KNIK ARM BRIDGE & TOLL AUTHORITY

KNIK ARM BRIDGE AND TOLL AUTHORITY

2007 ANNUAL REPORT

KABATA's 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."
—AS 19.75.011

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Pursuant to AS 44.99.210, the 2007 Annual Report was released at a cost of $3.05 per copy, and the 2007 Comprehensive Annual Financial Report was released at a cost of $1.68 per copy, by the Knik Arm Bridge and Toll Authority to provide information and encourage participation. Both were printed and produced in Anchorage, Alaska.

KABATA is governed by a seven-member Board comprised of three private citizens, two regional legislators, and two state commissioners. The Alaska Statue 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.

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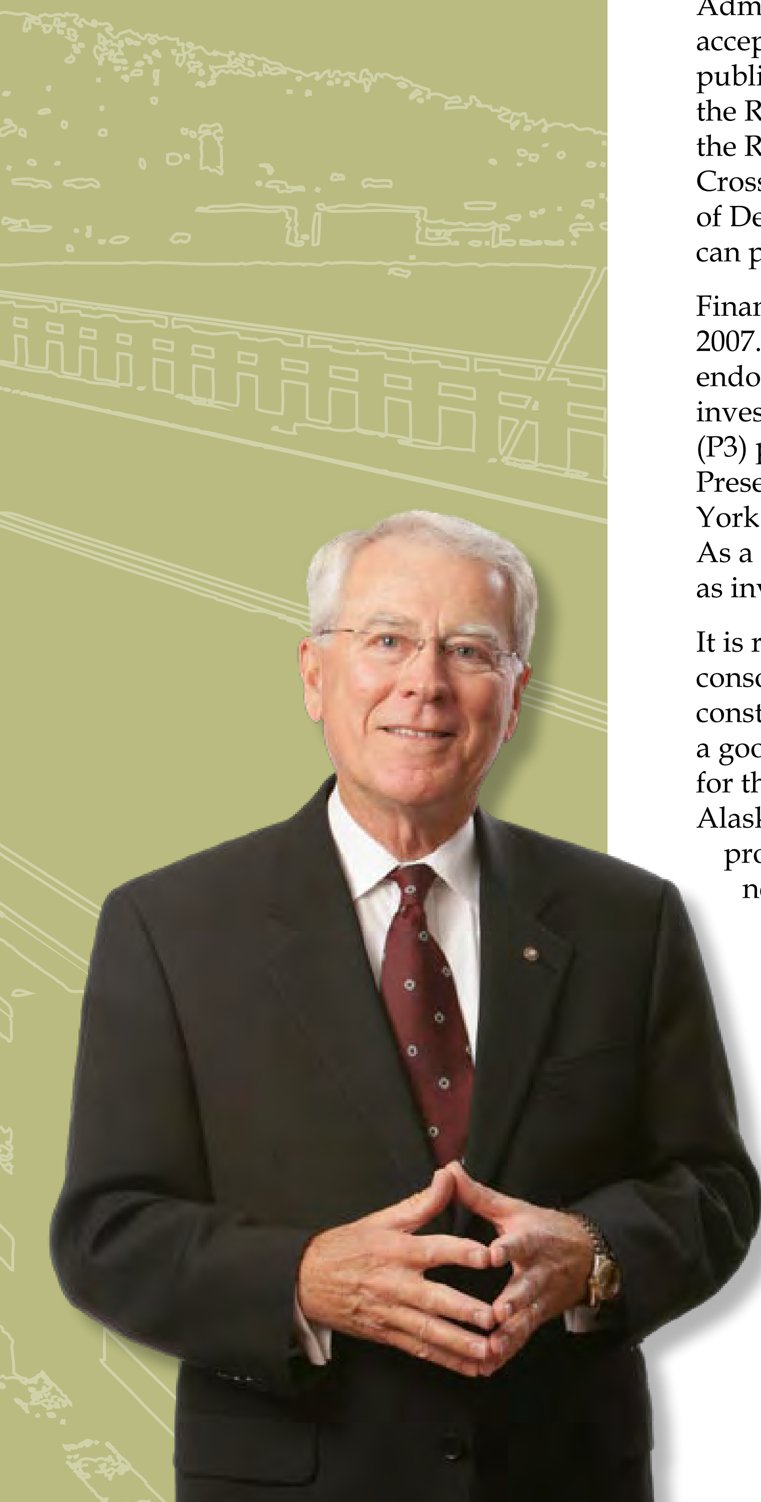
Letter from the Chairman

Calendar year 2007, the fourth full year of activity by the Knik Arm Bridge and Toll Authority, was busy with efforts to complete the Final Environmental Impact Statement (Final EIS) and to pursue private financing for the design, construction, operation, and maintenance of a Knik Arm Toll Bridge.

