, but 6 months later it has still not surfaced. The Alaska partner in the preparation of that report—Agnew Beck—is a well-known and respected planning firm. They would not be six months late on a three month contract. We can only speculate as to why we don’t have that study in front of us today.

The bottom line is that there is no new information today to address and evaluate the concerns raised by the legislative audit a year ago.

Why are we even here today trying to make policy based on a foundation of known discredited information?

Thank you.