

HB

275

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: April 18, 2005

FURTHER REFERRALS:

Date of Committee Action: 4/26/05

The FINANCE Committee considered:

HB 275

HOUSE BILL NO. 275

TRANSPORTATION PROJECT BONDS

"An Act authorizing financing for certain public transportation projects; giving notice of and approving the entry into, and the issuance of revenue obligations that provide participation in, lease-financing agreements for those transportation projects; and providing for an effective date."

Recommends it be replaced with HCS or CS for HB 275 FIN
 For Senate Bills with new title: Technical Title New Title: HCR _____ Same Title New Title

- attach amendments
- add new referral to _____ Committee
- Letter of Intent _____ Committee

List of Abbrev for Depts.:
 ADM
 CED
 COR
 CRT
 EED
 DEC
 DFG
 GOV
 HSS
 LEG
 LAW
 LWF
 MVA
 DNR
 DPS
 ENV
 DOT
 UA

NEW FISCAL NOTES				
*Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
REV		✓		

PREVIOUS FISCAL NOTES				
List by Dept(s):	FN#	Fiscal	Indet.	Zero

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
	Hawker			*	
	Kelly Weyhrand	x		x	
	FOSTER	x			
Chair:	Meyer	x			
Chair:	Chennett			x	

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CS HB275
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title: Transportation Projects RDU: Revenue Programs & Services
Component: Treasury Management
Sponsor: House Finance Committee
Requester: House Finance Committee Component No. 121

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel	10.0					
Contractual	2,533.0					
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Debt Service		19,242.0	19,242.0	19,242.0	19,242.0	19,242.0
TOTAL OPERATING	2,543.0	19,242.0	19,242.0	19,242.0	19,242.0	19,242.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts		17,317.8	17,317.8	17,317.8	17,317.8	17,317.8
1003 GF Match		1,924.2	1,924.2	1,924.2	1,924.2	1,924.2
1004 GF	10.0					
1005 GF/Program Receipts						
1037 GF/Mental Health						
Certificates sale proceeds	2,533.0					
TOTAL	2,543.0	19,242.0	19,242.0	19,242.0	19,242.0	19,242.0

Estimate of any current year (FY2005) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See attached analysis.

Prepared by: Deven Mitchell Phone: 465-3409
Division: Treasury Division Date/Time: 4/28/05 9:51 AM
Approved by: Tom Boutin Deputy Commissioner Date: 4/28/2005
Agency: Revenue

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. CS HB275

ANALYSIS CONTINUATION

This bill authorizes sale of \$195.8 million in lease-financing agreements to finance \$193.3 million in state transportation projects described in the bill. This fiscal note and analysis contemplates 16-year level debt service and a 5.9% interest rate/true interest cost, a 90% federal participation in payment of debt service, and credit ratings in the A range. Contractual costs in FY 2006 include underwriting, financial advisor, bond counsel, bond ratings, and other costs associated with issuing the bonds.

This fiscal note does not attempt to quantify the possibility of any negative state credit rating action that might result from the issuance of these obligations. The Department of Revenue believes that this GARVEE bond structure would bring heightened credit concerns in light of other related and unrelated concurrent credit matters. Credit rating agency concerns specific to GARVEE bonds have been discussed with legislative staffers. A credit rating change in state general fund credit ratings would increase interest rates on general fund debt by at least 20 basis points and would impact all public debt issued in the state. Solely for purposes of illustration; a 20 basis point increase in interest costs for state, state agency and municipal debt issued in Alaska each year would add approximately \$15 million to annual debt service. While hypothetical at this point in time, such an increase, should it occur would be cumulative so that the \$15 million annual cost would double in the second year, triple in the third year, etc. Outstanding fixed rate debt held by bondholders changes in market value with a credit rating change but interest rates paid do not change; the exception is most variable rate debt of course where the purchaser has the right (usually weekly or monthly) to put the bond back to the issuer, and the issuer must find a new buyer through its remarketing agent.

The debt structure contemplated for HB275 is awkward and untried. The legal theory is that absent other security such as pledged highway fuel receipts, the bond trustee would accept a claim on state-owned rights of way that could be perfected in the event of default or nonappropriation. However, the rights of way tendered to the financing could not be the main project rights of way. At this time the rights of way that are contemplated by state bond committee staff are those that are adjacent to the projects. Whether that security feature could actually work or has been used elsewhere is unknown.

