

FHWA SIGNS
RECORD OF DECISION
FOR KNIK ARM CROSSING
December 15, 2010

*Making History:
A Bridge to
Alaska's Future*

KNIK ARM BRIDGE AND TOLL AUTHORITY



2010 ANNUAL REPORT



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The Knik Arm Bridge and Toll Authority (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, the Legislature, and the public on the status of the project. This Annual Report is available on the project Web site at www.knikarmbridge.com, and through the KABATA office at 907-269-6698.

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

Pursuant to AS 44.99.210, the 2010 Annual Report was released at a cost of \$5.59 per copy, and the 2010 Comprehensive Annual Financial Report DVD was released at a cost of \$3.70 per copy, by the Knik Arm Bridge and Toll Authority to provide information and encourage participation. Both were produced in Anchorage, Alaska.

LETTER FROM THE CHAIRMAN

Dear Alaskans,

I am pleased to report that KABATA has taken the necessary steps needed to secure the Record of Decision (ROD) from the Federal Highway Administration (FHWA), the lead agency overseeing this project. The ROD is a major project advancement and, coupled with the already approved Final Environmental Impact Statement (FEIS), is another significant step to move the bridge project forward. The ROD allows the project to move from the planning and environmental phase into the next phase, in which the State of Alaska conducts its due diligence for bridge design, finance options, construction, operations, and maintenance.

The past year’s focus has been on an exhaustive and lengthy review of the project by the FHWA, which is tasked with review and analysis of the Knik Arm Bridge at the federal level. In addition, there were many issues to be addressed and reconciled by a large number of governmental and resource agencies as part of the ROD review. The Biological Opinion by the National Marine Fisheries Service (NMFS) was completed as a requirement for the FHWA to issue the ROD. I extend sincere thanks to the FHWA and NMFS for their cooperative and timely efforts in addressing the Cook Inlet beluga whale under the Endangered Species Act.

I anticipate that the year ahead will be a busy one, as the scope of KABATA’s work shifts from involvement with governmental agencies to increasing discussions with the State and interested private partners. The finance and engineering teams of KABATA will be keenly focused on the best possible path to move the project forward. The Knik Arm Crossing is an essential project for the State of Alaska that will provide economic opportunities for future generations.

I look forward to this next year as KABATA meaningfully advances its mission of delivering a bridge to Alaska’s future.



Michael L. Foster, P.E.
Chairman of the Board of Directors

An Early History of the Knik Arm Crossing

In 1923, the Alaska Railroad studied a causeway that shortened the route to Fairbanks. Since then multiple studies have been conducted to explore a Knik Arm Crossing. More than 80 years of transportation, land use, and economic plans for the Upper Cook Inlet region of Alaska have proven the concept will support economic growth and development for the entire State of Alaska.



The Lure of Tent City

In early 1915, a city of white tents and log cabins rose on the banks of Ship Creek at the site of what is now downtown Anchorage. With federal funding guaranteed by President Woodrow Wilson, construction began on the Alaska Railroad, and thousands of railroad and construction workers, families, freight haulers, restaurateurs, hoteliers, and other service providers moved into the new town site.



LETTER FROM THE EXECUTIVE DIRECTOR

Dear Alaskans,

I am very pleased with the progress of the project this year. The KABATA team has focused on evaluating environmental issues in order to secure a Record of Decision on the Environmental Impact Statement (EIS) for the project. The culmination of these studies was finalized in a No Jeopardy Biological Opinion by National Marine Fisheries Service on the Cook Inlet beluga whale and a Record of Decision by the Federal Highway Administration. Completing an EIS and obtaining the Record of Decision on such a significant infrastructure project is truly a milestone.

Three years ago I discovered that the vision for crossing Knik Arm was not a new one; it has been talked about and studied for decades. We continue to recognize the citizens and community leaders who have identified the importance of a good transportation system to support economic opportunities and responsible growth in Alaska. From businesses to boroughs and municipalities—the bridge is viewed as a complementary, necessary, and sustainable project that will deliver benefits from both transportation and resource development perspectives.

As I look to 2011, our team's efforts will focus on design activities, necessary discussions with the private sector on project delivery mechanisms, procurement options, and the associated business case for each. We will also start design, engineering, and the right-of-way work necessary to complete permitting and satisfy the conditions that will be needed for successful project delivery.

