Making a Connection
for Alaskans and the Economy

KNIK ARM BRIDGE AND TOLL AUTHORITY

2008 Annual Report

Fifth Anniversary
2003-2008

KNIK ARM BRIDGE & TOLL AUTHORITY

"America is the country of the future. It is a country of **beginnings**, of **projects**, of **vast designs** and **expectations**."

Ralph Waldo Emerson

AMERICAN PHILOSOPHER AND LEADER OF THE TRANSCENDENTALIST MOVEMENT IN THE EARLY 19TH CENTURY

KABATA'S MISSION

The Knik Arm Bridge and Toll Authority (KABATA) 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."

ALASKA STATUTE 19.75.011

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The Knik Arm Bridge and Toll Authority (KABATA) is governed by a seven member Board of Directors 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 of the crossing, and then to own, operate, and maintain it as a toll bridge.

This Annual Report is submitted in compliance with AS 19.75 to inform the Governor and the Legislature of the project status. This Annual Report is 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, the 2008 Annual Report was released at a cost of $4.23 per copy and the 2008 Comprehensive Annual Financial Report was released at a cost of $2.56 per copy, by the Knik Arm Bridge and Toll Authority (KABATA) to provide information and encourage participation. Both were printed in Anchorage, Alaska.

Letter from the Chairman

As many of you know, I have always been a strong and optimistic advocate for the Knik Arm Toll Bridge and will be proud when the project is complete and Alaskans benefit from its existence. I believe whole-heartedly that the bridge will provide a quantified value to the Mat-Su, Anchorage, Alaska, and the nation by making a connection for Alaskans that bolsters the economy.

The Knik Arm Toll Bridge will connect communities, and will create a vibrant community around Port MacKenzie with neighborhoods as close as 15 minutes from downtown Anchorage. By 2030 the combined population of Anchorage and the Mat-Su is expected to grow by over 50 percent. This area will then contain over 60 percent of the state's population. I believe the act of opening new country and spawning new communities is good for the region and for Alaska.

The bridge will boost commerce from Anchorage to Fairbanks and beyond. Southcentral Alaska's economy is recognized as a unified economy. The sensible thing to do in a unified economy is to create a 360-degree intermodal transportation corridor—roads to resources. The strategic location of the bridge will provide access to natural resource development projects in Interior Alaska and provide capabilities to export those resources. Economists predict that an additional $18 billion in regional economic development and activity will be facilitated by the bridge in its first 23 years of operation.

Alaskans want this bridge. They are upbeat about the project, and they share my vision that it will be an asset. Progress is already being made on complementary projects that will help bring infrastructure to the area and position Southcentral to play a larger role in the economic boom expected when a natural gas pipeline is built. Projects under way to support the state's growing population and economy include the recently completed Point MacKenzie Road Upgrade, the Cook Inlet Ferry, the Port MacKenzie rail spur, Port MacKenzie and Port of Anchorage expansions, and the Goose Creek Correctional Center.

Economists predict that the Knik Arm Toll Bridge will facilitate **$18 billion in regional economic development and activity** in its first 23 years of operation.

In 2008, the KABATA Board of Directors, staff, and contractors diligently worked as a team to clear technical and procedural hurdles while resolving issues, and we are not letting up for a minute. In 2009, we will give it our all to make the Knik Arm Toll Bridge a reality—a connection for all Alaskans to the future.

Darcie K Salmon

DARCIE K. SALMON
ACTING CHAIRMAN OF THE BOARD OF DIRECTORS
& VICE CHAIRMAN, KABATA

Letter from the Executive Director

The Knik Arm Crossing Project remains a critical infrastructure investment needed to progress the regional connectivity of the state. Also, as Alaska faces declining oil revenues and the residual impact from the nation's financial crisis, this investment will provide economic development opportunities.

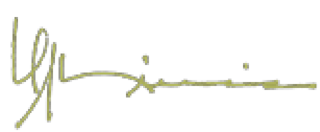
Developing infrastructure to support economic growth is a top goal in the Administration's strategic plan for transportation in Alaska; it is a goal the Knik Arm Bridge and Toll Authority (KABATA) aims to achieve. The Knik Arm Crossing is one of the largest infrastructure projects under development in Alaska. Completing the connection between the Mat-Su Borough and the Municipality of Anchorage will fill the need for an integrated transportation network and National Highway System continuity.