The time period required to determine the available and sufficient rights of way for security purposes, structuring the leases for those sites that can be leased, establishing lien positions to the satisfaction of the trustee - perhaps including environmental surveys and settling title issues - is unknown. However, structuring the financing could take place concurrent with most of these processes. Absent significant roadblocks in the new and untried financing structure, it may be safe to say that debt could be issued in time for the 2006 construction season.

adopted
4-26-05

24-LS0902\G
Utermohle
4/26/05

CS FOR HOUSE BILL NO. 275(FIN)

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - FIRST SESSION**

BY THE HOUSE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): HOUSE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing financing for certain public transportation projects; giving notice
2 of and approving the entry into, and the issuance of revenue obligations that provide
3 participation in, lease-financing agreements for those transportation projects; and
4 providing for an effective date."

5 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

6 * Section 1. The uncodified law of the State of Alaska is amended by adding a new section
7 to read:

8 **TRANSPORTATION PROJECT ALLOCATION.** The Department of Transportation
9 and Public Facilities shall allocate the net proceeds derived from the sale of revenue
10 obligations authorized in sec. 4 of this Act for construction or acquisition of the following
11 state transportation projects among those projects as follows, subject to reallocation among
12 the projects under AS 37.07.080(e):

13	PROJECT	ALLOCATION
14	(1) Anchorage: Glenn Highway congestion	\$ 37,500,000

1	(2) Anchorage: Tudor-Bragaw intersection improvements	9,000,000
2	(3) Copper River Highway rehabilitation	5,000,000
3	(4) Dalton Highway Washington Creek Bridge	7,500,000
4	(5) Fairbanks: Gaffney Road upgrade	6,250,000
5	(6) Fairbanks: Shaw Creek Bridge on Richardson Highway	3,500,000
6	(7) Fairbanks: Cartwright Road extension	3,650,000
7	(8) Kenai Peninsula Borough: Kalifornsky Beach Road	19,000,000
8	rehabilitation	
9	(9) Matanuska-Susitna Borough: Multi-modal alternate	2,000,000
10	Parks Highway and Alaska Railroad corridors	
11	(10) Matanuska-Susitna Borough: Palmer-Wasilla Highway	6,000,000
12	expansion	
13	(11) Richardson Highway passing lane additions	7,500,000
14	mileposts 265 - 341	
15	(12) Prince of Wales: Hollis to Klawock pavement	10,000,000
16	(13) Sitka: Rocky Gutierrez Airport access	3,500,000
17	improvements	
18	(14) Port of Anchorage: Terminal Road relocation	10,000,000
19	and expansion, Ocean Dock Road and Terminal	
20	Road intersection upgrade	
21	(15) Fairbanks: Homestead Road/NPHS Boulevard	3,800,000
22	extension	
23	(16) Parks Highway: Rex railroad grade separated	7,300,000
24	crossing	
25	(17) Kodiak: Otmeloi Way rehabilitation	3,300,000
26	(18) Nome: city streets, phase 2	5,000,000
27	(19) Glenn Highway: Eklutna River Bridge #1230 load	10,000,000
28	capacity increase	
29	(20) Tok Cutoff Highway: Gakona River Bridge #646	5,500,000
30	replacement	
31	(21) Parks Highway: passing and intersection lanes	15,000,000

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(22) Richardson Highway: MP 2 - 3 combination

3,000,000

(23) vehicle turn lanes to Valdez container terminal
glacier highway road extension

\$10,000 million

* Sec. 2. The uncodified law of the State of Alaska is amended by adding a new section to read:

DELEGATION OF AUTHORITY FOR LEASE-FINANCING AGREEMENTS. The

Department of Transportation and Public Facilities is delegated the Department of Administration's authority under AS 36.30.085 to enter into lease-financing agreements in connection with the issuance of revenue obligations to finance the state transportation projects described in sec. 1 of this Act.

* Sec. 3. The uncodified law of the State of Alaska is amended by adding a new section to read:

LEASE-FINANCING PAYMENTS. (a) The lease payments owed under lease-

financing agreements executed under sec. 2 of this Act are subject to annual appropriation by the legislature.

(b) The legislature intends that federal money in the form of apportionments from the Federal Highway Administration for federal highway grants will provide enough revenue to the general fund to make substantially all of the lease payments; however, if that revenue source is insufficient, the payments may be made from any other valid revenue source, subject to appropriation.

