

**ALASKA STATE LEGISLATURE  
HOUSE TRANSPORTATION STANDING COMMITTEE**

October 1, 2009

9:41 a.m.

**MEMBERS PRESENT**

Representative Peggy Wilson, Chair  
Representative Kyle Johansen  
Representative Cathy Engstrom Munoz  
Representative Mike Doogan  
Representative Max Gruenberg

**MEMBERS ABSENT**

Representative Craig Johnson, Vice Chair  
Representative John Harris

**OTHER LEGISLATORS PRESENT**

Senator Linda Menard  
Representative Mike Kelly

**COMMITTEE CALENDAR**

ALASKA TRANSPORTATION NEEDS AND CHALLENGES - DOT/PF

- HEARD

**PREVIOUS COMMITTEE ACTION**

No Previous Action to record

**WITNESS REGISTER**

LEO VON SCHEBEN, Commissioner  
Department of Transportation & Public Facilities (DOT&PF)  
Juneau, Alaska

**POSITION STATEMENT:** Testified and answered questions during the Overview of Alaska Transportation Needs and Challenges.

CHRISTINE KLEIN, Deputy Commissioner  
Aviation  
Department of Transportation & Public Facilities (DOT&PF)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented the Aviation portion of the Overview of Alaska Transportation Needs and Challenges.

ROGER MAAGARD, Rural System Airport Development Manager  
Statewide Aviation  
Department of Transportation & Public Facilities (DOT&PF)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented and answered questions on the rural airports.

JIM BEEDLE, Deputy Commissioner of Marine Operations  
Marine Highway System (AMHS)  
Department of Transportation & Public Facilities (DOT&PF)  
Juneau, Alaska

**POSITION STATEMENT:** Testified and answered questions during the overview of Alaska Transportation Needs and Challenges.

FRANK RICHARDS, Deputy Commissioner  
Highways and Public Facilities  
Department of Transportation & Public Facilities (DOT&PF)  
Juneau, Alaska

**POSITION STATEMENT:** Testified and answered questions during the Overview of Alaska Transportation Needs and Challenges.

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

**POSITION STATEMENT:** Answered questions during the update of the Alaska Transportation Needs.

REPRESENTATIVE MIKE KELLY  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Asked questions during the DOT&PF update.

KATHIE WASSERMAN, Executive Director  
Alaska Municipal League (AML)  
Juneau, Alaska

**POSITION STATEMENT:** Testified and answered questions on Alaska's transportation needs.

JIM REED, Transportation Program Director  
National Council of State Legislatures (NCSL)  
Denver, Colorado

**POSITION STATEMENT:** Presented and answered questions during the Overview of Alaska transportation Needs and Challenges.

LARRY PERSILY, Staff

Representative Mike Hawker  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Testified and answered questions on funding options for a long-range transportation initiative.

PETER MILLS  
Dye Management, Inc.  
Victoria, British Columbia

**POSITION STATEMENT:** Provided a PowerPoint presentation on State Infrastructure Banks and Other borrowing instruments.

### **ACTION NARRATIVE**

[9:41:46 AM](#)

**CHAIR PEGGY WILSON** called the House Transportation Standing Committee meeting to order at 9:41 a.m. Representatives Wilson, Johansen, Munoz, Gruenberg, and Doogan were present at the call to order. Also in attendance were Representative Mike Kelly (via teleconference) and Senator Linda Menard.

[9:44:31 AM](#)

The committee took an at-ease form 9:44 a.m. to 9:49 p.m.

[9:49:14 AM](#)

Overview: Alaska Transportation Needs and Challenges - DOT&PF

[9:50:36 AM](#)

CHAIR WILSON announced the only order of business will be an Overview of Alaska Transportation Needs and Challenges - DOT&PF. She remarked on the committee work the past two days as the committee traveled to review rural and urban airports and roads. On Tuesday the committee flew to Bethel to discuss transportation issues, toured three airports, and the road system. Yesterday, the committee toured Anchorage by bus to consider urban issues. The committee traveled the Seward Highway and discussed the Highway Safety Corridors.

[9:53:42 AM](#)

LEO VON SCHEBEN, Commissioner, Department of Transportation & Public Facilities (DOT&PF), explained that the DOT&PF has been

extremely busy since the passage of the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA increased the DOT&PF funds by about 20 percent. The DOT&PF received approximately \$170 million in ARRA funds, was required to obligate 50 percent by midsummer, and has more than met that requirement. The DOT&PF has 19 ARRA projects in full swing this year. Of the states that receive ARRA funds, Alaska is ranked 13th in terms of spending its share and 38th nationally for meeting spending obligations. The Federal Highway Administration (FHWA) currently has the federal aid agreement in hand, which essentially tells the FHWA that the state intends to spend all of the 2009 funds.

MR. VON SCHEBEN offered to briefly touch on the state's needs. First, he explained Alaska's needs dictate about \$8 billion of required transportation infrastructure. The state's current deferred maintenance needs exceed \$430 million, which are divided between aviation, highways, facilities and statewide harbor maintenance, and the Alaska Marine Highway System (AMHS). Our challenges are preserving and protecting Alaska's infrastructure. Once certainty is that FHWA funds are decreasing and Alaska will receive less in federal funding. The annual trend has been for inflation to outpace maintenance and operations, which has happened for more than 20 years. He pointed out that Alaska is not eligible for about 20 percent of the new funds from the Surface Transportation Authorization bill since funding will be tied to population and Alaska has a small population. Alaska's overall funding for highways will remain flat or may be less than flat. The federal funding bill in the reauthorization mode lends itself to transit, trains, and trails, or the 3 T's. This bill will not address new highways, congestion, or similar funding needs. The AMHS continues to perform well and he is pleased that while the AMHS has an aging fleet, the AMHS is working to replace vessels. The DOT&PF is currently working on Alaska Quest Ferry. Three of the motor vessels (M/V), the M/V Taku, the M/V Malaspina and the M/V Matanuska are over 46 years old, and the M/V Tustumena is 45 years old, and the DOT&PF views ferry replacement at 50 -55 of age, with 5 - 6 years required to build the vessels; therefore it is a good time to begin the planning phase.

COMMISSIONER VON SCHEBEN turned to a brief overview of aviation. One of the department's highest priorities is the need for more than \$54 million in deferred maintenance for the state's airports. These airports remain the state's responsibility; under the federal Gramm assurances airports must be maintained or the state risks affecting potential capital grants. One

troubling challenge has been workforce retention; the workforce is "graying." One-third of his employees will be eligible to retire in the next five years. Hiring is still difficult, even in face of the troubled economy.

[10:01:12 AM](#)

COMMISSISONER VON SCHEBEN acknowledged his great staff at the DOT&PF. Without them the department would not be able to perform well. He mentioned numerous projects statewide, including the airport at Unalakleet near Nome, and the highway interchange at North Pole. He concluded by stating that his staff will update the committee.

[10:05:50 AM](#)

REPRESENTATIVE GRUENBERG asked about the impact of defined contribution plan on early retirements with respect to workforce retention.

COMMISSIONER VON SCHEBEN said he did not believe that is the problem so much as the state salaries cannot compete with the salary schedule of the federal government or the private sector. He recalled at one time the state salaries were much greater than the private sector, but that gradually changed. However, he said he believes that even if the state offers more money, people will still retire, but he hates to see productive people retire.

REPRESENTATIVE GRUENBERG asked if the defined contribution had any impact on the department's ability to attract employees.

COMMISSIONER VON SCHEBEN answered that he finds the biggest issue is the lower salary and secondly, finding the talent. He agreed to provide the results of an in-house survey to the committee

[10:08:23 AM](#)

REPRESENTATIVE MUNOZ asked if the ARRA requirements are onerous.

COMMISSIONER VON SCHEBEN answered yes, but while meeting the ARRA is a lot of work, it is worth the benefits the state receives. Furthermore, the DOT&PF had numerous projects on the shelf to take advantage of the stimulus funds, but the department does not currently have many projects on the shelf.

[10:10:02 AM](#)

SENATOR MENARD asked whether the state's policy that limits re-hiring retired state engineers or other professionals as contract employees has hurt his department.

COMMISSIONER VON SCHEBEN answered yes, adding that he has employees who will need to phase out because of the policy.

SENATOR MENARD related her concern that as some employees retire, agencies are not attempting to hire new employees, but are simply hiring the retirees within a couple of days of their retirement.

COMMISSIONER VON SCHEBEN answered that as commissioner he wants to have all the tools available for hiring personnel. He characterized his mentality as a private sector mentality so he tries hard to keep his good staff.

[10:12:49 AM](#)

REPRESENTATIVE JOHANSEN related his understanding that currently the administration is working with the governor on the budget and the Surface Transportation Improvement Program (STIP). He asked for the process for submitting projects for inclusion in the governor's capital budget, and what is the process to rank or score projects for general fund consideration.

COMMISSIONER VON SCHEBEN answered that the DOT&PF is currently still in the planning process and no decisions have been made as yet.

COMMISSIONER VON SCHEBEN, in response to Representative Johansen, said he was unsure that he could answer whether any strictly general fund project was placed in the Governor's budget or the speak to the process.

[10:15:15 AM](#)

REPRESENTATIVE DOOGAN expressed interest in how confident the DOT&PF is that it can prioritize the projects; and whether the DOT&PF's project priority list is available to the committee.

COMMISSIONER VON SCHEBEN answered the DOT&PF prioritizes projects and once the priorities are made the results could be shared.

[10:17:02 AM](#)

REPRESENTATIVE DOOGAN offered that he wants to be sure a sufficient departmental priority list based on criteria will be available.

COMMISSIONER VON SCHEBEN answered that the figures for transportation needs are staggering, including the estimate for infrastructure for the proposed natural gas line. The general obligation (G.O.) bonds necessary are estimated at \$270 million. The DOT&PF is one of the three legs of the three-legged stool, and DOT&PF must work closely with the executive and legislative branches to insure that the process works well. He offered to share information on the department's project priorities once it is finalized.

[10:18:50 AM](#)

REPRESENTATIVE JOHANSEN asked if commissioner is one of the scorers of the STIP.

COMMISSIONER VON SCHEBEN replied no, that he reviews the overall process.

REPRESENTATIVE JOHANSEN recalled the regional directors prioritize and asked whether the process is open to the public.

COMMISSIONER VON SCHEBEN replied yes.

CHAIR WILSON said she has previously attended the scoring sessions.

[10:20:20 AM](#)

REPRESENTATIVE GRUENBERG expressed concern that Alaska will not be eligible for about 20 percent of the federal funding for trains, trails, and transit due to the population restrictions. He asked to focus on the AMHS as a means of mass transit and the only means for some. He inquired whether an exception to the federal population requirement is being considered for the 3 Ts.

COMMISSIONER VON SCHEBEN agreed that the AMHS serves such a large area, yet funding the AMHS remains a problem. He deferred to staff, but agreed the population constraint will hurt the state since a population of 500,000 is the cut-off.

[10:23:56 AM](#)

CHRISTINE KLEIN, Deputy Commissioner, Aviation, Department of Transportation & Public Facilities (DOT&PF), reviewed the strengths of Alaska's aviation system, including that it is the largest in the U.S. and larger than the Russian Federation of Airports, with 258 state-owned airports, and over 700 airports recognized by the Federal Aviation Administration [slide 1]. She noted 173 airports are gravel, and Southeast Alaska has 37 seaplane docks, since it relies on floatplanes. In Alaska, aviation is the main mode of transportation and in 77 percent of the communities, this mode often provides the only access in and out of the community, but 88 percent of communities in the Northern and Central Regions of state rely solely on aviation for access.

[10:27:32 AM](#)

MS. KLEIN discussed the economic contribution of airports to the state [slide 2]. Some 47,000 jobs statewide in rural and urban areas are related to aviation and airports. If the Department of Labor & Workforce Development (DLWD) separated out this sector it would be the fifth largest provider of the state's gross product since it contributes \$3.5 billion to the state's \$44 billion gross product, or about 8 percent of the state's economy. She explained that the aviation jobs and economic impact is twice the national average. Even villages have someone who works in the airport or on airport related activities [slide 3]. About 2,000 jobs are directly related to municipal and state airport operations, with 25,000 jobs related to on-site businesses, the air carriers, the cargo carriers, and fuel and support service providers, and an additional 20,000 jobs due to the multiplier effect, totaling 47,000 jobs statewide. Thus, 10 percent of all jobs in Alaska are due to the aviation industry, she said. In 2007, of \$3.4 billion of the state's gross domestic product; based on the DLWD, \$2 billion were direct expenditures on the airports, and \$1.4 billion were indirect expenditures, for a total of 8 percent of the state's gross state product (GSP), compared to 5.6 percent nationwide. The aviation industry is larger than the trade, construction and manufacturing, health and education, and hospitality and leisure sections.

[10:30:34 AM](#)

MS. KLEIN highlighted issues and challenges, including that Alaska has a small population but receives a larger share of federal funds [slide 4]. The state received \$78.3 million for airport projects, one the largest sums in ARRA funding due to

the state's aviation system. Even some small communities such as Ouzinkie have airports. The DOT&PF follows an onerous project prioritization process for all its projects. Over 16 technical and engineering criteria are used to rank every project considered for funding. She invited members to participate.

[10:32:40 AM](#)

MS. KLEIN, in response to Representative Johansen, explained that project prioritization applies to federally funded projects, but also applies to state-funded airport projects, although there are not many state-funded airport projects. In further response, Ms. Klein answered that the DOT&PF would still rank projects even if the DOT&PF requested general fund monies. She offered that sometimes legislators add projects in addition to the DOT&PF process for project inclusion.

[10:33:30 AM](#)

REPRESENTATIVE JOHANSEN surmised that whether a project is funded through federal funds or state general funds and is submitted by a legislator or the Governor, the same prioritization process is used.

MS. KLEIN replied yes. She related that 95 percent of the airport projects are federally-funded projects.

[10:34:25 AM](#)

REPRESENTATIVE JOHANSEN recalled the DOT&PF commissioner's discussion yesterday regarding road projects. He asked whether the system is different for aviation.

MS. KLEIN agreed that the process DOT&PF uses for aviation projects is a different system and process than the one used to prioritize road projects. In response to Representative Johansen, Ms. Klein agreed that the process for aviation general fund projects is different than the one used to develop priorities for road projects.

[10:35:16 AM](#)

MS. KLEIN explained that some concern was expressed by Lower 48 states since Alaska receives a large sum of federal Aviation Improvement Program (AIP) authorizations. Alaska receives about 7 percent of all AIP funding. Thus, questions arise as to

whether Alaska should spend such large sums for such small communities. One of the criteria considered is if aviation provides the only access for communities. Therefore, the AIP becomes heavily weighted due to access and safety issues in such situations.

[10:36:45 AM](#)

CHAIR WILSON recalled that one airport, Bethel, averaged three MEDEVACs per day due to smaller villages funneling in injuries to the regional hub.

MS. KLEIN related that the Bethel hub is the third busiest airport in the state, serving 27 active villages in the area.

[10:37:31 AM](#)

MS. KLEIN reviewed another challenge, which she identified as the federal unfunded mandate and the costs [slide 5]. This is a particularly difficult challenge in maintenance and operations for airports, roads, and the AMHS. Aviation has seen increases in federal oversight for security from the Transportation Security Administration, the Department of Homeland Security; as well as increased requirements, including runway marking standards, wetlands mitigation, and de-icing. Many of the requirements have become more stringent over the years, which add costs to projects without funds to address them. The runway safety standards can add \$20 - \$40 million to a project for the FAA requirements for safety for larger aircraft. The FAA Part 139 airports, which are the larger airports that provide jet service, have even more onerous requirements due to additional safety, fire protection, law enforcement and other requirements. Thus, the additional requirements create large impacts to the DOT&PF budget, which remain at the same level of funding for many years. Additionally, there are escalating costs in remote locations and materials. She remarked that most of the gravel is barged in or shipped to some of the airports the committee toured. Thus, the cost can double or triple because the materials must be transported to villages from other regions in the state, particularly in Southwest Alaska.

