

**ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE**

February 12, 2009

1:06 p.m.

MEMBERS PRESENT

Representative Peggy Wilson, Chair
Representative Craig Johnson, Vice Chair
Representative Kyle Johansen
Representative Cathy Engstrom Munoz
Representative Mike Doogan

MEMBERS ABSENT

Representative John Harris
Representative Max Gruenberg

COMMITTEE CALENDAR

Presentation: Alaska Transportation Finance Study

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

DENISE MICHELIS, Mayor, City of Nome; President
Alaska Municipal League (AML)
Nome, Alaska

POSITION STATEMENT: Testified on behalf of the AML during the presentation on the Alaska Transportation Finance Study.

CHRISTOPHER WORNUM, Principal
Cambridge Systematics
Oakland, California

POSITION STATEMENT: Testified and answered questions during the presentation on the Alaska Transportation Finance Study.

JEFF OTTESEN, Director
Division of Program Development
Department of Transportation & Public Facilities (DOT&PF)
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of the Alaska Transportation Finance Study.

PETER FREER, Staff Assistant/Project Manager
Alaska Municipal League (AML)
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of the Alaska Transportation Finance Study.

ACTION NARRATIVE

[1:06:45 PM](#)

CHAIR PEGGY WILSON called the House Transportation Standing Committee meeting to order at 1:06 p.m. Representatives Doogan, Johnson, and Wilson were present at the call to order. Representatives Munoz and Johansen arrived as the meeting was in progress.

Alaska Transportation Finance Study

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CHAIR WILSON announced that the only order of business would be an overview of the Alaska Transportation Finance Study (ATFS). She explained that the Alaska Municipal League would provide an overview and the contractor will review the findings of the study.

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DENISE MICHELS, Mayor, City of Nome, and President, Alaska Municipal League, began her presentation by reading a statement [original punctuation provided]:

Good afternoon, my name is Denise Michels. I serve as the Mayor of Nome, Board President of the Alaska Municipal League and Vice President for Community Services Division at Kawerak. Within Kawerak I manage the Indian Reservation Roads Program for the Bering Straits Region. I was also honored to participate as a Stakeholder for DOT's [2030] Long Range Transportation Plan update.

The Alaska Municipal League represents the unified voice of Alaska's municipalities to successfully influence favorable federal and state legislation. We also build censuses and partnerships with

organizations and the public to solve Alaska's challenges.

Last year members of AML began discussing issues regarding transportation and energy. We came up with a plan to communicate, collaborate, and bring ideas to help solve some of our transportation issues. AML created a transportation ad hoc committee which developed a transportation policy for the AML board's consideration.

At our November annual meeting energy and transportation were included in our priorities. The membership adopted Resolution number 2009-12, urging the Governor and the Legislature to capitalize long-term transportation funding for Alaska.

The Highway Trust Fund ran out of money last fall, and was re-capitalized with a general fund transfer, but it's widely viewed as insufficient to fund state highway programs at the same levels as the past. Re-authorization of federal highway legislation, i.e., SAFETEA-LU, may shift funding away from rural states, and move toward greenhouse gas reduction, transit and congestion relief in the country's major metropolitan areas. Both these factors will work against the interests of Alaska. Alaska is one-fifth the size of the U.S. and our transportation needs are great both for rural and urban Alaska. The State of Alaska needs to create a reliable option of transportation funding to meet the unmet transportation demands.

In October 2008, the Alaska Municipal League (AML) contracted with Cambridge Systematics, who specializes in transportation finance analysis. They were tasked to examine state transportation funding, trends in transportation funding in other states, and changes anticipated in federal transportation funding. Due to the short timeline and limited funding for the study, the primary focus is on surface transportation. We did not fail to recognize the critical importance of the marine and aviation components of the state's transportation system, but simply to give us a place to start. We understand that we must look at those systems for a holistic approach to intermodal transportation.