* Sec. 4. The uncodified law of the State of Alaska is amended by adding a new section to read:

NOTICE OF THE ENTRY INTO AND FINANCING OF REVENUE

OBLIGATIONS. (a) Subject to annual appropriation, the Department of Transportation and Public Facilities is authorized to enter into lease-financing agreements for the issuance of revenue obligations for the state transportation projects described in sec. 1 of this Act.

(b) The state bond committee is authorized to provide for the issuance of revenue obligations in one or more series in the aggregate principal amount of \$185,200,000 for the costs of construction of the projects described in sec. 1 of this Act. The principal amount includes the estimated cost of \$183,300,000 for constructing, acquiring, and equipping the projects described in sec. 1 of this Act; and an amount for the cost of issuing the revenue obligations of \$1,900,000. The estimated annual amount of rental obligations under the lease-

1 financing agreements is \$16,100,000. The estimated total lease payments for the full term of
2 the lease-financing agreements is \$257,600,000.

3 (c) The state bond committee may contract for credit enhancement, underwriting,
4 credit ratings, bond counsel, financial advisor, printing, and trustee services that the
5 committee considers necessary in financing the projects described in sec. 1 of this Act.

6 (d) In this section,

7 (1) "costs of construction" includes credit enhancement and underwriting
8 expenses, rating agency fees, bond counsel fees, financial advisor fees, printing fees, trustee
9 fees, and interest earnings used for lease payments;

10 (2) "revenue obligation" means a certificate of participation in the right to
11 receive a payment under a lease-financing agreement made to finance the costs of
12 construction or acquisition of a state transportation project.

13 * Sec. 5. The uncodified law of the State of Alaska is amended by adding a new section to
14 read:

15 NOTICE AND APPROVAL OF AGREEMENTS. Section 4 of this Act constitutes
16 the notice and approval of lease-financing agreements to finance the transportation projects
17 described in sec. 1 of this Act that is required by AS 36.30.085.

18 * Sec. 6. This Act takes effect July 1, 2005.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CS HB275
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Transportation Projects RDU Revenue Programs & Services
Component Treasury Management
Sponsor House Finance Committee
Requester House Finance Committee Component No. 121

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel	10.0					
Contractual	2,533.0					
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Debt Service		19,242.0	19,242.0	19,242.0	19,242.0	19,242.0
TOTAL OPERATING	2,543.0	19,242.0	19,242.0	19,242.0	19,242.0	19,242.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts		17,317.8	17,317.8	17,317.8	17,317.8	17,317.8
1003 GF Match		1,924.2	1,924.2	1,924.2	1,924.2	1,924.2
1004 GF	10.0					
1005 GF/Program Receipts						
1037 GF/Mental Health						
Certificates sale proceeds	2,533.0					
TOTAL	2,543.0	19,242.0	19,242.0	19,242.0	19,242.0	19,242.0

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This bill authorizes sale of \$195.8 million in lease-financing agreements to finance \$193.3 million in state transportation projects described in the bill. This fiscal note and analysis contemplates 16-year level debt service and a 5.9% interest rate/true interest cost, a 90% federal participation in payment of debt service, and credit ratings in the A range. Using a current interest rates of 4.14% annual debt service would be reduced by \$2.3 million to \$16.86 million. Contractual costs include underwriting, financial advisor, bond counsel, bond ratings, and other costs associated with issuing the bonds. This fiscal note does not attempt to quantify the possibility of any negative state credit rating action that might result from the issuance of these obligations.

Prepared by: Deven Mitchell Phone 465-3409
Division: Treasury Division Date/Time 4/28/05 5:03 PM
Approved by: Tom Boutin, Deputy Commissioner Date 4/28/2005
Agency: Revenue

