

April 2, 2013

Knik Arm Crossing

Financing Briefing



Table of Contents

| | |
|---|---|
| 1. Project Delivery With a Public-Private Partnership | 1 |
| 2. Impact of Proposed Legislation on the State's Credit | 7 |

1. Project Delivery With a Public-Private Partnership

Public-Private Partnership Approach

KABATA's proposed P3 approach has been tested in numerous projects in the US and around the world.

- KABATA is using a public-private partnership, or P3, to build and operate the Crossing
 - Alaska legislature authorized and encouraged use of P3 for project delivery under AS 19.75.111
- Availability fee P3's for surface transportation have been used successfully in the US for:
 - East End Bridge (over Ohio River near Louisville, KY)
 - Presidio Parkway (San Francisco)
 - I-595 (Fort Lauderdale)
 - Denver Eagle "Fastracks"
 - Port of Miami Tunnel
- P3s are accepted as a mainstream method to finance, deliver and operate major projects worldwide, including in the UK, US, Germany, France, Italy, Spain, Portugal, Australia, Canada, Chile and Brazil
 - Concept is so well proven that in Canada any project over \$100M using federal funds must analyze use of P3 and justify why P3 should NOT be used
 - US road P3's have come in 23% to 42% lower than the owner's capital cost estimate¹

(1) For East End Bridge, Presidio Parkway and I-595, the most recent three availability fee P3's.

