

STATE OF ALASKA

KNIK ARM BRIDGE AND TOLL AUTHORITY

SARAH PALIN, GOVERNOR

550 West 7th Ave, Suite 1850
Anchorage, Alaska 99501
Phone: (907) 269-6698
FAX: (907) 269-6697
www.knikarmbridge.com

**This document contains non-public confidential procurement and confidential deliberative process privileged information.
NOT for public dissemination. For distribution only to subject matter policy making or advisory State officials involved in this deliberative or procurement process.**

May 28, 2008

Mr. Frank T. Richards, P.E.
Deputy Commissioner of Highways & Public Facilities
Alaska Department of Transportation & Public Facilities
3132 Channel Drive, Room 300
PO Box 112500
Juneau, AK 99811-2500

Re: Knik Arm Crossing Project (KAC Project)

Dear Mr. Richards:

KABATA has considered the fundamental aspects of the KAC Project, which is in the preliminary development phase, and the current P3 procurement in light of the Legislature's directive that KABATA build a toll bridge across Knik Arm. We have also carefully reflected on DOT&PF's and the Administration's concerns and comments as expressed in your April 22, 2008 letter and through communications over the past few months. I have consulted with you, Randy Ruaro, Special Assistant in the Office of the Governor, Central Region Director Gordon Keith, and the Department of Law (Law).

We have been advised that DOT&PF and the Administration view as unacceptable several provisions of the February 26, 2008 draft request for proposals (Feb08 draft RFP) and its resulting risk profile. Specifically, we have been advised that the primary concerns you identified are the failure to include the Ingra/Gambell connection in the scope of construction, the traffic floor and the risks related to delay, litigation and/or termination related to obtaining environmental permits. You have also expressed a concern with project expenditures and a potential repayment of federal funds if the project does not move forward.

The Knik Arm Crossing is one of the largest public works projects under development in Alaska. Expenditures to date have supported a comprehensive NEPA process that has been very efficient in terms of schedule and a responsible use of public funds. There remains a very low risk of reimbursing federal funds and many opportunities to deliver a meaningful project.

As we continue project development by completing NEPA and obtaining environmental permits, changes to the procurement process must occur to address the concerns raised by the DOT&PF, Law and the Governor's Office. The Feb08 draft RFP has not been further developed and a draft RFP will not reflect KABATA's final recommendation for project delivery until the State's concerns are adequately addressed.

Over the past three months, KABATA has clearly indicated the need to address these concerns and we adjusted project development activities accordingly. Without addressing these concerns, it is premature to further develop the procurement at this time. Our resources are directed at completing the environmental review process, obtaining necessary permits and addressing the concerns of the Administration and local government. Acceptable alternatives for project delivery mitigating those concerns with an acceptable risk profile are available through close coordination with DOT&PF and the Administration.

You have requested that any dialog necessary to address the State's issues must wait until we respond to your letter. The difficulty in answering your April 22 letter arises from the fact that you want to make an evaluation and quantify impacts or implications of entering into a contractual arrangement that we have clearly articulated is not being pursued by KABATA at this time. An evaluation must include alternatives for mitigating financial risks and must include the economic benefits to the State.

Notification that the procurement is currently held in a mandatory internal State review process has been provided to the qualified developers. In addition, I have:

1. Terminated all consultant work on the Feb08 draft RFP and related documents;
2. Continued our current attention, efforts and funds toward concluding the environmental review process and obtaining a Record of Decision;
3. Redirected our current attention, efforts and funds to preparing the plans, schedule and consultations toward obtaining necessary governmental permits, especially the USACE 404 permit, all of which will materially reduce risk;
4. Directed that KABATA further increase its ongoing outreach efforts to educate the public and the Legislature about the KAC Project;
5. Terminated the current efforts to proceed with right-of-way acquisition and utility relocation until further notice;

6. Initiated consultations by me directly with Anchorage's Municipal Manager and Planning Director for the purpose of including the KAC Project's "Ingra/Gambell" connection into the current scope of the KAC project, recognizing that the KAC Project is linked to the Glenn Highway to Seward Highway Connection (Highway-to-Highway) as critical complimentary projects;
7. Initiated consultations by me directly with Anchorage's Municipal Manager and Planning Director to develop mutually acceptable, mitigation measures for the KAC Project's impacts to the Government Hill community; and
8. Instructed KABATA's CFO to revise KABATA's FY08 budget and to prepare separate FY09 operating and capital budgets for KABATA to reflect these changes.