AML firmly believes that transportation and its support systems are just the foundation for economic development. The transportation systems must be safe, reliable, efficient, cost effective and environmentally sound, most important adequate funding is required to meet these specifications.

We hope that this report will start the discussion about how the State of Alaska will address the looming shortage of highway funding for our transportation system. We believe this report has information, data and statistics for us to work together to consider various funding options.

The consultant has been working for three months through a series of reviews by our project steering committee that consists of former DOT commissioners Joe Perkins, Mark Hickey and Mike Burton; Former Deputy Commissioner John MacKinnon; Tom Brigham former Director of Statewide Planning; Dan Sterley with CH2MHill; John Duffy, Borough Manager for Mat-Su; Michael Catsi with SWAMC and AML staff. We are pleased to have Chris Wornum, a Principal with Cambridge Systematics, and project manager for the Alaska Transportation Finance Study, here to present the report. We welcome your thoughts and ideas, and hope that today will be the start of a continuing dialogue on transportation funding.

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CHRISTOPHER WORNUM, Principal, Cambridge Systematics, Inc. explained that the report contains many statistics, but he offered to summarize and provide the committee with a brief synopsis of Cambridge Systematic, Inc.'s Alaska Transportation Finance Study (ATSF) objectives. He asked to focus on three points of the study. First, the study identifies that an underinvestment exists in the state's infrastructure. He offered to provide information based on studies prepared by others since that topic was not central to this study although the ATSF study did review the material. This study focuses on the current risk in state of federal funding diminishing because of the changes currently happening. However, federal funding is more likely to diminish with the reauthorization of the federal transportation bill, he opined. He related that given the risks, and the state's dependence on federal funding, such that roughly 75 percent comes from federal funding, that the study

seeks to provide some options to diminish dependence and to help close the current gap between needs and revenues.

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MR. WORNUM reviewed the findings and recommendations addressing the six questions posed by the AML. First, Cambridge Systematics, Inc. (CSI) was asked to describe some of the current transportation finance trends in the operating and capital needs of the state. Additionally, CSI was asked to identify the federal funding priorities and the changes in the reauthorization of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), and what effects the changes may have on Alaska.

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MR. WORNUM continued. The Cambridge Systematics, Inc. (CSI) was asked to focus on transportation finance trends that rely more on user fees, public-private partnerships, and other financing tools used to leverage and match federal funds. He emphasized that the CSI was asked to identify strategies that could address transportation financing challenges. Finally, the CSI was asked to examine funding options, examine new funding sources, and offer ways those options could be used in a portfolio of funding the state could develop.

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MR. WORNUM indicated he would like to focus on three topics. First, he noted the underinvestment in the overall state transportation network. He related that the state's economy is highly dependent on resource extraction and traded industries, or those industries that depend upon linkages to ports, rail, air, and other ways to export their products. He related that due to the intensity in the state in the traded industry sector, Alaska's economy depends more than some states on transportation. Additionally, the growth in the other industries has become a way to offset declining oil production, and to encourage economic diversification. Thus, there exists a higher degree of concern than most states about adequate transportation network service. Mr. Wornum remarked that Alaska has some long term underlying conditions that make the transportation network important to the quality of life.

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MR. WORNUM explained that CSI reviewed the "Let's Get Moving 2030: Alaska Statewide Long-Range Transportation Policy Plan (February 2008), commonly referred to as the "2030 report", which represents a comprehensive analysis of Alaska's needs. It would appear that of the \$1.1 billion annually needed to maintain Alaska's highways and bridges, that roughly half is unfunded. Adding in the Alaska Marine Highway System (AMHS), the figure swells to \$720 million per year, he stated. He indicated that the backlog for life-cycle and routine maintenance as of 2007 is \$750 million. Additionally, the state is roughly \$104 million annually behind what is needed to maintain the current conditions.