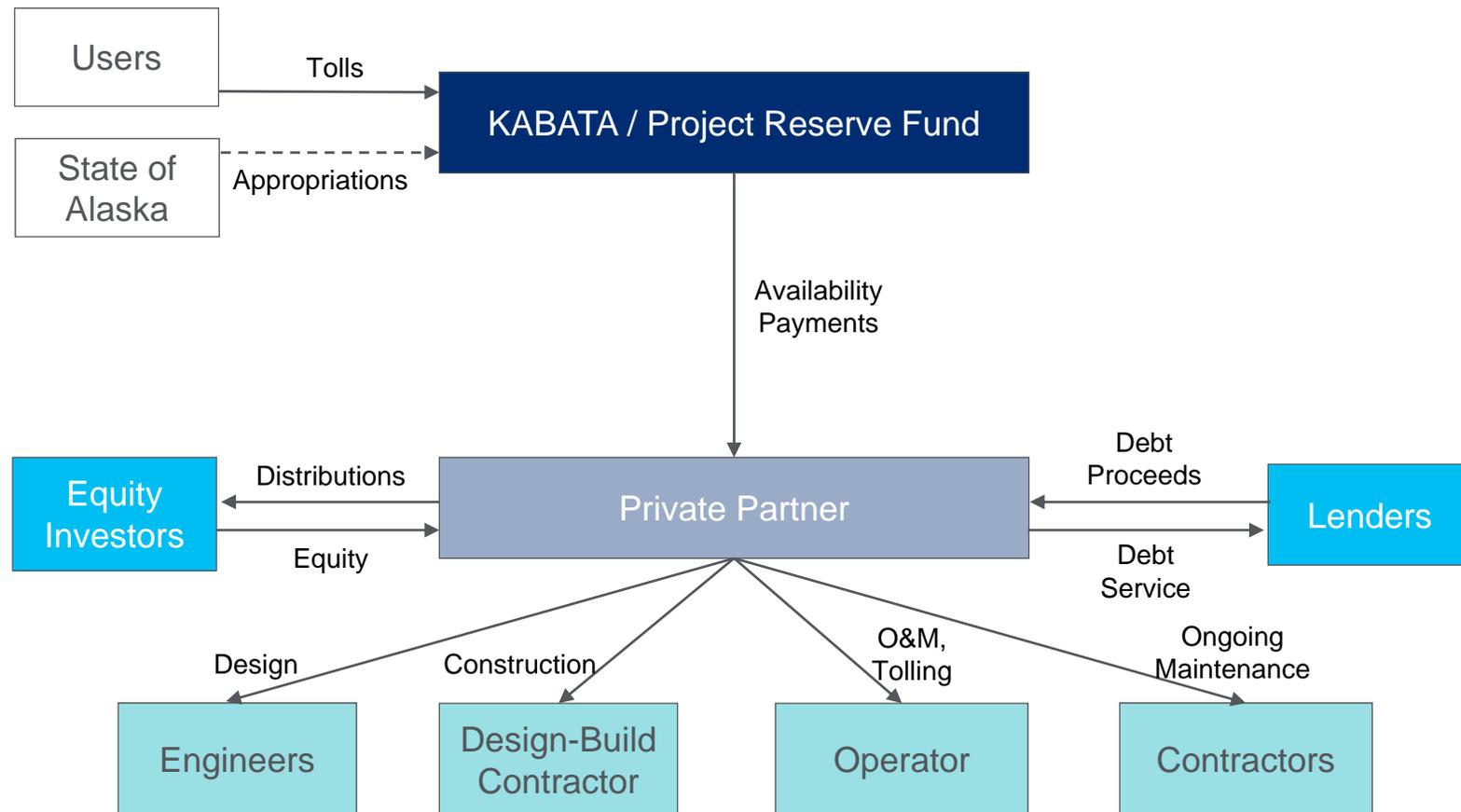
Procurement Status

Procurement is in process with firm bids expected in 2013.

- KABATA is well along in the procurement of a private partner with the following international consortia competing for the Crossing:
 - [Alaska Infrastructure Access Partners](#) - Infrared Capital Partners; Bouygues; Colaska; URS Alaska; Moffatt & Nichol; USKH; R&M Consultants; Macquarie Capital
 - [Cook Inlet Passage Partners](#) - Meridiam Infrastructure; Kiewit; Manson Construction; Transfield Services; Parsons Transportation Group; Golder Associates; Dowl HKM; Dan Brown and Associates; BMT Fleet Technologies; KPMG Corporate Finance
 - [North Star Mobility Group](#) – Hochtief; ACS Infrastructure Development; Iridium; Flatiron Constructors; Dragados; Traylor Bros.; HNTB; CH2M Hill Engineers; Alaska Interstate Construction; Arcadis; Kodiak Map; Hart Crowser; Earth Mechanics; Bittner-Shen; Denali Drilling; Gregg Drilling
- Six consortia submitted qualifications statements and the three firms shown were short listed by KABATA
- Key members of each team are a mix of local Alaska firms and industry leaders in US and worldwide P3s

Structure for Availability Fee P3 Deal

Private partner provides single point responsibility for design, construction, financing and long-term operation and maintenance, all for a pre-determined annual availability fee.



Risk Sharing

The following summarizes the key risk sharing, where the private partner takes risks under its control and KABATA assuming risks of uncontrollable events.

| Risk | Party Taking Risk |
|---|---|
| Design deficiencies | Private Partner |
| Construction cost | Private Partner |
| Design/construction integration | Private Partner |
| Construction schedule | Private Partner |
| KABATA discretionary change orders/KABATA acts | KABATA |
| All other design/construction change orders | Private Partner |
| Specific conditions/events outside private partner control (see page 6) | KABATA |
| Debt service | Private Partner |
| O&M cost (for 35 years) | Private Partner |
| Needed renewal capital expenditures (for 35 years) | Private Partner |
| Future expansions | KABATA / Private Partner |
| Toll collection cost (for 35 years) | Private Partner |
| Toll revenue | KABATA |
| Availability payment | KABATA / Project Reserve / State Moral Obligation |

Availability Payment

Private partner bears risk that its costs exceed the availability fee.

- Availability payments are payments by KABATA to private partner to the extent the Crossing is “available” to traffic
 - No availability payments owed until project is opened for service
 - To the extent the private partner does not keep lanes open, or does not operate and maintain the Crossing to detailed operating standards, the availability payment is reduced
- Availability payment is set by formula at the time the concession is signed and includes components for:
 - Recovery of capital (debt and equity), which are fixed and not subject to escalation
 - Operation, maintenance and repair, which are fixed, but subject to inflation escalation
 - Tolling services, which are fixed fees per collected toll, but subject to inflation escalation

Events Outside Private Partner Control

While KABATA has assumed designated uncontrollable circumstances risks, steps have been taken to mitigate those risks to KABATA.

- KABATA retains certain other risks related to KABATA changes or acts in its control and, listed below, items out of the control of the private partner

KABATA Retained Risks Outside of Private Partner Control

Mitigation

Discovery of unforeseen subsurface conditions, hazardous waste, archeological resources, endangered species

Extensive subsurface investigation completed, including borings in the Knik Arm and historical/archeological surveys along the bridge and roadway alignment

Delays in receipt of certain major permits or right of way acquisition; costs of changes in state law or permit conditions

Major permits and right of way should be completed prior to private partner selection

Delays by utilities

There are not many utilities along right of way and they are known and mapped

Utility memoranda of understanding, should be executed prior to private partner selection

Force majeure events, including earthquakes, war, terrorism, fires, floods

The Crossing is required to be designed to withstand earthquakes, fires and floods

The private partner is required to carry casualty insurance

If an event is catastrophic, it is likely to be covered in part by FHWA, FEMA and/or other federal disaster aid

2. Impact of Proposed Legislation on the State's Credit

Proposed Legislation

Passage of SB13 (or HB23) is condition to the project proceeding under the “availability fee” P3 approach and obtaining a low cost TIFIA loan from the US Department of Transportation.