[10:39:47 AM](#)

REPRESENTATIVE JOHANSEN recalled an article by the University of Alaska Fairbanks (UAF) on its efforts to explore using experimental northern grasses on runways. He further recalled

that it was about \$600 per yard for gravel. He asked whether the DOT&PF has considered this as an option.

MS. KLEIN said she has not yet had a chance to coordinate with UAF. The UAF agricultural components have been using grasses and sedges to control dust and slopes, and some of these grasses may be applicable. She offered to check into the issue.

[10:42:10 AM](#)

REPRESENTATIVE DOOGAN reverted to the question Representative Johansen asked earlier. He inquired as to how projects that are strictly state general fund are prioritized. He related his understanding that the division and the department has a list of prioritized projects compiled in a list to seek legislative funding approval.

MS. KLEIN said she was unaware of any 100 percent general funded airport projects, but offered to check on this matter. In response to Representative Doogan, Ms. Klein agreed that the aviation projects are compiled on one list, but she asked to defer to staff.

[10:43:47 AM](#)

ROGER MAAGARD, Rural System Airport Development Manager, Statewide Aviation, Department of Transportation & Public Facilities (DOT&PF), explained the funding process. He said that the DOT&PF uses 3 sets of criteria to evaluate airport projects: One for airfield projects, the second for facility projects, and the third for construction projects. These are DOT&PF criteria. The FAA has its own set of criteria, the national priority rating, which uses different criteria. The state uses its criteria to study internal priorities. While the FAA does not specifically require the state to have its own criteria, the state's criteria is specific to Alaska to emphasize the safety and economic development concerns. He recapped that the three set of criteria the state uses each generates priority scores, which aren't necessarily comparable with buildings, the airfield, and any equipment. Thus, the state maintains a balancing act between the aforementioned three sets of criteria designed to meet the highest building needs, equipment, and airfield needs such as paving and gravel.

[10:46:33 AM](#)

REPRESENTATIVE DOOGAN recalled that Commissioner von Scheben advised the committee DOT&PF road projects can be built faster when the department uses general funds to build highways because fewer hoops are required. He asked if the same thing is true for airports.

MR. MAAGARD replied yes. He explained that that process would avoid going through the environmental processes. The typical environmental assessment and development process generally requires 18 months. If a project, such as one in Sitka, requires an environmental impact statement (EIS), the FAA is in charge of the EIS and it has spent eight years evaluating impacts at the Sitka airport. If the solution is a simple matter like putting down gravel on an existing runway or repaving an existing runway, it can generally be done by using a categorical exclusion to the EIS, which can be processed in a matter of weeks or months.

REPRESENTATIVE DOOGAN recalled the committee's tour of rural airports, and visiting the Chefornak airway, which desperately needs work. He asked if the legislature decided to fix up that airport, whether the project would undergo the same evaluation process as everything else or would it have the same advantages as a general fund road.

MR. MAAGARD agreed the project could be done quicker. In response to Representative Doogan, he clarified that the evaluation process would be faster.

[10:50:07 AM](#)

MS. KLEIN explained that federal earmarks require grant assurances. Most of the airports in Alaska were built with federal funds. Thus, when accepting the earmarks, the state must consent to a 20-year obligation to manage and operate these airports to a higher standard. The deferred maintenance and life safety maintenance are performed with general fund monies.

MS. KLEIN described some challenges for fiscal year 2011 and on since the state anticipates receiving less federal funding for airports, particularly for smaller airports [slide 7]. On average, the state receives about \$180 million in federal funding for its airports. The rural airports receive about 80 percent, while the international airports receive about 20 percent of the annual funding. The funding formula is 95 percent federal funds, and the DOT&PF primarily requests general

fund for the matching funds. Requests for operating and maintenance costs are general fund requests for rural airports.

MS. KLEIN explained that the demand for airport services is increasing faster than the DOT&PF can address them [slide 8]. For example, the Bethel Airport would like longer hours of operation since it is a busy hub. Faster airplanes require longer runways, and also have additional safety concerns. As people demand faster aircraft, the DOT&PF needs better runway surfaces, turning areas, and aprons.

MS. KLEIN discussed airport maintenance and operations [slide 8]. Many issues the committee saw during its tour are safety issues such as surface and snow removal issues. The airport managers typically have small contracts but try to keep the airports open longer and fulfill higher expectations. The operating funds from the state's general fund are stretched further and further. Thus some demands aren't met. She pointed out some airports produce a small amount of funds through leases, totaling about \$3.9 million per year.

[10:54:35 AM](#)

MS. KLEIN explained that this photograph illustrates the soft runway surface at South Naknek airport which becomes a safety issue, [slide 8]. In the past two years the DOT&PF identified over \$98 million in deferred maintenance for over 200 maintenance project. The core funds that are relied upon are from four sources: Airport Safety Requests - covers lights, wind aids, and navigation aids; Runway - covers surfaces, vegetations, and paving; Deferred Maintenance - drainage erosion, buildings, equipment; and Security - fences and gates.

[10:56:36 AM](#)

MS. KLEIN characterized the deferred maintenance needs as significant. The DOT&PF has identified over \$98.9 million in deferred maintenance, which includes access roadways. She related to four "buckets" of funds for airport capital needs : airport safety including lighting, nav aids, electrical, and windsocks; the airport surfaces, which includes gravel for Southwest Alaska and Northwest Alaska areas; deferred maintenance, including drainage erosion issues, and building repair; and security requirements including fences and gates.

MS. KLEIN offered that the DOT&PF capital funding needs total about \$1.5 billion - similar to roads. Airports are held to

different standards, depending on whether it is a primary airport or non-primary.

[10:57:22 AM](#)

CHAIR WILSON inquired as to how many primary airports are in the state.

MS. KLEIN answered that between 22 - 27 airports are considered primary airports, including Bethel. However, the Bethel airport is dependent upon the 140,000 emplanements and over 200,000 operations. In further response to Chair Wilson, she answered that about 230 airports are non-primary airports.

[10:58:14 AM](#)

MS. KLEIN discussed rural workforce and training [slide 11]. She explained that workforce presents challenges, particularly in rural Alaska in terms of obtaining a skilled workforce. She stated that one challenge is to provide training to rural maintenance and operations contractors on how to appropriately operate equipment on an airport runway. The DOT&PF is also reviewing technical airport training on the airport surfaces, consisting of at least five components. She related that the DOT&PF continues to seek approval of an apprenticeship program.

[11:00:07 AM](#)

MS. KLEIN provided a recap [slide 12]. She explained that the state needs to review a new funding model to operate and maintain rural airports. Currently, it costs from \$30 - \$35 million to operate the 256 airports in the state. Revenues have increased by 6.5 percent in the past year. The DOT&PF needs to train its workforce better, and increase operating hours. Commissioner von Scheben has discussed and will continue to discuss a state-funded transportation fund in order to move projects through faster and avoid the 20-year grant guarantee.

MS. KLEIN stated that the Nunapitchuk airport must be reached by ferry [slide 13].

[11:02:05 AM](#)

SENATOR MENARD asked whether the state has coordinated efforts with other cold climates regions with respect to materials.

MS. KLEIN answered that there are some organizations, primarily American Association of Airport Executives, and the Airports Council International, of which Alaska is a member. She said there is not an organization strictly for northern airports, because it is a much smaller group, particularly the large scale airports. The state has won awards for its efforts on snow removal, and the DOT&PF does coordinate with Russia and Siberia. She offered that she has hosted two groups, and has also visited Moscow. The DOT&PF was just notified this week that the Russian Federation of Aviation would like to return to Alaska to observe rural airports.

SENATOR MENARD suggested that Midwestern states could also be helpful in such discussions.

[11:05:25 AM](#)

REPRESENTATIVE GRUENBERG explained that the state is facing a lawsuit on the constitutionality of cruise ship head tax. He further explained that the allowable uses of those funds are governed by new federal law and constitutional principles are largely governed by the Interstate Commerce Clause. The model is based on federal legislation that involves airports and assesses fees. He asked if there is a list as to the allowable uses of those federal funds that the state could review as a template for the allowable uses of cruise ship head tax.

MS. KLEIN answered yes. The funds in question are passenger facility charges, which are collected by the airlines, submitted to the FAA, and the monies are returned to airports in the form of grants. The process must undergo federal approval and abide by federal regulations. She characterized the process as lengthy with strict requirements for how the funds can be used, typically for those things that are not funded such as terminals, and buildings. She offered to provide the federal guidelines to the committee.

REPRESENTATIVE GRUENBERG remarked that the definite parallels between the industries and perhaps the state should review what has been done with airport fees.

[11:08:53 AM](#)

CHAIR WILSON remarked that Sitka receives funds because of the passenger tax, but not every airport receives the funding. She recalled that the first or second airport receives the funding.

11:09:52 AM

REPRESENTATIVE GRUENBERG clarified that he is interested in the projects themselves. He remarked that one case allows maritime taxes to be used for emergency vehicles.

MS. KLEIN agreed to provide federal criteria list to the committee.

11:11:35 AM

REPRESENTATIVE JOHANSEN pointed out the extensive capital needs, of which 70 percent is for runway surfaces. He stated that he will ask the commissioner for ways the department is seeking solutions in the area of rural airports.

11:13:24 AM

JIM BEEDLE, Deputy Commissioner of Marine Operations, Marine Highway System (AMHS), Department of Transportation & Public Facilities (DOT&PF), shared a photo of an older ferry and a newer fast ferry [cover slide - slide 1]. He pointed out that the older ferry runs about 17 knots, and the fast ferry runs about 36 knots. He remarked that the AMHS is really running fairly smoothly. In September 2005, the DOT&PF recognized the AMHS as an all American road. The AMHS is the only road in the nation with this distinction. The AMHS has committed professional staff on the vessels and at its central office in Ketchikan. He commended Captain John Falvey for his performance and Commissioner von Scheben for his guidance.

MR. BEEDLE provided statistics on the ferry system, which is 3,500 miles long [slide 2]. He compared the number of miles in the British Columbia (BC) ferry systems with the BC ferry route at 755 miles and the Washington State Ferries at 200 miles. Then he compared the low ferry ridership in Alaska to the 25 and 21 million people transported in the BC and Washington State systems. The DOT&PF has been working to insure that ferry boat discretionary fund considers the length of AMHS to insure Alaska obtain funds.

MR. BEEDLE discussed the AMHS route [slide 3]. He described the route since it passes through Canada. New rules from 9/11, Canadian customs, differences between the felony crimes in Canada and the U.S. creates issues, including that a driving while under the influence conviction in the U.S. is considered a felony in Canada. The AMHS passengers are affected by Canadian

custom's requirements for single parent travel, custom's restrictions, and new passport requirements.

11:19:41 AM

MR. BEEDLE explained that the four vessels highlighted [M/V Malaspina, M/V Taku, M/V Matanuska, and M/V Tustumena] were purchased with voter approved general obligation (GO) bonds in November 1960 [slide 3]. Of the \$18 million total cost, \$3 million went to the docks, the remaining \$15 million was spent on vessels. All four vessels will come to end of life at the same period of time. The DOT&PF's challenge will be to manage replacement cost of these vessels as soon as possible. The Alaska Class ferry is just the beginning, he said. Since the M/V Tustumena is an ocean going vessel, its replacement will also need to be replaced in-kind with staterooms due to the length of the run. New engines are needed on three vessels, the M/V Columbia, M/V Malaspina, and the M/V Aurora, which are high cost items with long lead times. The M/V Columbia must be done soon; the plan is to replace the M/V Malaspina with an Alaska Class ferry, if not, the engines will need to be replaced. The M/V Aurora's engines are working well but will need replaced. The fast ferries will require repowering in 2013 and 2014 due to the wear and tear on high speed engines.

MR. BEEDLE discussed federal funding [slide 6]. He related that AMHS has two federal earmarks in the ferry boat discretionary portion of the federal highway bill. The AMHS receives \$17.5 million per year from the two federal earmarks. He anticipated what will come out of the new federal authorization is unknown. Even if the AMHS receives the full \$17 million, the cost to repair and maintain the aging vessels has increased so additional monies will be needed. The AMHS will come to the legislature with requests to cover any federal short falls, as the maintenance is important to meet safety requirements.

11:23:20 AM

MR. BEEDLE explained the AMHS early vessel schedule releases, which help the public plan trips, but falls ahead of the appropriation schedule [slide 6].

REPRESENTATIVE JOHANSEN remarked that the AMHS competes with other transportation system. He asked whether the cruise industry books reservations two years out.

MR. BEEDLE responded that the travel industry has begged the AMHS for an early released schedule, in fact, while October 1st is the earliest the AMHS can schedule each year; it cannot plan a two-year in advance schedule due to budget schedule and how the AMHS is funded.

REPRESENTATIVE JOHANSEN stated that the AMHS should just move forward and have confidence the legislature will support. He applauded the DOT&PF performance with respect to the AMHS. He offered that the DOT&PF will lose if it cannot plan in advance. Consistency is necessary for successful AMHS operation. In response to Representative Johansen, Mr. Beedle advised that the administration has provided cooperation and support to allow the AMHS to publish a schedule in October. However, he stated that if he overspends his budget, he could be prosecuted.

CHAIR WILSON offered the committee's assistance in terms of forward funding for the AMHS.

[11:28:41 AM](#)

MR. BEEDLE, in response to Representative Doogan explained that disclaimer information is currently printed in the schedule, but customer service problems result when schedule changes are made. He surmised that when some people travel to Alaska they are taking the trip of their life, and become very angry if the AMHS schedule changes and they cannot make their destination. It is not as though they can put their recreational vehicle on an airplane. He has worked for the agency for 30 years and has seen people suffer when the ferries have mechanical problems. There seems to be a willingness by the public to understand mechanical failures, but it does not extend to schedule changes do to financial issues or other administrative issues.

REPRESENTATIVE DOOGAN asked whether the state is just that much more risk averse. The airlines frequently change their schedules, he stated.

MR. BEEDLE surmised that has to do with the service level. He described a scenario in which a passenger in Bellingham awaits a one-week sailing which is then cancelled. The stranded person may need to route through Canada to reach Alaska, he said. Alternatives are complicated, especially in instances in which the only monthly trip to the Aleutians or a ferry crossing Gulf of Alaska is eliminated, especially since many people are driving recreational vehicles. There are not necessarily other options, or even timely ones, he said.

REPRESENTATIVE DOOGAN surmised that the AMHS has a fairly healthy dose of bureaucratic risk aversion. If the state is going to operate the ferry as a business operates, that it must be ruthless. He remarked that if one of the problems associated with low ridership is the lack of two-year advance schedule, that AMHA should address the issue. He advocated for a two-year schedule, with the understanding that changes may occur.

[11:33:19 AM](#)

SENATOR MENARD suggested that a disclaimer should be included on brochure or printed schedule.

MR. BEEDLE pointed out that the AMHS already has a disclaimer in its brochures, on its websites, and on its tickets. Still, from a customer service perspective the issue is different. He agreed the day boat schedules can be printed in advance, but the AMHS found that tourists would rather take the long-haul ferries. He agreed that further the scheduling can be done in advance, the better. It is a huge risk if the budget changes and the AMHS does not secure sufficient funding, that the local public is affected by the associated budget cuts since it will result in cuts in fall/winter when it hurts Alaskans. Nearly the entire state capital budget for AMHS is used for vessel licensing for the next year. The legislature has directed AMHS to perform overhauls within the state and the rates are negotiated in advance since the only way to program the overhauls is to have built-in costs. When the Governor's capital budget is cut, it affects vessel licensing, he said. Additionally, breakdowns of ferries cannot be predicted or subsequently addressed in the schedule. Thus, risks are inherently involved to schedule two years in advance.

