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State withheld key federal rejection letter on loan for Knik Arm bridge

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6-8 minutes

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On Feb. 9, the U.S. Department of Transportation [rejected a state request](#) to borrow \$378 million to help fund the [\\$1.2 billion Knik Arm Crossing](#).

The federal agency "suspended review" of the application, citing excessive risk that the proposed \$5 bridge toll would not generate enough to pay back the loan in the decades to come.

But Alaskans did not learn of this rejection for a month because Judy Dougherty, director of the bridge project, did not reveal what had happened.

It was only after the president of the Government Hill Community Council asked Feb. 16 for copies of correspondence with the federal agency that Dougherty supplied a copy of the rejection letter. She sent it to Stephanie Kesler on March 9.

A day later, Dougherty shared the news about the rejection with her boss, state Department of Transportation Commissioner Marc Luiken. She warned of bad news ahead: "The correspondence was provided to (Kesler) yesterday, and it is likely she will go to the media with the assertion that the loan has been denied. This is false. USDOT's review has simply been suspended while waiting for additional information."

If you believe this was not a rejection, I have a two-lane bridge across Knik Arm to sell you.

Jim Whitaker, chief of staff to Gov. Bill Walker, said the first anyone in the governor's office had heard of the federal action was March 10, when Luiken forwarded Dougherty's memo to the governor's office. Walker is reviewing the situation, Whitaker said.

Dougherty was under no legal obligation to publicize this letter, but keeping it secret was a mistake. It should have been part of the legislative budget discussion. Critics of the bridge released the federal rejection letter Monday, 11 days after it went to the governor's office.

What I think happened is that Dougherty kept quiet to avoid giving critics a powerful argument to end all funding for the bridge, named ["Don Young's Way"](#) through a [federal earmark in 2005](#).

Dougherty contends "this most recent letter from (the Transportation Infrastructure Finance and Innovation Act) is a non-issue because the process is not complete. We have released public information in accordance with Alaska law. We

have no motivation to deceive the public."

That this letter was concealed from the public is the strongest evidence that her interpretation is flawed.

The department should have gone beyond the law and acknowledged that the federal government rejected the state proposal, described by Luiken last summer as one founded on a "robust investment grade revenue toll forecast" and the state's financial strength. The forecast was far too robust, according to the loan review.

There are many people in Southcentral Alaska whose faith in this project will never be shaken, no matter what the economic forecasts show or how long the oil price collapse continues.

The build-it-and-they-will-come dream stems from the attitude that a new Phantom Town across Knik Arm will be home to [37,000 people by 2040](#). As with many other grandiose plans to spend government funds, what's missing is a careful comparison of how the money could be used for competing needs.

The Legislature adopted a compromise financing plan in 2014 that included a requirement that the bridge cannot be built on faith alone. Legislators said the bridge needs a \$378 million federal transportation loan. The balance would come from state bonds, federal highway funds and state appropriations.

Trouble is, there are far more projects across the country competing for the federal loan program than there are federal dollars for loans. The latest transportation bill from the federal government [slashed the amount of loans available nationwide to \\$287 million a year](#) for the entire country, a [70 percent decrease](#)

[from the last federal highway bill.](#)

In this environment, the loan repayment plan submitted by the state doesn't measure up, Shoshana Lew, an assistant secretary of the federal agency, wrote in the rejection letter.

Dougherty insists the federal agency has not canceled the project. She's right. The dance for dollars doesn't work that way.

There is nothing to prevent the state from submitting endless letters asking for money. There will never be a letter from a federal office that says, "Go away. We never want to hear about this again."

So let's recognize this loan denial for what it is.

"As currently structured, your plan of finance would not have sufficient coverage to withstand stress testing and meet DOT's requirements. Therefore, DOT is suspending review of your current LOI (letter of interest) and plan of finance," Lew wrote.

The state would need to reduce risk, lower the debt level and "create a more credit worthy structure for the whole transaction," Lew said.

That is hardly a "request for more information," as Dougherty described it. It's an indictment.

I agree with Scott Goldsmith, a retired economist from the Institute of Social and Economic Research, who believes the \$160 million set aside in the bridge budget would be better spent on projects that meet current needs and could help keep the construction industry alive.

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News with 40 years experience in Alaska journalism. One of his daughters is a deputy press secretary for Gov. Bill Walker. The views expressed here are the writer's own and are not necessarily endorsed by Alaska Dispatch News, which welcomes a broad range of viewpoints. To submit a piece for consideration, email [commentary\(at\)alaskadispatch.com](mailto:commentary(at)alaskadispatch.com).

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Columnist Dermot Cole, who lives in Fairbanks, has been a reporter, editor and author. For 40 years, he has written extensively about Alaska politics and history.

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Since when does a \$5 toll even pay the interest on the loan... ever?