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MR. WORNUM stated that finally, for AMHS, of the \$180 million needed annually, the state only collects \$44 million in revenues to keep the system operational. He highlighted that none of these findings takes into account maintenance on the transit system's locally urban and rural roads, aviation, or adding any capacity to handle additional growth.

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MR. WORNUM, in response to Chair Wilson answered that road maintenance is included, but vessel replacement has been included. He explained that the life-cycle costs for AMHS include vessel replacement, just as on roadways, certain components cycle through for replacement.

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MR. WORNUM explained that maintenance was not the major focus of the study. He acknowledged that the 2030 report is a comprehensive study with conservative assumptions. He explained the major impetus of the Cambridge study, confirmed by stakeholders, was that the continued dependence on federal funding places Alaska at risk. He explained that past federal policies are being examined more closely in Washington D.C. He offered one measurement to determine the level of the state's dependence on federal monies is to examine the level of spending on transportation as compared to the gross state product. When examining all states, Alaska falls in the top ten states in terms of spending money on transportation infrastructure. This includes maintenance and capital expenditures. He stated that the average for surface transportation spending as a percentage of gross state product (GS) is 1.55 percent and Alaska is close

to 2 percent [Figure 2.4]. However, when examining the net of federal money that is spent, the state drops to average or slightly below average. In terms of capital expenditures, for building more transportation infrastructure than Alaska drops to the lowest 4 percent. Thus, if federal monies decline, the state's ability becomes severely constrained given the current spending patterns.

MR. WORNUM stated that by examining the risks of the federal funding declining and the Federal Highway Trust Fund (HTF), which is the funding distributed to all states by formula levels. He stated that the authorized program level through 2015 is flat as federal gas tax is forecasted to increase, but fuel efficiencies for vehicles is improving, so despite that overall vehicle mileage is up, the fund does not generate more money. In fact, last year the HTF declined to the point that the Congress funded \$8 billion dollars as a one-year stop gap funding. He offered that longer term fixes being discussed as part of reauthorization all include a lower level of spending. He opined the federal stimulus bill will help offset the problem for approximately one year.

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MR. WORNUM stated that given the deficit and negative balance in the HFT, he predicted that the reauthorization will not have increases that the Transportation Equity Act for the 21st Century - 1998 (TEA-21) and SAFETEA-LU. He said, "At least that's what people that I work with in Washington D.C. are telling us." He identified transportation reauthorizations consisting of TEA-21 and the current reauthorization, SAFETEA-LU, and projected that the next reauthorization is slated to go into effect next year. He stated that of the donor states, those states that contribute more to the HTF, that those states received 90 percent in TEA21 and 92.5 percent in SAFETEA LU, with projections of 95 percent in the next reauthorization. He related that Alaska is the largest recipient, that it receives more money than it contributes than any other state. He concluded that the effect of the increasing donor share to other states means that Alaska will stand to receive a lot less funding.

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MR. WORNUM, in response to Chair Wilson, answered that the number of square miles is not considered, although route miles

are considered. He surmised that the federal formulas undergo enormous scrutiny.

CHAIR WILSON inquired as to whether any consideration is given to the argument that Alaska is a young state and has only received federal funding for 50 years, while some states have received funding for over 150 years.

MR. WORNUM agreed that argument has entered into the debate. He offered his belief that many good arguments can be made for Alaska's current share of federal spending. He pointed out that 69 percent of land in Alaska is owned by the federal government; and that Alaska has far flung communities with expensive marine and aviation connections that other states do not have. He indicated the Cambridge Study lists many of the conditions. However, he stressed that the problem with the proposed reauthorization is a change in value. He related that transportation needs may be considered a utility rather than a basic good. Thus, the basic notion is that instead of transportation needs being considered as a benefit for the entire society, it may be considered more as a utility, in which users pay for a connection charge to gain access, plus an ongoing rate for the supply of the good. He offered that many roadways nationwide are completely capacity constrained and have no way to build more capacity, and more and more pricing will be added. While it is not a revenue source that is particularly effective in Alaska, pricing is an emphasis in the Lower-48. He opined that if the next reauthorization considers pricing, Alaska will be at a competitive disadvantage. Additionally, earmarks are likely to diminish, he stated. He projected that states will be asked to be more self-reliant.

