KNIK ARM BRIDGE AND TOLL AUTHORITY

2006 ANNUAL REPORT

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KABATA is governed by a seven-member Board comprised of three private citizens, two regional legislators and two state commissioners. The Alaska State Legislature authorized KABATA to undertake the permitting, design, financing, and construction, and then to own, operate, and maintain the crossing as a toll bridge.

This Annual Report is submitted in compliance with AS 19.75 to inform the Governor and the Legislature on the status of the project. This Annual Report will be available to the public on the project web site at www.knikarmbridge.com, and through the KABATA office at 907-269-6698.

Pursuant to AS 44.99.210, this publication was released by the Knik Arm Bridge and Toll Authority at a cost of $2.25 per copy, to provide information and encourage participation. It was printed in Anchorage, Alaska.

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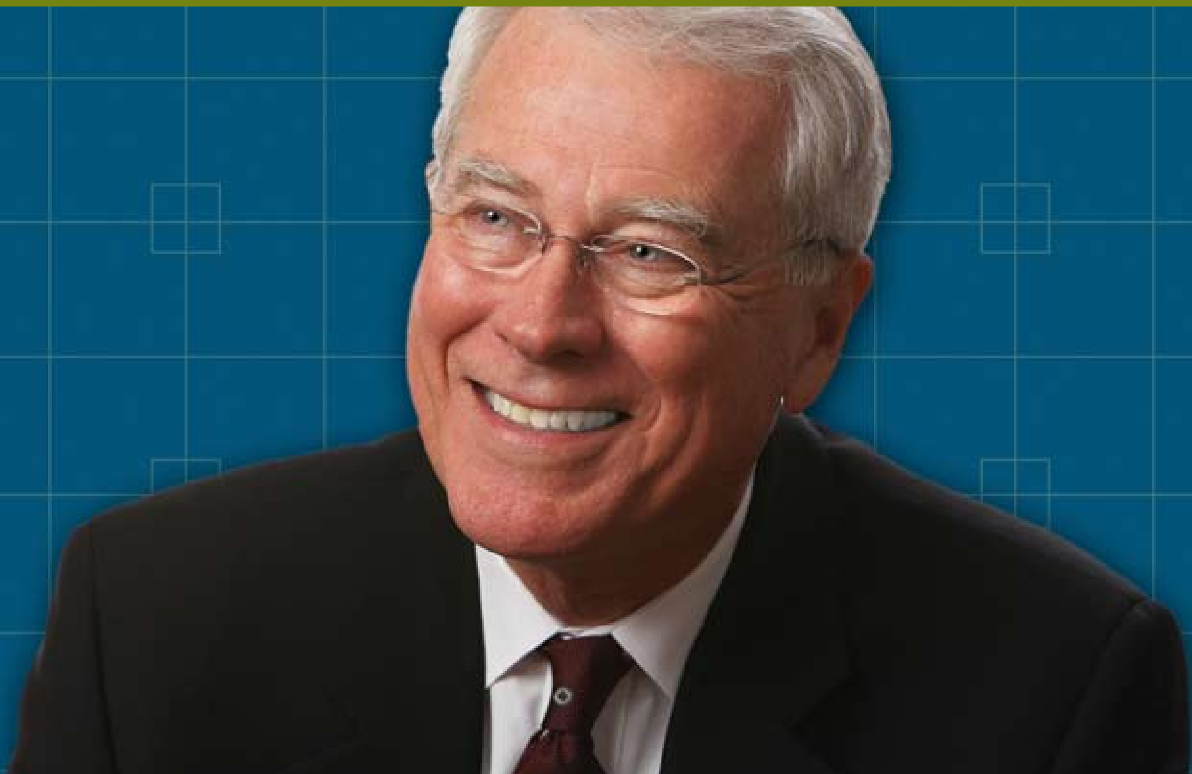
K A B A T A

MISSION

The Knik Arm Bridge and Toll Authority will develop, stimulate, and advance the economic welfare of the state and further the development of public transportation systems in the vicinity of the Upper Cook Inlet with construction of a bridge to span Knik Arm and connect the Municipality of Anchorage and the Matanuska-Susitna Borough.

LETTER FROM THE CHAIRMAN



IN 2006

This is the third Annual Report of the Knik Arm Bridge and Toll Authority (KABATA) has presented to the Governor and the Legislature of the great state of Alaska pursuant to AS 19.75. I am pleased to report that calendar year 2006 has been a year of significant accomplishments in making the Knik Arm Bridge a reality.

Early in the year KABATA convened a symposium on project delivery attended by nearly forty representatives from financial firms, government agencies, and engineering and construction companies. They examined the project concepts and feasibility and concluded that bridge financing, design, construction, operations and maintenance would be possible as a Public-Private Partnership (P3).

The preliminary findings of the traffic and toll revenue study conducted by Wilbur Smith Associates indicated that expected toll revenue would be sufficient to meet expected costs. The opportunity to pursue private sector financing became even more important when federal funding was substantially reduced and no separate state general funds were made available for the project. Whether the project is undertaken with some type of P3 contract or whether KABATA pursues more traditional bond sales remains an important decision in calendar year 2007.