[11:37:05 AM](#)

SENATOR MENARD understood that the AMHS wants forward funding. She thinks the AMHS needs a "think tank" approach to lower some of this concern in order to provide solutions.

MR. BEEDLE said that currently he is quite happy just to have the schedule already printed for next summer.

[11:38:41 AM](#)

REPRESENTATIVE MUNOZ supported the concept of forward funding of the AMHS. She asked how the new requirements for passports

would affect her constituents as they travel through Canada on the AMHS system.

MR. BEEDLE explained that as long as passengers are traveling on an Alaskan ferry, they will not actually enter Canada since they do not stop in a Canadian port enroute Alaska. Thus, her constituents will not need a passport to travel from Juneau to Bellingham.

REPRESENTATIVE MUNOZ understood that passports are for those getting disembarking in Prince Rupert, Canada, or traveling northbound to Haines, and then driving through Canada.

MR. BEEDLE replied yes.

REPRESENTATIVE MUNOZ remarked that Washington State is also facing similar passport issues and is proposing identification with more information embedded in the license.

MR. BEEDLE pointed out that a U.S. Customs passport identification card is also available in addition to a full passport. The identification cards can be used by persons driving to Canada or Mexico. However, the key is that a person traveling needs to know in advance about the identification cards to allow for processing time.

[11:41:50 AM](#)

REPRESENTATIVE JOHANSEN commended Mr. Beedle on his job performance.

MR. BEEDLE, in response to Representative Johansen, explained that the decision to reduce the second sailing from Bellingham to Ketchikan was timely due to the economic downturn. The second vessel in the Bellingham run only increases revenue by 18 percent. The second ferry run, with the availability of staterooms and vehicle space, made it very comfortable and practical for passengers since they could always get a vehicle and cabin. The second vessel elimination saved the state money, although it created inconvenience for passengers, he said. He then discussed the Prince Rupert schedule and passport issues. If the terminus was Prince Rupert, two round trips could be made in one week, while departing from Bellingham only one northbound and southbound ferry trip is possible during the same time. The issue with the passport requirement is the processing time so passengers must know in advance of reaching the border, he

stressed. Prince Rupert is still very important in regard to providing adequate service levels in Southeast Alaska.

11:46:28 AM

MR. BEEDLE, in response to Representative Johansen, returned to slide 4, and answered that the M/V Lituya provides two trips a day between Ketchikan and Metlakatla. He explained that five employees and one crew provide service five days per week. The community extended the road system to shorten the run. A dock is also being considered, and if implemented will reduce costs, including AMHS overtime. In further response to Representative Johansen, Mr. Beedle answered that the M/V Lituya is the smallest vessel, but it manages to serve one community of 13,000 and another of 1,300, with each resident traveling about ten times a year. The M/V Lituya is a model of what is possible to achieve in the future, he said.

11:48:58 AM

REPRESENTATIVE DOOGAN inquired as to which are the four oldest would be replaced by Alaska Class vessels.

MR. BEEDLE answered that the M/V Malaspina is using its original engine, but the other three vessels of the same age have already had engine replacements. Since the proposed replacement vessel is anticipated at \$25 million, the state will save money if it can replace the M/V Malaspina's engine. All three vessels are in different conditions, so when the Alaska Class ferries come on line the AMHS will need to reassess ferry vessel conditions and prioritize vessel replacements. It is difficult to project at this point, he said.

MR. BEEDLE, in response to Representative Doogan, explained that if three Alaska class vessels were purchased, two of main liners would be eliminated, and the AMHS would have to decide which two would be replaced. Currently, the AMHS is focused on replacing the M/V Malaspina. In order to enter Canada vessels must meet safety of life at sea (SOLACE) regulations - the M/V Malaspina and M/V Matanuska do not meet the regulations, which is one reason these vessels are on the Bellingham run or are used as day boats. The Alaska Class vessels will meet the SOLACE requirements.

11:51:43 AM

REPRESENTATIVE GRUENBERG recalled Commissioner von Scheben previously stated the DOT&PF is losing 20 percent of the federal funding because the state is not eligible for federal mass transit funding. He asked if AMHS is only considered transit for certain parts of the state.

MR. BEEDLE related that the department makes comments and recommendations to the FHWA. He agreed that Alaska's low population proves to be difficult, but if the state is successful in making its case to the FHWA to use distance as criteria, that would be considered a victory for Alaska.

REPRESENTATIVE GRUENBERG recalled traveling to Scotland and traveling on some of the ferry systems. He related that several private companies provide ferry service. He offered to share his books and information on the Scotland ferry system to the administration.

MR. BEEDLE expressed his interest in reviewing the information. The contract for the Southeast Transportation Plan will research whether lower-end vessels that are more economical to run and these smaller vessels may help address needs of smaller communities. The goal is to take care of the small communities in an economical and efficient manner. In further response, Mr. Beedle offered to make the information available to the committee.

[11:56:59 AM](#)

REPRESENTATIVE GRUENBERG expressed concern with the new federal 9/11 requirements that make it difficult for Canadians and Alaskans to cross the border. He offered that it may be helpful to share information with British Columbia and work together to make it easier for travelers.

MR. BEEDLE discussed increasing regulations [slide 12]. He remarked that most of the changes in Canada are driven from the U.S. laws stemming from 9/11 restrictions. Radiation detection systems are under consideration in the airline industry, and whatever occurs in the airline industry tends to filter down to marine industry. The rules could drastically change the system, particularly as it pertains to another country, such as Canada, he opined.

CHAIR WILSON asked whether the AMHS brochures could include information suggesting to potential travelers that it may be

wise to bring a passport in case it is necessary for the ferry to stop at a port such as one in Canada.

MR. BEEDLE agreed that is a good idea and he will follow up on it.

12:00:31 PM

MR. BEEDLE, in response to Representative Johansen, answered that the AMHS negotiates its employee contracts and one of the negotiated terms is for employees to travel for free travel on the AMHS. He explained that union contract negotiations have much control over how AMHS does its business, for example, with setting the crew schedules. In further response to Representative Johansen, he confirmed that the crew terms and travel are negotiated by contract.

12:02:27 PM

MR. BEEDLE, in response to Representative Munoz, answered that the specific restriction on Americans convicted of a DUI has been in place for some time and is one of many ways that an individual can be inadmissible to Canada. In further response to Representative Munoz, he explained the Canadian process for handling DUIs; that a fee for entry is established for rehabilitation. He surmised that the fee for DUI rehabilitation diminishes over time, but recalled the standard fee for U.S. residents with a DUI conviction is \$250 to be admitted to Canada.

12:03:35 PM

MR. BEEDLE continued. He explained that federal regulations impact the AMHS in different ways, but add to the cost of doing business and can result in a vessel being shut down. For example, the AMHS has a \$5 million fund established to upgrade the marine sanitary devices.

12:05:08 PM

The committee took an at-ease from 12:05 p.m. to 12:17 p.m.

12:17:35 PM

FRANK RICHARDS, Deputy Commissioner, Highways and Public Facilities, Department of Transportation & Public Facilities (DOT&PF), remarked on the importance of the committee travel

taken the past two days to see the state's infrastructure first-hand, which is invaluable. He recognized efforts that the Central Region staff took to present to the committee. He explained that his overview today will review funding issues, including the next federal authorization, and will provide an update on the stimulus funds, or the American Recovery and Reinvestment Act of 2009 (ARRA) funds.

MR. RICHARDS reviewed the DOT&PF's mission, which is to provide for the safe movement of people and goods and the delivery of state services [slide 2]. He identified ports and harbors that the state still owns after divestiture [slide 3 -4]. The DOT&PF previously owned 100 harbors, but many have now been turned over to local governments in the state. The state currently has 25 state-owned harbors. Most of the facilities the state still owns are located in unincorporated areas, and these harbors are the focal point of economic activity, including marine and aviation activities. The DOT&PF's goal has been to provide the harbors to the communities who charge and collect harbor fees that fund on-going harbor maintenance. The DOT&PF has capital programs, under the Corps of Engineers Program and Municipal Harbor Facility Grants under AS 29.60.800.

MR. RICHARDS offered challenges and harbor needs, including depictions of bent piles, corroded pipes, and timber floats in disrepair [slide 5]. He reviewed current statewide harbor projects [slide 6]. He explained that the statewide harbor projects use Municipal Harbor Facility Grants, matching funds, debt reimbursement, and U.S. Army Corps of Engineers funds. The projects run across the coastal spectrum of the state as far north as the Port of Nome. The DOT&PF has noticed more needs for northern ports that are opening up to traffic due to warming trends, he stated.

MR. RICHARDS provided details on the Municipal Harbor Facility Grants program [slide 7]. The grant program was established in 2006 to provide financial assistance to municipal harbor facilities. The program requires an annual appropriation from the legislature, offers 50/50 matching grants, ranging from \$5 thousand to a cap of \$50 thousand. He explained that the projects are locally managed projects; Tier I grants can be used on previously owned facilities for major maintenance, and Tier II grants can be used for projects for all municipal facilities.

[12:23:20 PM](#)

MR. RICHARDS shifted to the National Highway System (NHS) and referred to a photograph and map which illustrates the major highways in the state that represents the 2,113 center line miles in the state [slide 8]. The state has different highway categories, and the NHS falls under the FHWA definitions, which are basically the major highways, the major economic byways, which include the Dalton Highway, Parks Highway, Seward Highway, and Glenn Highway representing 2,113 center line miles.

[12:23:59 PM](#)

CHAIR WILSON returned to the Tier I and II grants and inquired whether some communities did not take advantage of the grants because of lack of funds or due to the communities' status. She recalled a town in her district with few year-round residents.

MR. RICHARDS answered that state facilities in unincorporated areas fall under state responsibility, but the DOT&PF would not apply for grants. Instead, these grants are awarded for municipal-owned facilities. Thus, if the facility is located in an unincorporated area, and is not a state asset, the constituents would request a direct appropriation from the legislature. For example, near Juneau, the port facility at Point Couverton is a state asset and maintenance is funded by the department rather than the grant program.

[12:25:20 PM](#)

CHAIR WILSON asked what the state does when the state-owned port facility's deterioration poses a hazard.

MR. RICHARDS related that when the DOT&PF is made aware of an emergency situation, it would determine whether existing funding was available for the repairs. If not, the DOT&PF would ask for supplemental budget funding from the legislature for the repairs. Part of the DOT&PF's mission is to provide for safe transportation so when an emergency arises, for example, a dock is damaged during a vessel docking, that the DOT&PF would take the necessary steps to repair the state's asset, and if necessary would request additional funding from the legislature to perform the work. The process is similar to the one taken when a road washes out and the DOT&PF must repair the road.

[12:27:09 PM](#)

MR. RICHARDS reviewed the Alaska Highway System (AHS) [slide 9]. These roads are roads that are outside specific municipalities,

including the Steese Highway, Denali Highway, or the 110 miles of gravel roads outside Nome leading to other communities. These roads typically face funding challenges so the DOT&PF classified them as the AHS category roads in order to help provide funding opportunities to meet residents' needs. He provided details on specific current highway funding needs totaling \$8 billion [slide 10]. He noted that the list is only a partial list limited to highway needs and not facility needs. The list addresses needs such as urban capacity and congestion relief, Highway Safety Corridors (HSC), and bringing the National Highway System (NHS) up to current standards. The stretch of the Glenn Highway between Palmer and Glennallen remains in the same condition and shape as it has for the past several decades. This section of the Glenn Highway needs to be brought up to current safety standards as it is currently a two-lane road, without shoulders, dropping off to steep terrain on the side of the road. As previously mentioned, the ferry system and railroad need upgrades, as well, and including other transit needs totals \$1 billion. The state's road systems and bridges may not be adequate to meet needs of transporting freight necessary for the proposed natural gas pipeline.

MR. RICHARDS read Federal Energy Regulatory Commission (FERC) progress report to Congress:

Recent infrastructure needs assessed by the Denali, TransCanada Alaska, and the Alaska DOT&PF indicate there are a large number of projects to improve or repair highways, bridges, ports, and airstrips that must be completed prior to initiating construction of an Alaska Natural Gas pipeline. Because these infrastructure improvements are long-term efforts that require permitting and funding, greater progress in this area must be made to avoid conflicting with projected timeline for the pipeline construction.

[12:30:37 PM](#)

REPRESENTATIVE JOHANSEN asked whether FERC is requiring the DOT&PF to build roads.

MR. RICHARDS answered that the FERC simply acknowledges infrastructure needs in advance of pipeline construction as an issue, particularly in terms of timeliness of the proposed natural gas pipeline.

[12:31:16 PM](#)

MR. RICHARDS continued. The truck weight restriction funding is for road repairs due to frost and other sub-grade issues. The DOT&PF requires seasonal load limitations that impact the flow of goods, and ultimately will impact hauling freight for the natural gas pipeline construction. In particular, the DOT&PF would like to improve the Parks Highway so trucks can run legal loads year around.

MR. RICHARDS outlined the HSC needs [slide 11]. The legislature authorized the DOT&PF to designate Highway Safety Corridors to address high fatality and major injury crashes. Currently, the DOT&PF has identified four corridors: The Parks Highway, Seward Highway, Sterling Highway, and the Knik/Goose Bay Road. The challenges of improving the Seward Highway are difficult as it is bounded by Turnagain Arm on one side and the hillside on the other, as well as the Alaska Railroad parallels the highway. Nearly \$1 billion is needed to improve these highways from a two-lane to four-lane divided highways. He stressed that the DOT&PF's primarily funding needs for highways is for safety upgrades or repairs.

MR. RICHARDS outlined the deferred maintenance needs by mode which totaled \$429,188.6 million [slide 12]. The deferred maintenance needs are the ones the DOT&PF cannot normally accomplish within its existing budget. These maintenance needs are broken out in five categories: highways, facilities, statewide harbor maintenance, AMHS, and aviation, and include preventative surface treatment, lighting systems at airports, and maintaining the 700 buildings statewide that have urgent needs.

[12:34:34 PM](#)

MR. RICHARDS referred to issues along the Seward Highway Safety Corridor and to the planned safety enhancements. He listed upcoming improvements, including that the DOT&PF will begin soon to install rumble strips, and in 2010 will install curb warning and delineated signage, as well as implement milepost 88 curb improvements for enhanced safety. Additionally, the DOT&PF uses a process called the 3 E approach - education, enforcement, and engineering - to reduce crashes on the Seward Highway Safety Corridor. The DOT&PF's responsibility lies with the engineering aspects for the Seward Highway. The DOT&PF has partnered with the Department of Public Safety to address fatalities and crashes in the Seward Highway Corridor. The DPS created the Bureau of Highway Patrol (BHP) within DPS to provide additional

enforcement activity, which is funded by an approximately \$4.5 million federal grant via the Alaska Highway Safety Office (AHSO). This funding will allow the DPS to add new Alaska State Trooper (AST) positions, police vehicles, and will cover the necessary equipment and training. Unfortunately, the grant has a finite life of three years. Thus, the department will need to seek additional funding from the legislature when the grants end. He provided first-hand knowledge that the BHP efforts and increased enforcement along the Seward Highway appear to have changed drivers' attitudes.

12:36:26 PM

CHAIR WILSON surmised that the extra manpower has decreased the rate of fatalities on the Highway Safety Corridors.

MR. RICHARDS agreed. He stated that currently fewer deaths are attributed to highway accidents on Alaska's roads. He said that the department is on track to continue to reduce fatalities, which he attributed to the additional funding and education efforts taken.

12:37:40 PM

MR. RICHARDS highlighted bridge deficiencies [slide 13]. Bridges are damaged when bridge trusses are hit by vehicles that exceed the maximum height restrictions and the DOT&PF must immediately repair the bridge for safety reasons. The DOT&PF must also inspect bridges annually to identify deferred maintenance or other safety items and provide repairs to insure safe travel.