Completing the Final EIS has been a major accomplishment in 2007. In February, HDR Alaska finished compiling responses from the Draft EIS and submitted the Final EIS to the Federal Highway Administration (FHWA). In December, FHWA accepted the Final EIS, which will be released to the public in early 2008. After a 30-day waiting period, the Record of Decision can then be issued to formalize the Recommended Alternative for the Knik Arm Crossing project. We look forward to FHWA's Record of Decision in 2008 so the Knik Arm Crossing project can proceed.

Financial progress has proceeded extremely well in 2007. Shortly after assuming office, Governor Palin endorsed KABATA's efforts to pursue a private investor under the Public-Private Partnership (P3) process available for toll roads and bridges. Presentations were made in Anchorage and New York to major investor groups and construction firms. As a result, two international consortia were qualified as investors.

It is reassuring that the two potential investor consortia, and KABATA's consultants, believe that construction of a toll bridge across Knik Arm can be a good investment. Attracting private investment for the Knik Arm Toll Bridge dramatically leverages Alaska's limited road funds and provides a major project without detracting from other statewide needs.



George Wuerch, Chairman
KABATA

Letter from the Executive Director

This past spring, I was provided the opportunity to join KABATA. Not only is it an opportunity to work with a team of dedicated professionals to deliver a significant transportation project for Alaskans, it is also an opportunity to partner with private developers to provide capital for our transportation needs.

Connecting Anchorage with the Matanuska-Susitna Borough across the Knik Arm is not a new idea—it was envisioned by many throughout recent history. Providing additional transportation infrastructure for 54 percent of the state's residents and the 27th fastest growing area in the nation is an important part of our mission. We now have the opportunity to leverage limited public funds to make the Knik Arm Crossing a reality.

Nearly all significant development has its challenges, and our project is no exception. We must minimize and mitigate impacts to the environment while we provide expected benefits to users and, in the case of our partnership with a private developer, provide a financially viable investment opportunity.

Our goal over the next year is to further project development and negotiate a contract for construction and operation of the Knik Arm Crossing. Ultimately, an agreement requires a project that is acceptable to the investment community and one that protects the public's interest for many years.

I am confident a completed Knik Arm Crossing will generate significant economic benefit and provide abundant opportunities for us in the future.

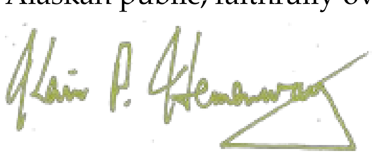
Andrew J. Niemiec, Executive Director
KABATA

Letter from the Chief Financial Officer

Throughout project development, KABATA has maintained accountability and transparency for its financial activities. Once again we received the auditor's unqualified opinion on our financial statements for the year ended June 30, 2007. The 2007 financial statements are included in the Comprehensive Annual Financial Report on the CD attached to this annual report, and we encourage you to review them together with Management's Discussion and Analysis.

We are also very proud of the excellent progress KABATA made in obtaining financing for the Knik Arm Bridge P3 concession. During 2007, KABATA applied for and was allocated $600 million of tax exempt Private Activity Bond capacity by the United States Department of Transportation. We also undertook a cutting-edge, innovative application to make Transportation Infrastructure Finance and Innovation Act (TIFIA) financing available under an early development agreement with the Federal Highway Administration. Private Activity Bonds and TIFIA financing will reduce borrowing costs and increase financial flexibility for our prospective private partners, leading to more competitive financial proposals and best value to the Alaskan public.

As we move the Knik Arm Bridge forward, KABATA will continue to leverage the public investment with private investment to maximize the value to Alaskans while maintaining financial discipline and transparency. We look forward to serving you, the Alaskan public, faithfully over the coming year.