Indications are that Alaska's economy remains robust although in a delicate balance. History has confirmed that, in Alaska, with large projects comes stability. We must ensure our policy decisions keep Alaska a desirable place to conduct business and insist that opportunities for good jobs stay in Alaska. Transportation infrastructure is a necessary element for a robust economy and the KABATA staff remains committed to doing its part to make the crossing part of Alaska's history.

Andrew J. Niemiec
Executive Director

LETTER FROM THE CHIEF FINANCIAL OFFICER

Dear Alaskans,

2010 was an exciting year for the Knik Arm Crossing Project. Before KABATA, Alaskans had studied the crossing for more than 80 years. Over the past six years KABATA has been engaged in preliminary engineering and environmental clearances for the bridge. I am happy to report that this phase of project development is complete. We look forward to procurement and financing during 2011, so construction could commence as early as 2012. I am confident Alaskans will be driving across the bridge in just a few years to access housing, jobs, recreation, and economic opportunities. Freight will be moving across the bridge to supply citizens throughout our state. We will see firsthand the convenience and necessity of this new link in our transportation network and look back and wonder how we ever lived without it.

The Knik Arm Toll Bridge will provide about \$700 million of much-needed infrastructure for our state. It's a high price tag, but as a toll bridge most of the costs will be borne by those using it rather than taxpayers at large. Toll revenues will not only serve as a means to repay project financing, but will ensure the facilities are well maintained for future generations.

Throughout its existence, KABATA has been accountable and transparent to the public not only in project development, but in all of our financial activities. Once again, our auditors provided an unqualified opinion on KABATA's financial statements for the fiscal year ended June 30, 2010. We also received the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting for the fourth consecutive fiscal year for our 2009 Comprehensive Annual Financial Report (CAFR). The auditors' opinion, our financial statements, and notes thereto are included in the attached CAFR and on our Web site. I encourage you to review these together with the rest of the CAFR.

I am grateful for the support Alaskans have shown for the Knik Arm Toll Bridge. The KABATA team and I look forward to serving you over the coming year and delivering this essential project as soon as possible.

Kevin P. Hemenway
Chief Financial Officer

Knik Arm Crossing Day

On March 21, 1981, the Anchorage Chamber of Commerce coordinated a Knik Crossing Day to build support for a connection from Anchorage to the lower Mat-Su.

Representatives from the Municipality of Anchorage, Anchorage Chamber of Commerce, City of Wasilla, Mat-Su Borough, and State Legislature were flown by helicopter across the Knik Arm. The idea of a crossing has had widespread support for more than 30 years.




LETTER FROM THE GOVERNOR

“We wish to point out very strongly that to make the port 100 percent effective, the causeway should also be built... and the Chamber of Commerce could do Anchorage no greater service than to continue to push for it at every opportunity.”

July 2, 1957
Anchorage News



STATE CAPITOL
PO Box 110001
Juneau, Alaska 99811-0001
907-465-1500
fax: 907-465-1537



Governor Sean Parnell
STATE OF ALASKA

550 West 7th Avenue #1700
Anchorage, Alaska 99501
907-269-7430
fax: 907-269-7463
www.governor.alaska.gov
Governor@alaska.gov


Dear Alaskans,

Alaska is a storehouse of natural resource riches and human capital. Jobs and new development rely, in part, on a solid transportation network, and the Knik Arm Bridge is an important link in Alaska's regional transportation infrastructure.


The Knik Arm Crossing project can leverage the strength of both the public and private sectors to benefit Alaskans. The toll-financed bridge would be paid for by its users. Public-private partnerships such as this could serve as a viable model for expanding our transportation network to meet the needs of Alaska.

Alaska's transportation infrastructure requires regional connections and alternate corridors between our largest population centers. Reducing congestion on our highest volume highways and improving access to the north from the Port of Anchorage will increase access and create opportunities for businesses and residents. I look forward to working with you on improving access to opportunities for Alaskans.

