

HOUSE FINANCE COMMITTEE
February 28, 2001
2:57 PM

TAPE HFC 01 - 35, Side A
TAPE HFC 01 - 35, Side B

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 2:57 PM.

MEMBERS PRESENT

Representative Eldon Mulder, Co-Chair
Representative Bill Williams, Co-Chair
Representative Con Bunde, Vice-Chair
Representative Eric Croft
Representative John Davies
Representative Carl Moses
Representative Richard Foster
Representative John Harris
Representative Bill Hudson
Representative Ken Lancaster
Representative Jim Whitaker

MEMBERS ABSENT

None

ALSO PRESENT

Joseph Perkins, Commissioner, Department of Transportation and Public Facilities; Devon Devon Mitchell, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue.

PRESENT VIA TELECONFERENCE

None

GENERAL SUBJECT(S):

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 22nd Legislative Session, contact 465-2156. After the 22nd Legislative Session they will be available through the Legislative Library at 465-3808.

GARVEEs:
Grant Anticipation Revenue Vehicles
Accelerated Transportation Program

LOG	SPEAKER	DISCUSSION
	TAPE HFC 00 - 35 SIDE A	
000	Co-Chair Williams	Noted that the meeting would be an open forum discussion with the Department of Transportation & Public Facilities regarding the GARVEE bonds (Grant Anticipation Revenue Vehicles).
153	JOSEPH PERKINS, COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES	Distributed a packet of information to Committee members. [Copy on File]. He clarified that the National Highway System Designation Act of 1995 expanded the types of costs that could be financed with federal highway funds. In 1998, the federal Transportation Equity Act for the 21 st Century (TEA-21) increased annual funding for states. State can now use a portion of those funds for debt financing through a mechanism called GARVEEs.
219	Commissioner Perkins	Noted that the Governor had introduced legislation, which would authorize the state, to finance up to \$425 million dollars for much needed transportation improvements, using the financing mechanism of the GARVEE bonds.
328	Commissioner Perkins	Added that a GARVEE is a financial instrument that provides a state with up-front capital for federal aid eligible transportation projects. Commissioner Perkins explained that through the mechanism, the State finances federal aid eligible transportation projects and then makes the payments for their debt obligation with a pledge of a portion of their future highway funds. No one in the federal government has specified a method for financing those projects. Every state has created their own-some have used GO Bonds, some have used revenue bonds and others have used certificates of participation, which the State of Alaska is proposing.
404	Commissioner Perkins	Pointed out that the Governor's GARVEE proposal includes the \$425 million dollars in revenue obligations. The obligations would be paid back in approximately 15 years. It would obligate approximately \$40 million dollars a year, 10% of the current annual federal highway program. It proposes to use the interest from investment of proceeds to pay the state match. Commissioner Perkins briefly discussed

		projects in some of the areas in the Governor's proposed projects.
419	Co-Chair Mulder	Asked about the requirement of the public vote and why the Administration had changed their position from last year.
459	Commissioner Perkins	Replied that last year proposal was a GO Bond credit and that required a vote of the public. During the interim, other states sold them and the market has matured and there then was a change. The change provides the advantage of committing the money earlier. The Administration decided to utilize that method of certificates of participation to cut the time down.
527	Vice-Chair Bunde	Referenced Page 5 of handout and the use of "should" meeting match requirements in reference to the general fund. He suggested replacing that with "would".
562	Commissioner Perkins	Clarified that language should state "will" use general fund dollars. He added that there would be some extra money above the State fund match.
595	Vice-Chair Bunde	Mentioned that there is value in getting "caught up" on State funding. He stressed that the State is spending our grandchildren's money.
641	Commissioner Perkins	Explained that this is how debt financing is done. The State is working with cash flow.
664	Vice-Chair Bunde	Argued that this manner would diminish future income and would present a risk for the future.
676	Co-Chair Mulder	Pointed out that these projects would be done anyway, and that they will not diminish the value of the money. The money would be compressed into this timetable.
734	Commissioner Perkins	Acknowledged that understanding this is a complicated application with the federal government. The project list must be submitted to the federal government. That list must indicate that the State will innovatively finance it. It must be shown that the action will: <ul style="list-style-type: none"> • Save money; and • Deliver projects more quickly. The State has hired a consultant to provide an economic study of cost benefit. When the projects are advanced, the State ends up saving money. It would save the construction inflation.