Kevin P. Hemenway, CFO
KABATA

Knik Arm Crossing

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 a minimum of 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.

2007 Year in Review

The year 2007 was a year of due diligence to evaluate and develop the economic and environmental feasibility of the project. As part of that effort, significant accomplishments moved the project closer to delivery. Over the last year, KABATA:

- Advanced P3 procurement issuing a Request for Qualifications
- Qualified two prospective P3 consortia
- Was allocated $600 million in Private Activity Bonds capacity by USDOT
- Applied for TIFIA credit on behalf of P3 consortia
- Continued the NEPA process
- Received Final EIS approval by FHWA
- Incorporated into the Long-Range Transportation Plan, as part of the Anchorage Metropolitan Area Transportation Solutions
- Gained support from Alaska's business community by resolutions from Anchorage Chamber of Commerce and Wasilla Chamber of Commerce, and the Alaska State Chamber of Commerce adopted a position of support for Knik Arm Bridge to provide an essential transportation link between Anchorage, the Mat-Su Valley, and Interior Alaska
- Supported progress on related infrastructure projects

"Incredibly, Anchorage and Mat-Su Borough growth since just the year 2000 is the equivalent of adding two Fairbanks populations into this area and onto the infrastructure. This growth speaks both to the essentiality and the timing of the project."

—Darryl Jordan, Deputy Executive Director of Corporate Affairs
KABATA

"Connecting the dots between the environmental permitting process and inking a contract with a private investor is a tall order for the KABATA team, but I believe it will be done and Alaska will realize the vision of regional connectivity, economic development, and opportunity that a bridge across Knik Arm will bring to our state."

—George Wuerch, Chairman
KABATA

"From America's earliest transportation efforts, [P3]s have played a vital role in building America's transportation networks . . . Private investment can help control the cost of transportation projects, optimize facility utilization, accelerate completion and delivery of project benefits beyond that possible if only traditional financing strategies were used."

—Traffic World, November 2007

Public-Private Partnership (P3) Procurement

In December 2006, KABATA issued a Request for Qualifications (RFQ) of P3 consortia interested in participating in the Knik Arm Crossing project through a Public-Private Partnership (P3). Title 19, Chapter 75 of the Alaska Statutes authorized KABATA "to develop, stimulate, and advance the economic welfare of the state" through construction of the Knik Arm Toll Bridge and gave KABATA the ability to finance the project through a P3. P3 is new for Alaska, allowing KABATA to combine the strength and ability of government with the financial resources, technology, and creativity of the private sector.

Unlike most transportation projects in Alaska, private sector money will be the primary financing mechanism for the Knik Arm Crossing Toll Bridge. This means that the bridge must make financial sense or it will not be built, and that the private sector, not

Milestones

2006

December
- Sarah Palin becomes Governor
- P3 RFQ issued

2007

January
- Pre-RFQ Workshops held in Anchorage and New York

March
- P3 Statements of Qualifications received from two qualified consortia

May
- P3 Task Force established
- KABATA applied for PABs eligibility

June
- Knik Arm Crossing incorporated into the AMATS Long-Range Transportation Plan

P3 Qualified Responders

the public, will shoulder most of the financial risk. P3 brings over $5 of private funds for every $1 of public funds in construction dollars. Toll revenues pay back the private investments.

In March, Statements of Qualification were received from two qualified responders (listed at right). Over the year, industry meetings were held with the potential partners in Anchorage, Seattle, and New York. A Request for Proposals will be issued in 2008 resulting in submission of a firm bid development concession offer. The concession partner will pay for the opportunity to build the bridge, and operate and maintain the toll authority for approximately 55 years to generate returns on its investment. The public will own the bridge. The financial and commercial deals are expected to close within the next year.

Knik Arm Crossing Consortium

Knik Arm Crossing Consortium led by Bouygues Travaux Public with URS, ARUP, and USKH.

Knik Arm Crossing LLC

Knik Arm Crossing LLC led by Macquarie Bank with Macquarie Securities, Kiewit Pacific, Manson Construction, Parsons, Golder Associates, and VMS, Inc.