- Key elements of the proposed legislation:
 - Ability to establish a Project Reserve and subject it to a trust arrangement
 - Toll revenues collected by KABATA are deposited into the Project Reserve
 - KABATA’s availability payment obligation and KABATA expenses are paid from the Project Reserve
 - The KABATA chair must annually certify to the Governor and Legislature the status of the Project Reserve and amounts needed, if any, to restore it to its minimum requirement
 - By the time the Crossing opens for traffic, the project reserve is expected to be funded by State appropriations totaling \$150 million, with a “down payment” this year
- Project Reserve minimum requirement is (1) 120% of the estimated average availability payment over next three years plus (2) 120% of prior year KABATA expenses minus (3) prior year toll revenues
 - Provides liquidity to KABATA to make the availability payments and fund KABATA administrative costs given the annual legislative schedule (appropriations can normally only be made during the 90 day session)

Purpose of State Financial Backstop

The private partner is investing nearly \$800 million of its funds to build the Crossing and needs assurance that KABATA and the State can pay if the private partner meets its obligations.

Request

1. Funding shortfalls if availability payments and other expenses exceed toll revenues
2. Funding “pinhole” risks

Key Purpose

- Provides funding for early year projected revenue shortfalls during traffic ramp up on bridge
 - Under base case projections there are minimal future need for State support
 - Provides funding for “pinhole” risks assumed by KABATA
 - Pinhole risks proposed to be backstopped by the State include: (1) termination costs, should the concession be terminated prior to its maturity for KABATA fault or convenience ; and (2) compensation for specific conditions/events outside private partner control
-

Assumptions Provided by Team of Experts

The financial projections are based on a set of assumptions carefully prepared by a team of experts in their respective fields.

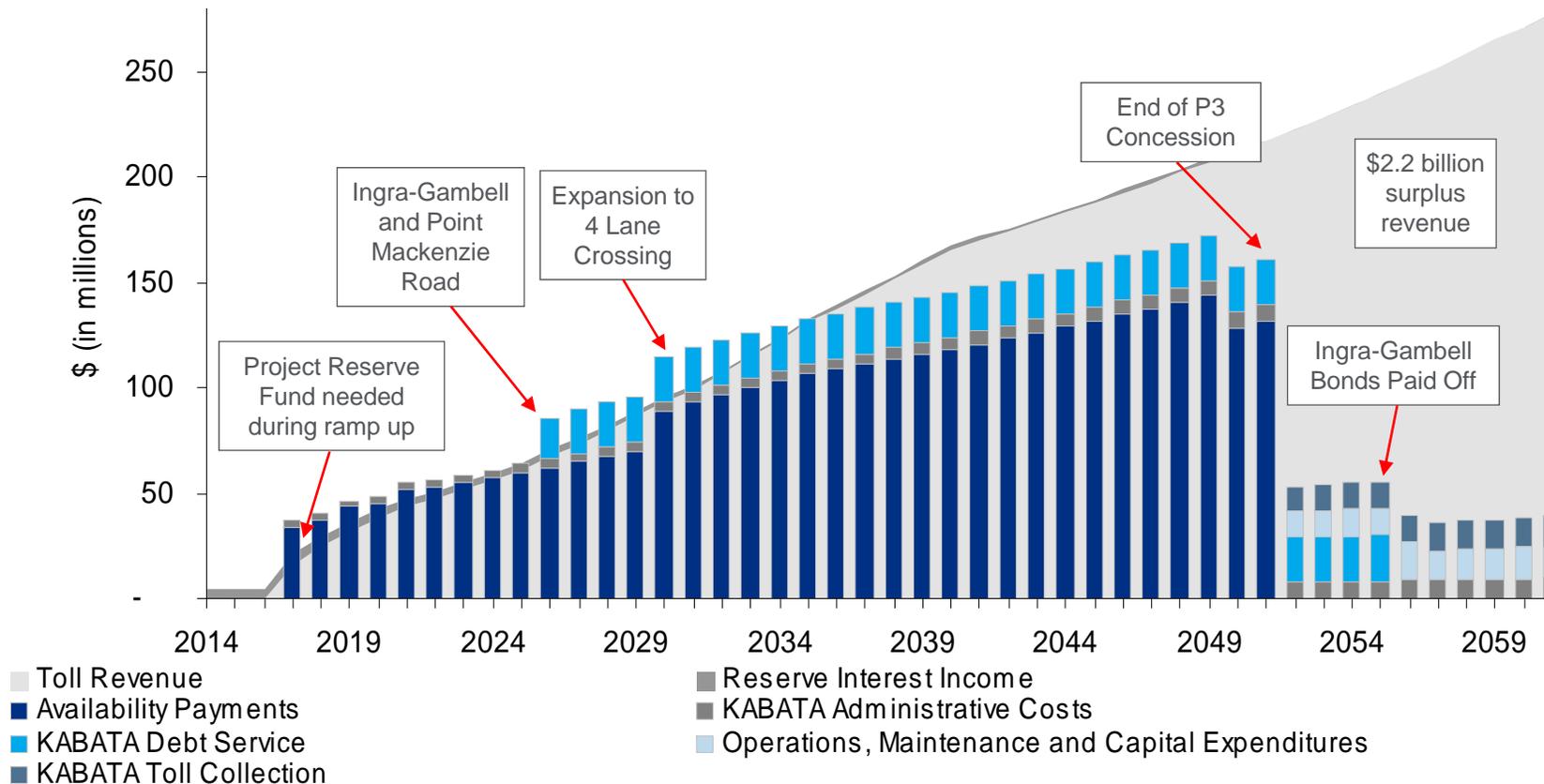
- As KABATA's financial advisor, Citigroup has prepared financial projections to show how the project will perform under a set of assumptions developed by national experts in their respective fields:

| Assumption | Firm | Credentials |
|------------------------------|------------------------|---|
| Construction Cost | HDR ¹ | Fifth-ranked engineering firm for highway design in the US |
| Traffic and Revenue | CDM Smith | Foremost Traffic and Revenue consultant with more studies supporting financings than any other firm |
| Operations and Maintenance | HDR/PND | Fifth-ranked engineering firm for highway design in the US and one of the top Alaskan road and bridge engineers |
| Toll Collection | CDM Smith | Leading toll system advisor to toll and transportation agencies |
| Renewal Capital Expenditures | CDM Smith ² | Substantial experience in inspecting bridges and developing capital maintenance programs for transportation agencies in the US. |
| Debt and Equity | Citigroup | One of the world's largest banks and the #1 underwriter of US toll road bonds |

(1) HDR was assisted by PND, Armeni, William Ott and DCS for bridge design and Hydro-Ram and IHC Merwede for piling

(2) CDM Smith was assisted by PND

KABATA Projected Obligations and Toll Revenues



Key Assumptions

| | |
|------------------------------|---|
| Traffic & Revenue | <ul style="list-style-type: none"> Traffic and toll revenue assumptions from CDM Smith study dated August 2011 and as updated August 2012 |
| Tolls | <ul style="list-style-type: none"> \$5 per trip (2017) initially for passenger vehicles and escalating at CPI – higher for commercial vehicles |
| Expenses | <ul style="list-style-type: none"> Availability payment under the base case financial analysis with equity, private activity tax exempt bonds and 33% TIFIA Assumes the bridge is expanded to four lanes and Ingra-Gambell connector is built as traffic warrants KABATA annual administrative expenses of \$3.0 million at opening and escalating at inflation (2.5%) |
| Term of Analysis | <ul style="list-style-type: none"> 45 years from Crossing opening, which is 10 years beyond the 35 year concession term (bridge life estimated at 75-100 years) |