The past year has been a challenging one not only for the Knik Arm Crossing Project, but for national transportation funding and our U.S. economy. At a time when transportation infrastructure is crumbling and there is an ever-increasing demand for capacity, our nation's ability to provide traditional funding has been significantly reduced. The time is right for advancing the toll facility model; it will provide stability in uncertain times. KABATA remains well positioned to advance Alaska's transportation infrastructure while creating jobs, stimulating economic growth and retaining a dedicated revenue stream that will support our transportation needs for decades.

Our challenges have included the listing of the Cook Inlet Beluga under the Endangered Species Act and a renewed interest in the project by our local elected officials. We have embraced these challenges, always in the spirit of cooperation and with the necessary determination to fulfill our purpose. In the coming months we look forward to obtaining the required environmental approvals and the necessary resources for project success.

The crossing of Knik Arm represents a responsible vision for transportation in Alaska. I am proud to be part of this vision, and the KABATA staff is committed to making the crossing a reality.

It's an Alaska project for Alaska's future.



ANDREW J. NIEMIEC
EXECUTIVE DIRECTOR, KABATA

Knik Arm Crossing Rendering / Looking Toward Anchorage

Knik Arm Crossing Rendering by Roger Crandy / PND Engineers

Letter from the Chief Financial Officer

Funding Alaska's transportation needs is presently going through a paradigm shift, and stretching limited state and federal transportation dollars has never been more important. The gas-tax funded Federal Highway Trust Fund that supports infrastructure construction recently received an $8 billion bailout by Congress. Without changes, funding beyond 2009 will literally be running on fumes. The U.S. Department of Transportation and many states are looking to innovative solutions like public-private partnerships and tolls as important mechanisms to help close the nation's transportation funding gap. The good news is KABATA has already stepped up to the challenge posed by this shift in funding by leveraging public investment in the Knik Arm Toll Bridge (KATB) project through tolls paid by bridge patrons.

Leveraging tolls allows us to deliver the value this project will bring to the Alaskan public sooner. In fact, KABATA expects about 70 to 80 percent of the estimated $600-million to $700-million project cost and all of the operations and maintenance expense over the life of the facility will be paid for by users, not homeowners or taxpayers. This means the State pays for only a fraction of the project cost.

During fiscal 2008, an independent socio-economic firm predicted significant economic benefits to Alaskans in the first 23 years of the KATB, including an additional 14,000 jobs and $18 billion of economic activity. The project delivers 5,000 direct and indirect construction jobs, providing immediate economic stimulus to the region at a time that we are in an economic downturn. KABATA's independent traffic and revenue consultant separately predicted that Alaskan patrons of the project would save a whopping $82 million a year at $2.55 per gallon gasoline prices in just the first year—even after paying tolls.

Throughout its existence, KABATA has been accountable and transparent to the public in all of our financial activities. Our auditors once again provided an unqualified opinion on KABATA's financial statements as of and for the fiscal year ended June 30, 2008. The auditors' opinion and our financial statements and notes thereto are included in the Comprehensive Annual Financial Report (CAFR) attached to this annual report. I encourage you to review the CAFR.

The KABATA team and I look forward to serving you, the Alaskan public, faithfully over the coming year.