August
- KABATA application submitted for TIFIA

September
- Anchorage and Wasilla Chambers' resolutions support Knik Arm Crossing
- P3 Industry meetings held in Seattle and Anchorage

October
- Toll and revenue study complete
- USDOT conditionally approves PABs application

November
- Alaska State Chamber of Commerce adopted a position of support for Knik Arm Crossing

December
- Final EIS approved by FHWA

$600 Million PABs Capacity

KABATA received conditional approval from the United States Department of Transportation (USDOT) of its application for a $600 million allocation of Private Activity Bonds (PABs) capacity. Congress provided $15 billion of national PABs capacity for qualifying transportation facilities. The issuance of PABs under the approved allocation is conditioned upon receiving a FHWA Record of Decision and selecting a private partner, among other conditions. The tax-exempt nature of PABs will result in reduced borrowing costs and lead to more competitive financial proposals.

TIFIA Application

In addition, KABATA undertook a cutting-edge, innovative application to make Transportation Infrastructure Finance and Innovation Act (TIFIA) financing available to the prospective private partners under an early development agreement with the USDOT. TIFIA financing represents low-cost patient capital that will reduce borrowing costs and increase financial flexibility for the proposers, leading to more competitive financial proposals and best value to the Alaskan public.

P3 Technical Consulting Team

KABATA has hired a capable team of technical and financial consultants to support the P3 process, as recommended through the 2006 Industry Symposium. Wilbur Smith Associates has provided bankable traffic and toll revenue studies. Nossman Guthner Knox Elliot provides P3 legal counsel. Citi provides financial guidance. HDR provides technical advisory services. These firms have positioned KABATA for negotiations by defining the sell-side model and determining the estimated value of the concession in the marketplace. This information was shared with both proposer teams to drive value in the competition. Applying these private sector principles benefits the Alaskan public.

"The ability of our prospective private partners to access lower cost, tax-exempt financing as part of their financial proposal will improve the competitive nature of the proposals."

—Kevin Hemenway, CFO
KABATA

Final EIS Signed

The FHWA approved the Final Environmental Impact Statement (Final EIS) / Final Section 4(f) for the project on December 20, 2007. The Final EIS describes the Recommended Alternative; discusses comments received on the Draft EIS from agencies, State and local governments, Tribes, and the public; includes FHWA's responses to Draft EIS comments; summarizes public involvement activities; and describes mitigation measures and commitments for impacts related to the project. The FEIS is available on the Web site: www.knikarmbridge.com.

Executive Director Andrew Niemiec stated, "The finalization of the EIS has encompassed a great deal of focused effort by KABATA, HDR Alaska, and our partners—the Alaska Department of Transportation and Public Facilities and the Federal Highway Administration."

Staff Changes

KABATA's Executive Director from September 2003 through May 2007, Henry Springer, directed the P3 process until November 2007 when he retired. Andrew Niemiec took over as KABATA's Executive Director and will continue to lead the P3 procurement. Andrew Niemiec has over 20 years experience in road and bridge construction with the Alaska Department of Transportation & Public Facilities, most recently as the Northern Region Director.

Cook Inlet Beluga Listing Under The Endangered Species Act

The National Marine Fisheries Service has proposed to protect Cook Inlet Beluga whales under the Endangered Species Act. The petition for potential listing was submitted in spring of 2007 and is now under federal review with a decision anticipated in May 2008.

"Whenever people discover I'm the engineer for the Knik Arm Bridge, they're enthusiastic – and impatient. It's clear the public already has great expectations for the arrival of this bridge – we'll do everything in our power not to disappoint them."