Garvee Project List			
Anchorage: Glenn Highway Congestion	\$	37,500,000.00	
Anchorage: Tudor-Bragaw Intersection Improvements	\$	9,000,000.00	
Copper River Highway Rehabilitation	\$	5,000,000.00	
Dalton Highway: Washington Creek Bridge	\$	7,500,000.00	
Fairbanks: Shaw Creek Bridge on the Richardson Highway	\$	3,500,000.00	
Kenai Peninsula Borough: Kalifornsky Beach Road Rehabilitation	\$	19,000,000.00	
Mat-Su Borough: Multi-Model Alternate Parks Highway and Alaska Railroad Corridors	\$	2,000,000.00	
Mat-Su Borough: Palmer-Wasilla Highway Expansion	\$	6,000,000.00	
Richardson Highway: Passing Lanes Additions Milepost 265 - 341	\$	7,500,000.00	
Prince of Wales: Hollis to Klawock Pavement	\$	10,000,000.00	
Sitka: Rocky Guitierrez Airport Access Improvements	\$	3,500,000.00	
Port of Anchorage: Terminal Road Relocation and Expansion, Ocean Dock Road and Terminal Road Intersection Upgrade	\$	10,000,000.00	
Fairbanks: Gaffney Road Upgrade	\$	6,250,000.00	
Fairbanks: Cartright Road Extension	\$	3,650,000.00	
Fairbanks: Homstead Road/NPHS Boulevard Extention	\$	3,800,000.00	
Parks Highway: Rex Railroad Grade Seperated Crossing	\$	7,300,000.00	
Kodiak: Otmeloi Way Rehabilitation	\$	3,300,000.00	
Nome: City Streets, Phase 2	\$	5,000,000.00	
Glenn Highway: Eklutna River Bridge #1230 Load Capacity Increase	\$	10,000,000.00	
Tok Cutoff Highway: Gakona River Bridge #646 Replacement	\$	5,500,000.00	
Parks Highway: Passing and Intersection Lanes	\$	15,000,000.00	
Richardson Highway: MP 2-3 Long Combination Vehicle Turn Lanes to Valdez Container Termin	\$	3,000,000.00	
Total	\$	183,300,000.00	

ATTACHMENT
 4/20/05

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 275
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title: Transportation Projects RDU: Revenue Programs & Services
Component: Treasury Management
Sponsor: House Finance Committee
Requester: House Finance Committee Component No. 121

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel	10.0					
Contractual	1,616.0					
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Debt Service		11,472.8	11,473.5	11,474.2	11,474.4	11,473.4
TOTAL OPERATING	1,626.0	11,472.8	11,473.5	11,474.2	11,474.4	11,473.4

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
1002 Federal Receipts		10,325.5	10,326.2	10,326.8	10,327.0	10,326.1
1003 GF Match		1,147.3	1,147.4	1,147.4	1,147.4	1,147.3
1004 GF	10.0					
1005 GF/Program Receipts						
1037 GF/Mental Health						
Certificates sale proceeds	1,616.0					
TOTAL	1,626.0	11,472.8	11,473.5	11,474.2	11,474.4	11,473.4

Estimate of any current year (FY2005) cost: 00
Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
This bill authorizes sale of \$116.62 million into lease-financing agreements to finance \$115 million in state transportation projects described in the bill. This fiscal note and analysis contemplates 15-year level debt service and a 5.4% interest rate/true interest cost, a 90% federal participation in payment of debt service, and credit ratings in the double A range. The financing could take place 60 to 90 days after the bill became effective. Contractual costs in FY 2006 include underwriting, financial advisor, bond counsel, bond ratings, and other costs associated with issuing the bonds. Using a current interest rate of 4.08%, annual debt service is reduced by approximately \$1 million annually.

This fiscal note does not attempt to quantify the possibility of any negative state credit rating action that might result from the issuance of these obligations.

Prepared by: Deven Mitchell Phone: 465-3750
Division: Treasury Division Date/Time: 4/20/05 5:38 PM
Approved by: Jerry Burnett, Special Assistant to the Commissioner Date: 4/20/2005
Agency: Department of Revenue

ALASKA STATE LEGISLATURE HOUSE FINANCE COMMITTEE

Representative Mike Chenault
Co-Chairman
(907) 465-3779

Fax: (907) 465-2833

Representative Mike.Chenault@legis.state.ak.us

145 Main St. Loo, #223
Kenai, Alaska 99611

Representative Kevin Meyer
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(907) 465-4945

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Representative Kevin.Meyer@legis.state.ak.us

716 W. 4th Avenue
Anchorage, Alaska 99501

State Capitol, Juneau, Alaska 99801-1182

SPONSOR STATEMENT

House Bill 275, 'Transportation Project Bonds'

House Bill 275 proposes to fund \$115 million of highway projects around the state using Grant Anticipation Revenue Vehicles, or 'Garvee' bonds.

Since 1998, 18 states have leveraged their federal highway money by using Garvee bonds. Those transactions accounted for more than \$12 billion in par value. As a result, the Garvee approach is now an accepted method of financing needed transportation infrastructure projects.

To be eligible for inclusion in a Garvee bond package, projects must qualify for federal highway aid, and appear on the Statewide Transportation Improvement Program or 'S.T.I.P.' All of the project listed in HB 275 qualify for federal highway aid.