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MR. WORNUM pointed out the Lower-48 and Washington D.C.'s perspective Alaska has an the enormous amount money parked in the Alaska's Permanent Fund; Alaska has the lowest gas tax rate in the nation; Alaska has no state income or sales taxes and is the only state that does not have one or the other. He opined these conditions put Alaska at a significant disadvantage to compete for its share of federal funds.

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MR. WORNUM stated that the options the CSI considered includes user fees, which range from instituting a toll to an increase in

the gas tax, or anything that assesses a price to a roadway user that sends the signal that it costs the state more to provide the service.

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MR. WORNUM, in response to Chair Wilson, agreed that the state cannot impose a toll on an interstate highway. However, he mentioned that may change as many bills have been introduced to allow tolls. He related that many states have "hot lanes" which are carpool lanes with a toll for single occupants who wish to drive in the lane. He opined that the idea is to present a more diverse portfolio, one that is not so dependent on a single source of revenue, that is likely to be affected by the volatility of the business cycle, one that has some pricing to change behavior, as well as other criteria, such as yield, reliability, and equity. He related that the ATFS includes sources and tables in the report. He mentioned that the ATFS examines the economic efficiency.

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MR. WORNUM pointed out that the proposals are intended to show possibilities and yields in terms of the amount of money that would be generated for transportation needs. He offered some examples.

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MR. WORNUM related that option one would generate roughly \$151 million annually or about 38 percent of the unfunded gap of \$535 million identified in 2030 funding. Option one has five components. First, an increase in the fuel taxes from 8 cents per gallon (cpg) to 18 cpg, which is the national average. Second, an increase in vehicle registration fees by 50 percent would generate slightly less than \$23 million annually. Third, imposing a vehicle sales tax of .5 percent would yield about \$10 million annually. Fourth, encourage jurisdictions statewide to impose a .5 percent sales tax, which would yield about \$30 million annually, and capitalize the Alaska Transportation fund with \$1 billion, which should earn approximately \$50 million annually.

MR. WORNUM reviewed option two, which would generate about \$291 million annually or about 55 percent of the \$535 million annual gap. That scenario would raise the fuel taxes to 28 cpg and index the rate to inflation, generating about \$76 million

annually. Registration fees would double from \$100 to \$200 biannual fee, which would generate about \$76 million annually. The vehicle sales tax would be raised to 1.5 percent, which would yield over \$31 million annually. This option would encourage local jurisdictions to impose a 1.5 percent sales tax, which would generate about \$50 million annually. Finally, again capitalize the Alaska Transportation fund with \$1 billion, which should earn approximately \$50 million annually.

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MR. WORNUM reviewed the third option, which would also generate \$291 million annually, but it would reduce the two sales taxes and instead reinstitute the Local Service Roads and Trails (LSR&T) fund. He detailed the scenario, explaining that it would also increase fuel taxes to 28 cpg, would also double the vehicle registration fees. This option would impose a vehicle sales tax of 1.25 percent and a 1.25 percent local sales tax, which would earn \$26 million and \$74 million annually, respectively. This option would also capitalize the Alaska Transportation Fund with \$1 billion, which should earn approximately \$50 million annually. Finally, this option would reinstitute the LSR&T program at about \$20 million annually. MR. WORNUM offered that other sources could also be considered. He related that there is an enormous amount of ease in collecting gas tax as opposed to collecting tolls.