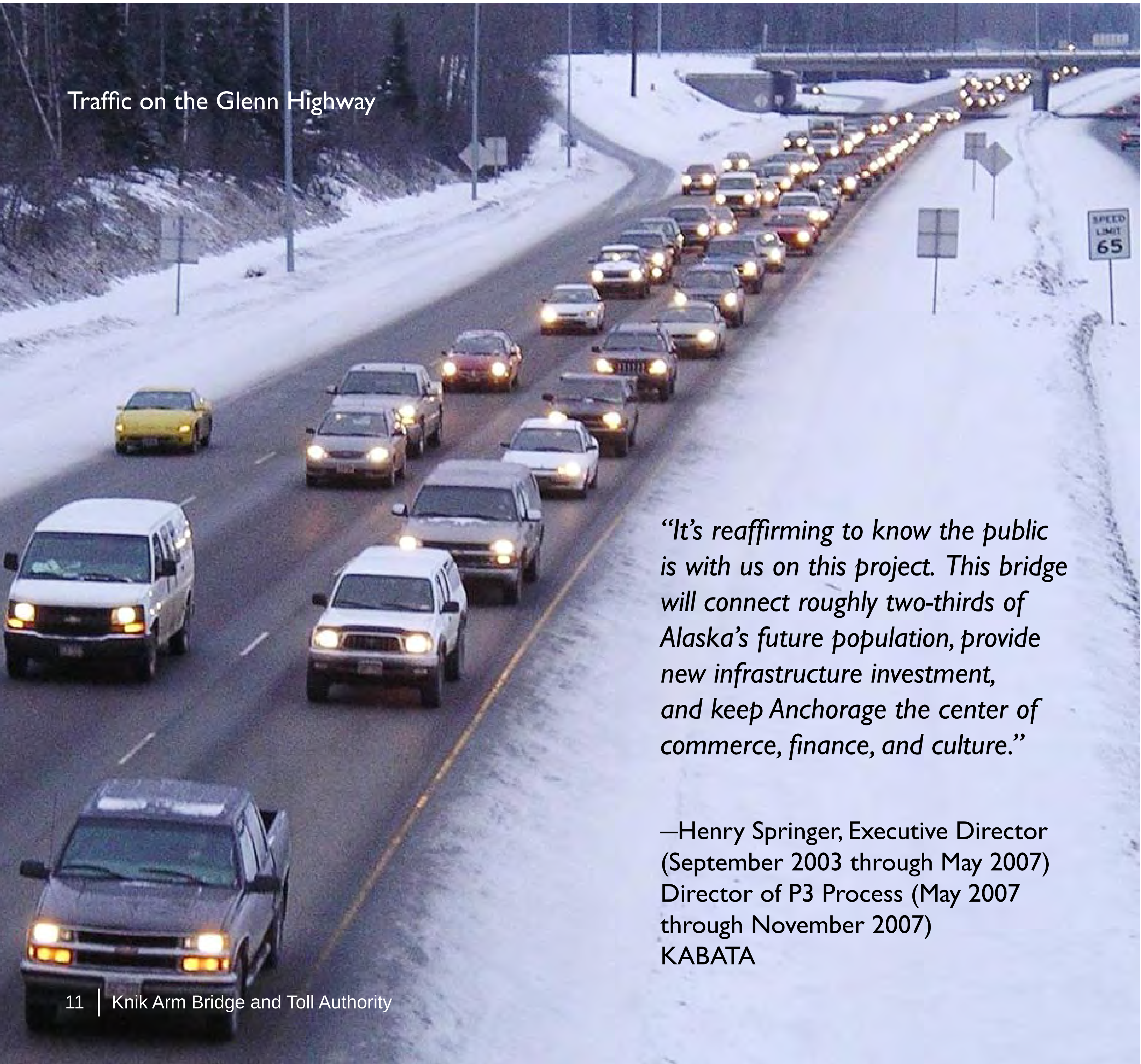
—Verne Geidl, Chief Engineer
KABATA

"The EIS was carefully written to protect the environment while removing barriers to private sector investment."

—Dale Paulson, Deputy Executive Director of Project Development
KABATA

AMATS Inclusion

In June, the Anchorage Assembly approved the inclusion of the Knik Arm Crossing project into the Long-Range Transportation Plan of the Anchorage Metropolitan Area Transportation Solutions (AMATS). The AMATS Policy Committee approved the Transportation Improvement Plan and the Final Air Quality Determination. Final letters confirming this approval were sent to the Federal Transit Administration and FHWA. This designation allows the project to move forward and access $94 million in federal funds already appropriated.