With the sponsorship of the Governor and the consent of the Legislature, state funding was made available to the Mat-Su Borough to upgrade and pave the Point MacKenzie Road which will serve as part of the west approach to the Knik Arm Bridge.

A Memorandum of Agreement was signed by KABATA and the Alaska Department of Transportation and Public Facilities (ADOT&PF) to utilize federal funds originally earmarked for the Knik Arm Bridge to design and construct a new road to the Port of Anchorage. This road will also be the east approach to the Bridge. It remains for KABATA to construct the shore-to-shore crossing including the toll bridge.

During 2006 the Federal Highway Administration (FHWA) published the Draft Environmental Impact Study and gathered public comment in preparation for a Final EIS and Record of Decision in 2007.

I remain confident that the Knik Arm Bridge can be built without detracting from other priority highway projects. Moreover, the bridge may divert sufficient traffic from the Glenn Highway such that costs for expanding that road can be reduced or deferred for a number of years. With the continued population growth of the state, it is a bridge to the future whose time has come.

George Wuerch
Chairman

Letter from the Executive Director

2006 proved to be a very productive year in the development of the Knik Arm Crossing project. As the project moves toward the end of the National Environmental Policy Act (NEPA) process, decisions on procurement and adoption of a delivery system have been made.

Under a centralized management system eight projects have been defined to deliver the facility. The east side approaches are incorporated in the Alaska Department of Transportation & Public Facilities' Capital Improvement Plan. This portion of highway will serve the Port of Anchorage by providing access at its northern end.

Our goal is to minimize impact on the environment. Studies dealing with the hydrology and marine environment of the Knik Arm, the Beluga whales, fishes and marine life, birds, mammals, land use, archaeology and historic sites, water and air quality, and accumulative and secondary impacts have been concluded.

An independent financial analysis showed that KABATA's cost projections of $600 million are realistic. On that basis KABATA has initiated a Public-Private Partnership process to raise the additional funding from private sources.

Transitioning from the planning into the implementation stage, a Chief Financial Officer and a Chief Engineer were hired. The Board approved a new organizational structure and adjusted salaries to provide parity with comparable jobs.

KABATA appreciates the support and close working relationship with the ADOT&PF and Department of Law and the support from the Congressional Delegation, FHWA and the State Legislature.

Heinrich Springer
Executive Director

Letter from the Chief Financial Officer

In the interest of transparency and accountability to the public, KABATA engaged auditors in 2006 to conduct the first independent audit of KABATA's financial position and results of operations. KABATA is delighted that the audit resulted in an unqualified opinion of the financial statements for 2006 and 2005, which are included on the CD enclosed in this Annual Report.

During 2006, the State Legislature and Administration articulated a clear message of public sector support for the Knik Arm Toll Bridge through their actions. First, Senate Bill 231 appropriated directly and indirectly over $100 million of public investment for the project. Alaskans will earn a superior return for their money, receiving at least $4 of transportation investment for every $1 of public funds committed. Second, the Authority's enabling statute was amended in House Bill 471, providing KABATA enhanced ability to finance the project and permitting the use of a Public-Private Partnership (P3) to deliver the Knik Arm Toll Bridge.

KABATA also assembled a team of recognized transportation finance consultants and legal advisors during 2006 in preparation for project financing, including Public Financial Management, Inc., as independent financial advisor, Ballard Spahr Andrews & Ingersoll as bond counsel, and Nossaman, Guthner, Knox, Elliot as P3 counsel. KABATA's traffic and revenue consultant, Wilbur Smith Associates, delivered an Intermediate Traffic and Revenue study in the fall of 2006 affirming the ability of the Knik Arm Toll Bridge to generate enough toll revenues to complete the financing of the project.

Many investment bankers and prospective Public-Private Partners visited KABATA during the year and have expressed keen interest in participating in the financing and delivery of the bridge. They are attracted to the project because of its strong investment thesis, capable management team, demonstrated public commitment through investment, sound corporate structure, and the nearly completed environmental process. All of this attention represents an affirmation of financial feasibility and, combined with the achievements of 2006 and KABATA's plans for 2007 and beyond, bodes well for the realization of the Knik Arm Toll Bridge.

Kevin P. Hemenway
Chief Financial Officer

INTRODUCTION

Southcentral Alaska boasts a diverse, vibrant and growing economy and is the hub of commercial activity in Alaska. Ted Stevens Anchorage International Airport lands more air cargo than any other U.S. airport and serves over five million passengers a year. The Port of Anchorage handles 80 percent of the State's container freight and is expanding. The Alaska Railroad serves over half a million passengers and carries over eight million tons of freight annually. Hospitals, universities, the oil and gas industry, the military, and retailers all call Anchorage home. Although Juneau is the capital, Anchorage is the seat of government employment in the State.

