

ALASKA STATE LEGISLATURE
SENATE TRANSPORTATION STANDING COMMITTEE

March 17, 2009

1:00 p.m.

MEMBERS PRESENT

Senator Linda Menard, Vice Chair
Senator Bettye Davis
Senator Kevin Meyer
Senator Joe Paskvan

MEMBERS ABSENT

Senator Albert Kookesh, Chair

COMMITTEE CALENDAR

SENATE BILL NO. 142

"An Act authorizing the conveyance of certain land of the Alaska Railroad Corporation to the Department of Transportation and Public Facilities; and providing for an effective date."

MOVED SB 142 OUT OF COMMITTEE

Overview: Alaska Municipal League Alaska Transportation Finance Study

HEARD

PREVIOUS COMMITTEE ACTION

BILL: SB 142

SHORT TITLE: TRANSFER RAILROAD LAND TO DOTPF:FAIRBANKS

SPONSOR(S): SENATOR(S) PASKVAN

03/09/09	(S)	READ THE FIRST TIME - REFERRALS
03/09/09	(S)	TRA, L&C
03/17/09	(S)	TRA AT 1:00 PM BUTROVICH 205

WITNESS REGISTER

JEFF STEPP, Staff
to Senator Paskvan
Alaska Capitol Building
Juneau AK

POSITION STATEMENT: Introduced SB 142 on behalf of the Sponsor.

DENISE MICHELS, President

Alaska Municipal League
Board of Directors
Nome AK

POSITION STATEMENT: Commented on the Alaska Transportation Finance Study.

CHRISTOPHER WORNUM
Cambridge Systematics, Inc.
Cambridge MA

POSITION STATEMENT: Delivered the Alaska Transportation Finance Study.

JEFF OTTESEN, Director
Division of Program Development
Department of Transportation &
Public Facilities
Juneau AK

POSITION STATEMENT: Responded to questions related to Alaska highways.

KATHY WASSERMAN, Executive Director
Alaska Municipal League (AML)
Juneau AK

POSITION STATEMENT: Explained why the Alaska Municipal League commissioned the Alaska Transportation Finance Study.

ACTION NARRATIVE

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VICE CHAIR MENARD called the Senate Transportation Standing Committee meeting to order at 1:00 p.m. Senators Paskvan, Meyer and Menard were present at the call to order. Senator Davis arrived soon thereafter.

SB 142-TRANSFER RAILROAD LAND TO DOTPF: FAIRBANKS

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CHAIR MENARD announced the consideration of SB 142.

JEFF STEPP, Staff to Senator Paskvan, introduced SB 142 on behalf of the sponsor. He explained that the Department of Transportation and Public Facilities (DOTPF) is preparing to reconstruct Illinois Street, which provides primary access to downtown Fairbanks when traveling from the north. This new construction will be over the Chena River into the center of the golden heart of the city. To complete the project DOTPF needs to acquire full interest in approximately five acres of what is now

railroad property. The Alaska Railroad Corporation Act requires legislative approval for the action to go forward. SB 142 provides that authority and specifies that DOTPF will provide a combination of cash, land of equal value or a combination of both to the Alaska Railroad.

At ease at 1:03 pm.

CHAIR MENARD, finding no one who wanted to testify, closed public testimony and asked the will of the committee.

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Senator Davis joined the committee.

SENATOR MEYER moved to report SB 142 from committee with individual recommendations and attached fiscal note(s). There being no objection, SB 142 moved from the Senate Transportation Standing Committee.

Alaska Transportation Finance Study

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CHAIR MENARD announced the committee would hear the Alaska Transportation Finance Study, which was commissioned by the Alaska Municipal League.

CHRISTOPHER WORNUM, Cambridge Systematics, Inc., introduced himself and said his company authored the study.

DENISE MICHELS, President, Alaska Municipal League (AML), said she also serves as the mayor of Nome and is employed as vice president of Community Services Division by Kawerak, Inc. In that capacity she manages the Indian Reservation Roads (IRR) program for the Bering Strait region. She told members she also participated as a stakeholder in the 2030 long-range transportation plan.

MS. MICHELS explained that AML serves as the unified voice for Alaska municipalities to influence favorable federal and state legislation. It also builds consensus and partnerships with organizations and the public to address challenges. In that vein members last year began discussing issues regarding transportation and energy, and an ad hoc committee developed a transportation policy for the AML board to consider. During the annual meeting in November the membership adopted resolution 2009-12, which urged Governor Palin and the Legislature to capitalize long-term transportation funding for Alaska.

