

Federal Rural Ferry Grant State Match Briefing

On January 25, 2023, the State of Alaska was awarded grants from the Federal Transit Administration providing for \$285.6 million of new federal funds. The state was awarded six individual grants, requiring varying levels of state matching funds. The total matching funds required to receive these federal dollars is \$105 million. However, several sources can be used to reduce the amount of additional appropriations required.

So how is the state providing the necessary matching funds to capture the Rural Ferry Grant awards?

The first grant will provide funds to operate the ferries and provide service. This grant will provide revenue for the calendar year (CY) 2023 budget, and the necessary match is already appropriated as unrestricted general funds in the CY2023 operating budget. **No further matching funds are needed for this grant however additional Marine Highway System Funds are needed since the operating grant was lower than initially appropriated.**

The second award is a grant to fund construction of a new vessel to replace the M/V Tustumena. This grant provides \$68.4 million of federal funds. The department will use existing match appropriated for this replacement vessel in fiscal year (FY) 2018, funds from the Vessel Replacement Fund. **No further matching funds are needed for this grant.**

The third grant is to fund the design and plans for a future replacement vessel, likely to replace the M/V Matanuska. This grant provides \$8.6 million in federal funds. **\$2.1 million in matching funds from the Vessel Replacement Fund (AS 37.05.550) are being requested from the legislature.**

The remaining three grants are for an electric ferry, to upgrade dock infrastructure, and to modernize existing vessels. These grants will provide \$163.7 million of federal dollars. These grants would require \$40.9 million of matching funds. To meet this requirement the state will be utilizing an innovative finance tool that allows the state to use existing federal dollars to capture these new federal dollars.

The tool by which the state can do this is “toll match credits” (23 USC 120). Toll match credits allow certain toll revenues that were reinvested into maintenance and improvement of a toll facility to be applied towards the state matching funds requirement of certain federal projects. Because the Alaska Marine Highway System is classified as a toll facility, and because the state has reinvested system revenues through the annual overhaul and capital investments, a significant amount of toll credits can be claimed.

These match credits do not replace the funds that would otherwise be present, but instead reduce or eliminate the requirement that matching funds must come from state dollars, in other words it allows the state to use other federal funds in lieu of state funds as match on the three remaining grants. These existing federal funds will come from the annual Ferry Boat Formula Funding provided by the Federal Highway Administration. By leveraging toll match credits, the state is able to capture a significant increase in federal funding for capital improvements on the Alaska Marine Highway. **\$40.9 million of toll credits will be claimed to use Ferry Boat Funds as the matching funds for these grants. These funds are being requested from the legislature as federal funds.**