Best regards,



Sean Parnell
Governor of Alaska



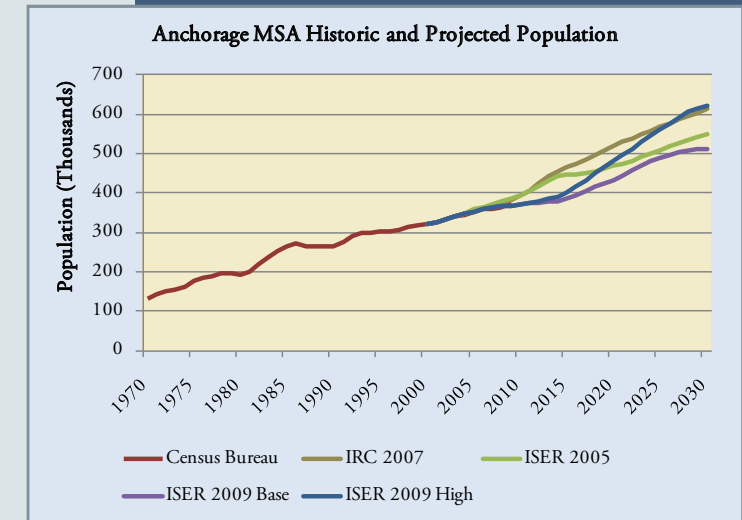
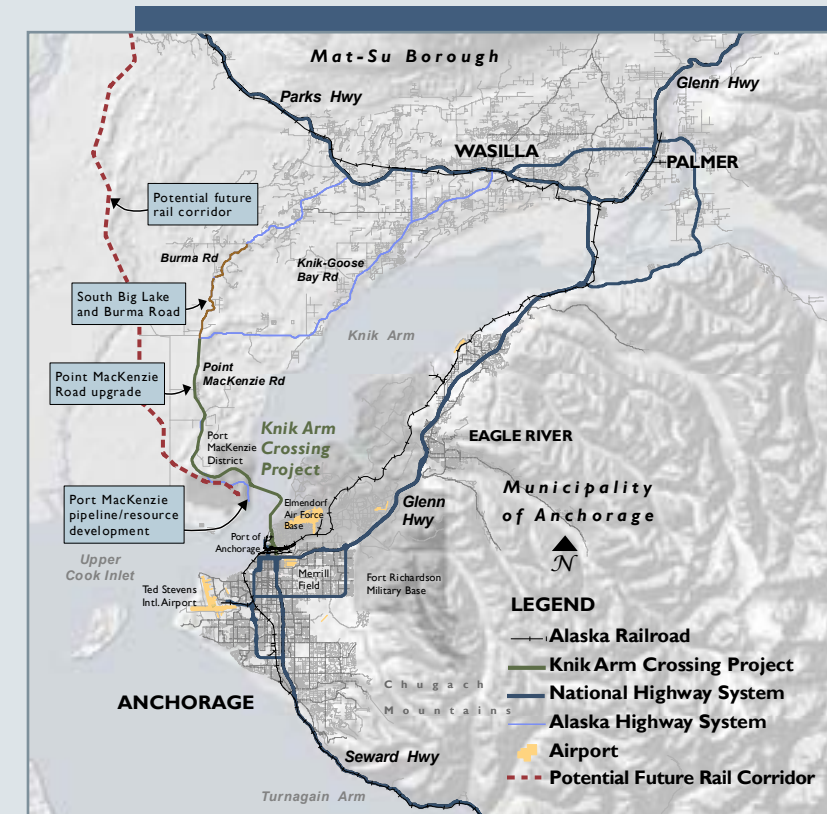
KNIK ARM CROSSING: A BRIDGE FOR ALASKA'S FUTURE

Alaska is a young state with a transportation infrastructure insufficient to serve our citizens and access our resources effectively. Our state represents 17% of the land area of the United States but has only 12,468 miles of public roads, ranking it number 47 among the 50 states. For more than 80 years, Alaskans have gazed across the Knik Arm of Cook Inlet and envisioned a crossing to provide a shorter route to the Matanuska-Susitna Borough, Fairbanks, and the Interior to facilitate the movement of people and freight and provide access to land and resources.

Since its selection as the site of the Alaska Railroad in 1915, Anchorage has evolved to be the transportation, commercial, and financial hub to most of Alaska. Presently, 54% of Alaskans live within 50 miles of the proposed Knik Arm Crossing. Population forecasts indicate that the regional population is expected to grow between 145,000 and 250,000 people over the next 20 years. That's about 50% more people in the region. But Anchorage is still connected to the rest of the state by only a single highway.

Recognizing the state's significant and strategic transportation needs, the Alaska Legislature established the Knik Arm Bridge and Toll Authority (KABATA) in 2003 as a public corporation and an instrumentality of the State of Alaska under the Alaska Department of Transportation and Public Facilities (ADOT&PF). The specific purpose of KABATA is "... to 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 [AS 19.75]). The Knik Arm Crossing is a high priority for the state in meeting Alaska's transportation needs and improving its economic competitiveness. As a toll bridge, most of its costs will be paid by bridge users.