Future federal highway funds will be used to repay the bonds.

The interest earnings on the bonds will be used to pay for the federal highway match, saving the state approximately \$15 million in general fund match.

Thank you for hearing this legislation today, and I urge your positive support of HB 275.

Subject: Bumps in Road on Reauthorization
From: "Schust, Sunny" <SunnyS@ashto.org>
Date: Fri, 22 Apr 2005 16:23:24 -0400
To: Board of Directors <BOD@ashto.org>
CC: Reauthorization Steering Committee <Reauth@ashto.org>, Division Heads <DivHeads@ashto.org>

Legislative Update

Reauthorization Action May Be Slowed in Senate

It appears that consideration of the reauthorization of federal highway and transit programs may be delayed in the Senate next week, following objections from Republican senators on the motion needed to bring the bill to the floor.

Reportedly at least two senators, Senator Kay Bailey Hutchison (R-TX) and Jon Kyle (R-AZ), and possibly others, have raised objections to the unanimous consent request by Senate Majority Leader Bill Frist to bring up H.R. 3 on Monday. As a result, Frist has filed a "cloture" motion that could put the matter to a vote on Tuesday, if needed, with 60 votes needed to approve taking up the bill.

Debate on the cloture motion and the motion to proceed to consideration of the bill will begin when the senate convenes at 2 p.m. Monday. However a vote on cloture would not take place until 2:45 on Tuesday. Assuming the cloture motion is approved, another unanimous consent agreement is necessary to dispense with 30 hours of debate on the motion to proceed. If opponents of the bill insist, that could further delay action until sometime Wednesday afternoon.

During this time, the Senate may turn to general debate on the bill, but not consider any amendments.

Action on the bill may also be delayed if a conference agreement is reached by House and Senate negotiators on the FY 2006 budget resolution. Senate leaders have indicated that they would set aside any business at that point to turn to the consideration of the conference report.

Still another potential delay could occur if Majority Leader Frist decides to proceed with several controversial judicial nominations, and attempts to alter the Senate rules to prohibit filibusters on nominations. That is the so-called "nuclear option" threat that Democrats have vowed they will answer by shutting down all legislative action in Senate by procedural delays.

Unless the Senate is able to conclude its debate on the reauthorization and vote on final passage, action on the bill would carry over at least until the second week of May, since the Senate is in recess May 2-6.

HB 275 Comments Before House Finance

Alaska Department of Transportation
and Public Facilities

April 22, 2005

2002 v. 2005

What's different in Highway Program?

- | | |
|--|---|
| <ul style="list-style-type: none">• 2002<ul style="list-style-type: none">- 15-year pattern of growth in funds- Trust fund surplus adding bonus money to each state DOT- No expectation of reauthorization difficulty- Stable fuel prices encourage gas usage thus revenue stable | <ul style="list-style-type: none">• 2005<ul style="list-style-type: none">- First multi-year decline in FHWA funds- First time FHWA funds taken back in 50 years- Deductive earmarks appear- Longest reauthorization delay- High fuel prices, emerging technology cast doubt on gas tax as long-term revenue source |
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No Program Growth to Address Overall Needs

- Reallocates federal funding among projects and moves spending forward in time.
- Does not materially address huge imbalance between needs and funds
 - State transportation needs in excess of \$10 Billion
 - Typical project must wait 20+ years for funds
- Only additional funds can grow the program to further address the most critical needs

GARVEE Repayments

- Debt secured by future federal-aid highway funds
- Approximately \$13-15 M per year over 10 years for every \$100 M of debt
- if HB 275 approved, two GARVEE bond issuances must be paid over several more years

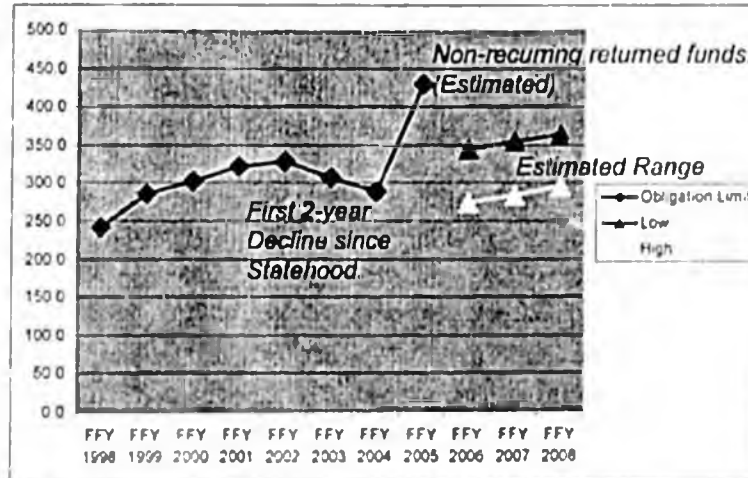
Federal Highway Funds How Secure?