With a bustling economy comes jobs, income and population growth. Anchorage's economy and population have grown at a healthy pace for the past 18 years and forecasts call for continued growth. The economy and jobs have consistently placed it in the top two or three highest median family and household income for populations over 250,000. Fifty-three percent of Alaska's population lives within the Anchorage Metropolitan Statistical Area (MSA) comprised of the Municipality of Anchorage and the Mat-Su Borough.

All of this population growth is causing Anchorage to run out of developable land. The Mat-Su has been named the 28th fastest growing "county" in the country by the U.S. Census Bureau, and has grown faster than Anchorage over the last five years. The population forecast indicates that an additional 200,000 people will be added to the region by 2030, further pressuring available real estate in Anchorage and adding traffic congestion to the already busy Glenn Highway. For economic growth to continue, access to developable land and affordable housing must be provided to the growing workforce.

The Knik Arm Bridge supports the projected population growth by connecting existing cities with developable land, linking existing transportation networks, and providing safe and efficient transportation routes for the additional people that will call Southcentral Alaska home in the years to come. It is a bridge to Southcentral Alaskans' future.

This 2006 Annual Report includes a close look at KABATA's staff, project financing, project delivery, NEPA process updates, and a Comprehensive Annual Financial Report (on a CD) – all signs of KABATA's growth. This year's work has shown that the bridge is buildable, financeable, and environmentally sound.

Take a minute to get to know KABATA better and read on to see how the project has progressed and what is planned to make the Knik Arm Bridge a reality.

KNIK ARM CROSSING PROJECT

Anchorage and Mat-Su populations are growing fast.

In fact, about 200,000 new residents are expected to arrive within the next 25 years.

We need to prepare now. The congestion issues are not going to go away.

The Knik Arm Toll Bridge would broaden our regional economies and transportation systems.

Project Description

The proposed Knik Arm Crossing project includes a toll bridge and approach roads that would connect the bridge into the existing roadway network in Anchorage and the Mat-Su Borough. The majority of the project would be one-lane in each direction to start with, and engineered to easily expand in the future. On opening day the project would connect into the Anchorage network via the A/C Couplet. When traffic increases, toll revenue could help finance an extension to the Ingra/Gambell Couplet and add through lanes.

Purpose and Need

The proposed project would further the development of transportation systems in the Upper Cook Inlet region by providing improved vehicular access and surface transportation connectivity between Anchorage and the Mat-Su through the Port MacKenzie District, with a financially feasible and efficient crossing to meet the needs for:

1. Improved regional transportation infrastructure to meet existing and projected population growth and locally adopted economic development, land use, and transportation plans, and as directed by the Alaska State Legislature in AS § 19.75.

2. Regional transportation connectivity for the movement of people and the movement of freight and goods to, from, and between Anchorage, the Mat-Su, and Interior Alaska.

3. Safety and transportation system redundancy for alternative travel routing and access between regional airports, ports, hospitals, and fire, police, and disaster relief services for emergency response and evacuation.

2006 YEAR IN REVIEW

> KABATA's CFO and an independent Federal estimate agree that every year of delay increases the project cost at the rate of $25 million per year. The only means of defeating the inflation monster is to get the project finished.

Darryl Jordan
Deputy Executive Director
of Corporate Affairs
KABATA

2006

The year 2006 was an exciting one for KABATA, full of key milestones. In the past year, KABATA:

- held an Industry Symposium on Public-Private Partnerships,
- hired a Chief Financial Officer, and a Chief Engineer,
- assembled a Financial Services Advisory Team,
- continued traffic and revenue studies,
- evaluated delivery systems,
- received project funding from the State Legislature,
- gained the authority to enter into Public-Private Partnerships and levy tolls, and
- worked with FHWA to publish the Draft EIS and hold public hearings.

All these milestones point to KABATA's growth and the forward momentum of the Knik Arm Bridge project. As a result of all this activity, KABATA has been approached by many financing, engineering, and construction firms who are eager to join the project. **The bottom line message is this: the Knik Arm Bridge is eminently fundable and buildable.** As KABATA enters the coming year, the authority is well positioned to finalize funding, acquire permits, contract for design and construction, and begin construction of the bridge.

Symposium Recommendations

☑

Paragraphs designated with a checked box on the following pages represent a recommendation extracted from the Symposium's list of Top Ten recommendations.

"From an experienced engineering standpoint, the Knik Arm Crossing project is buildable. The project will make a profound beneficial contribution to the State by more strongly connecting the two engines of commerce represented by the Municipality of Anchorage and the Mat-Su Borough."

Verne Geidl
Chief Engineer
KABATA

Staffing to Deliver

The staff of KABATA provides leadership and direction for the Knik Arm Crossing project. The KABATA team of professionals has the right mix of experience, determination, and know-how to bring the Knik Arm Crossing project to realization. Their work in 2006 in planning, consultation, and preliminary design has moved the project forward so that it is poised to move quickly from planning and study to financing, contracting, design, and construction once the FHWA Record of Decision is in place. KABATA is proud of its staff and their talents; they are the backbone of the Knik Arm Crossing project.