The Knik Arm Crossing will be built in two phases. Phase I includes a minimum 8,200-foot toll bridge and



approximately 18 miles of two-lane approach and connector roads and associated facilities. It also includes an approximately 800-foot cut-and-cover tunnel on the Anchorage side of the bridge designed to minimize neighborhood impacts. Phase I costs have been estimated at \$700 million and have been subjected to a Federal Highway Administration (FHWA) Major Projects Cost Estimate Review. Future phases will include expansion to

KNIK ARM CROSSING: A BRIDGE FOR ALASKA'S FUTURE (CONTINUED)

four lanes and construction of a second connection in Anchorage to meet projected traffic demand, with the design meeting National Highway System Standards.

An Essential Project

The Purpose and Need in the Environmental Impact Statement (EIS) confirmed the essential nature of the Knik Arm Crossing and legislative mandate contained in AS 19.75, stating:

“The 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 Matanuska-Susitna (Mat-Su) Borough through the Port MacKenzie District, with a financially feasible and efficient crossing to meet the needs for:

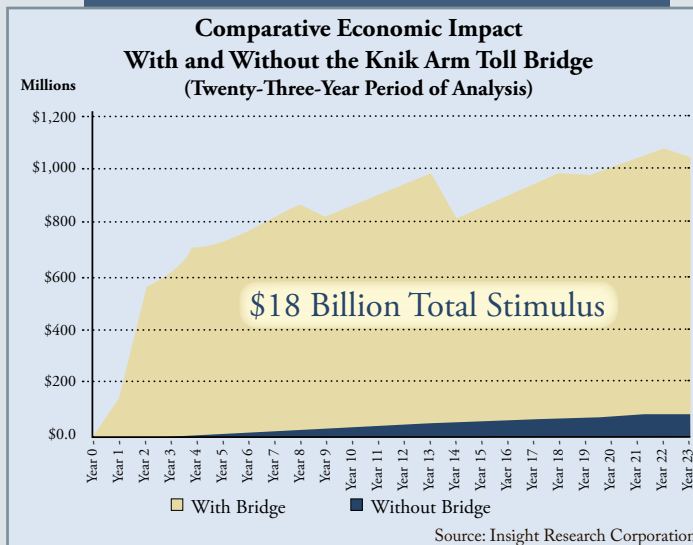
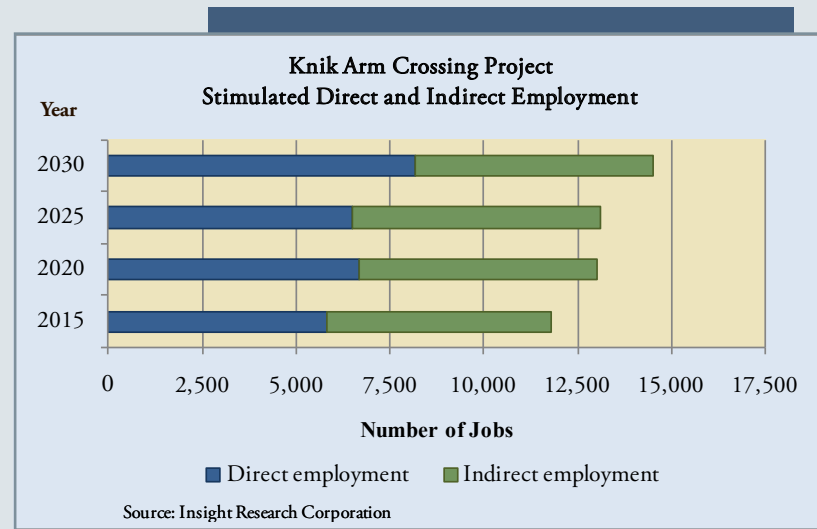
- Improved regional transportation infrastructure to meet existing and projected population growth and locally adopted economic development, land use, and transportation plans, as directed by the Alaska State Legislature in AS 19.75.
- Regional transportation connectivity for the movement of people and the movement of freight and goods to, from, and between the Municipality of Anchorage, the Mat-Su Borough, and Interior Alaska.
- 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.”