Sensitivities

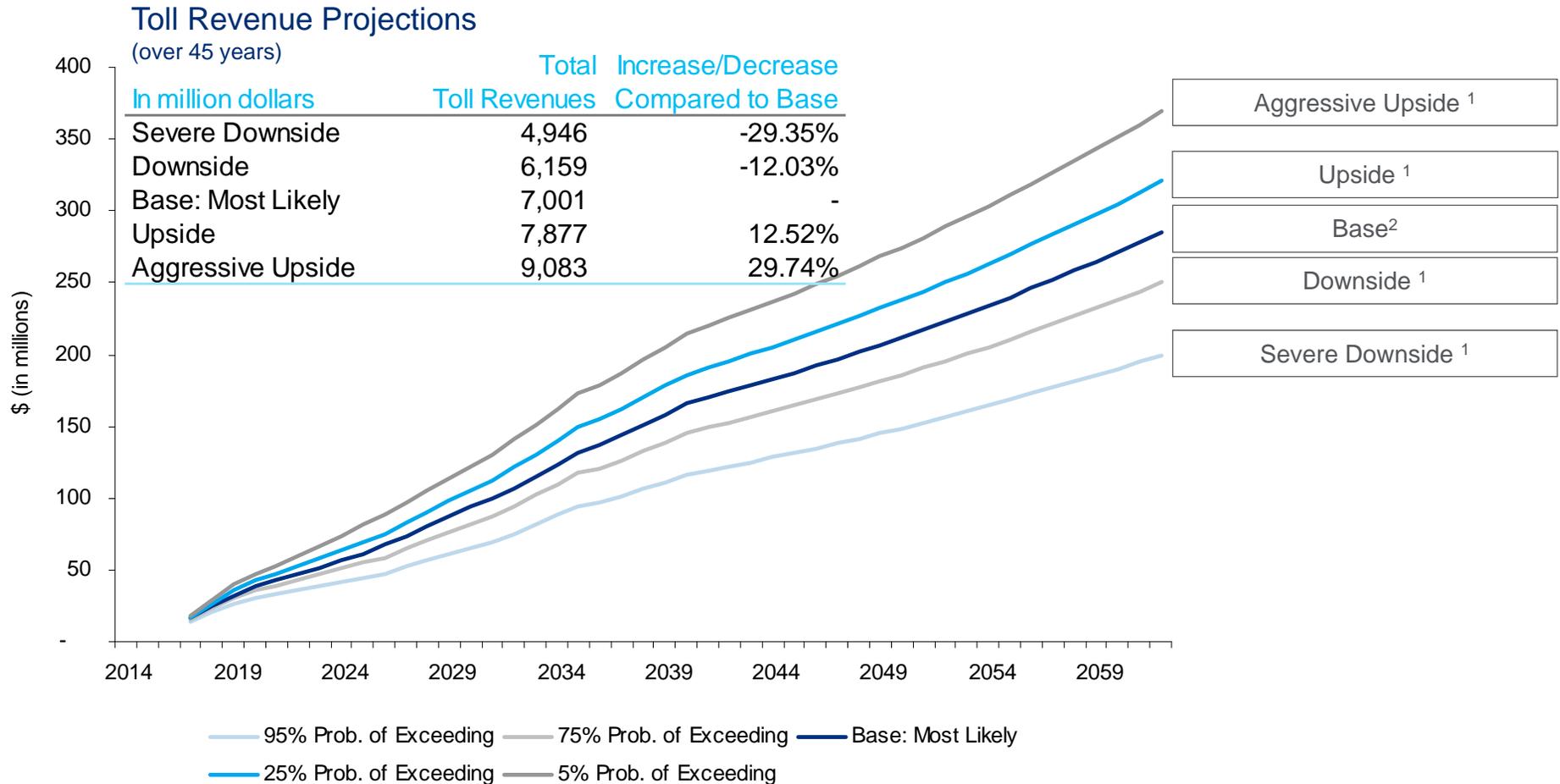
Sensitivities prepared to determine upside and downside impact of the project on KABATA and the State.

- Analyses completed:
 - Base case – Most likely traffic and revenue projection
 - Upside and downside sensitivities at 5% (aggressive upside), 25% (upside), 75% (downside) and 95% (severe downside) probabilities that traffic will exceed
- Analyses include:
 - Initial Crossing:
 - Two lane bridge and connecting roads with four lane foundation
 - Government Hill tunnel built to six lanes to avoid future neighborhood disruption
 - Future Expansions:
 - Adding an additional two lanes to the initial configuration (estimated 2030¹ for base case)
 - Constructing Ingra-Gambell connector and Point MacKenzie Road upgrade to four lanes (estimated 2025¹ for base case)
 - Timing of these Phase 2 additions controlled by KABATA and the State based on traffic, congestion and funding availability

(1) Based on traffic capacity analysis by CDM Smith and HDR.