KABATA Hires Chief Financial Officer

Kevin Hemenway contracted with KABATA in 2005 as its Senior Financial Advisor to develop conceptual financing strategies. In 2006, Mr. Hemenway joined the KABATA staff as Chief Financial Officer. A resident of Anchorage, Alaska, Mr. Hemenway has been involved in capital markets transactions that amount to over $2 billion, and has worked in the private sector for twenty-five years. As CFO, Mr. Hemenway will raise capital, manage financing, communicate with capital markets, and set up financial operations for KABATA to operate the toll bridge.

KABATA Hires Chief Engineer

KABATA has hired Verne Geidl to serve as Chief Engineer. Mr. Geidl is a registered Professional Civil Engineer in Alaska and Idaho, and a registered Professional Structural Engineer in Idaho, has taught extensively at the university level, and practiced in the engineering and private sector for twenty years, including seven years at Alaska DOT&PF. As Chief Engineer for KABATA, Mr. Geidl will evaluate standard, alternative, and innovative engineering materials, processes and procedures. He will ensure that EIS guidelines are followed.

Participants on Tour of Project Area

Group Discussion

Project Financing

KABATA's Industry Symposium brought together national experts to advise the Knik Arm Crossing project. The bottom line: the project is eminently fundable and buildable.

In January 2006, KABATA sponsored an Industry Symposium to explore innovative project delivery methods. Methods for project construction, finance, and delivery are changing. Today, many transportation infrastructure projects are designed, built, financed, and operated through Public-Private Partnerships (P3), where governments team with private firms to deliver public projects using competitive private methods.

To harness lessons learned from recent successes, KABATA invited national leaders from agencies, and the construction and financing industry to participate in the Industry Symposium. Participants included highway agencies such as ADOT&PF and FHWA, as well as private sector construction contractors, engineering design firms, and investment bankers.

Since the Industry Symposium in January, KABATA has worked hard to implement the experts' Top Ten recommendations for project success. All ten recommendations are complete or in process.

☑ KABATA produced a detailed report of the Industry Symposium to share with legislators and the public, which can be accessed online at KABATA's web site (www.knikarmbridge.com/research_reports.html). Providing education on the benefits of innovative project delivery methods was one of the Symposium Experts' Top Ten Recommendations for KABATA.

> **"The Knik Arm Bridge and Toll Authority is set up to run like a business; it will be run like a business, with fiscal discipline and a focus on customer service. The recent audit resulted in an unqualified opinion of the financial statements for 2006 and 2005—in other words, KABATA has a clean bill of health financially speaking."**
>
> Kevin Hemenway
> Chief Financial Officer
> KABATA

Public-Private Partnerships (P3)

"

Participation by the private sector through a Public-Private Partnership will substantiate that KABATA's plans are realistic. This will be a milestone in the State's new and innovative method to accelerate creation of infrastructure.

"

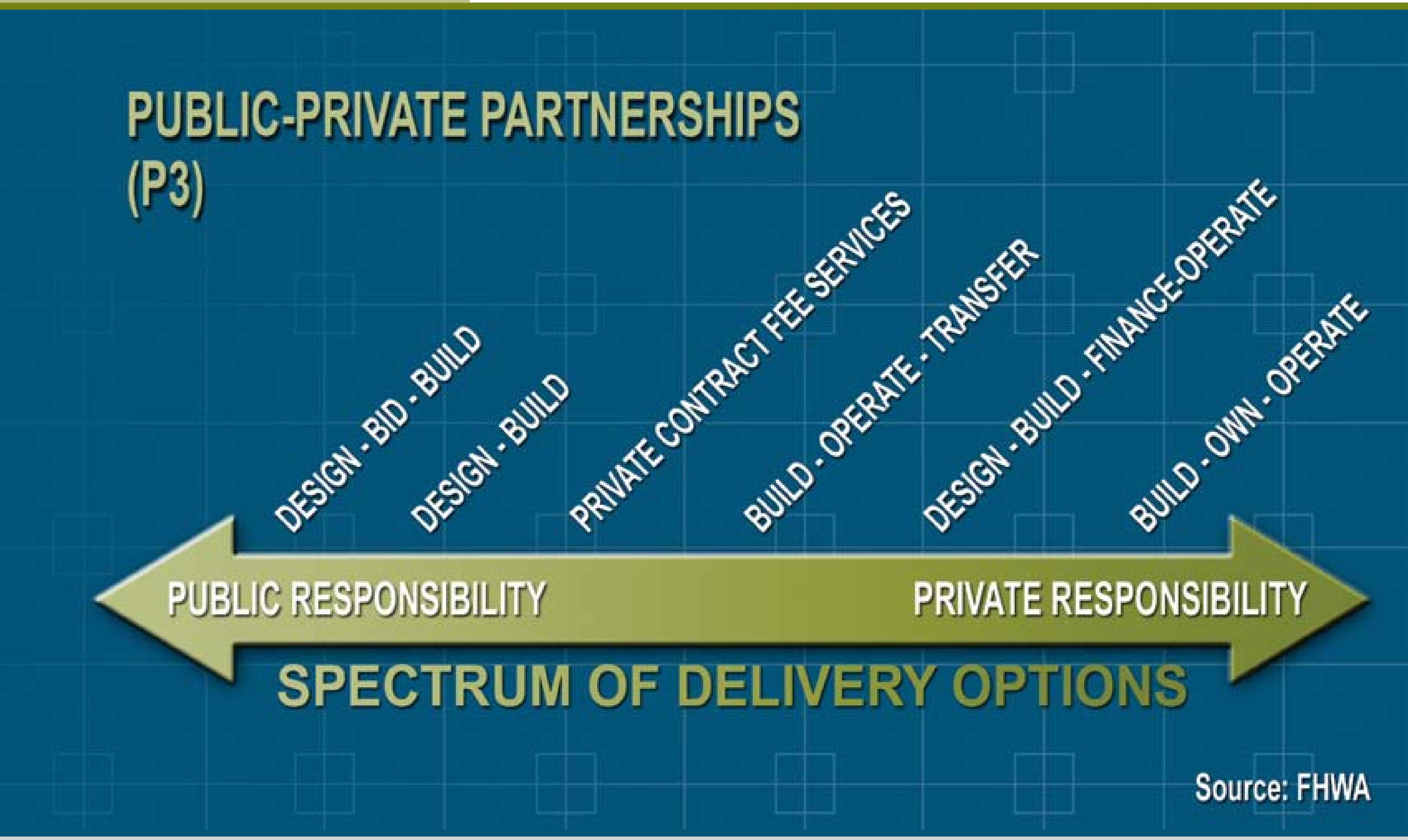
Henry Springer
Executive Director
KABATA