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MS. MICHELS related that in October 2008 AML commissioned Cambridge Systematics Inc. to examine and assess the current transportation funding trends, transportation funding in other states, and changes anticipated in federal transportation funding. Due to the short timeline the study focused only on surface transportation. None-the-less AML recognizes the critical importance of the marine and aviation components of the system and understands that they must be viewed holistically for a full approach. AML believes that transportation and its support systems are justification for economic development. The transportation system must be safe, reliable, efficient, cost-effective, and environmentally sound. Clearly, adequate funding is required to meet these specifications.

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CHRISTOPHER WORNUM explained that Cambridge Systematics, Inc. was asked to address six points.

- 1) The current trends in transportation capital and operating needs
- 2) The changes in federal funding sources that are currently in play under reauthorization that may impact levels of funding in Alaska
- 3) Evaluate user fees, public-private partnerships and other sources for financing transportation investments
- 4) Identify factors that are likely to impact Alaska transportation funding in the future
- 5) Identify possible strategies to react to these trends
- 6) Evaluate potential funding sources that haven't been used in this state but are being considered in other states

MR. WORNUM said he will focus on three topics: chronic under-investment in the state transportation infrastructure, the current federal funding that's at risk, and the options for closing the funding gap.

Chronic under-investment in the transportation infrastructure is not unique to Alaska, but it may be more acute because this state depends so heavily on transportation. Most of the industry in the state is either related to resource extraction or "traded" industries. These are industries that need transportation to export or import material out of or into the state. This includes tourism and tends to have a higher value-added that is related to transportation activity so it is more sensitive to level of investment. There is also a need to expand

some of those industries to help the state diversify the economy away from petroleum. Those industries are affected by the level of investment.

Conditions in Alaska are unlike those in the Lower-48. Alaska has far-flung communities that need a transportation link. It has a harsher environment, which drives up costs, and it is a younger state that has a less mature network of transportation. These factors increase dependence on transportation and explain why the under investment may be a serious problem.

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The DOTPF 2030 Transportation Plan estimated the annual state highway and bridge funding needs to be about \$1.1 billion. About \$518 million of that is funded and the balance is unfunded. If the marine highway system, transit, and rural roads are included, the annual unfunded need rises to \$220 million. The current backlog of unfunded maintenance and life-cycle costs through 2007 amounts to about \$250 million. That does not include the backlog in aviation, transit, the marine highway system, locally funded urban and rural roads, or any capacity needed to meet increased future demand. In fact, DOTPF has diverted about \$60 million a year from its highway and bridge capital to maintenance; so it is under funding capital needs and not meeting the ongoing maintenance and life-cycle cost needs. Over the past five years DOTPF has been able to dedicate about \$36 million a year for routine maintenance of bridge and highway leaving about \$140 million in unmet needs.

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MR. WORNUM explained that historically Alaska has received roughly 80 percent of its transportation funding from federal sources. Alaska is in the top ten of all states in terms of total transportation spending as a percentage of the gross state product (GSP), but it is somewhere in the middle in terms of state spending on transportation and among the lowest of all states in terms of capital investment, which is the money spent to enlarge the system to accommodate growing demand or to replace worn infrastructure. Because of the state's heavy reliance on transportation, these factors make Alaska vulnerable when federal transportation funding is reauthorized next year.

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CHAIR MENARD observed that the first bar graph shows that Alaska is seventh highest in terms of total spending as a share of GSP and the next graph shows that it is in the middle.

MR. WORNUM agreed; he added that the second graph shows that Alaska is in the middle and slightly below average in terms of total state spending (net of federal) as a share of GSP. He noted Montana is somewhat analogous to Alaska in the sense that it too has a small population and diverse communities.

MR. WORNUM highlighted that the federal highway trust fund has maintained authorized highway programs at basically the current levels. That includes the current SAFETEA-LU [Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users] authorization as well as the next reauthorization. The problem is that while spending is programmed at that particular level, revenue coming in is declining.

CHAIR MENARD asked how much the state lost when the state gas tax was suspended.

MR. WORNUM said he'll show a chart with those statistics at the end of the presentation. He clarified that the federal gas tax was maintained. Current proposals for reauthorization of SAFETEA-LU/Map-21 suggest a 10 cent per gallon increase in the federal gas tax. He cautioned that that is speculative.