12:38:52 PM

MR. RICHARDS, in response to Chair Wilson, answered that the DOT&PF does not track the number of bridges that need repairs, but does track the amount of square footage of bridge deck from structurally deficient to an improved status. He said he did not have that figure with him.

JEFF OTTESEN, Director, Division of Program Development, Department of Transportation & Public Facilities (DOT&PF), stated that the division has made significant progress in this area.

CHAIR WILSON stated that she did not need an answer immediately.

MR. RICHARDS related that the maintenance needs for ruts in roadways just in the Central Region alone costs \$286 million [slide 14]. He remarked that the work the committee recently observed on the Glenn Highway and Minnesota Bypass has reduced some of the department's pavement resurfacing needs. He recalled discovering ruts almost an inch and three-quarters deep in one intersection in Spenard during yesterday's tour. He remarked the he DOT&PF needs to work smarter, such as install rut resistant pavement that ultimately will need fewer repairs.

MR. RICHARDS related the problems caused by environmental warming [slide 15]. He explained that the DOT&PF has been observing permafrost settling, and the ensuing frost heaves, which ultimately lead to cracks in the roadway, visible in the photograph in this slide. Alaska is currently experiencing heavier rain which causes more erosion as well as effects from adjacent rivers and streams. Additionally, the communities in the coastal regions in Western Alaska continue to experience extensive erosion from fall sea storms no longer protected by ice.

MR. RICHARDS provided an overview of new federal Municipal Separate Storm Sewer System (MS4) Permit requirements [slide 16]. These requirements apply to the Municipality of Anchorage (MOA) and will require more street sweeping than ever before. He highlighted that this spring the DOT&PF had problems with the funding contract for street sweeping and was unable to perform all of the street sweeping. The federal government has increased requirements for street sweeping of all streets in the MOA by June 1st. Previously the DOT&PF's goal has been to sweep the streets once. Now street sweeping must occur twice a month on high frequency streets and once a month on mid-frequency roads and only the initial sweeping on low-frequency roads. This will all come at a cost, he said.

[12:42:12 PM](#)

MR. RICHARDS, in response to Chair Wilson, explained the reason for the federal changes is due to provisions in the Clean Water Act. As the transportation asset owner, the DOT&PF must take action to prevent inhibiting, polluting, or degrading waters of the U.S. The department must take action to prevent sand placed on the road for surface friction in the winter from entering streams and degrading water quality. In addition to sweeping, the DOT&PF must clean storm drains and work with the MOA, who must also meet these same requirements, and develop digital maps to illustrate water flow. The DOT&PF must also build covered

facilities for its sand storage to prevent the sand from washing into streams. He estimated the cost in Anchorage to cover the sand at the Tudor facility and the satellite stockpile at Birchwood at \$10 million.

MR. RICHARDS, in response to Chair Wilson, answered that the state will be required to comply with the new federal requirements by 2012.

REPRESENTATIVE MIKE KELLY, Alaska State Legislature, asked for the impact on the state for failing to meet the federal requirements.

MR. RICHARDS understood that the Environmental Protection Agency (EPA) will not reveal the specific amount of any potential fines, but the EPA can fine up to \$37,500 per day and can legally prosecute the chief executive officer of the DOT&PF for non-compliance.

[12:45:02 PM](#)

MR. RICHARDS related that street sweeping is currently budgeted at \$416,300 but will increase to \$2.1 million to meet the additional street sweeping requirements. In response to a comment, he explained that the permits will go into effect as of September 1, 2009. Thus, the DOT&PF will need to commence sweeping by next spring and complete its work by June 1, 2010. In response to Chair Wilson, he related that the state contracts out street sweeping and storm cleaning work to the private sector.

MR. RICHARDS, in response to Representative Munoz, related that the federal government does not provide any assistance to states to meet the additional requirements.

CHAIR WILSON remarked these are "unfunded mandates."

REPRESENTATIVE GRUENBERG asked whether these requirements will be passed on to the municipalities as unfunded mandates.

MR. RICHARDS clarified that the MOA already must meet the same EPA requirements. Thus, the state is working in conjunction with the MOA to apply for the necessary permits. In further response to Representative Gruenberg, he offered that the DOT&PF does not pay for municipal street sweeping and the responsibility must be absorbed by the MOA. He also agreed that the MOA has more streets to sweep in Anchorage than the DOT&PF.

12:47:42 PM

REPRESENTATIVE DOOGAN asked whether the problem is caused by the sand, and if the municipality does a good job in May, if it is necessary to continue to perform street sweeping activities for subsequent summer months.

MR. RICHARDS said the department has not been able to find a logical reason for the specifics of the permit, but the EPA sets the frequency schedule. In further response to Representative Doogan, he concurred that the DOT&PF will comply with the federal government.

MR. RICHARDS, in response to Chair Wilson, stated that the state does not use salt alone for winter road maintenance. He provided details for winter deicing and sanding streets. In Anchorage, the state mixes salt with the sand to prevent the sand pile from freezing. The DOT&PF imports salt from Baja Mexico at a cost of \$300 per ton, whereas the DOT&PF can acquire sand locally for about \$12 per ton. Other states have found when they apply only salt to street that pollution of their waterways is still an issue due to the chloride runoff from the roadways. In Southeast Alaska, the DOT&PF uses a liquid anti-icing containing chloride but this chloride does not have the same environmental impacts as sodium chloride. However, the chloride deicer is a relatively expensive product, he remarked. Thus, the DOT&PF uses chloride in areas with the certain temperature regimes and also takes into account storm events for frequency of application. Currently, in Fairbanks the chloride is also being used at some intersections. Some people prefer to use studs to create friction, but others prefer salt for friction on winter roads. He said the DOT&PF is somewhat caught in the middle, but does the best it can to balance the needs while maintaining its budget.

12:52:16 PM

MR. RICHARDS discussed the balance of the Federal Highway Administration Trust Fund, which provides the state with funding for its program [slide 17]. In 2008 and 2009, the fund nearly went bankrupt, which is depicted by the blue line and orange lines on the graph. It took an Act of Congress to infuse the fund with \$7 to \$8 billion to make the FHWA trust fund solvent and allow states to continue to receive funding. He remarked that Mr. Ottesen will provide details on the current federal legislative update.

MR. RICHARDS reviewed the federal formula funds the state receives for the State Transportation Improvement Program (STIP) [slide 18]. The chart shown depicts the challenges the state has seen with the federal earmarks reductions under the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA LU). He explained that the state receives formula funding for the National Highway System (NHS) the Community Transportation Program (CTP), and the Trails and Recreational Access for Alaska (TRAAC) programs. The state has also created a preventative maintenance program to take care of surface issues. He remarked on the large impact that earmarks has had on funding levels in Alaska. Alaska received formula funds, but since they were earmarks in the federal legislation, the earmarked amounts were deducted from the state's normal formula program.

MR. RICHARDS outlined the state's general fund (GF) capital appropriations [slide 19]. He explained that this slide shows the general fund appropriations the DOT&PF has received in the last decade. He pointed out that in FY 2007, the state's general fund dollars spiked at \$398.7 million. Approximately \$50 million of the appropriations are for matching funds for the federal dollars from the FHWA and federal aviation partners. Thus, the amount remaining for projects is very small unless additional capital appropriations are made. He turned to the maintenance and operations (M&O) general fund authorizations depicted on the graph [slide 20]. The base line year is FY 83, the red line on the bottom of the chart represents the appropriations, and the top line in green, which reflects the FY 83 values adjusted for inflation. The DOT&PF is losing ground and is currently about \$50 million "under water" from where the state would be if the state been inflation adjusted for the assets the state is responsible to maintain and operate. In the meantime, the DOT&PF has added responsibilities to its inventory across the modal spectrum including ferries, airports, buildings, and highways.

[12:55:59 PM](#)

REPRESENTATIVE DOOGAN asked why FY 83 was selected instead of FY 85.

MR. RICHARDS stated he did not know why FY 83 was selected, that the previous administrative director prepared this chart and the data was simply updated.

MR. RICHARDS recalled yesterday's discussions on state versus federally-funded projects [slide 22]. Primarily, the difference is in time and cost savings, he remarked. The use of federal funds is significant on large, complex projects, since following the federal process requires more time and money to construct projects [slide 23]. He discussed Trunk Road in the Matanuska-Susitna Valley [slide 24]. The DOT&PF has considered this project for several decades. The work was initiated in 1984, and right-of-way costs were estimated at \$1.3 million. The two timelines depict the changes, with the blue line showing the actual timeline of the project, and the green shows the ideal timeline had the DOT&PF followed the process and if it had secured the funding to perform the environmental documents, design, and right-of-way process, and construction. The Trunk road project was bid this year, is currently under construction, but from the initial cost estimates in 1984 to the actual construction costs in 2009, the right-of-way costs rose from \$1.3 million to \$26.5 million, which is almost 20 times the original estimate.

[12:58:16 PM](#)

REPRESENTATIVE JOHANSEN asked for the reason that design has increased so dramatically.

MR. RICHARDS surmised that it is because when in the right-of-way phase, the design phase is also kept open to deal with changes as a result of the right-of-way work.

[12:59:19 PM](#)

MR. RICHARDS discussed the Glenn Highway/Bragaw Street Interchange [slide 25]. From the 2005 appropriation to the exchange completion date only took three years since the project was built using general fund funds instead of federal funds. He speculated that if the project had been built using federal funds the project would likely still be in the EIS phase.

MR. RICHARDS reviewed the current Surface Transportation Authorization bill drafted by U.S. Representative Jim Oberstar and the U.S. Transportation committee. He offered that this bill will be vastly different than any previous highway authorization bill. He explained that the funding reliance is on highways and is geared to the largest 100 metropolitan areas at the expense of rural areas. The state finds that many of decision-making aspects of the bill would be shifted from the state on state-owned highways to non-state entities.

MR. RICHARDS continued. He explained there will be significant non-construction costs as the current focus in the authorization bill is to shift focus on planning, data collection, and public processes. The federal bill will preclude new roads or expanding capacity, such as adding a lane. It will add new national offices, such as the Office of Livability, the Office of Sustainability, the Office of Expedited Delivery, and Office of Public Benefit. These new offices would reside in the Secretary of Transportation and FHWA. Thus, additional processes will be put into place. Additionally, the bill will include performance measures, such as the International Roughness Index (IRI), ride quality, and other performance measures across the modal spectrum.

MR. RICHARDS, in response to Chair Wilson, explained that there will not be any funding for the Denali Commission Transportation Program, which was authorized in the previous bill.

MR. RICHARDS continued [slide 28]. He said that Alaska will not be eligible for approximately 20 percent of funds due to its low population. The top 20 percent of the proposed federal funding will be designated for high speed rail, intercity connections, and freight corridors. The proposed federal funding will shift to urban areas, such as the Metropolitan Planning Organization (MPO) with populations greater than 500,000. Since Alaska does not have any MPO cities over 500,000 the state will not be eligible for the funding. The DOT&PF is working with the Governor's Washington D.C. office in so Alaska's Congressional Delegation can fight for Alaska.

MR. RICHARDS briefed members on the status of the American Clean Energy Security Act of 2009, which has passed the House of Representatives [slide 29]. This Act will shift federal policy toward major reductions in greenhouse gases in the U.S. The federal goal is to reach an 83 percent reduction of passenger vehicle emissions by 2050. He remarked that this will have a large impact on U.S. citizens. He clarified that this is for a reduction in overall emissions. In essence, this Act shifts transportation policies to the federal regulators, in particular, grants responsibility to the EPA to review projects in terms of greenhouse gas (GHG) reductions.

[1:05:40 PM](#)

MR. RICHARDS, in response to Chair Wilson, offered his understanding the federal law will require individual projects

to demonstrate that greenhouse gas emissions will not be increased and would show a net decrease overall instead.

MR. RICHARDS expressed concern that the greenhouse gas reduction under the bill is at odds with construction of a natural gas pipeline or any supporting facilities in Alaska. While the natural gas pipeline goal is to reduce reliance on fossil fuels and reduce emissions, the construction phase will not do so. Thus, the project may not get built, he said. The EPA will certify all emissions plans and ultimately any transportation plans.

[1:06:54 PM](#)

MR. RICHARDS continued [slide 31]. He explained that transportation greenhouse gas emissions plans could include user fees or increase taxes on carbon based fuels, and are federally mandated for land use and zoning. The federal bill will reduce funds for roads and increase funds for sidewalks and trails. Thus, this bill could have a broad-ranging impact on Americans and Alaskans and will soon be considered in the U.S. Senate, he said.

MR. RICHARDS provided an update on the status of the ARRA (stimulus) funds [slide 32]. With respect to the \$175 million for the federal highway and bridge program, the DOT&PF has met the first deadline to obligate \$121 million, or 50 percent of the funds by June 29, 2009. The DOT&PF's focus has been to use the money in economically distressed areas, even though this was only a guideline rather than a mandate. The remaining 33 percent must be obligated in the next four months, and staff is currently diligently working to meet the schedule while still adhering to the federal guidelines. Additionally, the DOT&PF has obligated the \$9.4 million for transit, and the department is currently issuing individual transit grants to communities. Additionally, the DOT&PF has five to six projects under contract for the \$75.8 million in aviation funds.

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REPRESENTATIVE GRUENBERG asked how much of the \$9.4 in transit funding is designated for Anchorage projects.

MR. RICHARDS answered that Anchorage received \$24 million direct from the FHWA bypassing the DOT&PF. He offered that the lion's share went to the Alaska Railroad Corporation (ARRC), with the

remaining funds was disbursed to the MOA to be used specifically for transit-related projects.

REPRESENTATIVE DOOGAN asked whether the department had any "shovel-ready" but unfunded transportation projects.

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MR. RICHARDS explained that the Governor's transportation-related ARRA funding bill contained the DOT&PF's approximately \$300 million of projects which were "shovel-ready." These projects were identified as ones that met the federal guidelines. Under the ARRA, states must obligate their funding before February 2010. Initially, the DOT&PF compiled a list of \$175 million in projects, then created a secondary list of contingency projects that met the same eligibility requirements, in case any of the primary projects had issues and could not be obligated. The list was rearranged through the legislative process, and the DOT&PF was authorized \$175 million in appropriations. Subsequently, some bids came in under budget and the department sought and received additional authority during the legislative interim to proceed with contingency projects before the Legislative Budget and Audit Committee.

MR. RICHARDS, in further response to Representative Doogan, explained that the DOT&PF develops projects for inclusion in the STIP in anticipation of future funding. Thus, projects previously authorized for design were on their list awaiting construction dollars. The DOT&PF has had less funding since federal earmarks have been eliminated. Thus, the DOT&PF has a backlog of projects ready to construct. He remarked that during the 2005 - 2009 period construction costs escalated at a substantial rate.

CHAIR WILSON understood that the state might be able to obtain additional funding destined for other states unable to obligate the funds. She asked whether the DOT&PF has enough projects ready to absorb any additional projects that might become available.

MR. RICHARDS related the department had hoped other states would not be able to meet the obligation deadline of June, because if that had happened Alaska could have picked up additional federal ARRA funding. However, every state was able to meet the initial obligation deadline. He predicted that other states will also meet the next deadline of February 2010 well in advance of the deadline date. Further, the Congressional rescissions will have

a huge impact on projects because hundreds of millions in projects will not be funded. Thus, states have incentives to capture all possible federal funding for existing projects. The anticipated \$8 billion in federal funds is urgently needed nationwide to fund construction projects. The DOT&PF constantly monitors project bids so in the event that bids come in lower than expected other projects can be substituted so long as the projects meet the federal criteria.

