CAMBRIDGE SYSTEMATICS

Alaska Transportation Finance Study

final report

prepared for

Alaska Municipal League

prepared by

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Executive Summary

The Alaska Municipal League (AML) commissioned Cambridge Systematics, Inc. to conduct an objective assessment of the current finance trends, challenges, and possible options to meet Alaska's transportation funding needs. This work involved a significant amount of analysis and produced multiple layers of findings that have been documented in this report, the Transportation Finance Study. Nevertheless, the work may be summarized into the following three categories of findings.

Under Investment in the State's Transportation Infrastructure

Almost every state and the Federal Government have been chronically under investing in their transportation infrastructure and Alaska is not an exception. Over the last several years, studies at the national and state levels have painted a dire picture of transportation funding over the long term: the average funding gap for the Federal shortfall is almost $60 billion annually through 2017 (10-year average) to maintain the current condition and performance of the nation's surface transportation system.

- Underinvestment in Alaska may have more severe consequences than for almost any other state because the Alaska's economy is highly dependent on resource extraction industries. These industries are highly transportation-intensive; their growth is the most likely offset to declining oil production and may be the State's best opportunity to diversity, but will require investment. In addition, the State's far-flung communities, harsher environment and less mature roadway network amplify the effects of under investment.
- In its 2030 Transportation Plan, the Alaska Department of Transportation and Public Facilities (ADOT&PF) estimated its annual highway and bridge needs at approximately $1.1 billion per year of which about $530 million is unfunded on state-owned facilities alone (excluding local roads and street needs), with Federal and state funding covering about half of the needs.
- In Alaska, routine highway maintenance remains underfunded and the backlog in life-cycle needs is over three times the level of spending in annual highway maintenance activities at the state level. Adding the AMHS unfunded needs, and Alaska's transportation funding gap increases to $720 million. These figures still do not include needs of transit, and locally funded roads, both in urban and rural areas of the State, or aviation. Furthermore, it does not include any transportation capacity needs to meet travel demand growth in the future.

- Alaska's transportation capital spending (from state and local revenue sources) as a percentage of the Gross State Product (GSP) for 2006 is the fourth lowest compared to other states. If Federal funding is included, the transportation spending as a percentage of GSP increases placing Alaska in the top 10 states, clearly indicating the State's reliance on Federal funding to meet its transportation needs.

CURRENT FEDERAL FUNDING AT RISK

Alaska has historically received on average roughly 75 percent of its total transportation funding needs from Federal sources. This dependence is quite likely to put Alaska in a very vulnerable position when the Federal transportation funding is reauthorized next year for the following reasons:

- Federal Highway Trust Fund went broke this past year and Congress provided only one year of stop-gap funding. Longer-term fixes, however, may include lower levels of funding, which would increase state competition for Federal allocations.
- The current negotiations over reauthorization are further reducing the difference between donor states (which have increased in the previous reauthorization from 90 percent of their contribution to 92 percent) and donee states, of which Alaska is one of the highest.
- Reauthorization funding policies appear to place far more emphasis on tolling or other user fees and metropolitan transit/transportation networks, rather than highway funding or legislative earmarking. Some proposals would push greater responsibility to states or cities for financing their transportation improvements.
- Federal support for Alaska's transportation needs is being challenged by other states because of the perception that Alaska's financial capacity is substantially better off than other states. The lower 48 and the Federal government see the Alaska Permanent Fund currently has almost $28 billion and Alaska is the only State that collects neither income taxes nor state sales taxes, and its 8 cents-per-gallon (cpg) gas tax is the lowest rate in the country.

OPTIONS FOR CLOSING THE GAP

In order for Alaska to close some of the gap in underinvestment and improve its competitive position for the next reauthorization of Federal transportation legislation, we propose some options for increasing state revenues with a mix of six sources that include increases to user fees such as the fuel tax and vehicle registrations fees, new sales tax on vehicles and the wider use of local sales taxes, reinstitution of the Local Service Roads and Trails (LSR&T) fund, and establishment of an Alaska Transportation Fund (ATF) or comparable fund.

Option One would generate roughly $151 million annually, or about 28 percent of the $535 million annual gap. It has the following six components:

- Increase fuel taxes from 8 cents per gallon (cpg) to 18 cpg (national average) and index the rate to inflation, generating about $38 million annually.
- Increase vehicle registration fees by 50 percent from $100 to $50 biannual fee, generating slightly less than $23 million annually.
- Impose a vehicle sales tax of 0.5 percent, yielding about $10 million annually
- Encourage local jurisdictions to impose a 0.5 percent sales tax, which if enacted throughout the State would earn about $30 million annually
- Capitalize the Alaska Transportation Fund (ATF) with $1 billion, which with a 8 percent return should earn about $50 million annually.

Option Two would generate roughly $291 million annually, or about 55 percent of the $535 million annual gap. It has the following six components:

- Increase fuel taxes from 8 to 28 cpg and index the rate to inflation, generating about $76 million annually.
- Double vehicle registration fees from $100 to $200 biannual fee, generating over $45 million annually.
- Impose a vehicle sales tax of 1.5 percent, yielding over $31 million annually
- Encourage local jurisdictions to impose a 1.5 percent sales tax, which would earn about $89 million annually
- Capitalize the Alaska Transportation Fund (ATF) with $1 billion, which with a 8 percent return should earn about $50 million annually.

Option Three also would generate $291 million annually (55 percent of the $535 million annual gap), but it would reduce the two sales taxes and instead reinstitutes the Local Service Roads and Trails (LSR&T) fund:

- Same increase in fuel taxes (8 cpg to 28 cpg and index the rate to inflation), generating about $76 million annually.
- Same doubling of vehicle registration fees from $100 to $200 biannual fee, generating over $45 million annually.
- Impose a state vehicle sales tax of 1.25 percent and a 1.25 percent local sales tax, which would earn over $26 million and $74 million annually, respectively
- Capitalize the Alaska Transportation Fund (ATF) with $1 billion, which with a 8 percent return should earn about $50 million annually.
- Assume the State reinstitutes the LSR&T program at about $20 million annually.