Knik Arm Crossing Creates Jobs and Promotes Economic Activity

In 2007, Insight Research Corporation (IRC) studied the projected socio-economic impacts of the Knik Arm Crossing and predicted that the bridge will:

- Generate more than 5,000 construction-related jobs and 3,000 indirect jobs during construction.
- Enable 14,000 additional permanent direct and indirect jobs in the region by year 20 of bridge operation.
- Support \$18 billion of incremental economic activity over the first 23 years.
- Produce \$1.2 billion of tax increment to local governments over the first 23 years of operation.

Since the Knik Arm Crossing is designed for a seventy-five to one-hundred-year life, these economic benefits will continue to accrue to generations of Alaskans.



2010 KNIK ARM CROSSING PROGRESS

NHS Designation—Connecting People and Goods

During 2010 the Knik Arm Crossing was designated an intermodal connector on the National Highway System by FHWA. It has been planned to integrate with the regional transportation network, including highways, ports, airports, and rail, to support domestic and international commerce, and to improve the economic competitiveness of Alaska. Some of the Knik Arm Crossing's key intermodal connections and traffic drivers that are presently undergoing development or expansion include:

The Port of Anchorage

The Port of Anchorage receives approximately 90% of the container freight arriving in Alaska and serves 85% of Alaska's citizens. Much of that freight is destined for the Mat-Su Borough, Fairbanks, the Interior, and the North Slope. The Knik Arm Crossing will become the primary route for truck freight out of the Port of Anchorage to points north and provide intermodal connectivity between the Port and other transportation facilities in the region. Northbound freight will be able to avoid traveling downtown and competing with traffic on the already congested Glenn Highway.

Port MacKenzie

Port MacKenzie is a strategic port that will facilitate and serve resource development projects on the horizon such as the proposed Alaska Gas Pipeline. The Port MacKenzie industrial district includes 8,940 acres of developable industrial land and is the logical location for industrial expansion. Port MacKenzie is presently 82 miles from downtown Anchorage via the existing transportation network. The Knik Arm Crossing will provide intermodal connectivity for Port MacKenzie and access to its industrial district, which will be only 5 road miles from downtown Anchorage. The bridge



Port of Anchorage with bridge rendering

“The Knik Arm Bridge is transformative to the region. Its multi-modal connectivity for the movement of people and freight and the network redundancy and connectivity it provides for safety and security fit perfectly with the department's mission.”

Frank Richards
Deputy Commissioner for Highways and Public Facilities, Alaska Department of Transportation and Public Facilities



Port MacKenzie

2010 KNIK ARM CROSSING PROGRESS (CONTINUED)

relieves Anchorage's industrial land shortage by providing ready access to the industrial land in Port MacKenzie.

Alaska Railroad Corporation

Alaska Railroad Corporation (ARRC) is headquartered in Anchorage, and its main rail yard is adjacent to the Port of Anchorage and the proposed Knik Arm Crossing. The ARRC and Mat-Su Borough are planning a \$200 to \$300 million rail spur to Port MacKenzie. Nearly 5 million tons of freight are projected to be carried annually by rail to and from Port MacKenzie within 10 years of the rail spur opening. The Knik Arm Crossing will serve as an intermodal connection for the ARRC rail yards on each side of the crossing and between the Port of Anchorage, Port MacKenzie, and other components of the National Highway System in Alaska.

Goose Creek Correctional Center

Goose Creek Correctional Center (GCCC) is a 1,536-bed medium-security state prison now under construction in the Mat-Su Borough for an estimated cost of \$245 million. Once opened, this facility will employ approximately 600 people. GCCC is 72 miles from the courts, jails, supplies, and workforce in Anchorage via the existing road network, but only 9 miles from the Knik Arm Crossing. The bridge will save the State of Alaska money in operating the GCCC and provide easy access to workforce and supplies.

"We want to see progress; that social growth, that economic growth, that environmental growth. We want to see [this] happen sustainably. It's not only our right, but our responsibility."

Richard Porter
Executive Director, Knik Tribal Council



The Alaska Railroad



Goose Creek Correctional Center

2010 KNIK ARM CROSSING PROGRESS (CONTINUED)

Tolling Agreement Signed by KABATA, ADOT&PF, and FHWA

In November 2010, KABATA entered into a tolling agreement as required under federal law. The basic terms of the tolling agreement with FHWA and ADOT&PF ensure that the project will be maintained to a high standard and that any surplus toll revenue will be reinvested in eligible transportation infrastructure, including roads, bridges, transit, and trails. In the future, the Knik Arm Crossing will not only be self-sustaining—it could also fund other transportation needs around the state.