Revenue Sensitivity Results from Monte Carlo Simulations

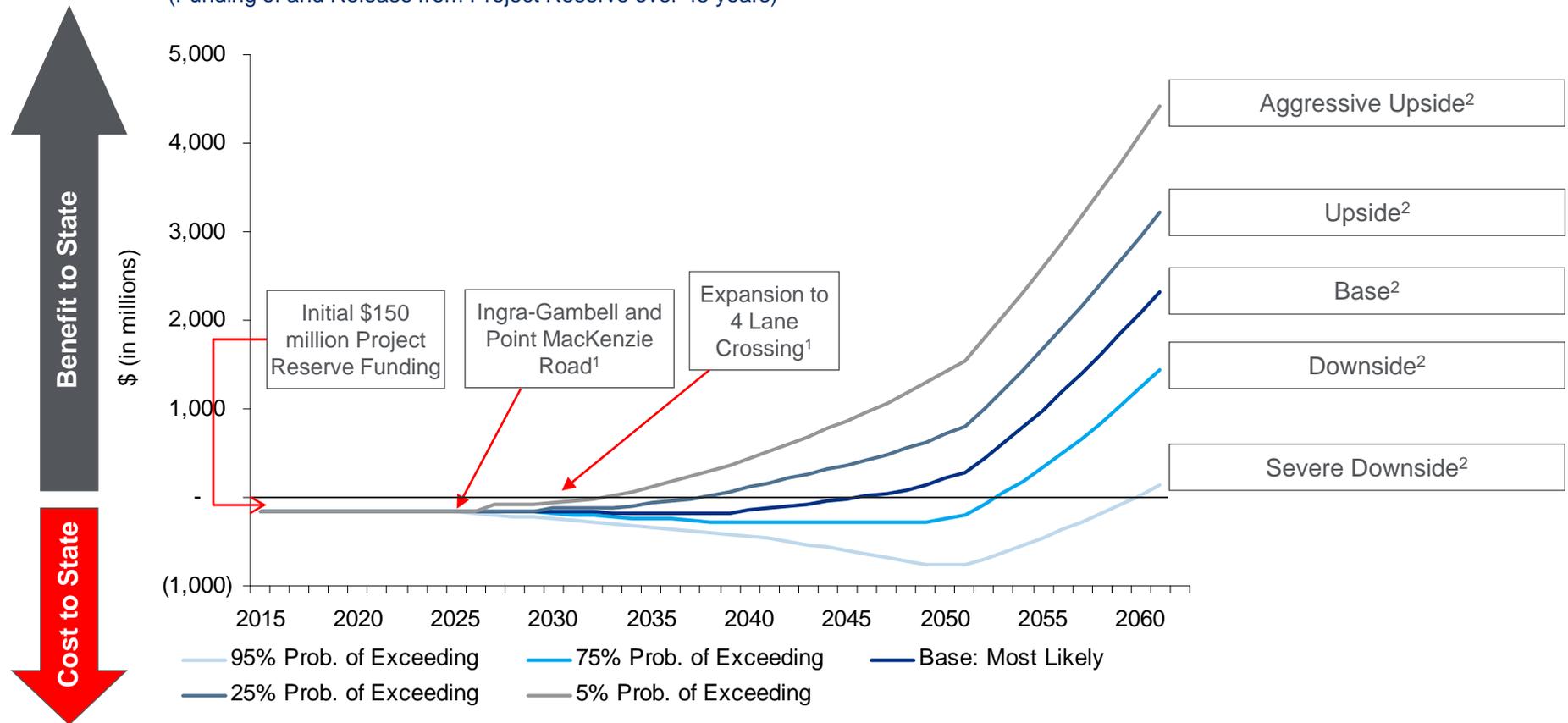
Citi analyzed the Crossing's revenues under five cases, the base case previously described and four alternative probability cases at higher and lower traffic and revenue volumes.



- (1) The severe downside, downside, upside and aggressive upside cases represent 95%, 75%, 25% and 5% probabilities that traffic and toll revenues will be greater, respectively. For instance, under the severe downside, 95% probability case, there is only a 5% probability that toll revenues will be below the projection.
- (2) Equal probability that the traffic and toll revenues could be higher or lower than projection.

Project Cost/Benefit to State

Cumulative Cost and Financial Return to State
(Funding of and Release from Project Reserve over 45 years)



- (1) Dates these expansions occur under the base case. Under the sensitivities, the expansions occur earlier (upside cases) or later (downside cases) based on when traffic levels warrant the expansion.
- (2) The severe downside, downside, base, upside and aggressive upside cases represent 95%, 75%, 50%, 25% and 5% probabilities that traffic and toll revenues will be greater, respectively. For instance, under the severe downside, 95% probability case, there is only a 5% probability that toll revenues will be below the projection.

Sensitivity Results

Under the base case, over 45 years, ongoing appropriations of \$37 million are required, while the Knik Arm Crossing generates \$2.3 billion of revenues to fund transportation in the State.