MR. WORNUM said another concern for Alaska is that the donor states are gradually looking for greater return. These are states that contribute more of the federal gas taxes they collect than they get back through the highway trust fund. The three cycles of reauthorization - the previous TEA-21; the current SAFETEA-LU; and the future MAP-21 - demonstrate that the donor states are asking that their share of the return increase to a target of 95 percent. With every increase to donor states, there is a corresponding decrease to donee states, and Alaska is one of the highest donee states. He reiterated that it is unclear whether or not the 95 percent contribution will be reached in the next reauthorization, but that is the target the donor states have set.

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MR. WORNUM relayed that reauthorization funding policies likely will place greater emphasis on tolling, other user fees, and metropolitan transportation networks rather than highway funding. The notion is to treat transportation more as a public utility than as a public good, which places Alaska at a disadvantage because it has very little in the way of user fees. Some proposals put more responsibility on states and cities for funding transportation improvements, which puts metropolitan

areas at an advantage because they can raise funds through increases in sales tax, state gas tax, or user fee programs.

Other states are challenging the status quo and are pressing for a change in the reauthorization. Alaska is a target because of the perception that it has a substantially better financial capacity than other states. Alaska has the permanent fund; it has neither a state income tax nor a state sales tax; and it had the lowest state gas tax in the nation until it was rescinded altogether. These are the reasons the competing states will cite for acquiring a larger share of federal transportation dollars.

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MR. WORNUM highlighted three options for closing the \$585 million transportation funding gap. The first option would generate about \$151 million and has the following components:

- Increase the state fuel tax from 8 to 18 cents per gallon and index the rate to inflation to generate about \$38 million annually
- Increase vehicle registration fees by 50 percent to generate about \$23 million annually
- Impose a vehicle sales tax of 0.5 percent to yield about \$10 million annually
- Encourage local jurisdictions to impose a 0.5 percent sales tax to earn about \$30 million annually
- Capitalize the Alaska Transportation Fund with \$1 billion and a projected 8 percent return to earn about \$50 million annually

The second option would generate about \$291 million and has the following components:

- Increase the fuel tax from 8 to 28 cents per gallon and index the rate to inflation to generate about \$76 million annually.
- Double the vehicle registration fees from \$100 to \$200 biannually to generate about \$45 million annually.
- Impose a vehicle sales tax of 1.5 percent to yield over \$31 million annually.
- Encourage local jurisdictions to impose a 1.5 percent sales tax to generate about \$89 million annually. This money could be used to match some state projects.
- Capitalize the Alaska Transportation Fund with \$1 billion and with a projected 8 percent return it would earn about \$50 million annually.

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The third option is similar to the second option and would generate \$291 million annually, but the sales taxes would be reduced somewhat and the Local Service Roads and Trail (LSR&T) program would be reinstated. It has the following components:

- Increase the fuel tax from 8 to 28 cents per gallon and index the rate to inflation to generate about \$76 million annually.
- Double the vehicle registration fees from \$100 to \$200 biannually to generate about \$45 million annually.
- Impose a state vehicle sales tax of 1.25 percent and a 1.25 percent local sales tax to yield respectively about \$26 million and \$74 million annually.
- Capitalize the Alaska Transportation Fund with \$1 billion and a projected 8 percent return to earn about \$50 million annually.
- Reinstitute the LSR&T program at about \$20 million annually.

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MR. WORNUM said these options are illustrative, but various mixes of these kinds of sources are being used in other states to close their funding gaps. Cambridge Systematics did not investigate tolling because that opportunity is limited as a statewide strategy here in Alaska.

MR. WORNUM explained that Cambridge Systematics did a nationwide analysis to see how gas taxes really affect the retail price of gas because that is often an argument for keeping the taxes low. He displayed a chart of the indexed cost of gasoline and crude oil from August 2007 to November 2008 showing that the average price of gasoline tracks the average price of crude oil. However, when the average Alaska gas price is compared the trends are interesting.

The 8 cent per gallon state gas tax was rescinded in early September 2008. In that same general timeframe the price of crude oil dropped about 21 percent, and the national average cost of gas dropped roughly the same amount. However, the average cost of gasoline in Alaska dropped only 12 percent. Although Cambridge Systematics hasn't yet done an econometric analysis, it appears that a lot of the tax that goes into gasoline at the retail pump gets passed upstream as well as downstream to the consumer. There is a very complicated and not very competitive arrangement in drilling for, exporting, refining, and distributing fuel, but what they have found in a lot of states is that the retail price of gas does not track

with the gas tax. That can be explored further but New York and New Jersey provide an interesting comparison. New York has the highest gas tax in the country at 42 cents per gallon and New Jersey has one of the lowest at about 12 or 14 cents per gallon. The cost of gas in those two states is exactly the same.