A Public-Private Partnership (P3) is a proven way of doing business worldwide. The basic idea is to harness the efficiencies of the competitive market for government projects. The U.S. Department of Transportation and the Federal Highway Administration (FHWA) encourage the use of P3s to improve the quality of transportation systems and increase the efficiency of operation and maintenance. In fact, P3s have successfully delivered public transportation projects in Texas, Massachusetts, Illinois, and dozens of other states, as well as worldwide.

P3s are contractual agreements that allow for more private sector participation and investment than traditional project delivery methods. A P3 can range from minimal to total private sector responsibility, depending on the needs of a project. Below is a diagram that shows the spectrum of Public-Private Partnership options.

In a P3 contractual arrangement, KABATA would own the bridge and retain control of the project. The private partner would deliver one or more aspects of the project such as finance, design, and construction of the bridge and approaches, and/or operation and maintenance of the toll facility and approach roads.

For more information on Public-Private Partnerships, see the FHWA web site (www.fhwa.dot.gov/ppp/).



Project Delivery

House Bill 471: KABATA receives authority to enter into P3s and levy tolls. On June 13, 2006 House Bill 471 was signed into law giving KABATA the authority to finance construction and maintenance of the Knik Arm Bridge, to set and collect tolls, and to carry out its duties. HB 471 was sponsored by Representative Bill Stolze and supported by Senators Lyda Green, Charlie Huggins, and John Cowdery. KABATA extends thanks to these members of the Alaska Legislature for their support and hard work on the bill.

Senate Bill 231: KABATA gets project funding; $93,600,000 will be a down-payment on the bridge and support future financing. On July 1, 2006 the Alaska State Legislature made a capital appropriation of $93,600,000 for the Knik Arm Crossing. KABATA is now able to enter into a Public-Private Partnership. KABATA plans to direct these and other public funds towards the construction of the Anchorage approach road to the bridge, which has independent utility as an access route for the Port of Anchorage. Public funds will also be used to fund the construction of the Mat-Su approach road. Toll bridge construction will be fully financed through bonds, loans, and/or a Public-Private Partnership and will not draw on any public funds.

Cost Estimate: As the project comes closer to realization, KABATA has an even clearer picture of what the project will cost. The cost estimate of $400-600 million was confirmed through geotechnical studies completed this summer and further independent engineering analysis by FHWA.

☑ Securing legislative authority to enter into Public-Private Partnerships was one of the Symposium Experts' Top Ten Recommendations for KABATA.

the Consulting Teams

PFM

Public Financial Management, Inc. (PFM) was selected through a competitive process to be KABATA's independent financial advisor. They will advise on building a qualified capital markets finance team and forming a viable credit structure and financial plan. PFM will assist in evaluating and selecting investment banking, bond counsel, and other financing services. Procurement will be through a competitive process.

Ballard Spahr Andrews & Ingersoll

This firm is another key player on the Financial Advisory Team contracted to provide bond structuring, advise on bond issues and taxation, and to aid in contracting.