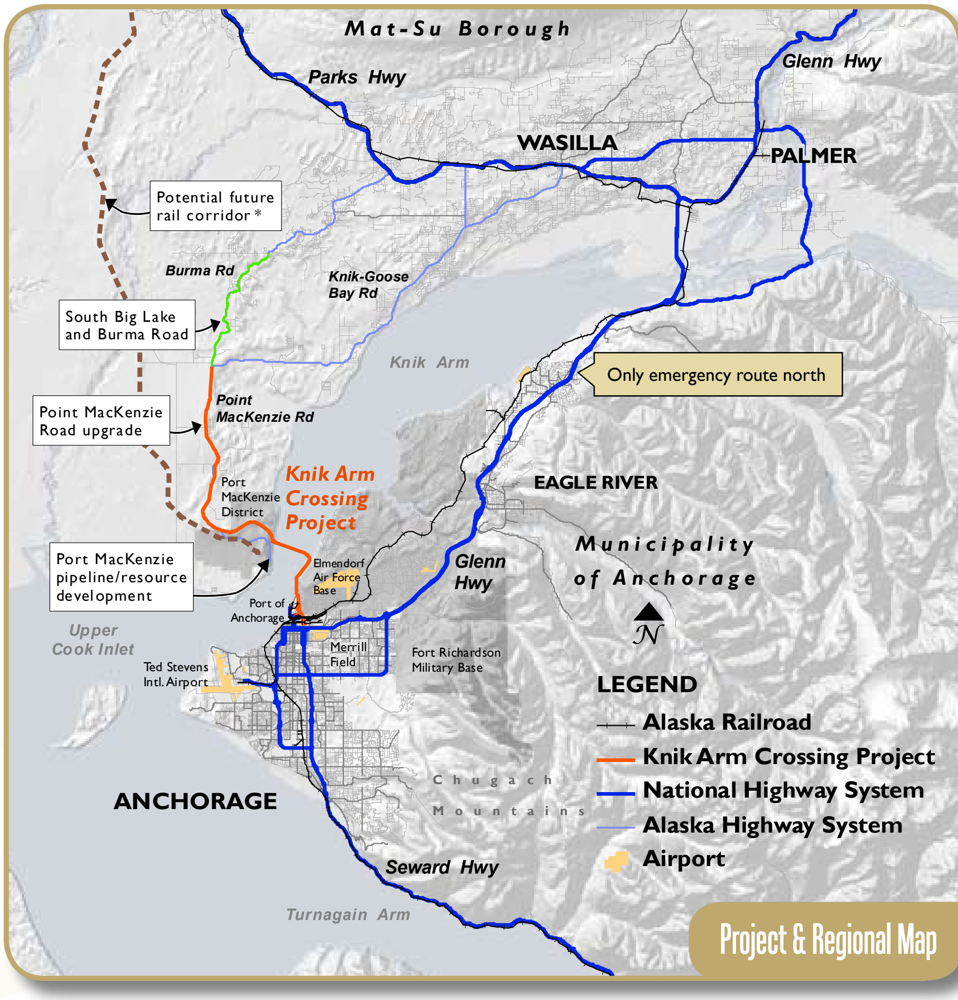
KEVIN P. HEMENWAY
CHIEF FINANCIAL OFFICER, KABATA

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 Matanuska-Susitna (Mat-Su) Borough.

The project would have two lanes initially, and be engineered to easily expand to four lanes in the future. On opening day the project would connect into the Anchorage network via the A/C Couplet. When traffic increases, toll revenue would help finance an extension to the Ingra/Gambell Couplet and additional lanes.



* This conceptual alignment was recommended in the Matanuska-Susitna Borough Rail Corridor Study (June 2003). The MSB Assembly amended the Borough's comprehensive plan to include the rail corridor study in February 2005 (MSB Ordinance No. 05-011 AM). The conceptual alignment does not represent any current alignment analysis by the Alaska Railroad Corporation.

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.

The Knik Arm Toll Bridge will **enhance public safety** and **homeland** and **national security** and **reduce the impacts** of traffic interruptions on the heavily-used Glenn Highway.

2008 YEAR IN REVIEW

The year of 2008 saw KABATA advance the Knik Arm Crossing Project through major financial and environmental review milestones. Thanks to the many achievements in 2008, KABATA is poised to begin 2009 by completing the Record of Decision (ROD) and advancing the delivery of the project. Read on for highlights from the past year.

Final EIS Complete, ROD in Development

In December 2007, the Federal Highway Administration (FHWA) approved the Final Environmental Impact Statement (EIS)/ Final Section 4(f) Evaluation for the project. In January 2008, the Notice of Availablity of the Final EIS was published in the Federal Register. The Final EIS identified the Northern Access—Erickson Alternative (with the Southern Alignment; 8,200-foot bridge length; cut-and-cover tunnel under Erickson Street) as the Recommended Alternative and was distributed to Federal and State agencies, local governments, Tribes, and the public. The project team is currently developing the ROD, which will identify the Selected Alternative and decision basis. Also, the ROD will respond to all substantive comments received on the Final EIS.

The Final EIS/Final Section 4(f) Evaluation for the Knik Arm Crossing is available online at www.knikarmbridge.com

Section 106 Process Engages Community

Section 106 of the National Historic Preservation Act of 1966 requires all federal agencies to assess the effects of their actions on historic properties. It also requires federal agencies to provide the Advisory Council on Historic Preservation (ACHP) with an opportunity to comment on those actions and on the manner by which projects consider historic properties in their decisions.