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MR. RICHARDS, in response to Senator Menard, responded that the costs for adding a carpool lane depends on many factors, including whether the state owns the right-of-way or if any environmental issues must be addressed. Additional factors include the bidding environment, and the cost of construction materials. He offered to provide the estimated costs of a carpool lane for the Glenn Highway to the committee. In further response to Senator Menard, he indicated he was unsure of whether the DOT&PF has addressed carpool lanes on the Glenn Highway recently. He recalled that the ARRA transit dollars were spent to add carpool lanes in order to encourage additional carpooling between Anchorage and the communities in the Matanuska-Susitna Borough. The department has also expanded the existing Park-and-Ride lots to help reduce congestion on the Glenn Highway between the Matanuska-Susitna Valley and Anchorage.

MR. RICHARDS reviewed the DOT&PF's ARRA oversight [slide 33]. He explained the ARRA funding will receive greater scrutiny from the Federal Aviation Administration (FAA) including plan set and contractor payment reviews to insure that states follow all provisions of federal law. Further, one additional ARRA requirement is that the DOT&PF must increase the number and level of reports and provide the information in different formats for various agencies. He expressed concern that the Congress will enjoy the expanded reporting so much the same reporting requirements will be adopted in the next authorization bill. If so, the bureaucracy will likely grow with the process, he stated.

REPRESENTATIVE MUNOZ expressed concern with the new federal requirements, in particular, the effect that the new requirements will have on rural states like Alaska. She asked whether the administration has identified the cumulative effects and communicated with the federal government the difficulty for smaller populated states to comply.

MR. RICHARDS related that the DOT&PF Commissioner routinely meets with Governor Parnell to brief him on any challenges and also communicates with the Governor's Washington D.C. office on federal legislation. He was unsure of specific communications from Governor Parnell to the federal agencies.

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MR. RICHARDS, in response to Representative Johansen, suggested that the DOT&PF avoids re-design of projects, but is also constrained by the STIP to be fiscally responsible. The DOT&PF is challenged to design projects that the department anticipates will be funded. Typically, environmental documents are the ones that become stale and must be refreshed. If the department were to receive additional general fund appropriations, the DOT&PF could construct projects more quickly and avoid stale project components. He offered that Mr. Ottesen will discuss the specifics of the STIP and will also cover the new federal rules for fiscal constraint, responsibility, and project completion mandates that are required once projects reach a certain point in the construction process. The DOT&PF currently has pending projects that are not funded by the ARRA and will likely be completed with the next Federal Highway Administration funding bill. If so, these projects will help keep contractors employed and improve the state's highway system. The DOT&PF must be careful to not place too much emphasis on funding the design phase of projects, which might result in future slack construction years, he stated.

[1:26:44 PM](#)

MR. RICHARDS, in response to Representative Johansen, related the STIP identifies projects that are ready for construction funding in the next fiscal year.

MR. RICHARDS deferred the question of shifting projects within the STIP projects to Mr. Ottesen. In further response to Representative Johansen, he explained that the DOT&PF identifies buildable projects and places them in the STIP. If for some reason a STIP project encounters impediments for funding, the DOT&PF would discuss the project internally and also with the community that expects the project to be built. The DOT&PF attempts to keep communities informed and works continually to improve its communication.

REPRESENTATIVE JOHANSEN pointed out that the DOT&PF could also simply decline to build a project when it reaches a point of needing perpetual redesign work.

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SENATOR MENARD asked whether stipulations can be made in the Request for Proposals (RFP) that would require contractors to perform any necessary redesign for up to ten years in order to allow the right-of-way or environmental documents to be resolved.

MR. RICHARDS offered his belief that consultants usually continue with the same project unless the department has reason to terminate the contract. He characterized the department's relationship with its consultants as good. Once design is started, the DOT&PF's goal is to reach construction and considers projects that cannot be completed as a failure by the department.

SENATOR MENARD surmised that almost all legislators can cite instances in which projects have been designed and not built. She expressed her appreciation for Mr. Richard's sentiments on the DOT&PF's goals.

MR. RICHARDS, in response to Chair Wilson, answered that an Environmental Impact Statement (EIS) is generally satisfactory for about three to four years although the environmental process is under federal control.

REPRESENTATIVE JOHANSEN offered his belief that projects can be drawn out for many years.

[1:34:46 PM](#)

The committee took an at-ease from 1:34 p.m. to 1:42 p.m.

[1:42:02 PM](#)

CHAIR WILSON relayed that the next portion of the presentation will focus on potential funding mechanisms.

KATHIE WASSERMAN, Executive Director, Alaska Municipal League (AML), stated that the AML gave its contractor a set of questions and objectives, with respect to transportation infrastructure.

MS. WASSERMAN suggested that Alaska's economy is more dependent on resource extraction more than some other states. The FHWA funding became depleted and the federal government provided only a one-year stopgap. She cautioned that states cannot continue to fund one year at a time. A large gap has been created between donor states and recipient states, with the donor states providing more money to the federal government than they receive. However, Alaska is a state that does not provide much but receives a large amount, she stated. Thus, other states and the federal government are beginning to scrutinize Alaska. The federal government has begun to place a greater emphasis on tolls and other means for states to become more self-reliant. Additionally, Alaska must fight the perception by some other states that since it has plenty of oil revenues Alaska does not need federal funding.

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MS. WASSERMAN related that the contractor's objectives were to identify trends and changes in funding priorities, evaluate future funding factors and strategies, and to evaluate funding and financial tools. Alaska is the only state that does not have dedicated revenues for transportation. The 2006 gross state product (GSP) for Alaska's transportation funding is 0.15 percent, which is the fourth lowest in the country. When federal funding is also included, the transportation spending, as a percentage of the gross product, increases to 1.94 percent, which places Alaska in the top ten in the nation for reliance on federal funding. Thus, while the state is ranked at the bottom for the amount of state funding, it is ranked at the top for federal funding. Transit services are not generally federally funded and are usually performed by local communities and non-profits. The current surface transportation gap is \$533 million for highways and bridges, \$20 million for rural streets and roads, \$32 million for public transit, and \$135 million for the AMHS, which totals \$720 million in overall transportation needs.

MS. WASSERMAN stated that highway maintenance remains underfunded and the backlog of needs is over three times the level of spending of annual highway maintenance fees at the state level, which does not include transit, aviation, local roads, or transportation capacity needs to meet future travel demand growth. The AML's contractor surmised that if the road transportation maintenance needs were to directly keep pace with the price of oil the state might be okay, but it does not do so.

MS. WASSERMAN compared how Alaska fares with other states, with respect to the GSP with current federal spending. Alaska ranks below other rural remote states such as North Dakota, South Dakota, Montana, and also ranks below West Virginia. However, comparing Alaska's total spending, excluding federal dollars, to other states, Alaska is the fourth lowest in the nation. Alaska is severely impacted by federal spending and without federal funding, the state plummets. The current and projected account balances of specific funding, which reflects the share of funding from donor states has increased and is projected at 95 percent.

MS. WASSERMAN noted that fees from tolls must become a major part of the state's funding since earmarks are now considered negative. The federal government continues to shift more responsibility for transportation to the states or local governments. She listed Alaska's challenges when asking the Congress for additional funding: the permanent dividend fund, absence of a state income or state sales tax, and the lowest motor fuel tax in the country.

MS. WASSERMAN described several scenarios that the legislature may wish to consider. The AML study demonstrated the amount of money raised by each scenario. The first scenario would increase the fuel tax, institute a sales tax, increase a sales tax on vehicles, and would increase vehicle registration fees. The first scenario would fill a gap of \$151 million only leaving \$384 million to fill. The second scenario would increase the fuel tax and double the vehicle registration tax, impose a vehicle sales tax of 1.5 percent, would encourage local jurisdictions to impose a 1.5 percent sales tax, and would capitalize the Alaska Transportation Fund with \$1 billion. This scenario would fill the transportation gap to \$292 million, she said.

MS. WASSERMAN described a third scenario which would increase each of the previously mentioned items a bit more and would assume that the state would reinstitute the Roads and Trails Program. The third scenario would also fill the gap to \$292 million.

MS. WASSERMAN concluded by stating that the AML membership believes the legislature must consider raising taxes to meet the state's transportation needs. While the AML has not taken a stance on any of the scenarios previously highlighted, the AML membership recommends that the legislature consider them. The state needs to do something and do it soon before the federal

government simply decides to diminish its funding in Alaska, she stated.

1:57:03 PM

REPRESENTATIVE JOHANSEN asked whether the AML has selected a scenario, and whether all the scenarios to increase transportation funding include increases in taxes.

MS. WASSERMAN clarified the AML has not selected a scenario to support, but agreed that all the funding sources outlined increased taxes. In further response to Representative Johansen, she related that the AML wanted to begin start somewhere but also did not envision any of the proposed scenarios would raise the \$1 billion needed. She opined that temporarily repealing the state fuel tax was not the best option to have taken, given the number of the state's transportation projects needed.

REPRESENTATIVE JOHANSEN pointed out the proposed AML scenarios would address a small fraction of the DOT&PF transportation funding needs. He inquired as to whether other proposals were also considered.

MS. WASSERMAN responded that many options were discussed, but nothing was agreed upon by all members. She explained that some people discussed the constitutional budget reserve (CBR) or the Alaska Permanent Fund as potential options to fund transportation needs. However, AML did not take a stance on any options since its membership could not agree on solutions.

REPRESENTATIVE JOHANSEN suggested that the legislature may want AML to contemplate other options and suggest them to the legislature.

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REPRESENTATIVE GRUENBERG asked whether the AML membership has taken a position on the lawsuit regarding the state's cruise ship head tax.

MS. WASSERMAN said that it has not formally met since the lawsuit was announced although she anticipated the AML will be discussing the issue at future meetings since its membership is comprised of many coastal communities.

REPRESENTATIVE GRUENBERG surmised that the cruise ship head tax litigation will affect all communities regardless of whether their interests are the same. He suggested that the AML give consideration to the matter and keep the legislature informed. He related that pre-litigation process is underway and so the AML should weigh in now as this process will affect the outcome.

[2:03:54 PM](#)

REPRESENTATIVE DOOGAN appreciated the work the AML has done, but stressed that the AML cannot only canvas for options, but must take a firm position on the solutions.

MS. WASSERMAN said the AML typically takes that approach and intends to do so.

[2:06:37 PM](#)

REPRESENTATIVE MUNOZ asked how Alaska compares to the other states in terms of its use of general fund monies to fund transportation needs.

[2:08:03 PM](#)

JIM REED, Transportation Program Director, National Council of State Legislatures (NCSL), stated that he would discuss an overview of the SAFETEA-LU funding bill, current Congressional activity on the proposed authorization bill, the impact on Alaska, and state revenue issues [slide 2].

MR. REED reviewed SAFETEA-LU funding levels [slide 3]. He explained that the SAFETEA-LU funding expired last year, and provided \$286.4 billion over six years for transportation funding. He further explained that \$244 billion was provided from 2005 - 2009, including \$189.5 for highways, \$45.3 billion for public transportation, \$5.6 billion for highway/motor carrier safety, the \$3.6 billion exempted from obligation limits for emergency relief, the Equity Bonus Program, and for certain projects funded prior to 1998. Part of the SAFETEA-LU included a Safe Routes to School Program and the New Freedom Program, which is a new public transportation program to help communities with funding for persons with disabilities. He offered that many have called the funding bill a place-holder authorization bill.

MR. REED provided an overview of SAFETEA-LU financing, which was primarily reauthorized by SAFETEA-LU. Many states have taken

advantage of innovative programs which has been very helpful in obtaining supplementing funding. The State Infrastructure Bank Program was expanded to all 50 states, which allows capitalization with federal funds and is basically a revolving fund. This program tends to be used for smaller projects but has been helpful in some states, such as in Ohio, which has issued 400 loans over a period of eight or ten years.

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REPRESENTATIVE GRUENBERG asked whether the Congress typically will continue the one-month extension to prevent a gap.

MR. REED answered yes. He recalled the last authorization bill had six or seven extensions prior to passage of SAFETEA-LU. The only problem with this approach is that it is the same authorization and for the same funding levels. In the past 20 years, the authorization has never lapsed, but if it did it would pose a serious problem, he said.

MR. REED, in response to Representative Doogan, answered that the funding levels previously mentioned represent the entire authorization. Thus, the figures including the rescissions, for example, the \$8.6 currently being considered for rescinding is part of the \$286.4 billion. He explained that the \$286.4 billion is for the authorized amount, but the appropriators will then complete their work and provide the funding. The rescissions return funds that have not yet been obligated or appropriated yet either, he said.

MR. REED discussed the Transportation Infrastructure Finance and Innovation Act (TIFIA) [slide 4]. The TIFIA has become an important tool because it is a flexible way to obtain funding. For example, Florida did not have enough funds to complete an I-95 expansion, but worked out an arrangement with a private company along with obtaining a TIFIA loan for \$600 million to complete funding for the \$4 billion project. The advantage of TIFIA loans is the flexibility they provide since repayment of the loans happens five years after the projects are substantially completed. The facilities are assumed to be toll facilities so the money can be repaid. He remarked that the stimulus bill, the ARRA, put an additional \$200 million into TIFIA.

MR. REED identified Private Activity Bonds as municipal bonds that have expanded bonding authority for private purposes, such as industrial expansion to bring economic activity to the

community and are repaid from revenue generated by the facility. The cap was raised in order to make it easier for transportation facilities. Additionally, SAFETEA-LU provided states increased flexibility to use tolling for proposed projects.

MR. REED discussed the policy issues with SAFETEA-LU traffic safety [slide 5]. He said that a new Highway Safety Improvement Program, which includes highway improvements with a traffic safety purpose, was funded at the \$1.4 billion level. The bill also includes a number of grants to provide incentives for occupant protection such as child safety and booster seats. Some laws also created sanctions, generally relating to driving while under the influence of alcohol or drugs.

[2:19:27 PM](#)

REPRESENTATIVE GRUENBERG asked whether any federal legislation that pertains to a ban on text messaging is under consideration.

MR. REED recalled that some legislation is being contemplated for anti-texting laws and 18 states have already implemented such laws. He surmised the NCSL's position would be that progress is being made since some states have already enacted anti-text laws, it is unnecessary to create a federal mandate. However, some national interest has been expressed for anti-texting laws and one topic at a White House summit just completed today wrestled with the problem of distracted drivers, including government officials. At this time, the federal agencies have not weighed in on specific requirements for states, he said.

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MR. REED noted that U.S. Representative Oberstar's [MN] bill added some additional sanctions or incentives, including provisions for changes to primary seat belts, use of ignition interlocks for repeat DUI offenders, and driver's license suspension for drug offenders. Again, the NCSL's view is that each state must review and decide the pace for implementing these laws. He understood the federal government's view since lives are currently being lost, that some preventative measures need to be taken.

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MR. REED reviewed the SAFETEA-LU Environmental and Congressional activity [slides 6 - 7]. He stated some requirements have been

made to MPOs to bring in environmental factors in the planning stage. In the past few years several studies, commissions, and task forces have examined national transportation policies in the U.S. Several extensive reports, as well as independent analysis, agreed that the U.S. needs a new vision for transportation since the Interstate Highway System is now completed. Another area of general consensus is the need to integrate between the modes of transportation to make it easier for passengers and commercial activity to connect. The sense is that the U.S. Transportation policy should not be considered in a vacuum but, instead, should be considered in terms of health and energy policies since changes in one policy area can adversely affect policy in other areas. One conclusion has been that more funding is needed in the system since transportation has been underfunded for some time. Metropolitan areas are congested and rural areas are not well-served by the highway conditions. One traffic safety finding is that 60 percent of the deaths occur on rural highways so improvements need to be made.

MR. REED related since President Obama's focus has been on health care that other measures, including transportation measures, have been moving more slowly through the system. However, this bill will likely surface and the bill's sponsor hopes to provide \$450 billion over six years, with an additional \$50 billion in anticipated funds for high-speed rail, which totals \$500 billion. He reviewed the anticipated breakout in U.S. Representative Oberstar's proposed transportation bill: \$337 billion for highway construction, including at least \$100 billion for Capital Asset Investment, \$12.6 billion in Highway And Motor Carrier Safety, \$87.6 billion from the Mass Transit Account of the Highway Trust Fund, and \$12.2 billion from the General Fund for Public Transit Investment. He highlighted the challenge remaining is that the funding source has not yet been identified. He has been made aware that the motor fuel tax and other fees would only generate \$350 billion over the six year period. Thus, a shortfall of \$150 billion exists. He remarked that U.S. Representative Oberstar and President Obama do not currently support an increase in the motor fuel tax.