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MR. WORNUM reviewed the gas tax since this tax has the potential in Alaska. He surmised that it is very hard to understand the retail cost for gasoline. He offered that CSI has performed analysis in other states, have examined trends, and it is far more complicated than it appears. He said that somehow a net increase or decrease in gas tax results in a net increase or decrease at the pump. He offered that CSI reviewed the data in Alaska, and indexed it to August 2007, recalling that crude oil prices peaked in June or July then fell rapidly. However, in examining the national price of gas during that same period, he said that it follows the trend pretty closely. He noted that gas prices were already declining when the gas tax was suspended. During that period, he offered that the national average in fuel prices declined 21 percent, but Alaska only declined 12 percent. He explained that this trend occurs in many states such as Washington, New Mexico and Massachusetts. It is difficult to see how changes in the gas taxes affect the retail cost of gas, he opined. He explained that in economics,

that is considered a second derivative, such that the tax may add to the overall cost of fuel, but it is not clear that it changes the price at the pump. He further explained that this is due to the complicated distribution system, the oligopolies that control distribution, refinement, and shipping, with each one affecting the price of gas.

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MR. WORNUM, in response to Representative Johnson, explained that the CSI considered forms of innovative financing. He responded that bonding requires a revenue source. He related that some innovative measures put forward as part of a program in SAFETEA that uses debt instruments that allow local and state agencies to subordinate their public debt to private debt. He referred to this type of debt instrument as public/private partnerships which can be very effective, he opined. However, the public/private partnerships do not pay for projects, but advance the timing of the project so that it can be built sooner rather than later. He said, "You are still stuck with the bill and it still requires some source of money."

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REPRESENTATIVE DOOGAN related his understanding that even with the current federal funding scheme the state is not receiving or spending enough money on roads and bridges; and the likelihood is that federal appropriations will shrink. And that "even if we tax ferociously at all levels, we're still going to end up with a gap between what we've got to spend and what's been identified as what we should spend on roads and bridges in Alaska."

MR. WORNUM agreed that was a fair summary of the CSI findings.

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MR. WORNUM, in response to Representative Johnson, that the list of required projects came from the "Let's Get Moving 2030: Alaska Statewide Long-Range Transportation Policy Plan (February 2008), commonly referred to as the "2030 Report." He characterized the plan as a comprehensive plan of maintenance and capital investment. In further response to Representative Johnson, Mr. Wornum explained that the "2030 Report" is prepared by a contractor for the DOT&PF.

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REPRESENTATIVE MUNOZ asked which municipalities would contribute 30 percent of the funding and how the CSI would deal with areas of the state that are not incorporated, with respect to the 70/30 plan.

MR. WORNUM explained that this is intended mostly for jurisdictions that have the tax base and can contribute 30 percent, but that some unincorporated regions would not be able to participate. He said, "so, not a silver bullet across everyone."

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REPRESENTATIVE DOOGAN offered that he was unsure of how much growth is built into the document. He inquired as to whether the plan includes building a road to Nome.

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JEFF OTTESEN, Director, Division of Program Development, Department of Transportation & Public Facilities (DOT&PF), answered that some new mega projects on the "2030 report" such as the Juneau access road. He stated that the road to Nome had not yet been identified. The vast majority of the roads contained in the "2030 report" supplement roads that are grossly under serving the population such as the roads in the Matanuska-Susitna area.

REPRESENTATIVE DOOGAN offered his belief that it seems to him that if Alaska cannot afford the road systems it currently has, that perhaps it needs fewer roads. He inquired as to whether any other alternative might allow the state to afford a reasonable road system.

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MR. WORNUM acknowledged other states currently face the same problem. He offered his belief that there are not any easy solutions. He said that rural states face challenges to maintain a network that was built during an economic upturn. Some areas face challenges with congested urban roadways, and adding roads is not an option. Additionally, rural communities have long distances to travel and believe their economic betterment depends on roads. He mentioned a huge area in the middle of the country, and Appalachian states fit that category.