The incorporation of the "Ingra/Gambell" connection into the initial scope of the Project will necessitate further traffic and revenue studies and financial modeling to reflect its earlier completion and will require corresponding resources to be available earlier in the Project construction schedule before toll revenue commences.

You also expressed concerns with the amount of funds expended to date and the future costs of moving the Project forward. In the 4 years and eight months since KABATA was activated in 2003 through April 30, 2008, \$39.5 million have been invested in development of the KAC Project. In addition, approximately \$2 million was expended by DOT&PF prior to the creation of KABATA. A detailed breakout of all expenditures through April 30, 2008 is attached as a part of our Answers. Of the total amount expended, over 90 percent has been spent on NEPA-related activities, which are unrelated to the P3 procurement.

As a percentage of total project cost, KABATA has spent approximately 6 percent on environmental review, which is half the national average of 12 percent as outlined in FHWA's *Report To Congress On Costs Associated With The Environmental Process: Impacts Of Federal Environmental Requirements On Federal-Aid Highway Project Costs* dated October 25, 2006.

Detailed monthly expenditures for FY08 and a projection for FY09 are attached as part of our Answers. The FY09 projection includes KABATA operating costs, costs for completing the environmental review process and record of decision and pursuing permitting activities to minimize risks. It does not include right-of-way acquisition, utility relocation, and procurement-related costs which would necessitate incremental additions when terms of procurement acceptable to the Governor's Office, DOT&PF and FHWA are determined.

The value of what KABATA and DOT&PF have accomplished to date can be preserved and the Legislature's directive to build a toll bridge across Knik Arm could move forward within the P3 context without eliminating or pre-empting other available alternatives.

The past policy directive that the KAC Project be self-sufficient and self-contained, except for its federal-aid and state matching funds, is not realistic without procurement adjustments, given your expressed tolerance for risk.

Financial modeling and an independent economic analysis performed in connection with the traffic and revenue studies clearly indicate the project is economical. The KAC Project offers a potential of over \$12 billion in gross toll revenue and a potential of \$20 billion in near-term economic benefits to the State. The KAC Project is supported by approximately two-thirds of Southcentral's population, which represents 54 percent of Alaskans. In support of the Governor's continued efforts to deliver the natural gas pipeline for Alaskans, the KAC Project is positioned to fulfill the Legislature's stated purpose of this Project to significantly advance the State's economic welfare and transportation systems. For your convenience, a copy of the *Independent Economic Overview and Development Forecast* is enclosed.

KABATA has been engaged in extensive public outreach since its inception and has reported to the Legislature on three separate occasions. Nonetheless, we clearly recognize that further outreach to the public and the Legislature is required and beneficial. A clear understanding with respect to tolls, use of revenue, State support and Project risks is essential to the ultimate success of the Project.

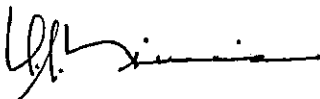
As noted above, we clearly recognize the concerns you have expressed. KABATA and DOT&PF have made commitments to find acceptable solutions and quantify the resources needed to deliver the project. Our commitments and your review should provide the necessary confidence that responsible decisions have been made and will be made as we move forward with project development.

I am confident a comprehensive evaluation of the work accomplished to date, the significant economic value to the State and the opportunity to leverage limited public funds will confirm our joint mission to provide needed transportation infrastructure.

The KAC is not only an infrastructure project that will significantly reduce DOT&PF's future obligations, it is also complimentary to the transportation needs of the Municipality of Anchorage and the Mat-Su Borough.

I look forward to working with you and the Administration as we further develop this important project for Alaskans. Answers in response to your April 22, 2008 letter are enclosed.

Sincerely,



Andrew J. Niemiec
Executive Director

cc: Mike Nizich, Acting Chief of Staff, Office of the Governor
Randy Ruaro, Special Staff Assistant, Office of the Governor
Gordon C. Keith, P.E., Central Regional Director, DOT&PF
Brian Andrews, Deputy Commissioner, Department of Revenue
Darcie Salmon, Acting Chairman, KABATA Board of Directors

Enclosures: Answers to April 22, 2008 Letter, *Independent Economic Overview and Development Forecast*, and *Cost Risk Assessment of the Proposed Knik Arm Crossing*.