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MR. REED continued his discussion of the Congressional activity, in terms of the proposed transportation authorization bill, by reviewing the current House of Representatives proposal [slides 8 - 9]. He explained that the proposed Oberstar bill, in an effort to consolidate programs, would pare down the current 75

programs to four core highway categories and four core transit categories. The proposed bill focuses on congestion relief and would create a discretionary program to directly fund the Metropolitan Planning Organization (MPOs). Additionally, the proposed bill contains a large focus on livability and environment, and sustainability of communities, in an effort to merge policies between agencies to create livable communities.

[2:28:07 PM](#)

REPRESENTATIVE DOOGAN asked for a definition of "livability."

MR. REED offered to research the issue further, but ventured that livability is related to the concept of new urbanism, which is to create a living environment in which people can walk or use public transportation for destinations, such as to work or grocery stores instead of using motor vehicles. The goal is to create more densely populated areas instead of having the population so spread out. He suggested these goals might not resonate in Alaska since it is a rural state. He characterized this provision as an urban or suburban initiative. He said he lives in Colorado so livability for him means blue skies, clean air, and neighbors that do not live too closely.

MR. REED revisited his discussion of sanctions or incentive grants [slide 9]. He related that the current proposal would eliminate existing incentive grant programs and replace them with mandates, such as primary seat belt laws, ignition interlock laws, and revocation of licenses for those convicted of drug offenses. He offered that the NCSL is not a fan of the sanctions since states are moving forward and do not need additional oversight. The tolling pilots programs contained in SAFETEA-LU would be removed and would be replaced by incentives and guidelines on tolling. The U.S. Department of Transportation's role would be expanded with more public-private partnerships. The NCSL would prefer not to add another layer, he stated.

MR. REED discussed the National Infrastructure Bank (NIB) [slide 10]. He explained that creation of the National Infrastructure Bank (NIB) is a proposal by the administration and members of Congress to provide a financing mechanism rather than new funding. The NIB would be an independent government entity developed to target large-capacity building projects not adequately served by current funding mechanisms, and would make loans, insure bonds, and provide pre-construction phase assistance to states. The suggested funding level is \$60

billion over ten years; the proposal is currently being considered by Congress, and is one that could be added into any authorization proposal or it can stand alone. He characterized the NIB as a potentially significant source of borrowing for states.

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MR. REED reviewed where Alaska stands in terms of Congressional activity [slide 11]. He noted the Congressional one-month extension, but related that the Senate and the Obama administration would prefer an 18-month extension to allow the recession to end, and in hopes that the political climate might change and be more open to funding mechanisms such as an increase to the federal motor fuel tax. Currently, the U.S. House of Representatives passed a three-month extension to last through the end of the calendar year and the Senate is considering a similar proposal. The Senate bill, authored by Senator Barbara Boxer (CA), contains the rescission effort, which would stop the rescission of \$8.7 billion in unobligated funding to the states. He surmised that the next few highway extension bills may require transfers from the general fund to the Highway Trust Fund to cover shortfalls.

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MR. REED interpreted what this might mean for Alaska [slide 12]. He offered that there is a lot of uncertainty at this point, and he anticipated several extensions due to the difficulty in identifying funding sources. He also predicted Alaska will receive less dedicated funding in the future, pointing out that SAFETEA-LU contained over a billion dollars in highway and transit set asides. The consolidation of federal transportation programs might be detrimental to Alaska, given the proposed reduction from 75 programs to 4 programs, and recalling that some of the programs scheduled for elimination were specifically targeted for Alaska.

MR. REED turned to a comparison of average annual state sources of transportation revenue [slide 13]. The NCSL compiled highway revenue sources in other states nationwide from 1999 - 2005 and compared them to Alaska. The initial percentage refers to the national percentage of revenue taxes compared to the percentage of revenue generated in Alaska for various taxes. The national average of revenue generated from state motor fuel taxes is 28 percent, but in Alaska is 5 percent. Other states receive about 27 percent of their revenue from federal funding, whereas Alaska

receives 54 percent, which highlights Alaska's dependence on federal funding. He compared the national average of revenues generated by vehicle fee and taxes of 16 percent, with Alaska's 5 percent vehicle fee and tax. The average for bonding and borrowing is 12 percent nationally but is 3.5 percent in Alaska. And the national average of tolls generated in other states is 5 percent, while in Alaska is 3.2 percent.

MR. REED remarked that the national average for general fund contributions in other states is 4 percent, but Alaska's general fund provides 19.5 percent of its funding.

[2:39:53 PM](#)

MR. REED elaborated on the state responses to the revenue gap [slide 13]. Some legislative responses included suggestions for states, including that states should have more reliance on general sales tax and the general fund, should grow transportation funding by local entities, should create greater efficiency and accountability in delivering transportation projects, suggested an increase in public private partnerships, and an increase in the use of tolling as a funding option. States recognized the importance of transportation to their economic growth and the impacts of dilapidated roads on their economies. This year a number of states gave local entities the authority to vote on local taxes, such as sales taxes or motor fuel taxes. He ventured that some states with a heavy urban-rural divide were willing to raise taxes to provide for better roads. He recalled that in Virginia, the legislature allowed its regions to vote on taxes. Northern Virginia voted for a tax increase but Southern Virginia did not, and so the Virginia Supreme Court did not uphold the tax. States have been innovative in designing and building roads and transit projects. Also, in the economic downturn, states have found the stimulus funding has stretched further since bids have come in lower, recognizing that labor costs may also have had some bearing on the lower bids.

MR. REED related that states are borrowing more and tolling has increased nationally by 36 percent over a five-year period nationally. Other states cut programs and projects or have worked to identify alternatives for funding, including developing a per mile fee, express lanes, or creating tolls in congested areas.

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MR. REED highlighted rural transportation challenges in public transportation for disadvantaged [slide 15]. He remarked that public transportation to accommodate the elderly, disabled, low-income, and jobless people is more difficult in rural areas. The NCSL is currently examining how existing transportation programs can work together to provide better service for the transportation disadvantaged and save money. In Alaska, challenges exist for multi-modal travel, which includes connecting air travel, rail, public transportation, and ferries. Traffic fatalities occur predominantly in rural areas, he added.

MR. REED presented his conclusions [slide 16]. Additional transportation funding is needed. One study identifies \$225 billion in unmet needs in the U.S. for the next 50 years. Poor infrastructure poses a threat in the U.S. to many needs, including safety, security, economic prosperity, and our quality of life. States cannot afford to disinvest, he said. Many states have bridges in need of repair or replacement, and states need to tackle deferred maintenance. Transportation funding presents hard choices. Constituents just do not want to pay any more taxes, but as policy makers, legislators understand the need and future benefits. He recalled that three states raised their motor fuel taxes while others raised vehicle fees.

[2:47:37 PM](#)

CHAIR WILSON related that the next presenter will outline funding options for a long-range transportation initiative.

LARRY PERSILY, Staff, Representative Mike Hawker, Alaska State Legislature, explained that he compiled a report for legislators to consider developing a long-term comprehensive funding mechanism for a statewide transportation plan. He viewed this as a starting point for legislators to add to and develop as a handbook to address funding for unmet transportation needs.

[2:49:16 PM](#)

MR. PERSILY discussed the need and the choices [slide 2]. He thanked Jeff Ottesen and Laura Baker, DOT&PF, and Deven Mitchell, State Debt Manager, Department of Revenue (DOR) for their assistance. The starting premise for this plan is that billions of dollars worth of projects are waiting to be built, ranging from DOT&PF to community projects. However, the projects lack funding. State and local communities hope for high oil prices and large Capital Budgets or look for new sources of revenue, such as a dedicated motor fuel tax to pay

for these proposed projects. Borrowing money is simply shuffling existing funds, since the money usually must be repaid. The legislature could use the Alaska Permanent Fund or the Constitutional Budget Reserve, or could choose to divert future royalties to the transportation fund. The legislature might decide that the Alaska Permanent Fund would receive 25 percent of the royalties, the general fund would receive 72.5 percent, and the remaining 2.5 percent would be placed into a transportation endowment.

MR. PERSILY related Jeff Ottesen's historical perspective on transportation, the way it used to be [slide 3]. He said, "Long ago in the territorial days, under the Alaska Road Commission, all able-bodied men, men only, were required to work two days on road building." Men could buy off their time at \$4 per day. Many mining communities built their roads in this way. While he did not believe anyone was advocating this approach, he stated that it provided a solution.

MR. PERSILY reviewed state capital expenditures for the past decade [slide 3]. He explained that the list covers FY 2001 - 2009 and includes DOT&PF capital expenditures for roads, airports, state ferries, ports, harbors, and docks. The expenditures not included are state grants to municipalities or federal funding. State spending has risen with higher oil prices. He highlighted that expenditures are different from the appropriations as there is less fluctuation so it reflects more of an indication of the DOT&PF projects constructed each year.

MR. PERSILY, with respect to transportation projects, recalled that the legislature had concerns either about overheating the economy or taking on too many projects. He pointed out that expenditures can lag appropriations by two or three years.

MR. PERSILY presented DOT&PF Capital Expenditures by Fiscal Year [slide 4], as follows [original punctuation provided]:

FY2001: \$85 million (\$27.86 oil)  
FY2002: \$100 million (\$21.79 oil)  
FY2003: \$142 million (\$28.16 oil)  
FY2004: \$169 million (\$32.36 oil)  
FY2005: \$150 million (\$43.44 oil)  
FY2006: \$150 million (\$60.80 oil)  
FY2007: \$191 million (\$61.63 oil)  
FY2008: \$290 million (\$91.12 oil)  
FY2009: \$277 million (\$68.34 oil)

MR. PERSILY related that as oil prices have climbed, the state's expenditures have also risen.

MR. PERSILY provided DOT&PF Capital Appropriations [slide 5], as follows [original punctuation provided]:

FY2008: \$830 million (oil at \$63.92, April 2007)  
FY2009: \$1.4 billion (oil at \$112.37, April 2008)  
FY2010: \$867 million (oil at \$46.56, April 2009)  
FY2010 includes \$300 million federal stimulus funds

About 10% of FY2010 funding is state:

Roads, \$29 million  
Airports, \$52 million  
Ferries, \$7 million  
Ports/docks/harbors, \$472,000

MR. PERSILY explained the appropriations are more directly tied to oil prices. Thus, from FY 2008 - 2009, the capital appropriations significantly increased due to high oil prices. In 2008, the legislature was working on the FY 2009 budget, but the FY 2010 appropriation is much smaller, less than half a million for statewide ports, docks, and harbors. Leaving appropriations to the volatility of oil prices carries a risk. The state has had some occasional boosts, such as in 2002 when voters approved \$124 million in general obligation bonds (GO); and \$103 million in GARVEE bonds, which essentially allows states to spend federal dollars in advance of federal receipts. In 2006, the state sold off future revenues from tobacco settlement funds, which provided \$23 million for transportation projects. In 2008, voters approved \$272 million in transportation bonds for DOT&PF projects and \$43 million for municipal projects. Half have already been sold and the last \$150 million will be issued next year, he stated.

MR. PERSILY detailed the expenditure of federal dollars, as follows [slide 7] [original punctuation provided]:

FY2001: \$343 million  
FY2002: \$406 million  
FY2003: \$504 million  
FY2004: \$492 million  
FY2005: \$492 million  
FY2006: \$525 million  
FY2007: \$535 million  
FY2008: \$506 million  
FY2009: \$514 million

MR. PERSILY reminded members the figures shown in slide 7 are for expenditures and not appropriations. But it still has not been enough and the federal funding has been uncertain, and with stop-gap funding the past few years by the Congress - counting on federal funding for the future is like counting on oil prices, he said.

[2:55:51 PM](#)

MR. PERSILY, in response to Representative Doogan, offered reasons for the doubling of expenditures in less than ten years: Inflation has driven up costs, and in the 1990s the state ran a budget deficit and the legislature removed \$5.5 billion from the CBR. Thus, the state's spending was very constrained, the backlog of projects built up, and as oil prices started climbing, increased appropriations kept pace with oil prices and have stretched out projects this decade. The DOT&PF might be better able to address the question, but that is his quasi-educated answer.

REPRESENTATIVE DOOGAN said that a 100 percent increase in expenditures in less than ten years is a huge increase by any standard. He asked for reasons the state is facing a crisis with respect to transportation costs.

MR. PERSILY deferred to the DOT&PF to answer that question.

[2:58:36 PM](#)

MR. PERSILY reviewed the state's tax history [slide 8]. In 1961, Alaska had the highest motor fuel tax in the nation, but it now has the lowest tax in the nation at \$.08 per gallon. About half of the states have dedicated funds to use motor fuel taxes to repay revenue bonds. The state had a dedicated fund for transportation, which was abolished in 1960 [slide 9]. He argued that the state could appropriate tax receipts each year for projects, on a cash basis, or could pledge taxes to repay debt on revenue bonds. Instead of parceling out money year to year, the state could decide to borrow up front. The current \$.08 motor fuel tax raises \$30 million per year and raises \$41 million, including marine and jet aviation fuel taxes. He compared that to the \$39 million the state raises from alcohol taxes, which falls considerably short of the \$74 million the state raises each year from taxing smokers.

[3:00:26 PM](#)

MR. PERSILY reviewed pros and cons of the motor fuel tax options. The motor fuel tax is easy to collect and administer, and it does not require any new program. There is a clear link between the users and the payers. If the state used a motor fuel tax to pay for transportation, an option would exist for annual appropriations or dedicating the revenue stream to pay off bonds, or both. The revenue stream would continue indefinitely and taxing ourselves would provide the Congress with a different view of Alaskans, instead of the one in which Alaskans expect federal handouts. He related a scenario in which the motor fuel tax was doubled to \$.16 per gallon on gasoline and diesel. If so, the state could probably issue \$400 million in revenue bonds, or the state could issue \$600 million and pay a higher interest rate on a portion of the debt. He remarked that the market would not loan out dollar for dollar.

MR. PERSILY pointed out reasons that the motor fuel tax option is bad [slide 11]. He stated that consumers will not like it, and philosophically, some are opposed to open the door to dedicated funds, since advocates may want dedicated funds for education, health care, or other purposes. The crafters of the Alaska constitution were not in favor of dedicated funds. Some concern exists that as people switch to more fuel efficient vehicles, but their efficiencies could erode tax revenue. The motor fuel taxes have been stable and do not tend to vary much over time, although as fuel costs increase and vehicles become more efficient, some reductions could happen. This might affect how much bonding the state could receive. Additionally, dedicated funds would require a constitutional amendment.

MR. PERSILY reviewed bonding options [slide 12]. He highlighted several options for bonding, including issuing revenue bonds, backed by motor fuel taxes or another source. Revenue bonds must have a clearly identified, measurable, proven source of funding, or the state will not be able to secure funding. General obligation bonds do not require a specific revenue source for repayment, since it is simply a pledge by the state to pay off the bonds from the state's general fund. However, general obligation bonds require a public vote, and there is a limit to the level of state debt. General obligation bonds also commit future state revenues and consume state bonding capacity. The limit is not in law, but is a sense of how far an investor is willing to go before raising interest rates.