A Section 106 Programmatic Agreement (PA) between FHWA, ACHP, Elmendorf Air Force Base, and State Historic Preservation Officer (SHPO) was developed to outline appropriate mitigation measures for historic properties impacts. In December 2008, the PA was signed.

The PA was developed in consultation with the FHWA; KABATA; Alaska Department of Transportation & Public Facilities (ADOT&PF); ACHP; Elmendorf Air Force Base; SHPO; Municipality of Anchorage; Matanuska-Susitna Borough; Native Village of Eklutna; Knik Tribal Council; Anchorage Historic Preservation Commission; Anchorage Historic Properties, Inc.; Alaska Association for Historic Preservation; Government Hill Community Council; Eklutna, Inc.; and Knikatnu, Inc.

Project Cost Estimate Updated

The project cost estimate for the initial construction phase has been updated by KABATA based on the latest unit prices for construction and included a completely independent construction cost estimate for the bridge. The project's cost estimate, not including contingencies, is $543 million assuming 2011 is the midpoint for construction. KABATA has always escalated the cost estimate to year-of-expenditure dollars at the midpoint of construction; this and the fact that KABATA used a good value for cost escalation is the reason the construction cost estimate number has not changed much over the course of the environmental process.

FHWA approves Final EIS, project team begins developing ROD

NOA for the Final EIS published in Federal Register

Draft PPA and RFP prepared

USDOT recommends TIFIA credit

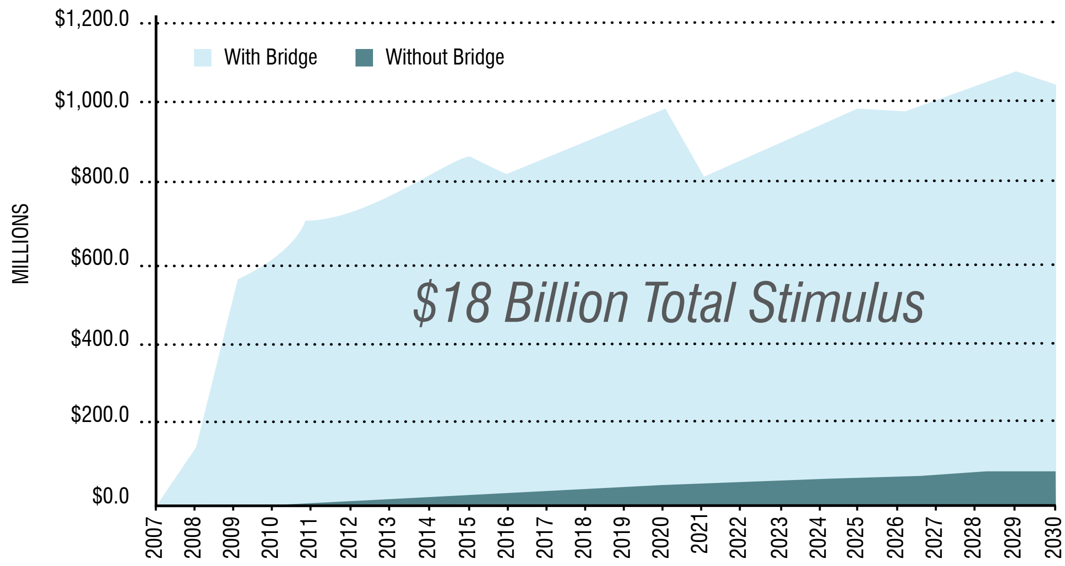
KABATA receives GFOA Certificate of Achievement for Excellence in Financial Reporting

Travel Savings report by Wilbur Smith Associates complete

DECEMBER 2007 | JANUARY 2008 | FEBRUARY | MARCH | APRIL | MAY | JU

Study Projects Economic Stimulus, Additional Jobs

An independent socio-economic study prepared by Insight Research Corporation projects that the Knik Arm Toll Bridge (KATB) will result in $18 billion of additional economic stimulus over the first 23 years of operation. The study also projects approximately 8,000 additional jobs initially growing to 14,000 additional jobs in 23 years as a result of the KATB. For comparison, there were 12,600 direct oil industry jobs in Alaska in June 2008. This economic stimulus and new jobs for Alaskans are projected to occur because the KATB would create a more efficient transportation network and open new economic corridors to support population growth, resource development, and commerce in the region.