Nossaman Guthner Knox Elliot

This nationally recognized P3 counsel firm joined the Advisory Team and will provide P3 contracting counsel throughout procurement.

☑ Advice from P3 consultants was one of the Symposium Experts' Top Ten Recommendations for KABATA.

Wilbur Smith Associates

Providing traffic and toll revenue consulting, Wilbur Smith was contracted through a competitive process to take the traffic and revenue study to the next level of detail, including independent verification of the traffic projections. This investment-grade traffic and revenue study provides the analysis required for ratings agencies, underwriters and investors to determine if the project makes economic sense. The newest updates to the traffic and revenue study shows that tolls will support bridge construction funding.

☑ An investment-grade traffic and revenue study to support a business plan was one of the Symposium Experts' Top Ten Recommendations for KABATA.

Construction Planning and Progress

Nine-Part Delivery Method: A new approach opens the project up for greater competition and diversity. Due to the magnitude of the Knik Arm toll bridge project, KABATA is planning to phase construction in nine smaller increments. This strategy will make the project more accessible to the local market and will also mean that a larger number of companies will be able to bond portions of the project. This diversity will encourage competition and could result in lower project costs. Financing for Projects 2-5 will be through toll-backed funding, possibly including a P3. Currently, KABATA envisions three funding sources.

☑ Reducing the scope of the project through separating project components was one of the Symposium Experts' Top Ten Recommendations for KABATA.

Geotechnical Studies confirm that bridge is buildable. In the summer of 2006, KABATA conducted a geotechnical drilling to determine foundation conditions at the proposed bridge site. In deeper water, a barge was used, and in tidewater areas, a jack-up rig was used. What they discovered was that soils are suitable for the bridge foundations.

☑ Mobilizing additional geotechnical work to better quantify design and construction risks was one of the Symposium Experts' Top Ten Recommendations for KABATA.

Progress on the Point MacKenzie Road. Project 1 is the Point MacKenzie Road paving. Senate Bill 231 allocated $15.4 million for the Point MacKenzie Road upgrade to widen, pave, and re-align the roadway. These improvements will better facilitate traffic from Port MacKenzie development, the ferry, and the future bridge. Construction is scheduled to begin in summer of 2007. Project 1 has already been cooperatively addressed through a trilateral agreement between ADOT&PF, KABATA and the Mat-Su Borough.

☑ Placing the Point MacKenzie Road upgrade into a separate project was one of the Symposium Experts' Top Ten Recommendations for KABATA.

Progress on the Port of Anchorage Approach. KABATA hopes to co-construct Projects 6 and 7 in conjunction with the Port of Anchorage expansion, begun in the summer of 2006. KABATA is cooperating with Port Director, Governor Bill Sheffield.

Agreement with Alaska Department of Transportation and Public Facilities. In September of 2006, KABATA and Alaska DOT&PF signed an agreement outlining respective roles for the Knik Arm Crossing project. KABATA is solely responsible for design and construction. Once construction is complete, ADOT&PF has agreed to assume ownership of projects 6 through 9. KABATA will continue to own, operate, and maintain projects 2 through 5 after construction.

PROJECT NAME	CONSTRUCTION COST* ($ millions)	FUNDING SOURCE
1. Point MacKenzie Road Paving	$ 16	State
2. Port MacKenzie Industrial-North Route	$ 10	Toll-Backed Financing
3. West Approach	$ 25	Toll-Backed Financing
4. Bridge	$ 250	Toll-Backed Financing
5. East Approach	$ 62	Toll-Backed Financing
6. MOA Future Port Expansion Alignment	$ 6	State and Federal
7. Security / Retaining Wall	$ 10	State and Federal
8. Cherry Hill Approach and North/Port Access	$ 23	State and Federal
9. A/C Street Connector	$ 60	State and Federal
TOTAL CONSTRUCTION COST	$ 462	

*Cost estimates are in 2006 dollars, include a 15% contingency factor, do not include year of construction escalation, and design and project management costs that when combined with total construction costs will range from $400 - 600 million.

The NEPA Process

Over the past few years, KABATA and the Federal Highway Administration (FHWA) have engaged in the National Environmental Policy Act (NEPA) process to study the project's alternatives and impacts. In September 2006, FHWA and KABATA published the Draft Environmental Impact Statement (EIS). Required by NEPA, the Draft EIS describes the proposed project in detail and documents anticipated effects to the social, cultural, natural, and physical environment. A complete copy of the Draft EIS is available on the web site (www.knikarmbridge.com/project_docs.html).