803	Commissioner Perkins	The result has shown sizeable savings. Commissioner Perkins offered to bring the consultant to a Committee meeting to explain the numbers.
870	Representative Davies	Spoke to the difference of the construction inflation rate and the bond interest rates.
912	Representative Lancaster	Noted that it is important to take into consideration also the discount rate in addition to the repayment rate. He suggested with both of those put in place, there might not be an offset. He added that it is important to take the safety of the infrastructure into account.
942	Representative Croft	Asked about the general structure. He commented that \$40 million would be allocated each year for 15 years. Borrowing on that money, receive a "chunk" of money upfront and then build some projects. He noted that there would be a State match on those projects. The earned interest would be used to pay the State match.
1000	Commissioner Perkins	Indicated that was correct and that it was a very good proposal from the feds.
1031	Representative Croft	Questioned if the State had the capacity to meet the GARVEE loan with Alaska contractors.
1063	Commissioner Perkins	Replied that Alaska does and that he would address that further into the discussion. He provided examples of the current construction market in Alaska. Commissioner Perkins stated that he had included the member's packets, the last four bids that are opened in the State. It includes the number of bidders, which is important, and the dollar spread, which is high. For every bid won, there were three or four losers, who are still looking for more work.
1105	Commissioner Perkins	Continued an overview of the GARVEE projects. <ul style="list-style-type: none"> • Northern Region - \$109 million • Central Region - \$246 million • Southeast Region - \$70 million He noted that \$147 million dollars had been scheduled for Anchorage. He referenced Page 8 of the handout listing each of the projects.
1239	Commissioner Perkins	Added that \$67 million dollars would be allocated for various roads in the Mat-Su

		Borough. He added that there would be \$67 million dollars allocated in Fairbanks. Commissioner Perkins pointed out that \$70 million dollars was allocated for Southeast Alaska for the two high-speed ferries.
1294	Commissioner Perkins	Stated that all of these projects are needed and will be built. The questions are if they will be built in the next five years or within the next 12-15 years. The only other way to fund these projects would be through the use of Statewide Transportation Improvement Program (STIP) funds.
1318	Commissioner Perkins	Explained that the Governor's GARVEE package would work as follows: After Legislative approval, the State would sell, \$425 million dollars in revenue obligations or GARVEEs. Department of Revenue expects GARVEEs to have the following terms. There would be a pledge of future highway funds subject to an annual appropriation to the Legislature. That would mature after 15 years; and the annual payment would be about \$40 million dollars. The annual payment would be about 10% of the <u>present</u> annual federal highway allocation. He added that it is expected that the allocation will increase over the years.
1396	Commissioner Perkins	Stressed that enough interest would be made on the State's proceeds to pay the State's matched requirements.
1426	Commissioner Perkins	Mentioned the biggest benefit to the State would be the ability to use the project now. Big projects can be done under the GARVEE program without taking a big dent in the program. Using the funds will level the program out. It is taking some of the big projects, funding them on an installment method. Future construction and inflation costs could be avoided.
1500	Commissioner Perkins	Commented on the price of right-of-way for the State. On the next project on the Park's Highway, over \$7 million dollars of the funds went to right-of-way costs. The Department will not purchase right-of-way without the STIP funding, however, under the GARVEE program, there will be no purchase of right-of-way until the project is ready.
1554	Commissioner Perkins	Acknowledged that the general fund match