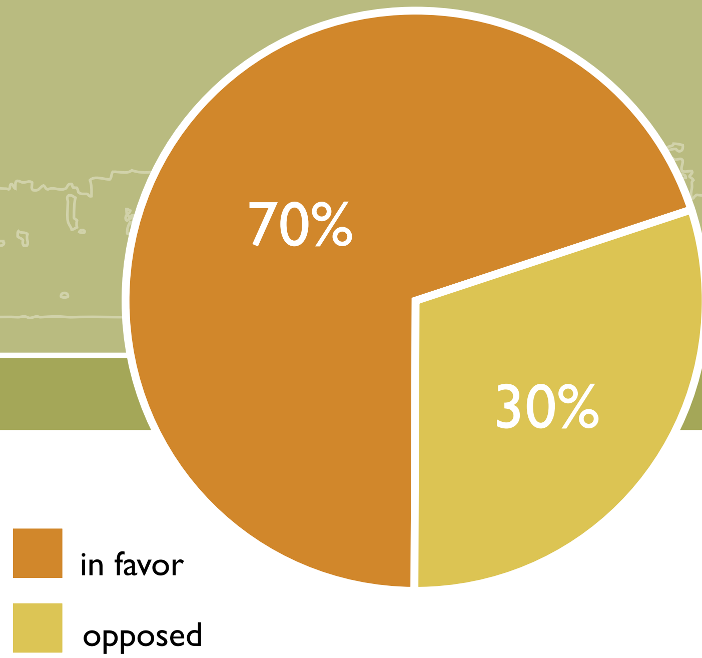
Traffic on the Glenn Highway

"It's reaffirming to know the public is with us on this project. This bridge will connect roughly two-thirds of Alaska's future population, provide new infrastructure investment, and keep Anchorage the center of commerce, finance, and culture."

—Henry Springer, Executive Director
(September 2003 through May 2007)
Director of P3 Process (May 2007 through November 2007)
KABATA

Community Support

Support for Knik Arm Crossing remains high



Chamber and Borough Resolutions

This year delivered increased community support as evidenced in formal resolutions by local government and business associations. This fall, the Anchorage and Wasilla Chambers passed resolutions of support noting the leveraging of public dollars with a private partnership, general economic stimulus and more efficient transportation connectivity. The Anchorage Assembly passed a resolution in June to include the project within the Long-Range Transportation Plan of the Anchorage Metropolitan Area Transportation Solutions (AMATS). This is a key step in securing federal transportation funds.

In November, the Alaska State Chamber of Commerce adopted a position of support for Knik Arm Bridge to provide an essential transportation link between Anchorage, the Mat-Su Valley, and Interior Alaska. KABATA Board Chairman, George Wuerch stated, "This positive action and support from the leading voice of business for our state, the Alaska State Chamber, will be extremely helpful with the private sector investor consortia involved in this project. The P3 model leverages the private sector's creativity, technical expertise and financial capability with the public sector's oversight and protection of the public interest."

Travel Preference Survey

A travel preference survey was conducted through Wilbur Smith Associates from April through June 2007. A total of 718 completed surveys were gathered. Detailed data was collected to support analyses of traveler responses to different toll structures as an estimation of their willingness to pay. Origin and destination location and other trip information was the basis of eight stated route scenarios. Respondents were asked to choose between their current route and two faster tolled route options. This information was used to develop revenue forecasting. In testing the current response to the Knik Arm Crossing, 93 percent were aware of the project and 70 percent of those polled favored the project.

Outreach

KABATA has continued extensive outreach with project presentations throughout Southcentral Alaska. Staff has presented technical papers on the Knik Arm Crossing at national conferences on public-private partnerships, bond finance, and transportation infrastructure development. This national exposure to bond rating agencies, bond insurers, bank underwriters, and other capital market participants has primed the market for the pending deal.

Related Projects

Cook Inlet Ferry

The Mat-Su Borough recently completed a ferry terminal building at Port MacKenzie and is constructing a twin-hulled catamaran ferry to link Port MacKenzie and Anchorage. This service will be capable of carrying 20 vehicles and 115 passengers for the 2.6 miles between the ports. This is an experimental ferry project that will not meet anticipated traffic demand.

Point MacKenzie Road Paving

Senate Bill 231 allocated $15.4 million to upgrade, widen, pave, and realign this roadway. These improvements will better facilitate traffic from Port MacKenzie development, the Cook Inlet Ferry, the future bridge, and Anchorage. Construction bids for the first segment went out in November 2007.

Port MacKenzie Rail Extension

The Mat-Su Borough and the Alaska Railroad Corporation (ARRC) propose to build and operate a rail line connecting Port MacKenzie to the existing ARRC rail system. The proposed rail line would provide freight and passenger services between the Port and the Interior. Engineering studies have evaluated possible alignments. A Request for Proposal to prepare the Environmental Impact Statement was issued in November 2007.