Public Process

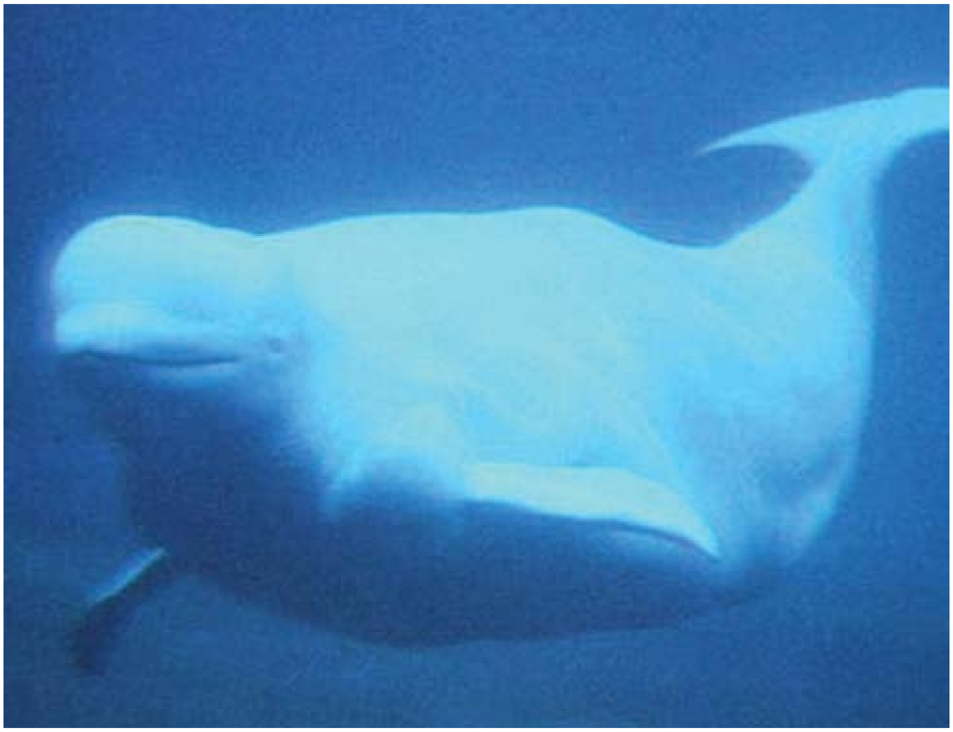
With the publication of the Draft EIS, public hearings were held in Anchorage and in the Mat-Su Borough to provide information and elicit comments from the public. The hearings were attended by approximately 150 people in Anchorage and by approximately 75 people in the Mat-Su.

Mitigation Measures

A key part of moving the EIS forward is for KABATA to anticipate mitigation measures. Below are descriptions of a few key areas where KABATA and FHWA are studying proposed mitigation measures. Please see the Draft EIS for complete information on proposed mitigation measures (www.knikarmbridge.com/project_docs.html).

Beluga Whales

KABATA has applied to the National Oceanic and Atmospheric Administration Fisheries for authorization of construction which might affect beluga whales. Mitigation measures include establishment of a safety zone; development of a monitoring and reporting plan; and use of "soft-starts" (gradually starting pile driving in order to warn animals in the area so they may leave), timing windows, and shore- and boat-based observers.



Recreational, Cultural, and Historic Sites

Context Sensitive Solutions such as a cut and cover tunnel, landscaping and aesthetic treatments will be considered during design. While no mitigation is required, KABATA has offered to work with the Knik and Eklutna Tribes to secure a location for a traditional fish camp where the Tribes could engage in activities and ceremonies that are a part of their heritage.

Wetlands

Project planners have avoided wetlands and minimized impacts when avoidance was not possible. Of the 92,580 acres of wetlands in the Mat-Su Borough, only .004 percent would be affected. In Anchorage, the proposed project would directly impact about 11 acres of wetlands; about 80 acres of estuarine shores and mud flats and 8 acres of subtidal waters would be affected.

Community Cohesion

To mitigate impacts to community cohesion, KABATA's preliminary designs include a cover tunnel to minimize the impact of the road through the Government Hill neighborhood.

Traffic

An amendment for including the Knik Arm Crossing project into the Municipality of Anchorage's 2025 Long-Range Transportation Plan is underway concurrent with the Draft EIS process. When traffic increases, toll revenue could help finance the extension to the Ingra/Gambell Couplet, replacing the A/C Streets Couplet as the primary Anchorage access route.

"The NEPA process is near completion and there has been a rigorous examination of the social, economic and environmental factors related to the development of the project. For private investors, completion of the EIS and compliance with environmental requirements are essential ingredients in the development of a toll facility."

Dale Paulson
Director of Regulatory and Environmental Affairs
KABATA

LOOKING AHEAD TO 2007

WINTER

Draft Permit Applications

Finalize Investment **Grade Toll, and Traffic** and Revenue Study

Align with Anchorage Metropolitan Area Transportation Solutions (AMATS)