- Good news: Long established program, highly reliable since statehood.
- Bad news: In past 2 years many disturbing signs:
 - Lack of reauthorization (19 mo. and counting)
 - Trust fund balance near zero (recessions occurring frequently)
 - Gas tax may fail to collect adequate revenue
 - Oregon and California findings

GARVEE & New Highway Bill

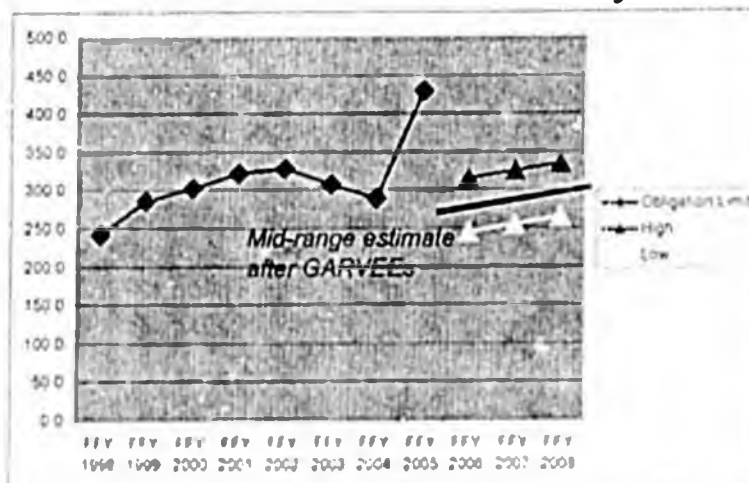
- Reauthorization contains unknowns that may impact GARVEE repayment:
 - Size of new program to Alaska unclear:
 - deduction for major earmarks seems likely
 - new program set-asides (planning, freight, storm water)
 - donor-donee debate unsettled
 - formula changes could reduce funds to state
 - Funds eligible for GARVEE repayment may drop to mid-1990 levels
 - 2002 GARVEE issued when federal program was at peak

Chart of FHWA Core Funds



Excludes: Shaktak, earmarks and bond funds.

Estimate Accounting for 2002 & 2005 GARVEE Bond Payments



Assumptions: Based on previous slide loss 2002 & estimated 2005 GARVEE bond payments.

GARVEE & New Highway Bill

- Prospect of future federal funds take-backs if gas tax revenue falters
 - High fuel prices = high-mileage vehicles
 - New vehicle technology (hybrids, fuel cells)
- New highway bill has retained "negative RABA" language
 - Requires adjustment to states if trust fund balance falls
 - This provision partially created sharp downturn in funds in 2004
 - FHWA trust fund balance has gone from +\$23 B to -\$1 B in 6 years

Federal Funds = Maximum Rules

- Federal funds are limiting
 - Complex, costly rules govern each project
 - Very sequential process (no shortcuts)
 - Some provisions greatly limit choices
- Virtually every other state has mix of state and federal funds
 - Match funding to best achieve goals
 - Often use non-federal funds on local projects

Impact of New GARVEE

- Results in 6-8% reduction in project funds to all major programs based on reauthorization estimates
 - Funds for existing STIP projects reduced
 - Funds for AMATS and FMATS reduced
- Coupled with unfavorable reauthorization and/or new rescissions, the adverse effect could compound

Summary of Comments

- DOT&PF seeks to grow rather than redistribute funds over time
- Some level of non-federal funds hastens key projects and achieves goals not possible with federal funds (e.g., Bragaw-Abbott extension)
- Uncertainty in future federal highway program suggests caution on committing future federal funds to additional GARVEE bonds repayment.