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SENATOR MEYER noted that he understood him to say that the consumer didn't realize a savings when the 8 cent per gallon state gas tax was rescinded.

MR. WORNUM agreed that it's not clear that consumers did realize a savings.

SENATOR MEYER asked if he has a cost comparison for building a mile of road in Alaska versus any other states because the rule of thumb used to be that it would cost between \$6 million and \$8 million per mile. He surmised that other northern states would face the same issues as Alaska.

MR. WORNUM said he would defer to DOTPF to give exact costs but he would say that Alaska faces a number of costly challenges before getting down to construction. It has higher up-front costs because of endangered species and environmental concerns.

SENATOR MEYER commented that in some ways Alaska is justified in getting so much money from the federal government because so many of those costs are related to federal requirements. He asked if other states use property taxes as a revenue source for roads; that's what Anchorage does and he prefers that because they're deductible.

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MR. WORNUM said yes, but a lot of states have tremendous demands on property taxes for other municipal infrastructure. Also, propositions similar to [California] Proposition 13 have caused some states to back down on increasing property taxes. He agrees that sales tax is not the ideal source of funding for transportation because it fluctuates with the business cycle and doesn't correlate to the amount of transportation that's used.

SENATOR MEYER described tolling as an interesting concept and noted that in some states the private sector builds roads and bridges and then recoups their costs through tolling. He doesn't recall that being done in Alaska, but there has been talk about letting the private sector build a toll bridge over the Knik Arm.

MR. WORNUM responded that in the Lower 48 tolling is close to a fad and projects that can be tolled are being cherry-picked. They aren't a viable option for Alaska but The Roads to Resources program appears to be an equivalent opportunity. Extraction companies would realize significant benefit from these roads and could reasonably be asked to pay for a large portion if not the entire cost. There are some issues but these roads would also benefit public travel.

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CHAIR MENARD asked if Alaska is the only state that doesn't have either a state sales tax or a state income tax.

MR. WORNUM clarified that Alaska is the only state that has neither.

CHAIR MENARD asked if several states have "senior forgiveness" on vehicle registration.

MR. WORNUM said he isn't sure but it's likely. It's one of the few user fees that sends a price signal to a user as to the capital cost of maintaining roads.

CHAIR MENARD asked if he's aware of the difficulty of instituting an income tax in this state or even getting voters to agree to a municipal tax.

MR. WORNUM acknowledged that it would be challenging. Polling that was done in Alaska in the 90s and more recently in other states indicates that people are more willing to support user fees and other taxes when they know that the money is dedicated to a specific public service like transportation. It's not as clear that tolling receives that same support.

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CHAIR MENARD asked if the Alaska Municipal League has asked his firm to do further work.

MR. WORNUM replied this is the end of the current assignment.

SENATOR PASKVAN asked if he has figured what it would cost per mile to fill the \$585 million gap.

MR. WORNUM replied no, but that could be figured with data they have on hand. He noted that other states have experimented with a VMT (vehicle miles traveled) charge, which converts the gas

tax from a cents per gallon calculation to a percent per mile pricing system. The argument for that is that drivers should pay according to how much, where, and at what time they drive. He noted that some interesting experiments have been completed, but there are associated privacy issues. He can't imagine the VMT fee having much purchase since the gas tax is such an easy to collect, low-cost, low-evasion source of revenue. It has a lot going for it except for the fact that a lot of vehicles are now using untaxed fuels and vehicle mileage is going to steadily improve.

SENATOR PASKVAN asked what gas tax rate would fill the \$585 million gap.

MR. WORNUM replied the calculation could be done. He added that in other states they have studied a revenue neutral switch from the gas tax to a VMT fee and Washington needed about 1.2 cents per mile to replace what they currently collect, which he recalled is about 25 cents per gallon.

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JEFF OTTESEN, Director, Division of Program Development, Department of Transportation and Public Facilities (DOTPF), responded to Senator Paskvan's question and related that each year the state road network sees about 5 billion miles of travel and he calculates that to fill the gap a mileage fee of about 12 cent per mile would be needed. Another metric that might help in understanding that number comes from the American Automobile Association, which has said that it costs the average driver about 50 cents a mile to own and operate an automobile and about 75 cents per mile to own and operate an SUV or large pickup. Ownership costs include the vehicle cost, maintenance, registration, fuel, and insurance. The state gas tax accounts for about one-half a penny of that cost and when the federal gas tax is added the total cost is about 2 cents. He remarked that another way of looking at it is that Alaskans don't mind paying for their vehicles, but they don't want to pay for the roads.