[3:04:01 PM](#)

MR. PERSILY turned to state debt capacity [slide 13]. At the \$65 - \$70 oil price per barrel balances the state budget, the state could probably float a bond for \$500 million, and the Wall Street Market would not penalize the state with a downgraded bond rating. It is possible to increase such a bond by an additional \$1.5 billion over next several years. The general rule is that the state should keep its debt service within 5 - 8 percent of the unrestricted general fund revenues. That is not just debt service on bonds but rather the state's share of municipal school debt, the of municipal school debt, paying debt on the new Matanuska-Susitna prison, certificates of participation, the Atwood Building, or the Anchorage debt. Further, he remarked that a lot of debt is not generally considered because it is not part of the general obligation (GO) bonds.

MR. PERSILY continued his review of state debt capacity [slide 14]. He explained that the Department of Revenue's spring oil forecast for FY 2010 was at \$58 a barrel. About five percent to eight percent of the unrestricted general fund revenue equals \$160 million to \$256 million. He remarked that the state's debt service in FY 2010 was a little more than \$200 million, which is within the five to eight percent range. At those oil prices, and not fully covering the budget, the state does not have the ability to borrow money since Wall Street is no longer offering sub-prime loans to states. However, with oil tax progressivity, at \$65 oil, five percent to eight percent equals \$300 million to \$400 million, which allows the state room to issue GO bonds. There is some risk in relying on future unrestricted revenues because it is a bet on oil prices and with a GO bond the state promises to pay it, which is not a subject for legislative debate. The DOR is now saying in FY 2010, the average daily TAPS production will be down to 642,000 barrels of oil per day, which is a little lower than anticipated.

[3:06:27 PM](#)

MR. PERSILY explained unrestricted general fund dollars [slide 15]. The unrestricted general fund dollars at \$58 per barrel projects an anticipated \$3.2 billion in revenue. However, once the state begins to subtract its formula programs such as school funding, pupil transportation, Medicaid, public assistance, Municipal Revenue Sharing, special appropriations to retirement, and Power Cost Equalization, Debt service, not much unrestricted general fund dollars remains.

MR. PERSILY discussed what is good about bonds [slide 16]. He explained that revenue bonds would not directly limit the state's future general obligation bonding capacity. Revenue bonds stand alone and do not draw directly from general fund, although revenue bonds could divert funds that would otherwise go into the general fund. Thus, unrestricted general fund revenues might drop, for example, if motor fuel taxes were removed from the equation. General obligation bonds do not require new taxes or increased taxes. The state could raise a substantial amount of funds with a general obligation bond issue. Again, GO or revenue bonds probably would divert money that would be available for appropriation each year.

MR. PERSILY reviewed problems with bonds [slide 17]. Revenue bonds based on the public's acceptance of higher motor fuel taxes is a problem. There is a cost to borrowing money which has been a philosophical battle in the legislature for years; the issue is whether to pay cash or pay the fees and interest rate to have access to funds immediately, which also depends on the needs and the finances. Debt service commits future state revenues and if the state uses too much of the state's general obligation debt capacity it could deny opportunities for other needs in the years ahead.

MR. PERSILY highlighted GARVEE bonds [slide 18]. He remarked that these bonds were popular several years ago. The state would borrow against future federal transportation appropriations. In 2002, the state issued \$103 million GARVEE bonds, but because the state does not allow dedicated funds the effect was not a true GARVEE bond. Instead, the bond was a GO bond that had to be approved by voters, with the intent of using federal funds to repay the bonds. Since GO bonds count against the state's debt capacity the state obtained limited benefits. Additionally, he noted that borrowing against federal appropriations means there will be less to spend in future years.

[3:09:22 PM](#)

CHAIR WILSON asked what other states are doing with regard to GARVEE bonds.

MR. PERSILY recalled about a dozen GARVEE bond issues in the last ten or so years, and although states are still using them, they have fallen out of favor.

MR. PERSILY outlined toll road options [slide 19]. He offered that toll roads are good because users pay the costs, and general fund monies are not used. However, the negative to toll roads is whether Alaskans are willing to pay for a toll for its highways. Additionally, Alaska lacks the high volumes of traffic needed for a toll road. In order for tolls to work it is necessary to have ample vehicles paying enough tolls to pay off the debt. The Knik Arm Toll and Bridge Authority has certainly been working on that issue as part of any financing proposal. He recalled the NCSL previously discussed public private partnerships. He remarked that the Indiana Toll Road was one of the first ones to lease out their toll road to a consortium of private operators, who were allowed to keep the tolls for 75 years. Two years later the tolls increased from \$4.65 to \$8 so a downside exists if the state were to lease a toll road to private operators. However, in 2006, Indiana received \$3.6 billion for leasing out its toll road.

MR. PERSILY discussed several endowment options [slide 20]. The state could establish an Alaska Transportation Fund by taking a one-time lump sum from the Alaska Permanent Fund or the Constitutional Budget Reserve Fund. For example, the state could establish a \$2 billion dedicated transportation fund, which would take a constitutional amendment to create, and could use the earnings from the fund to pay for its transportation projects, or to underwrite revenue bonds. The state would also likely need to pledge the fund itself to backstop earnings on revenue bonds in the event that investment earnings are low due to a downturn in the stock market. He remarked that currently the CBRF has \$8 billion.

MR. PERSILY discussed the pros and cons of the endowment option [slide 21]. The pros for an endowment are that it would not create new taxes and substantial funds could be made available. The downside to an endowment approach is that it would require a constitutional amendment to create a dedicated fund. Further, any withdrawal from the Alaska Permanent Fund principal would also require a constitutional amendment, and would reduce future dividends since the earnings would grow at a slower rate. He speculated that if the state withdrew \$2 billion from the \$8 billion currently in the CBR, the state would still have \$6 billion, and the state would still be in "pretty good shape." However, in the 1990s the state only needed oil prices in the \$20 per barrel range to balance the budget, but now needs it in the \$60 dollar range. Thus, if oil prices collapsed, the state could have a \$2 billion deficit and drain the CBR in a few

years. He remarked that the legislature would need to consider a backstop plan.

MR. PERSILY, in response to Representative Johansen, recalled that the state drew almost \$5.5 billion from the CBR in the 90s. He recalled 11 deficit years out of 14 years, with the worst deficit in any given year at \$1 billion. He recalled that at one point the CBR balance was down to \$2.5 billion, following two huge deficit years. Certainly with the changes in production taxes, the state receives substantially more in revenue, but with declining production the state needs a much higher oil price in order to balance the budget.

[3:14:23 PM](#)

MR. PERSILY, in response to Representative Gruenberg, stated he was not covering the cruise ship head tax in this presentation.

REPRESENTATIVE GRUENBERG expressed interest in the amount of revenue generated by the tax and any effect of repealing the tax.

MR. PERSILY offered his belief that repealing the cruise ship head tax would not have much of an effect because of the small amount of revenue generated by the tax. If the state wins the current lawsuit and is able to keep the \$46 tax intact, only \$46 million is collected from 1 million passengers, noting the decline in the cruise industry in Alaska. The crux of the state's claim is that the funds are to be spent on projects and services to directly benefit cruise ship passengers, so it is useful for street expansions in Ketchikan, Sitka, or Juneau with a transportation connection. However, revenue from the tax would apply more to docks, harbors, moorages, and services than to transportation needs. The state would notice the revenue loss in the event that the state loses the head tax as a source of revenue and cruise ship related transportation projects need to be funded from the general fund since the state already has significant issues meeting its overall transportation needs.

[3:16:33 PM](#)

MR. PERSILY discussed other options for funding transportation needs, including using oil royalties or the Alaska Permanent Fund [slide 22]. As previously mentioned, the state could propose a constitutional amendment to dedicate a transportation fund and could use a portion of oil and gas royalties as a revenue stream for the fund. In 1966, the state approved a

constitutional amendment that requires 25 percent of the state's royalties must be deposited in the Alaska Permanent Fund, with the remaining 75 percent deposited to the general fund. The legislature could also propose a constitutional amendment to dedicate a portion of the Alaska Permanent Fund earnings to transportation needs. He illustrated this, noting that 2.5 percent of royalties would equal \$55 million if oil prices were at \$65 per barrel. The state would not be directly taking the funds from another program and would not need to raise taxes, but this approach would reduce the unrestricted general fund by that amount annually. Instead of creating an endowment, the legislature and the public could also adopt a Percent of Market Value Approach (POMV) to limit Alaska Permanent Fund withdrawals. He stated that 0.5 percent dedicated to transportation needs would equal \$80 million a year in today's market value. He recapped that these are some ways the legislature could approach funding options.

MR. PERSILY discussed the pros and cons of using royalties and the Alaska Permanent Fund [slide 23]. He restated that this approach would not require new taxes, but an additional \$55 - \$85 million per year would be a substantial amount of money for transportation needs. However, the downside is that it would divert oil and gas royalties from the general fund, could create revenue shortfalls when oil prices are low, and would require a constitutional amendment to create a dedicated fund. Additionally, using the Alaska Permanent Fund earnings could result in lower future dividends, and the legislature would be involved in the public policy debate of whether to use the Alaska Permanent Fund earnings for this purpose.

MR. PERSILY reviewed the option of selling future royalties [slide 24]. He said, "If you really want to get creative you could do what gold miners do; they often finance a project by selling future production before they they've taken it out of the ground." The state could raise money by selling off future royalty oil production in actual barrels of oil, for example, if the state produces 75,000 barrels of oil per day, the state could sell 10,000 barrels per day for a certain amount of revenue over a designated period of years. The investor would take the price risk on future deliveries, which means state would have to sell oil at a discount to compensate investors for risk. This approach would divert future state revenues away from the general fund and the annual appropriation process. However, it would probably cost less to raise the same amount of money by issuing general obligation or revenue bonds.

MR. PERSILY, in response to Representative Gruenberg, offered to research selling revenues from potential litigation, similar to the method used with the tobacco class action lawsuits, as well as to obtain more information for the committee on selling future oil revenues.

REPRESENTATIVE GRUENBERG clarified that the state did not sell off future litigation, but created an income stream in order to capitalize the fund.

MR. PERSILY agreed, noting the state was aware of the exact amount of the revenue stream.

[3:21:43 PM](#)

MR. PERSILY discussed Build America Bonds [slide 25]. He explained that the Build America Bonds is a program in the ARRA to reduce the cost of borrowing to states and municipalities. Normally a state or municipality would issue tax free bonds at a lower interest rate to investors that do not want to pay income tax on their earnings. In order to make the bonds more attractive to pension funds, which do not pay income tax on their investment earnings, the federal government allows municipalities or states to issue debt at higher taxable-bonds. According to the DOR, the federal subsidy would reduce the actual cost by about a third of the interest to below interest on tax-free bond debt - or about 25 to 100 basis points. There is no dollar limit to this federal program.

MR. PERSILY discussed the pros and cons of the Build America Bonds [slide 26]. The drawback is the tight deadline since the state has until December 31, 2010 to participate in the program. Additionally, the legislature would need to pass legislation since the bond proposal would need to be on the November 2010 ballot for approval. The legislature could also amend the statute to eliminate the requirement for competitive bond sales in order to accelerate the process and meet the federal deadline. He recalled informal discussions that this approach seems plausible and the state could also save some interest. In the event the legislature decided to issue GO bonds next year for transportation needs, it would hold preliminary discussions with the DOR to project savings. He stated that a GO bond requires a geographic split in order to gain support in the legislature and noted the Build America Bonds is a one-time option.

CHAIR WILSON surmised that the state would still have to take on debt.

MR. PERSILY concurred, but pointed out that if the state is considering GO debt it might make sense to discuss this with the DOT&PF and DOR to determine the state's potential savings and to review the deadline for applicability.

REPRESENTATIVE GRUENBERG asked whether the Build America Bonds could also be combined with the GARVEE Bonds.

MR. PERSILY surmised that it could be done, but cautioned the true GARVEE bond is a dedicated federal fund and since Alaska does not have any dedicated funds, the process is really in name only. The legislature could ask for authorization for "x million" in GO bonds, stating the legislative intent, subject to the annual appropriation, to use future federal highway funds to repay the debt.

[3:25:46 PM](#)

REPRESENTATIVE GRUENBERG asked what would be the additional benefit to do so.

MR. PERSILY explained that the state would benefit if it makes the decision to use unrestricted general fund revenue and also use future federal transportation dollars. In other words, the state would be saying it could afford "x amount" in GO debt, but it will also take "x dollars" from future federal highway funds.

REPRESENTATIVE GRUENBERG said he was thinking of prioritization, that the state would use Build America bond, with the payback of a priority GARVEE funds and the second priority for GO bonds.

MR. PERSILY explained that the GO bonds would require voter approval. He understood that the intent would be to use federal dollars but it would depend on the size of the bond issue, so if the amount was \$500 million, the federal dollars would be insufficient to cover the state debt service. In 2002, the state had \$103 million of GARVEE bonds. The legislature would consult with the DOT&PF to see how much federal funding is available to commit to debt service. In response to Representative Gruenberg, he suggested that in instances in which a state has a specific one-time project to complete, the GARVEE Bonds might make sense. In Alaska's case, the anticipated transportation needs will continue for many years so borrowing against future federal highway dollars, which are not

even sufficient to meet the current state's needs would simply shortchange the state, he stated. If the state's debt capacity can afford \$500 million, and the legislature believes that would make a sufficient dent in backlog of projects, it might make sense to limit it rather than to use future federal dollars.

REPRESENTATIVE GRUENBERG offered his belief the voters might be inclined to support proposed bonds on a ballot if they were informed that the GARVEE bonds would be paid for by the federal highway dollars.

MR. PERSILY recalled in 2002, as Deputy Commissioner, he spoke against GARVEE Bonds, but that he lost the argument.

CHAIR WILSON stated that one factor to consider is to remember the ongoing level of federal highway funds is uncertain.

[3:29:49 PM](#)

REPRESENTATIVE MUNOZ recalled the \$.08 motor fuel tax generates \$30 million in revenue. She asked for the amount of bonding capacity the state could obtain under the Build America Bond Program.

MR. PERSILY estimated that for \$30 million in revenue, if the state was required to pay \$15 million, the state could probably get a couple hundred million dollars under the program.

REPRESENTATIVE MUNOZ asked for the current allocation of the \$.08 per gallon motor fuel tax.

MR. PERSILY responded that the state's motor fuel tax revenue is deposited into the general fund, although some communities charge sales tax on motor fuel tax, and the sales tax is retained by the communities.

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REPRESENTATIVE DOOGAN said he did not know of any instance in which the state can magically make money appear and not incur costs.

MR. PERSILY agreed. Either the state generates new dollars with taxes or must borrow or divert the oil royalty stream or the Alaska Permanent Fund earnings, which has the effect of shifting existing money. Even though a constitutional amendment of 2.5 percent of royalties directed to transportation would be great,

the day will come when the state will wish that it had the 2.5 percent back, he said.

[3:32:33 PM](#)

The committee took at at-ease from 3:32 p.m. to 3:37 p.m.

[3:38:12 PM](#)

PETER MILLS, Dye Management, Inc., began his presentation with a quote "Misery does love company." He related that he lives in a country [Canada] that has a 48 percent personal income tax rate, a 12 percent sales tax for goods and services, a \$1 per gallon motor fuel tax rate, an outstanding transport-related debt of about 12 percent of general revenues, and has fully executed at least seven public-private projects in the province of British Columbia, with a huge revenue gap.

CHAIR WILSON remarked that Alaskans do not have a state income tax or a state sales tax.

[3:40:59 PM](#)

MR. MILLS offered the three laws of project financing [slide 2]. First, every project needs revenue and debt is not revenue. Second, there are only two sources of revenue prior to financing, and two more after financing. The first two sources are: you or someone else, and when you add financing, you add two more revenue sources: your children or their children. The third law of finance is that debt is expensive. He related a scenario in which a person purchases a house for \$150,000, but finances it with a mortgage, that when the house is paid in full the total cost of the house is \$300,000, including the principal and interest.