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MR. WORNUM related evidence supports that under some circumstances, maintaining a road to a rural community will allow the community to sustain or grow. However, some evidence supports the idea that the communities will shrink. He offered the question that some states ask themselves is whether they need to spend money given that trend. He offered that these states are establishing performance measures and criteria, to determine when to stop investing in a roadway system and to consider downsizing. He mentioned some solutions in urban settings include intelligent transportation systems such as light rail, pricing, carpooling that will reduce or better manage demand. He emphasized that especially in the rural context the cost encountered for per mile or per person served is enormous.

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CHAIR WILSON recalled that she heard that a municipality cannot sustain itself with a sales tax of 8 percent or higher. She related her community already has a 7 percent sales tax. She asked for clarification on whether the proposed taxes took into consideration current sales taxes in Alaskan communities.

MR. WORNUM offered to review the data. He stated that he has not heard of a magic limit for sales taxes. He offered that some states collect more than 8 percent sales taxes. He offered his belief that the effects become more acute when one community imposes a sales tax and another does not. He opined that Europe currently has a 33 percent value-added tax.

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MR. WORNUM, in further response to Chair Wilson, reiterated that he was not familiar with an upper limit on sales taxes that a community can absorb.

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REPRESENTATIVE MUNOZ suggested that a tax might need to be a state sales tax, since the state cannot force local jurisdictions to tax themselves.

MR. WORNUM responded that he was not suggesting that the state force communities to impose sales taxes. However, he stated that a community might be inclined to vote for a sales tax if

the state offered an incentive to leverage state money. He recalled this practice has been used in other states and the projects funded are important to the communities. He opined that a state tax is not as compelling to some voters.

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REPRESENTATIVE JOHANSEN inquired as to whether Washington D.C. recognized transportation funding as a nationwide challenge.

MR. WORNUM agreed that the Washington D.C. understands the magnitude of the issue. He related that Washington D.C. is examining interstate costs and opined that the Congress would like to delegate transportation costs to the state and local level. He speculated that the direction seems to be for states to do more to solve issues with the taxing and revenue raising capabilities they have.

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MR. WORNUM, in response to Representative Johansen, explained that the 18 cent per gallon gas tax has paid for most of the interstate road systems. The HTF is the source for the funds for the Federal-Aid Highway Act of 1956. The Federal-Aid Highway Program (FAHP) is distributed to the states. He indicated that a proposal to raise the gas tax by 10 cents per gallon to recapitalize the HTF. He agreed that the infrastructure in many states is mature, and offered that there are compelling reasons for Alaska to receive a larger share of federal funding. He said he was not certain how the argument will hold up given that Alaska has opportunities to generate its own revenue.

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MR. WORNUM, in response to Chair Wilson, stated that Washington D.C. might understand that legislators cannot use the permanent fund. However, he noted that Washington D.C., will notice that Alaska is not taxing itself as other states.

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MR. FREER, in response to Chair Wilson, answered that he is not certain if the AML Executive Director, Kathy Wasserman has had discussions with other committee chairs, but offered that the AML would be willing to bring the report to any committee.

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MR. FREER, in response to Representative Johansen, explained that the Alaska Transportation Finance Study has been paid for by diversified funding from the DOT&PF, the Matanuska-Susitna Borough, the Municipality of Anchorage, the Association of General Contractors (AGC). He related that additional funding is being sought by other sources. In further response to Representative Johansen, Mr. Freer answered that the report is an AML report. He stated that the report lists a number of options rather than recommendations. He offered that the AML does not know what the right mix of funding will be to achieve the goals of expanded state funding. He mentioned the AML thought the proper forum for an adjudication of that would be by the legislature.

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MS. MICHELS interjected that she received the CSI report last week. She stated that the recommendations have not yet been vetted by the AML, but that she plans to do so. She offered to provide the committee with the results.

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REPRESENTATIVE JOHANSEN thanked Ms. Michels for hosting members of the legislature in Nome.

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REPRESENTATIVE MUNOZ inquired as to how much bonding authority would be necessary for a fuel tax that generated \$760 million per year.

MR. WORNUM answered that a rough rule would be a factor of ten.

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ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 2:02 p.m.