Continue Preliminary Work on Project 1- Point MacKenzie Road Paving

Issue Request for **Qualifications for Private** Partner

SPRING

Release of Final EIS

Record of Decision

Finalize Financing Strategy

SUMMER

Finalize Building and Environmental Permits

Select Construction Contractors

Finalize Construction Contracts

Design Competition with Stipends

FALL

Start-up Work on Remaining Projects

Sign Contract with Private Partner

BOARD AND STAFF

George Wuerch
Chairman

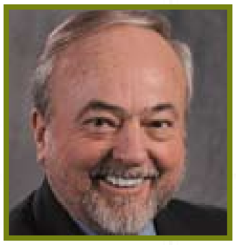
Senator Lyda Green
Ex-Officio

Kevin Hemenway
Chief Financial Officer - Staff

Darcie Salmon
Vice Chairman

Representative Bill Stoltze
Ex-Officio

Verne Geidl
Chief Engineer - Staff



Dave Haugen
Director

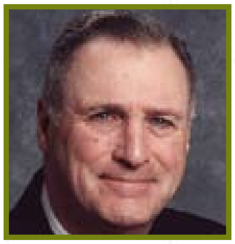
Henry Springer
Executive Director - Staff

William A. Greene
Project Counsel

Mike Barton
Commissioner of ADOT&PF

Darryl Jordan, Deputy Executive Director
Corporate Affairs - Staff

Betty Fauber
Administrative Director - Staff



Bill Corbus
Commissioner of Revenue

Dale Paulson, Deputy Executive Director
Project Development - Staff

Amanda True
Administrative Clerk - Staff

GOVERNOR'S LETTER

Dear Fellow Alaskans:

As I leave office I am pleased to offer my comments on the Knik Arm Bridge and Toll Authority's (KABATA) progress. Bridging the Knik Arm to connect the Municipality of Anchorage with the Matanuska-Susitna Borough has been one of the priorities of my administration.

During the past year KABATA has continued to demonstrate its leadership and expertise in advancing the project through diligent application of the National Environmental Policy Act. They have worked closely with the Federal Highway Administration in preparing the Draft Environmental Impact Statement. A Final Environmental Impact Statement and Record of Decision is expected in early 2007.

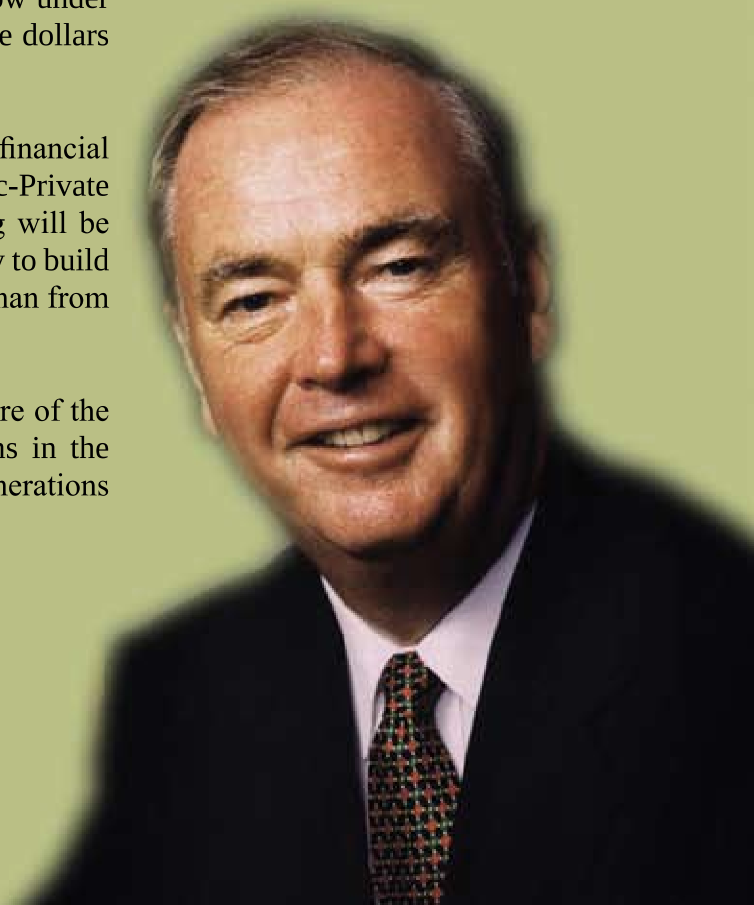
Much has been said in the national media about funding for Alaska's "bridges to nowhere." Let me set the record straight. First, Alaska only received its fair share of the federal transportation budget. When earmarks for bridges were removed, the money remained for the state's transportation needs statewide. Some of those federal dollars will build a new road to the expanded Port of Anchorage now under construction. Additionally, my administration budgeted state dollars to upgrade and pave the Port MacKenzie Road.

Funding for the Knik Arm Bridge will be from private financial sources. Whether that is with the newly authorized Public-Private Partnership (P3) process or from traditional bond financing will be decided at a later date. The legacy we leave is the opportunity to build this very important toll bridge with private financing rather than from public funds.

I am confident this project will advance the economic welfare of the state and further the development of transportation systems in the vicinity of the Upper Cook Inlet and benefit Alaskans for generations to come.

Sincerely yours,

Frank H. Murkowski
Governor



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Contained on CD

The front and back covers represent bridge renderings based on views from the east and west.

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