| | Severe Downside ¹ | Downside ¹ | Base Case (Most Likely) ² | Upside ¹ | Aggressive Upside ¹ |
|---|---|---|---|---|---|
| Initial Project Reserve Funding Gross/ (Present Value) ^{3, 4} | \$150 million (\$150 million) | \$150 million (\$150 million) | \$150 million (\$150 million) | \$150 million (\$150 million) | \$150 million (\$150 million) |
| Expected Future State Liability Gross/ (Present Value) ^{3, 4} | \$627 million <u>(\$208 million)</u> | \$135 million <u>(\$56 million)</u> | \$37 million <u>(\$16 million)</u> | \$0 <u>(\$0)</u> | \$0 <u>(\$0)</u> |
| Expected Total State Liability Gross/(Present Value) ^{3, 4} | \$777 million (\$358 million) | \$285 million (\$206 million) | \$187 million (\$166 million) | \$150 million (\$150 million) | \$150 million (\$150 million) |
| Expected State Financial Return Gross/(Present Value) ^{3, 4} | \$910 million <u>(\$139 million)</u> | \$1,725 million <u>(\$265 million)</u> | \$2,513 million <u>(\$424 million)</u> | \$3,364 million <u>(\$628 million)</u> | \$4,561 million <u>(\$934 million)</u> |
| Net State Revenues Gross/(Present Value) ^{3, 4} | \$133 million (-\$219 million) | \$1,440 million (\$59 million) | \$2,326 million (\$258 million) | \$3,214 million (\$478 million) | \$4,411 million (\$784 million) |

- (1) The severe downside, downside, upside and aggressive upside cases represent 95%, 75%, 25% and 5% probabilities that traffic and toll revenues will be greater, respectively. For instance, under the severe downside, 95% probability case, there is only a 5% probability that toll revenues will be below the projection.
- (2) Equal probability that the traffic and toll revenues could be higher or lower than projection.
- (3) Present value assumes 4.4% discount rate (State's 30 year borrowing cost).
- (4) Includes Crossing and expansion to 4 lanes and Ingra-Gambell Viaduct when traffic warrants.

Conservative Assumptions Used in the Financial Analysis

Citigroup's analysis uses conservative, reasonable assumptions.

- Interest rate assumptions significantly above current market
 - 1.5% higher for tax-exempt PABs
 - 1.1% higher for TIFIA loan
 - Using current market interest rates eliminates any State reserve replenishment in other than the 95% probability, severe downside scenario
 - Reduction in the reserve replenishment in 95% probability scenario from \$627 million to \$113 million
- Construction cost includes a \$84 million contingency
- Assumes crossing expansion as traffic warrants, even if state is paying under “moral obligation” pledge
 - If KABATA did not move forward with the expansions, under the severe downside case, State reserve replenishment drops from \$627 million to \$113 million, but the Crossing would become congested
- Upside and downside traffic and revenue projections modeled
- 33% TIFIA and no rural eligibility
 - Recent Federal Highways reauthorization allows up to 49% TIFIA and lower interest rate for rural projects
 - Portion of the Crossing in the Mat Su likely considered rural
- Does not consider the benefits of the Crossing to the public or the resulting economic development
- At the end of analysis State owns a \$1 billion+ asset unencumbered

Analysis of Financial Impact of Legislation on State

State's appropriation pledge is a back up to toll revenues and would only be triggered if toll revenues are insufficient to pay costs.

- KABATA's source of funds to pay the private partner is a "double barreled" credit
 - Payable FIRST from toll revenues in the Project Reserve as the intended primary source of debt repayment
 - Payable SECOND from the appropriated funds in the Project Reserve, initially equal to \$150 million, and a commitment to seek a state appropriation if the Project Reserve falls short of minimum requirement
 - Minimal future appropriations needed under the base case financial projections
- Moral obligation commitments are an accepted credit support feature used by the Alaska Bond Bank and AIDEA which have good records of debt repayment and have been credit neutral to the State's own bond rating
- KABATA use of the State "moral obligation" provision has been carefully crafted as back-up credit protection that should be viewed as credit neutral to the State's own bond rating because of the strength of the overall project plan and strength of the primary security

Analysis of Impact of Legislation on State (continued)

The proposed legislation should be credit neutral to the State, given the minimal projected need for appropriations and the importance of the project to the State.

- The moral obligation provision, while fundamental to the credit, is likely to be used sparingly
 - No availability payments due until the Project is completed and available for service, which removes the construction risks (State is not taking on construction cost overrun or schedule risk)
 - In the base case, aggregate draws from the State are \$36 million; other shortfalls are covered by the Project Reserve without the need for further appropriations
 - Under a severe downside case, “95% probability of exceeding,” first Project Reserve replenishment by State is in 2025 (\$9 million) and maximum annual payment is \$38 million in 2043
- Project essentiality
 - Infrastructure projects, like the Knik Arm Crossing, fill an essential need and spur economic development

IRS Circular 230 Disclosure: Citigroup Inc. and its affiliates do not provide tax or legal advice. Any discussion of tax matters in these materials (i) is not intended or written to be used, and cannot be used or relied upon, by you for the purpose of avoiding any tax penalties and (ii) may have been written in connection with the "promotion or marketing" of any transaction contemplated hereby ("Transaction"). Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

In any instance where distribution of this communication is subject to the rules of the US Commodity Futures Trading Commission ("CFTC"), this communication constitutes an invitation to consider entering into a derivatives transaction under U.S. CFTC Regulations §§ 1.71 and 23.605, where applicable, but is not a binding offer to buy/sell any financial instrument.