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SENATOR MEYER summarized that the committee has ascertained that federal regulations and requirements account for a lot of the cost to build highways in Alaska. Also it's a lot cheaper to build state roads using state funds than going through the AMATS process.

MR. OTTESEN agreed.

SENATOR MEYER asked if cheap asphalt, studded tires or something else is the source of the ruts that plague Alaska highways.

MR. OTTESEN replied the rutting is primarily due to studded tires on cars. For the most part highway ruts are spaced the axel width of an automobile, not an 18-wheel semi-trailer truck. Currently DOTPF is experimenting with a hard aggregate to resist that wear and tear and it has worked well where it's been tried. Juneau's Egan Drive was paved with hard aggregate 8-9 years ago, and it has lasted twice as long as the previous paving. The expectation is that it will last about 15 years. The drawback is that few sources of hard rock are available in the state so transportation costs are an issue. Most of the hard aggregate for the Juneau project had to be shipped in via barge from Haines or Puget Sound. Responding to the comment about the high cost of roads, he said there's been an explosion in road construction costs. In 2003 the average project cost was \$5 million to \$10 million and now it's routine for the same size project to cost \$30 million to \$50 million.

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SENATOR MEYER asked if the state still has a studded-tire tax.

MR. OTTESEN replied there was legislation to remove the fee, but he doesn't recall the outcome.

CHAIR MENARD asked if an argument for doing away with studded tires is that all-weather tires accomplish the same thing.

MR. OTTESEN replied the anecdotal reports are positive, but some people believe studs are an important safety feature. During some freeze-thaw cycles, they make a difference, he said.

SENATOR PASKVAN calculated that a vehicle that gets 20 mpg would need to pay \$2.40 per gallon in gas tax in order to fill the \$585 million gap.

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MR. OTTESEN observed that Alaska is resource rich and population poor so it's not realistic to ask the population to pay for the roads. Last year a bill was introduced that would have funded the Alaska Transportation Fund with \$1 billion from the state's resources and he believes that the state will ultimately have to take another look at something like that. The Australians call it the tyranny of geography - the state is large and expensive to cross, but there aren't many people to pay for the roads.

SENATOR MEYER asked what the administration recommends for funding roads and bridges.

MR. OTTESEN replied he isn't sure there's an answer now. When the AML study was commissioned last fall the price of oil was relatively high and the stock market was healthy. There's been significant change since that time and the idea of the transportation fund is clearly difficult in the world today. At the same time, Alaskans don't like taxes and it's been a long time since anything has been done to the gas tax other than to suspend it. When the Alaska Road Commission first came into being, mining camps like Juneau, Nome and Fairbanks had a two-day labor tax on every able-bodied man for the purpose of building roads. At that time people understood they needed roads and they contributed quite a lot in terms of labor. In 1961 an 8 cent gas tax was passed, which was the highest of any of the 50 states.

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SENATOR MEYER highlighted that DOTPF will receive \$175 million of the economic stimulus and asked if that is the right amount. He recalled that former Senator Ted Stevens used to argue that Alaska needs more federal money because it is a young state that doesn't have an infrastructure like Lower 48 states have. "Based on the stimulus being over \$2 billion, \$175 million doesn't sound like very much," he said.

MR. OTTESEN acknowledged that it's a good point. He related that the percentage of stimulus money coming to DOTPF is about six tenths of one percent. Historically, federal transportation authorizations were closer to 1.1 percent or 1.2 percent so already the share of the pie is shrinking. He said he believes it's a sign of the shift toward greater funding to large population states and large metropolitan areas. Less money will go to small towns and rural America, which will be harmful to Alaska.

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CHAIR MENARD asked Mr. Wornum if he had closing comments.

MR. WORNUM said Alaska is facing the same challenges as other states, but the difference is that diversification of spending isn't very workable here. Although he agrees with Mr. Ottesen that geography is a disadvantage, he believes that Alaska has put itself at a disadvantage. Traditional user fees that other states have imposed to fund transportation haven't been imposed here and that leaves Alaska at a disadvantage for leveraging

federal funds for immediate help. But over the long term that won't solve the problem.

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KATHY WASSERMAN, Executive Director, Alaska Municipal League (AML), stated that AML did not bring this study forward to demand any immediate action. Rather, it is intended to start the conversation. She suggested that some legislators might want to read the study during the Interim in preparation for next year. More than anything else this was meant to help get the discussion rolling with municipalities, the Legislature, DOTPF, and whoever else might help come up with answers to fund roads in the future, she said.

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There being no further business to come before the committee, Chair Menard adjourned the meeting at 2:01 pm.