Introduction to GARVEEs

- Significant opportunity for accelerating the State's capital construction program through the earlier receipt of financing supported by future federal highway reimbursement

- Generate project cost savings since borrowing costs are ordinarily less than annual inflationary increases in construction

- Reduce borrowing costs for the the State since GANs secured by future Federal Highway Administration (FHWA) funds may be rated higher than the State's existing credit revenue bond rating

- Ability to avoid establishing additional liens on other revenue sources

- Earlier use of federal FHWA funds otherwise utilized less beneficially in later years

Project Candidates and Key Requirements

- Candidate projects and programs for GARVEE financing have the following characteristics:
 - Large enough projects to merit borrowing rather than pay-as-you-go grant funding
 - e.g. Projects where the costs of delay outweigh the costs of financing
 - Projects that may not have access to a revenue stream such as local taxes or tolls and other forms of repayment (such as state appropriations) are not feasible
 - The projects must also appear on the STIP
- Projects financed with the proceeds of a GARVEE debt instrument are administered in the same manner and are subject to the same requirements as other Title 23 projects

GARVEE BONDS

Benefits from Garvee Bonds

Acceleration of Projects:

The ability to accelerate major projects to deal with significant infrastructure problems is very compelling to the Department of Transportation, Municipalities, and contractors. By the nature of our current funding, large, high cost projects are phased over a period of time to minimize their impact on the overall highway program. Unless phased, one large project, such as the Glenn Highway expansion in Anchorage could well dominate the highway program in a given year. That means that funds would not be available to deal with projects in other parts of the State. Phasing also has the disadvantage of prolonging the period of construction trauma inflicted on the public from issues that are associated with highway construction.

The use of Garvee Bonds allows the State to deal with major projects in a manner that will not significantly impact the overall statewide highway program. An additional benefit is that by dealing with an entire project rather than phasing the project the construction disruptions to the public can be minimized.

Timing of projects:

In a perfect world, government programs would never overheat or cool the economy. If all the projects contemplated under the current proposal were to be issued in a single year as an addition to the normal construction program, the construction market would be strained to deal with the work. In essence we would be trying to complete almost one and one half seasons of work in one year. The design community does not have the manpower to increase their efforts to that level and the State does not have project engineers to manage the work.

The State should also consider the impact potential "mega-projects" such as a gas pipeline or ANWR, will have on the economy and program the release of the bonds to minimize the consequences of the inevitable contraction in the economy that traditionally follows the completion of a major project.

Construction Cost Savings:

By building sooner, rather than later, the impact of inflation can be reduced and projects can be delivered at a lower overall cost. Consequently Alaska could get more projects completed with the projected funding from the federal highway fund. This benefit is mitigated somewhat by the fact that the bonds require an interest payment that will increase the cost to the program. So long as the interest costs of the bond issue are less than the rate of inflation, the program benefits from the issuance of bonds.

Benefits from Interest Earnings:

In the most basic sense, bonds require an interest premium for the privilege of borrowing money under the terms and conditions outlined in the bond indenture agreement. During the early years of the program it is expected that the State will invest the unused portion of the bonds and earn

interest at a rate in excess of that required on the bonds. That difference represents a savings that can be used for various purposes such as payments required on the bonds themselves or State match for the federal highway appropriation. At some point, all the bonds will be issued and the State will incur a higher cost due to the interest portion of the bonds. Any benefit from this interest arbitrage will be received shortly after the bonds are issued. Once the bond funds are invested in projects rather than financial assets, the benefit disappears.

Potential Problems with Garvee Bonds

Selection of Projects:

The theoretical benefits of Garvee Bonds are undermined when the program becomes just another means of funding desired projects. A \$400,000 project in Anchorage hardly seems to demand a creative means of project acceleration. The State should establish a process that meets strict criteria for selection rather than one that seems to curry favor from local residents.

Also absent from the discussion is how projects are to advance in the STIP to replace the projects funded by the bond proposal. The STIP process was developed to minimize the political influence that can occur in project selection. That same process does not seem to have been applied to the selection of projects for inclusion on the Garvee Bond list. Until the selection process is better explained and understood the end result must be questioned.

Over-heating the economy:

Can the construction community handle an additional \$145 million in work phased in over three to four years? Yes. Can the State and the design community design this additional work in that time frame? The answer to this is less clear. The State presently has a problem in getting the work to bid to comply with the current construction season. A job bidding in August and September is less valuable to the industry than one that bids in March or April. From the construction industry this bidding history impacts two construction seasons. For the State, the work is released in one fiscal year.

Over time however this problem corrects itself as the fall release of jobs becomes the base from which the future years work is programmed. But delays in projects being released is symptomatic of a problem that will only be exacerbated by a significant increase in the project load.