MR. MILLS skipped over several slides to discuss sources of cash for highway programs [slide 8]. The choices for financing are to finance in any form, and to pay-as-you-go. Since debt financing or any type of financing is expensive, over 90 percent of the highways built in the U.S. are built on a pay-as-you-go basis. The remaining 10 percent is paid on a financing basis. Once the state chooses to finance a highway project, the choice is a choice between debt and equity. The only way to bring equity to a project is through public-private partnerships. Several forms of debt are available, including state infrastructure banks, and municipal or federal bonds such as GARVEE bonds or Build America Bonds.

[3:43:58 PM](#)

MR. MILLS defined the features of State Infrastructure Banks (SIBs) [slide 9]. An SIB is a revolving fund, which is simply a fund that repeatedly loans money. As the fund runs out of money to lend, and more borrowers come to the bank, the SIB replenishes the funds from another source. Thus, the SIB continues to loan out funds and it replenishes the funds from some other source.

[3:44:40 PM](#)

MR. MILLS, in response to Chair Wilson, explained that a revolving fund can be replenished by the repayment of loans or from some other source. Typically, student loans are revolving funds, he said. If students repay their loans timely, the bank is replenished, but if not, the tax base must replenish the fund. When the revolving fund becomes a bank, two new conditions apply, the bank is replenished from loan repayments, and the earned income covers losses and other expenses. An SIB is a bank owned by the state it lends money for the infrastructure, but the principal stays in the bank and is the source of funds that is repeatedly loaned out. The fundamental difference between a bond and an infrastructure bank is that with a bond the money is borrowed and the money is repaid over a period of time. In an infrastructure bank, which is run in a revolving door fashion, the seed money is not normally expected to return and is loaned out repeatedly.

[3:47:26 PM](#)

MR. MILLS, in response to Chair Wilson, related that when students default on student loans in a revolving loan student loan program, the bank must cover the costs, including writing off its losses. However, the interest received on successful loans is used to replenish the loan that is written off.

MR. MILLS explained that the income earned covers losses and other expenses. There are two conditions that drive the behavior of a revolving fund as a bank. Banks tend to be low-risk lenders and leave high risk to other agents such as venture capitalists, mutual funds, and equity investors. When banks get involved in risky projects, they tend to do so as partners, he stated. They tend to partner with other lenders of capital that are more apt to take the risk.

MR. MILLS explained the SIBs in the U.S. [slide 10]. He said, "Hence you see in the U.S., many infrastructure banks participating as one of several parties to funding a major transportation project and they will be in one of the less risky positions on the project than some of the others."

3:50:26 PM

MR. MILLS, in response to Chair Wilson, offered to give an example of how an infrastructure bank operates on a \$50 million state project. He described a scenario, in which an infrastructure bank is set up by the state, and is run by one person, who is the bank officer. The DOT&PF would apply for \$50 million to fund its project. The bank would loan out the \$50 million and would seek information on repayment plus interest. Thus, the bank would seek information on how the project will generate \$100 million to repay the bank plus pay interest.

MR. MILLS offered that typically the types of projects using an infrastructure bank are projects expected to provide some hard financial return to the general fund. For example, if a bridge is built to reduce maintenance costs over time, the DOT&PF would repay the loan from money that was budgeted for maintenance costs, or the bridge would charge users a toll to generate income for repayment. Since the SIB is not trying to make a profit, it can offer a cost-based interest rate and would participate in funding the project. The test for any given project is that the bank officer will identify the repayment plus interest before it will make the loan.

CHAIR WILSON remarked that in some instances in Alaska only one route exists but in a city the people can often find an alternate route in order to avoid a toll.

3:54:13 PM

REPRESENTATIVE JOHANSEN described a scenario in which a ferry charged a toll for each person.

MR. MILLS said Representative Johansen's example is a good one. The banker would calculate the fare and anticipated ridership of the ferry to arrive at its total revenue, and would deduct the ferry's operating expenses to arrive at the profit. Thus, the banker would determine whether the ferry could repay the loan. He recalled the federal street sweeping and storm management requirements discussed earlier. If the MOA could reduce its sweeping costs by replacing the storm catchment drains with more

efficient drains, the MOA would approach the bank to fund the replacement costs for the new technology. The MOA would propose to repay the loan over the next 30 years from its cost savings.

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MR. MILLS, in response to Representative Johansen, agreed that if a prospective borrower could provide a 30-year history to demonstrate sufficient income after expenses to repay a prospective loan, including interest, that any banker would be interested in the proposition, but in the event that the entity had a history of debt, any banker would not be interested in financing any project.

[3:57:59 PM](#)

MR. MILLS continued with his presentation, explaining there are federal and state infrastructure banks [slide 10]. The advantage of a federal infrastructure bank is that it is federally funded. However, the only projects that can be funded from the initial capital are ones eligible for federal funding. Any subsequent round of lending can be used to fund any projects selected by the state, but the initial funding is restricted for federally eligible projects. Thus, many states have declined to use federal infrastructure banks since they must use the initial capital for the projects subject to the more stringent federal guidelines.

[4:00:24 PM](#)

MR. MILLS, in response to Chair Wilson, pointed out that Kansas and Georgia have state-only capitalized infrastructure banks. Florida and Ohio run parallel banks and use the federal bank as part of the toll systems, but run parallel banks for municipal and local projects. In further response to Chair Wilson, he explained that Missouri is the only state to actively execute a bank for economic development roads and to use state funds to encourage counties and municipal governments to build more projects.

[4:02:13 PM](#)

MR. MILLS described the three ways infrastructure banks are initially capitalized [slide 11]. First, the government would put in the cash as equity or would issue a GO bond, and deposits the proceeds to the bank. The second method uses leverage, in which the government puts in 25 percent of money required and

instructs the bank to issue its own bond, but not a GO bond, to fund the additional 75 percent of the fund. The equity dollar goes farther, but the bank must earn a sufficient return and not default on its loans so the banks must be more commercial in nature, he said.

[4:03:45 PM](#)

REPRESENTATIVE GRUENBERG asked if it is possible to use Build America Bonds to capitalize the SIBs.

MR. MILLS answered yes.

REPRESENTATIVE GRUENBERG asked whether that would get the state "off the hook" since the federal government would be required to pay the interest.

MR. MILLS answered that the state is not "off the hook" since the Build America Bonds would be issued by the state, but are not issued as tax-exempt municipal bonds. Instead, the bonds would be taxable bonds and the federal government would pay the state a subsidy of 32 percent. However, these would still be state bond and the state must still offer up some revenue as obligations against the bonds.

MR. MILLS related that the third method to initially capitalize an infrastructure bank is often used by the international developing community, in which several nations will form a bank, deposit some capital, and promise the rest on call. He related a scenario in which a bank would initially fund the bank with \$10 million and would require the bank to issue its own bond for \$40 million, but would give a letter of guaranty or loan guarantee, but would be on call, so if bank ends up "in the soup" the nations or collective governments would pay the equity required.

[4:06:05 PM](#)

MR. MILLS clarified that in his example, the infrastructure bank is the borrower as the government puts money into the infrastructure bank.

CHAIR WILSON related that if the SOA sets up an infrastructure bank and the state DOT&PF borrows money for a project and cannot repay it, the state would still be liable.

MR. MILLS agreed. He emphasized he is outlining ways to structure financing including that the state could choose to take on more risk and stretch its dollars, or it could take on less risk and keep its dollars closer - leveraging versus risk.

[4:08:01 PM](#)

MR. MILLS, in response to Representative Doogan, answered that a regular bank tends to place a different price on risk than governments place on risk. He recalled Mr. Beedle's concern with forward funding the AMHS since the risk exists that the appropriation might not be made. Similarly, a banker would review any proposed project to decide whether it is high risk and if so, would demand a high rate of return. However, the infrastructure bank, as the government-owned bank will put a different price on the risk, realizing that while the AMHS funds are subject to appropriation, the AMHS will not be dissolved, that the appropriation will be made, and so the SIB will lend them the money. Another reason to use an infrastructure bank rather than to issue a municipal bond is that the infrastructure bank can lend something other than cash. He recalled the scenario for building a ferry in Southeast Alaska for \$10 million. In that instance, the infrastructure bank could give the AMHS a loan guarantee to stretch the AMHS's capital farther. It would loan the AMHS \$5 million in cash and another \$5 million in the form of a loan guarantee. Thus, the SIB has the ability to stretch its funds by giving assurances that are not cash, he said.

[4:11:18 PM](#)

REPRESENTATIVE DOOGAN inquired about the track record for the SIBs.

MR. MILLS answered that typically, the SIB record has been good. He suggested that the "jury is still out" on South Carolina, which funded its entire transportation program through an SIB for several billion dollars. He related that South Carolina funded 27 years of programs in 7 years by using 27 years worth of revenue. The question remains, given the tourism industry collapse, whether South Carolina will be able to service the loan. He stated that generally the record for SIBs has been good, recalling Texas has used the SIBs extensively at the local government level to lend support to the counties without assuming full responsibility for its roads.

MR. MILLS, in response to Chair Wilson, agreed the state used something similar to fund the Whittier Tunnel, that using revolving loan funds is not a new financing method in Alaska. He recalled that the state has about eight or nine revolving funds, which are typically used in quasi-commercial applications.

MR. MILLS referred to "SIBs, Build America Bonds, and State Bonds in Relation to Other Debt Instruments [slide 18]."

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REPRESENTATIVE GRUENBERG asked Mr. Mills to focus on the State Infrastructure Banks on slide 18 and to the arrow that also points to traditional projects. He posed a scenario, in which the state is not building an income-producing project such as the Whittier Tunnel, but wants to widen a street near the tunnel. He said he did not see an advantage to using the SIB over GO bonds since income is not generated by the project.

MR. MILLS answered that in the event a street near the Whittier Tunnel was widened, the state could make the argument to local business owners the advantages of having improved traffic, improved business revenues, and likely increased property taxes, so the city should give the SIB some portion of the property taxes to pay for the project. This is an example of how to use an SIB to fund a project that does not have its own direct income stream.

REPRESENTATIVE GRUENBERG related an example in which the state owns the project but property tax is not being paid.

MR. MILLS responded that an argument could be made with the increased vehicle volume of 5,000 vehicles per day, the state would obtain \$200 per day in increased motor fuel taxes, and since the state DOT&PF would not need to build the project, the department should contribute to the project. He agreed these provide thin arguments.

REPRESENTATIVE GRUENBERG said any additional motor fuel tax collected would be deposited to the general fund. He did not think that the arguments would have "traction" in Alaska.

MR. MILLS offered another example. He described an instance in which the City of Charleston refused to pay for bridge repairs. The surrounding counties added a 5 percent hotel tax to provide the revenue stream for the bridge.

REPRESENTATIVE GRUENBERG said he thought that using an infrastructure bank, in which the federal government paid 35 percent of the interest, could be a useful to provide a revenue stream for local governments to build projects.

MR. MILLS related that this method has been useful to other states, including Texas, to obtain funds to local municipalities for projects with an expectation for repayment.

CHAIR WILSON offered her belief that a limited number of towns in Alaska would be able to take advantage of this.

REPRESENTATIVE GRUENBERG agreed, but related the distribution could be set up as similar to school funding for rural areas of the state.

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MR. MILLS, in response to Representative Munoz, related that municipalities have the statutory ability to borrow cash and can issue municipal bonds. He agreed that there would be an advantage for a SIB to coalesce a lot of the borrowing requirements, in order to bring some of the states borrowing ability to it to and to reduce some of the risks. He reminded members that a SIB can issue non-cash forms of credit, while a municipality cannot. "While it sounds esoteric, never underestimate the power of a good letter of guarantee," he said. He illustrated that a municipality might have a project for \$100,000, and could secure \$50,000, and obtain a \$50,000 loan in which the bank agrees to \$25,000, with a letter of guarantee to take to another lender, or a developer for the remainder. Thus, the SIB can issue guarantees and forms of credit to avoid lending out the entire \$50,000 in cash.

REPRESENTATIVE GRUENBERG related that the state would likely be able to obtain more credit than a small community.

CHAIR WILSON stated that communities also have the ability to use the Build America Bonds, and many other entities could be eligible for bonds.

MR. MILLS agreed. He stated these communities would do so at their own risk and at their own credit rating. The state's credit rating is very good, he said. He recalled that Missouri attempted to use the state's borrowing ability to assist its municipalities. The other key to using an SIB is that the bank

can also work in partnership with another bank, and the packaging is when infrastructure banks make sense.

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REPRESENTATIVE DOOGAN stated that these options do not actually solve the problem that the committee is trying to address, which is to keep the transportation infrastructure from deteriorating and to build new projects in Alaska.

MR. MILLS said [Alaska] is a "little different." He agreed that the current national debate does not seem to apply to Alaska.

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REPRESENTATIVE DOOGAN related that the state has yet to find an example of a successful development bank. He observed that the money is loaned out but does not revolve back in because the revolving loan becomes the lender of last resort. He asked for ways to prevent SIBs from becoming the lender of last resort.

MR. MILLS answered that the state has to structure the bank so the government is not the one "trying to pick the winners." He related it is ultimately left to the owner government to hire experts to "pick the winners."

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CHAIR WILSON asked whether provinces in Canada have anything similar to the infrastructure banks.

MR. MILLS answered yes. However, he related that Canada does not have dedicated funds, but also does not have the problem of issuing bonds. "We just have the Crown, and the Crown collects the revenue into a general fund and borrows money whenever it wants, for whatever purpose it wants," he said. He related that Canada has a constitutional monarchy form of government. In Canada, much is done with tax credits to venture capitalists, which is a form of a development bank and has had mixed reviews.

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REPRESENTATIVE GRUENBERG stated that some municipalities have the ability to repay the SIB. He suggested that a SIB might have difficulty in avoiding political pressures.

MR. MILLS agreed. The first golden rule of banking is, "never lend money to anyone who really needs it," he said. He agreed that separating out the high risk loans from the political process is the governance question.

MR. MILLS, in response to Chair Wilson, speculated that the loan portfolio of a commercial fishery bank would look just like a venture capital firm and the good and bad loans would likely average out and the bank would survive. An infrastructure bank attempts to keep the costs low and tries to partner whenever possible.

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REPRESENTATIVE DOOGAN hazarded a guess that it does not hurt the process if the state has the resources to guarantee any loans. He said he would like to see actual examples in the state since the success really depends on the specifics. He was not certain that a sufficient number of potential Alaska transportation projects could be profitable enough to make this work.

CHAIR WILSON said part of the problem seems to be that Alaska is still a young state. Most states the federal government helped create the infrastructure. Alaska is receiving a lot less from the federal government, yet the state still has tremendous transportation needs.

MR. MILLS characterized Alaska as finally getting to the head of the breadline only to find there is no bread left.

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CHAIR WILSON asked the committee to consider various scenarios to fund transportation projects in Alaska. She stated her desire to have a bill ready by the start of the legislative session.

COMMISSIONER VON SCHEBEN offered that he takes the committee member questions and comments very seriously.

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MR. OTTESEN related that approximately 5 billion miles of travel occurs on the state road system each year. The American Automobile Association's estimate from several years ago lists \$.50 per mile in costs to operate an automobile, and \$.75 for a pickup truck or sport utility vehicle (SUV). The public spends

about \$3 billion per year to use Alaska's roads. The state collects \$30 million in gas tax, which is a small fraction of the cost.

REPRESENTATIVE MUNOZ supported the idea for specific suggestions on financing a program that would pay for some of the state's needs. Some good ideas were brought up today include revenue bonds, general obligation bonds, and perhaps an endowment.

REPRESENTATIVE GRUENBERG said he would like the committee to draft a bill that would take advantage of the one-time only "Build America." He was unsure of how much money the state might receive, but extra funds would help.

COMMISSISONER VON SCHEBEN concluded by stating the outlook for the state's future is still positive and the DOT&PF just needs to get through this dip in federal funding.

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REPRESENTATIVE JOHANSEN asked Commissioner von Scheben to let him know whether the department will be applying for any ARRA grants.

[4:47:21 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 4:47 p.m.