Economic Stimulus Resulting from the Knik Arm Toll Bridge

Economists predict that the Knik Arm Toll Bridge will bring $18 billion of additional economic stimulus over the first 23 years of operation—an average of $800 million additional economic stimulus each year for 23 years.

State awards Alaska Natural Gas Pipeline contract

Knik Arm Crossing Project included in Transportation Improvement Program

Mat-Su Borough upgrades, paves Point MacKenzie Road

NMFS places Cook Inlet belugas on Endangered Species List

Section 106 PA signed

AGIA license issued to TransCanada

NE JULY AUGUST SEPTEMBER OCTOBER NOVEMBER DECEMBER

Project Closer to Securing Partners

After an extensive industry review process and with assistance from industry experts, KABATA has prepared a draft Public-Private Agreement (PPA) and procurement documents for a public-private partnership (P3) for the financing, design, construction, operations, and maintenance of the KATB over a 60-year concession term. The PPA has been designed to maximize value to the public and protect the public interest while providing the private partner with a commercially viable and financeable concession. It establishes the standards to which the project will be financed, designed, constructed, operated, and maintained over the term of the partnership, and the condition in which it will be handed back to the State at the end of the term. KABATA has been in discussion with ADOT&PF and the State to refine the draft terms of the agreement. Once the ROD is issued and PPA terms are finalized, a decision could be made to proceed with the procurement of a private partner.

Cook Inlet Belugas Placed on Endangered Species List

On October 17, 2008, the National Oceanic and Atmospheric Administration's National Marine Fisheries Service listed the Cook Inlet stock of beluga whales under the Endangered Species Act. Cook Inlet beluga whales had undergone significant population declines in the 1990s primarily attributed to unregulated subsistence hunting. The 2007 annual survey indicated the population had grown to about 375 animals from an estimated population of 302 in the previous year. The population of 375 animals was confirmed in the 2008 summer survey. The whales transit the vicinity of the proposed KATB in the Knik Arm to reach areas of feeding, calving, and loafing north of the bridge site. The belugas remain a concern for any activity in the Inlet, including construction of the KATB.

Permitting Under Way

The environmental permitting process has progressed during 2008. Draft permits have been completed, and pre-application meetings have been held with the U.S. Army Corps of Engineers and State of Alaska resource agencies. KABATA is actively engaging agencies with a goal to submit permit applications during the first quarter of 2009.

Board Changes

George Wuerch announced his resignation from the Board of Directors in April 2008. As Chairman of the Board from September 10, 2003 through April 30, 2008, Mr. Wuerch provided KABATA with leadership through the environmental review process and the development of a public-private partnership. KABATA and the Board of Directors extend their sincere thanks to Mr. Wuerch for his service, dedication, and vision. Vice Chairman Darcie Salmon will serve as Acting Chairman until such time as the Governor appoints a new Chairman of the Board.

Board member Brian Andrews and his son were lost in a missing private plane in August 2008. His expertise and dedication to his roles of Deputy Commissioner of Revenue and chairman of the KABATA audit committee, and his positive and vibrant disposition will be missed by all of his friends and colleagues.

TIFIA Credit Recommended

In 2008, the FHWA's Transportation Infrastructure Finance Innovation Act (TIFIA) Joint Project Office completed a risk assessment of the Knik Arm Toll Bridge plan of finance and recommended a conditional commitment to the project for TIFIA credit instrument in an amount not to exceed $261 million for up to one-third of eligible project costs. In August 2007, KABATA submitted an application for conditional TIFIA credit for the project on behalf of its shortlisted prospective private partners under the auspices for the FHWA's innovative Special Experimental Project 15 (SEP-15) program. The U.S. Department of Transportation's Joint Credit Council decided to wait for an evaluation of prospective proposer's plans of finance prior to awarding TIFIA credit for the Knik Arm Toll Bridge project. The result of the TIFIA risk assessment and conditional credit recommendation bode well for financing the project and the potential positive impact it will have on the region in future years.

Estimates show that the opening of the Knik Arm Toll Bridge will **reduce carbon emissions by about 80,000 tons** in its first year of operation based on reduced vehicle miles traveled projections.