Cook Inlet Ferry Terminal

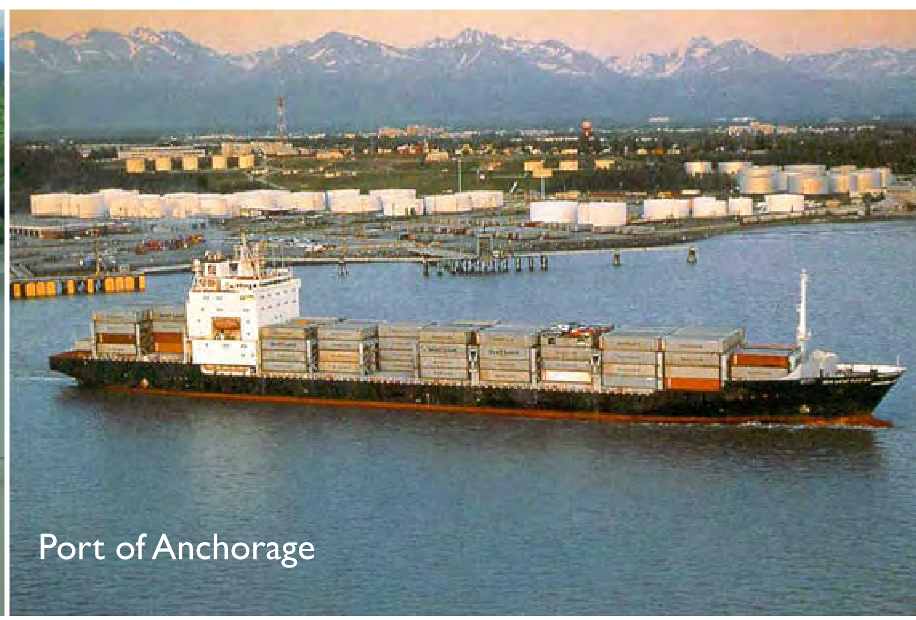
Port MacKenzie

Port MacKenzie facilities include a dock ramp, 500-foot bulkhead and 9,000 acres of uplands available for commercial lease. The deepwater dock will support a fully integrated and operational marine port and industrial complex. The Mat-Su Borough plans to provide services for bulk commodity storage, floatplane base, and public boat launch ramp for commercial and private use.

Port of Anchorage Intermodal Expansion

KABATA plans to work with the Port of Anchorage to build a retaining wall and access road north of the current Port facilities. The Port of Anchorage handles 90 percent of consumer goods and supplies for the state. The Knik Arm Crossing will provide additional connectivity and efficiency for freight transportation.


Port MacKenzie


Port of Anchorage

Looking Ahead to 2008

1st Quarter

FHWA releases Final EIS for public review

KABATA issues Request for Proposals to P3 consortia

FHWA signs Record of Decision

Environmental permit applications submitted

2nd Quarter

National Highway System designation

3rd Quarter

Proposals received from P3 consortia

P3 Partner selected by KABATA

4th Quarter

Commercial close with selected P3 concessionaire

Financial close with selected P3 concessionaire

"The Knik Arm Crossing project opens up access to the largest block of undeveloped land in Southcentral. The crossing forms the cornerstone for a powerful, single economic zone that encompasses Anchorage and the Mat-Su."

—Bob Poe, former CEO Anchorage Economic Development Corporation

Knik Arm Bridge and Toll Authority • Board & Staff


George Wuerch
Chairman


Senator Charlie Huggins
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


Andrew Niemiec
Executive Director • STAFF


William Greene
Project Counsel


Gordon Keith, Director
Central Region Director ADOT&PF


Darryl Jordan, Deputy Executive Director
Corporate Affairs • STAFF


Betty Fauber
Administrative Director • STAFF


Brian Andrews, Director
Deputy Commissioner of Revenue


Dale Paulson, Deputy Executive Director
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December 7, 2007

The Honorable George Wuerch, Chairman
Knik Arm Bridge and Toll Authority
550 West 7th Avenue, Suite 1850
Anchorage, AK 99501

Dear Mayor Wuerch:

In 2003, the legislature passed SB 213 forming the Knik Arm Bridge and Toll Authority (KABATA). The legislature gave KABATA the challenging task of connecting the Municipality of Anchorage with a bridge across the Knik Arm to the Mat-Su Borough.