Progress on Section 106 of the Historic Preservation Act

Archaeologists from the Mat-Su Borough and the Knik and Eklutna Tribes are recording evidence of a time when all travel was by foot. During 2010, they surveyed nearly 900 acres and recorded 36 new historic and archaeological sites. Some of the information gained included discovery of the technology of early times, which will be preserved for future generations to study and enjoy. KABATA worked with FHWA to develop a Programmatic Agreement that facilitated a collaborative working relationship between the Knik and Eklutna Tribes, the Mat-Su Borough, the Municipality of Anchorage, and the State Historic Preservation Office.

Protecting the Cook Inlet Beluga Whale

The Cook Inlet beluga whale has been a major focus of KABATA's field work and environmental studies during the past year. Research conducted includes whale behavioral responses to structures and passage. In response to concerns that belugas may be hesitant to swim under the bridge, KABATA conducted a search that revealed that belugas actually swam under 14 bridges within the Cook Inlet area and under approximately 35 bridges worldwide.

Acoustic studies were conducted due to the beluga's dependence on sound to find prey, keep track of one another, and navigate the murky waters of glacial melt in the Cook Inlet. Two weeks of scientific sound monitoring found that ambient noise in the Inlet is higher just from the movement of tides than what was once believed to be harmful or cause harassment to these whales. KABATA also engaged a team of marine construction experts that developed construction and design techniques that minimize the impacts and protect the beluga whale.



Beluga whale

The culmination of these studies was documented in the Biological Assessment (BA) and the Letter of Authorization (LoA) application. During 2010, FHWA, a lead agency for this project, submitted the BA to the National Marine Fisheries Service as required under the Endangered Species Act, and submitted the LoA in compliance with the Marine Mammal Protection Act, both of which are important milestones for the progress of the Knik Arm Crossing.

This comprehensive research and engineering has shown that the Knik Arm Crossing can be constructed in a way that is both environmentally friendly and still affordable.

2010 KNIK ARM CROSSING PROGRESS (CONTINUED)

Engineering

During 2010, marine construction experts helped develop techniques, a schedule, and a cost estimate for bridge construction that address the unique challenges of Knik Arm and minimize impacts to the beluga whale. Alaska's Knik Arm area poses engineering challenges including ice, extreme tidal flows, earthquake activity, glacial silt, short construction seasons, and endangered species mitigations. As a result of this effort, KABATA has a practical, constructible project.

In September, members of the KABATA project team traveled to Vicksburg, Mississippi to work with the U.S. Army Corps of Engineers' physical model of the Knik Arm Crossing. While in Vicksburg, the team used the model to simulate the bridge length and observe the effects of different currents, tides, siltation, and other environmental factors that could be affected by the bridge design. This was a joint effort that brought related Knik Arm projects together with representatives from KABATA, the Port of Anchorage, Port MacKenzie, Senator Huggins' Office (Mat-Su Borough), the Coast Guard, and several divisions of the U.S. Army Corps of Engineers. This collaboration was instrumental in providing new information and insights for running the numeric model and refining the bridge design for permitting.



Rendering of in-water construction

Right-of-Way

During this past summer, KABATA updated lidar aerial photo survey information and staked the project alignment through the Port of Anchorage. This updated survey information will help expedite future final design and right-of-way efforts, and with a Record of Decision, right-of-way acquisition can begin.

Public Outreach

Throughout 2010, KABATA has been dedicated to informing the public of project developments by providing various presentations throughout the state. KABATA held their Board of Directors meetings in Anchorage, Wasilla, Juneau, Kenai, and Fairbanks to provide updates as well as receive input from communities that will benefit from the Knik Arm Crossing.

2010 KNIK ARM CROSSING PROGRESS (CONTINUED)

Record of Decision

The decision to build the Knik Arm Crossing is a culmination of years of environmental analyses and engineering to determine whether it is in the best public interest for the federal government to approve the development of the project through a Record of Decision. This outcome is an assurance to Alaskans and the nation that the proposal is environmentally sound, feasible from an engineering standpoint, and economically viable.

Receiving the Record of Decision is an important milestone in the advancement of this project. In short, it recognizes the Knik Arm Crossing as a viable and essential project.