RELATED PROJECTS

Alaska Natural Gas Pipeline

The Alaska Gasline Inducement Act (AGIA) is Alaska's law designed to advance construction of a natural gas pipeline from the North Slope to the North American market. In August 2008, the Alaska legislature passed House Bill 3001, legislation that authorizes the administration to award the Alaska Gasline Inducement Act license to TransCanada Alaska. Governor Sarah Palin, Natural Resources Commissioner Tom Irwin, and Revenue Commissioner Pat Galvin signed the AGIA license over to TransCanada on December 5, 2008. TransCanada began fieldwork in 2008, and according to its application anticipates pipeline completion by November 2017. Independently, ConocoPhillips and BP have formed a joint-venture named "Denali—The Alaska Gas Pipeline" to pursue initial development of a gas treatment plant and 2,000-mile natural gas pipeline from the North Slope to the North American market.

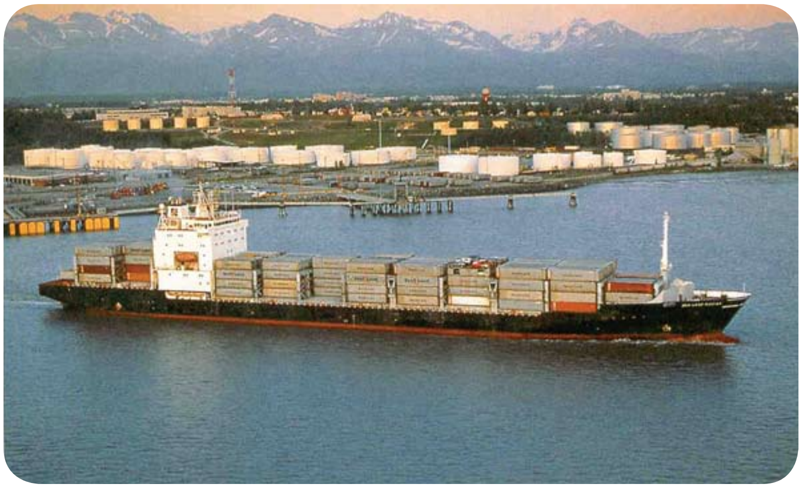
Seward Highway to Glenn Highway Connection

The Seward Highway to Glenn Highway Connection (Highway-to-Highway or H2H) will explore multi-modal methods of improving the connection between the Seward and Glenn Highways, thus alleviating heavy arterial traffic and congestion throughout Anchorage. The formal scoping period began in July of 2008. If an alternative is selected that requires design and construction, construction would be anticipated to start no sooner than 2013.

Cook Inlet Ferry

The proposed Cook Inlet Ferry will strengthen the transportation link between Anchorage and the Mat-Su Valley for commuters and businesses alike. When complete, the ferry will hold approximately 25 cars and 115 people. The ferry system would also provide logistical support for the construction of the toll bridge. The ferry is anticipated to begin trips in summer 2010.

Port of Anchorage Intermodal Expansion



The Port of Anchorage expansion will support local and regional economies by accommodating larger container and cruise ships, barges, and tankers. The Knik Arm Toll Bridge (KATB) also will enhance intermodal transportation systems (rail, road, and marine) and reduce traffic conflicts outside Port boundaries. The KATB will provide additional connectivity and efficiency for freight transportation throughout Alaska. The Port of Anchorage Intermodal Expansion is expected to be complete in 2014.

Port MacKenzie

Port MacKenzie, a facility that includes a dock ramp, 500-foot bulkhead, and 9,000 acres of upland available for commercial use will provide logistical support for the construction of the Knik Arm Toll Bridge. The Mat-Su Borough plans to provide services for bulk commodity storage, a floatplane base, and a public boat launch ramp for commercial and private use.

Port MacKenzie Rail Extension

The Matanuska-Susitna Borough and the Alaska Railroad Corporation (ARRC) propose to build a rail extension to connect Port MacKenzie to the existing ARRC lines. In 2008, the Surface Transportation Board issued a Notice of Intent to prepare an Environmental Impact Statement, which began the formal environmental review process under the National Environmental Policy Act (NEPA). The Knik Arm Toll Bridge will provide an important link beween the rail extension and Anchorage.

Port of Anchorage photo courtesy of the Port of Anchorage / Port MacKenzie photo courtesy of the Matanuska-Susitna Borough

LOOKING AHEAD TO 2009

KABATA will continue to pursue a Record of Decision for the Final Environmental Impact Statement from the FHWA as early as possible in 2009. In addition, KABATA will immediately initiate a Section 7 consultation under the Endangered Species Act with National Marine Fisheries Service, and will continue to pursue permits for the project to reduce the State's permitting risk. KABATA is following an innovative permitting approach that will be beneficial to all industry activity in the Knik Arm in dealing with beluga whales and the Endangered Species Act.