KABATA has legislative authority via AS 19.75.111 to develop the project using a Public-Private Partnership (P3) approach. The P3 approach provides an opportunity for KABATA to build and operate the project with private financing backed by user fees.

It is reported that KABATA's project is making progress, and is nearing the point where the Federal Highway Administration will issue its Final Environmental Impact Statement and then its Record of Decision.

As the project moves forward, I anticipate close coordination and outreach between KABATA and my administration, including the Alaska Department of Law and Alaska Department of Transportation and Public Facilities. Our joint cooperation and mutual project review will ensure the project moves forward in a timely manner if the project is deemed economical, and I look forward to working with you in the year ahead.

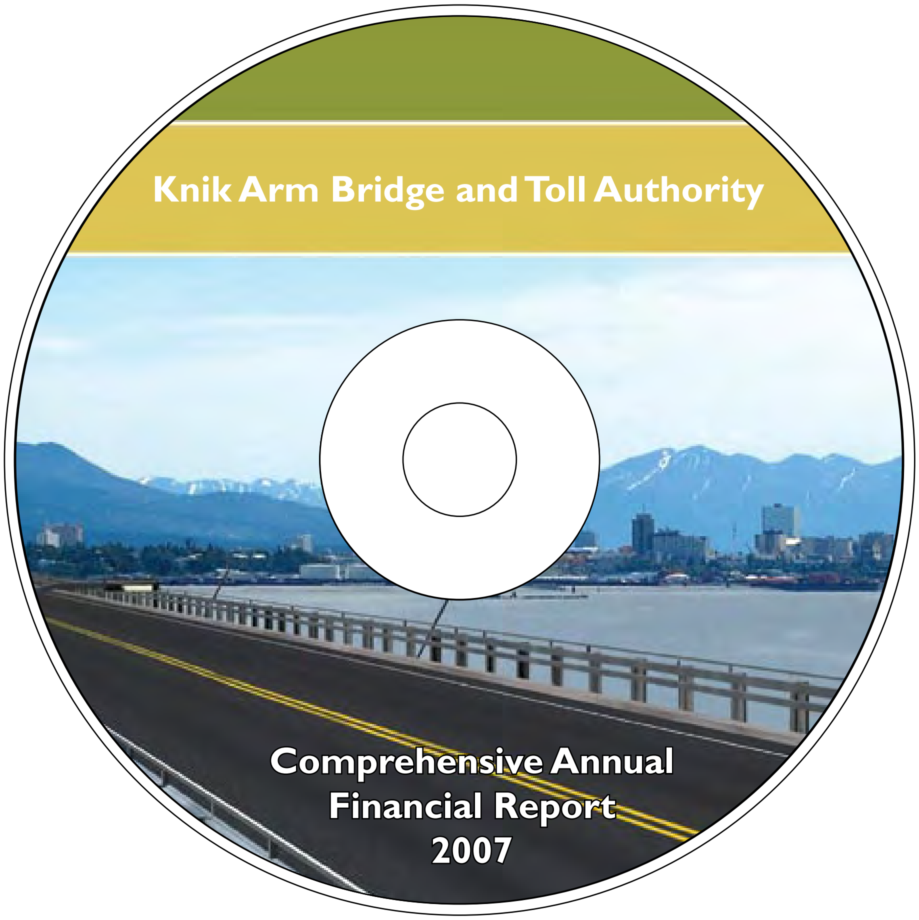
Sincerely,

Sarah Palin
Governor

Governor Sarah Palin

Financials

To review the Comprehensive Annual Financial Report, insert this CD into your CD-ROM drive.



KABATA Receives Certificate of Achievement for Excellence in Financial Reporting Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the prestigious Certificate of Achievement for Excellence in Financial Reporting to the Knik Arm Bridge and Toll Authority, a component unit of the State of Alaska, for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the first year that the government had prepared a comprehensive annual financial report and applied for and achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. KABATA believes that the current Comprehensive Annual Financial Report (CAFR) continues to meet the Certificate of Achievement program's requirements, and this year's CAFR has been submitted to GFOA to determine its eligibility for another certificate.

KABATA

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www.knikarmbridge.com

Cover Image: Rendering of Knik Arm Crossing