		would provide a small hole in the STIP program for future projects.
1584	Representative Hudson	Asked how firm was the number of \$425 million dollars. He asked how that amount was determined.
1612	Commissioner Perkins	Replied that it was predicated on the project lists submitted from the cities and boroughs. He emphasized that there is no trouble finding projects that the communities want. Most of the time, the other states that have done this previously, have attempted to stay at 10-11% of their program.
1680	Vice-Chair Bunde	Commented that the Department chooses projects based on input from the communities.
1698	Commissioner Perkins	Acknowledged that was correct. He noted that the Department had determined some of the projects.
1730	Commissioner Perkins	He continued that to implement the Southeast Plan to provide better service and reduce operational costs, the fast ferries need to be on line.
1747	Commissioner Perkins	Addressed questions from other Committees. One question is "What happens if future federal dollars dry up". He stated that Alaska's share of the federal highway funds would continue to increase as long as the feds have an 18% gas tax. Commissioner Perkins pointed out that the way that the trust fund is handled, 90% of that money must be appropriated and that Alaska gets 1% of that formula. He did not expect that Alaska would lose its 1%.
1836	Commissioner Perkins	Advised that the financial market (Wall Street) is comfortable with the current marketing procedures.
1855	Commissioner Perkins	Noted that another question asked is the impact on the in State contractors. He noted that from bid results, there are contractors with a lot of capacity in Alaska. Industry has the capacity to meet the demand. He added that the question of school bonds have come up. He stated that those are non-competitive areas. The contractors on the list distributed, would not bid on a school.
1908	Commissioner Perkins	He continued addressing questions asked: Will accelerating the projects overheat the economy. He did not believe that would happen. The yearly cash flow from the program, the maximum construction in

		any one-year would be about \$100 million dollars. He noted that the ferries would not be built in the State. At this time, state construction averages about \$4 billion dollars a year. \$100 million would not be a huge increase to the construction market.
1980	Commissioner Perkins	Continued, eight other states have already issued the GARVEEs at this time and five other states are looking closely at the program. The GARVEE bond ratings have been excellent. Alaska's bond rating would translate into favorable interest rates.
2030	Commissioner Perkins	Spoke to the resolutions from the various boroughs contained in member's file. He noted the letters of support from the Alaska Truckers Association, Southeast Conference and the Alaska Municipal League (AML).
2064	Commissioner Perkins	Summarized that the GARVEE financing would accelerate \$425 million dollars. That would provide the economic benefits and safety sooner. Commissioner Perkins commented that the funding would be a great benefit to the State.
2093	Representative Hudson	Requested information in how other states use the mix of "other" funding and how they use their gas taxes to pay it off.
2125	Commissioner Perkins	Replied that most other states have a dedicated gas fund, which is dedicated to the transportation costs of that state. Alaska's gas tax goes into the general fund making it not accessible.
2143	Representative Moses	Asked why his district had not been included.
2162	Co-Chair Mulder	Asked what the bond sales rate would be if the State followed through on the GARVEE deal.
	DEVON DEVON MITCHELL, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL BOND BANK AUTHORITY, DEPARTMENT OF REVENUE	Responded that for the Governor's bill had attached a fiscal note prepared with an interest cost rate at 5.8%. If the bonds were issued right now, the State would be about 1% below that number. He commented that a more realistic issuance would be in the \$38 million dollar range with a shift of 30 basis points.
2233	Co-Chair Mulder	Exclaimed that was a very fair interest rate.
2240	Representative Whitaker	Asked if something was being sold.
2251	Mr. Mitchell	Explained the difference between the

		GARVEE and the tobacco sale issuance received by the State.
2270	Co-Chair Mulder	Requested more information that itemized the projects for Committee members.
2294	Representative Hudson	Requested a comparison graph of the GARVEE bonds, securization and standard bonds. He asked what the numbers would look like if the State floated the bonds.
	TAPE HFC 01 - 35, Side B	
016	Mr. Mitchell	Offered to put that information together.
069	Representative Davies	Commented that the State bonds can be used for other things, whereas, the GARVEE can only be used for specific transportation related concerns.
088	Representative Harris	Asked the total amount of anticipated, per year federal highway funds.
111	Commissioner Perkins	Replied that the State is currently at \$400 million per year. He estimated that there would be an increase of 4-5% per year. Most other states are at 10% of yearly average.
153	Representative Whitaker	Asked if this would preclude the State loosing our federal match for any given year.
191	Commissioner Perkins	Advised that the State would not be loosing "anything" when receiving the GARVEE deal.
215	Co-Chair Williams	Voiced his appreciation for the Department's testimony.
240	Co-Chair Williams	<u>ADJOURNMENT</u> The meeting was adjourned at 3:50 P.M.