KABATA BOARD AND STAFF

Board

Darcie Salmon
ACTING CHAIRMAN / VICE CHAIRMAN

Dave Haugen
DIRECTOR

Gordon Keith
DIRECTOR
CENTRAL REGION DIRECTOR ADOT&PF

Patrick Galvin
DIRECTOR
COMMISSIONER OF REVUENUE

Senator Charlie Huggins
EX-OFFICIO

Representative Bill Stoltze
EX-OFFICIO

Staff

Andrew Niemiec
EXECUTIVE DIRECTOR

Dale Paulson
DEPUTY EXECUTIVE DIRECTOR

Kevin Hemenway
CHIEF FINANCIAL OFFICER

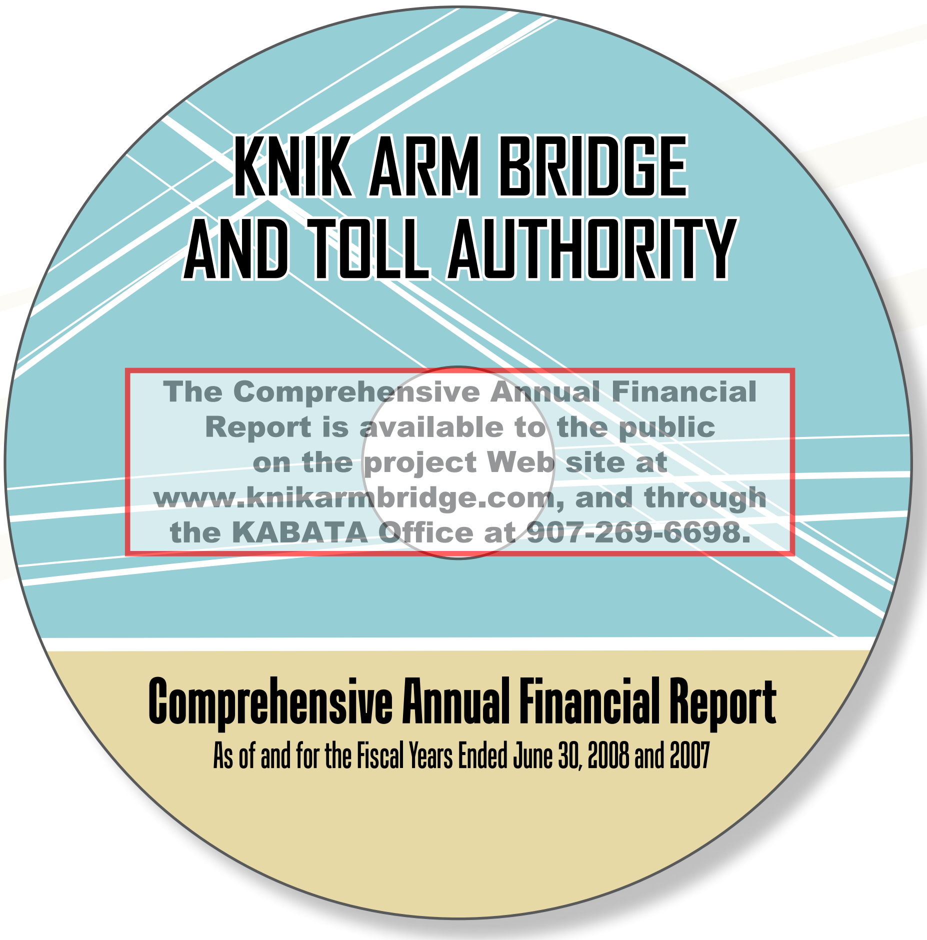
Verne Geidl
CHIEF ENGINEER

William Greene
PROJECT COUNSEL

Betty Fauber
ADMINISTRATIVE DIRECTOR

Amanda True
ADMINISTRATIVE CLERK

Tolls will cover about **80 percent** of the project construction costs and all operations and maintenance costs.



Financials

To review the Comprehensive Annual Financial Report (CAFR), insert the attached CD into your CD-ROM drive.

KABATA Receives CAFR Award for Second Consecutive Year

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 (KABATA), a component unit of the State of Alaska, for its CAFR for the fiscal year ended June 30, 2007. This was the second year that KABATA had prepared a CAFR 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 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.

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