However, this is not a recommendation to enter into any swap with any counterparty or a recommendation of a trading strategy involving a swap. Prior to recommending a swap or a trading strategy involving a swap to you, Citigroup would need to undertake diligence in order to have a reasonable basis to believe that the recommended swap or swap trading strategy is suitable for you, obtain written representations from you that you are exercising independent judgment in evaluating any such recommendation, and make certain disclosures to you. Furthermore, nothing in this pitch book is, or should be construed to be, an offer to enter into a swap.

Any terms set forth herein are intended for discussion purposes only and are subject to the final terms as set forth in separate definitive written agreements. This presentation is not a commitment to lend, syndicate a financing, underwrite or purchase securities, or commit capital nor does it obligate us to enter into such a commitment, nor are we acting as a fiduciary to you. By accepting this presentation, subject to applicable law or regulation, you agree to keep confidential the information contained herein and the existence of and proposed terms for any Transaction.

Prior to entering into any Transaction, you should determine, without reliance upon us or our affiliates, the economic risks and merits (and independently determine that you are able to assume these risks) as well as the legal, tax and accounting characterizations and consequences of any such Transaction. In this regard, by accepting this presentation, you acknowledge that (a) we are not in the business of providing (and you are not relying on us for) legal, tax or accounting advice, (b) there may be legal, tax or accounting risks associated with any Transaction, (c) you should receive (and rely on) separate and qualified legal, tax and accounting advice and (d) you should apprise senior management in your organization as to such legal, tax and accounting advice (and any risks associated with any Transaction) and our disclaimer as to these matters. By acceptance of these materials, you and we hereby agree that from the commencement of discussions with respect to any Transaction, and notwithstanding any other provision in this presentation, we hereby confirm that no participant in any Transaction shall be limited from disclosing the U.S. tax treatment or U.S. tax structure of such Transaction.

We are required to obtain, verify and record certain information that identifies each entity that enters into a formal business relationship with us. We will ask for your complete name, street address, and taxpayer ID number. We may also request corporate formation documents, or other forms of identification, to verify information provided.

Any prices or levels contained herein are preliminary and indicative only and do not represent bids or offers. These indications are provided solely for your information and consideration, are subject to change at any time without notice and are not intended as a solicitation with respect to the purchase or sale of any instrument. The information contained in this presentation may include results of analyses from a quantitative model which represent potential future events that may or may not be realized, and is not a complete analysis of every material fact representing any product. Any estimates included herein constitute our judgment as of the date hereof and are subject to change without any notice. We and/or our affiliates may make a market in these instruments for our customers and for our own account. Accordingly, we may have a position in any such instrument at any time.

Although this material may contain publicly available information about Citi corporate bond research, fixed income strategy or economic and market analysis, Citi policy (i) prohibits employees from offering, directly or indirectly, a favorable or negative research opinion or offering to change an opinion as consideration or inducement for the receipt of business or for compensation; and (ii) prohibits analysts from being compensated for specific recommendations or views contained in research reports. So as to reduce the potential for conflicts of interest, as well as to reduce any appearance of conflicts of interest, Citi has enacted policies and procedures designed to limit communications between its investment banking and research personnel to specifically prescribed circumstances.

© 2013 Citigroup Global Markets Inc. Member SIPC. All rights reserved. Citi and Citi and Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world.

Citi believes that sustainability is good business practice. We work closely with our clients, peer financial institutions, NGOs and other partners to finance solutions to climate change, develop industry standards, reduce our own environmental footprint, and engage with stakeholders to advance shared learning and solutions. Highlights of Citi's unique role in promoting sustainability include: (a) releasing in 2007 a Climate Change Position Statement, the first US financial institution to do so; (b) targeting \$50 billion over 10 years to address global climate change: includes significant increases in investment and financing of renewable energy, clean technology, and other carbon-emission reduction activities; (c) committing to an absolute reduction in GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (d) purchasing more than 234,000 MWh of carbon neutral power for our operations over the last three years; (e) establishing in 2008 the Carbon Principles; a framework for banks and their U.S. power clients to evaluate and address carbon risks in the financing of electric power projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

efficiency, renewable energy and mitigation