KABATA video on YouTube

A series of videos complete with bridge animation was launched last summer on the popular Web site YouTube, as well as provided on DVD and local television. The videos bring the bridge to life and envision the positive effects the Knik Arm Crossing will have on Alaska's transportation system and economy. The videos can be found embedded on the project home page (www.knikarmbridge.com) and on KABATA's YouTube page (search "Knik Arm Crossing Project" on www.youtube.com). The videos are also provided on the DVD included with this report.

"Every great city in the world has been tied into a body of water... and with that goes ferries, docks, and bridges."

Bill Noll
Former Commissioner,
Alaska Department of Commerce, Community,
and Economic Development

LOOKING AHEAD TO 2011

Obtaining the Record of Decision on the Final Environmental Impact Statement re-establishes certainty and KABATA's focus on project delivery. KABATA's expectation for 2011 is to advance the project toward construction by acquisition of remaining permits, advancing right-of-way, and finalizing procurement activities for a Public-Private Partnership. KABATA intends to utilize the innovation and financial resources of the private sector to deliver the Knik Arm Crossing in Alaska's best interests.

Knik Arm Crossing: An Historical Beginning

1910s Anchorage founded as Alaska Railroad town	1920s Alaska Railroad studies causeway across Knik Arm to shorten route to Fairbanks	1930s Mat-Su agricultural colonization; Glenn Highway constructed	1950s Alaska becomes a state; study of a causeway and tidal power plant across Knik Arm is conducted	1960s Oil discovered in Prudhoe Bay; Parks Highway begins construction	1970s Study of Knik Arm geology recommends bridge crossing as feasible; residential settlement "Seward's Crossing" is proposed across Knik Arm, with monorail crossing	1980s First environmental study of Knik Arm determines project is economically feasible	2000s Updated engineering and environmental studies conducted	2010s... Bridge construction and opening planned
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"The project will improve regional transportation infrastructure to meet existing and projected population growth and will improve the movement of people and freight between the Municipality of Anchorage, the Mat-Su Borough, and Interior Alaska."

Congressman Don Young
U.S. House of Representatives



KABATA BOARD AND STAFF

Board

Michael L. Foster, P.E., *Chairman*

Janet Kincaid, *Board Member*

Dave Haugen, *Board Member*

Senator Linda Menard, *Board Member*

Representative Mark Neuman, *Board Member*

Frank Richards, *Deputy Commissioner for Department of Transportation and Public Facilities, Board Member*

Jerry Burnett, *Deputy Commissioner for Department of Revenue, Board Member*

Staff

Andrew J. Niemiec, *Executive Director*

Kevin P. Hemenway, *Chief Financial Officer*

Dale Paulson, *Deputy Executive Director of Project Development*

Loran Frazier, P.E., *Chief Engineer*

Edrie Vinson, *Environmental/Section 106 Liaison*

Corene Alvarado, *Administrative Manager*

Amanda True, *Administrative Clerk*

Professional Photo Credits:

*Anchorage: All-America City © Alaska Division of Community and Regional Affairs
Alaska Museum of History and Art*

Alaska Pacific University

Beluga photo courtesy of National Oceanic and Atmospheric Administration

Goose Creek Correctional Center photo by Patty Sullivan/MSB

Railroad photo by Tom Charlesworth/Alaska Railroad Corporation

U.S. Geological Service

FINANCIALS

To review the Comprehensive Annual Financial Report (CAFR), please insert the attached DVD into your CD-ROM or DVD drive. The DVD also includes several videos about the project.

KABATA Receives Financial Reporting Award for Fourth Consecutive Year

For the fourth consecutive fiscal year in a row, KABATA has earned the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) of the United States and Canada.

The award is the highest form of recognition in the area of governmental accounting and financial reporting, and represents a significant accomplishment. The CAFR was judged by an impartial panel to meet the high standards of the program, including demonstrating a constructive spirit of full disclosure to clearly communicate its financial story and motivate users and groups to read the CAFR.

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.

"This innovative toll facility not only provides essential transportation infrastructure for Alaska, it leverages limited public funds to create jobs, stimulate economic growth, and enhance livability."

Senator Linda Menard
Alaska State Legislature

Knik Arm Bridge and
Toll Authority

550 West 7th Avenue, Suite 1850
Anchorage, Alaska 99501
(907) 269-6698



• www.knikarmbridge.com