Impact on future construction volume:

Under the current scenario described by the State, Alaska would see construction volume increase during the first few years following the bond issue and then lag the "non-Garvee" trend for the remainder of the time bonds are outstanding. Perhaps the appropriate question is not "Will the Garvee bonds overheat the economy?" but "What will happen to the industry after the projects funded by the bond issue are completed?"

Implicit in the assumptions surrounding the issuance of Garvee bonds is that the State of Alaska will continue to be a net benefactor from the federal highway trust fund allocation formula at the same level as currently experienced through all future federal highway reauthorizations. This assumption may well be true, but reason suggests that as Alaska's senior leadership retires,

Alaska's share of the highway funds will be reduced. Should that happen, Alaska's receipts from the program will plummet and the State of Alaska and the highway construction industry in Alaska would be severely impacted.

One of the arguments for the bonds is that future inflation can be avoided by early construction. If however the construction industry must purchase new equipment to meet the peaks imposed by the increased volume accompanying Garvee bonds, it seems reasonable to expect that they will attempt to amortize the cost of the increased equipment over the expected life of the increased volume. The cost of the Garvee projects under such a scenario may actually be higher than expected and the proposed inflation savings non-existent.

Highway construction is a capital-intensive business. Self-inflicted modifications to construction volume can seriously impact the economic viability of the construction industry particularly as the volume of work contracts to normal sustainable levels. Bidding then becomes defensive as the firms attempt to generate cash flow and the entire industry suffers until the excess capacity can be relieved. In the end some firms may well go out of business, not because of economic decisions they make, but because of economic distortions to the economy by those that did not consider the ramifications of their decisions.

A Proposed Approach to GARVEE Bonds

Bond payments limited to 5% of federal highway program:

More is frequently not better. New Mexico issued approximately \$1 billion in Garvee bonds to do a number of major projects. The bonds supposedly are being paid back over a number of years at a rate of almost \$100 million per year. New Mexico's highway program is approximately \$242 million dollars before the reduction for the Garvee bonds and other senior sub-ordinate lien bonds. After the reduction, the program is reduced to approximately \$164 million. More than one third of their highway program funds are being used to payback the bonds. This reduction has seriously impacted the economic viability of their highway construction industry.

The problem is further magnified when the highway funding for 2003 is considered. In President Bush's 2003 budget proposal, New Mexico's estimated highway appropriation was \$199 million. After the reduction for the bond payments, the State had less than \$125 million for their highway program. This reduction in the highway allocation was unique, but could easily occur again.

It can be argued that the problems in New Mexico are unique, and perhaps they are. Other states are also gaining valuable experience in this area. Colorado, Kansas, West Virginia, and others have experiences that should be analyzed and understood. Where appropriate, these experiences should be avoided or replicated. More importantly, Alaska should seriously look at its own experience with Garvee bonds and the impact the annual payments had on the highway program in 2004. Fortunately the Legislature greatly reduced the amount of Garvee Bonds requested Governor Knowles but in 2004, Alaska experienced a contraction in highway funding and the bond repayments had a significant impact on the highway program that year.

Given the problems experienced in some states, AGC would propose that any allocation of the federal highway funds for repayment of bonds should not exceed five percent of the projected,

sustainable highway funds. General obligation bonds should fund major projects that will require a higher repayment level.

Project Selection:

Projects selected for funding under a Garvee Bond approach should be determined by the application of a rigorous set of criteria. No project should be selected that has not successfully undergone the process imposed in the STIP. But inclusion on the STIP should not be sufficient in and of itself. The project should be of sufficient size that the State would normally phase the construction to minimize the impact on any one year's project list. The rationale for inclusion on the list should be compelling. Removals of significant safety hazards, environmental issues, or economic benefits from project acceleration are all reasons that a project might be included on a Garvee Bond list. This approach could potentially be a valuable tool for the State, but the goals should be clearly defined and the problems carefully evaluated.

Summary

It is extremely difficult for a trade organization representing contractors to argue against additional work for their industry. But when that work comes at the expense of future work and when future-funding levels might decline due to external factors beyond Alaska's control, then it becomes an issue of finding the best means of stabilizing the industry. The problems experienced in other states suggest that the use of Garvee bonds should be approached cautiously. Wild swings in construction volume will permanently damage the highway industry in Alaska. The Associated General Contractors of Alaska cannot support any method or alternative that will cause long-term harm to the industry. As currently proposed the issue is not good for the industry and most likely not good for the State.

AGC is not ready however to totally discard the concept. The association is willing to work with the State, Legislators, and other interested parties to develop a program that will not impose all the inherent risks that exist in the current proposal.