

**HB**

**322**

# STATE OF ALASKA

DEPARTMENT OF TRANSPORTATION  
AND PUBLIC FACILITIES  
OFFICE OF THE COMMISSIONER

**SARAH PALIN, GOVERNOR**

3132 CHANNEL DRIVE  
PO Box 112500  
JUNEAU, ALASKA 99811-2500

FAX: (907) 586-8365  
PHONE: (907) 465-3900

January 23, 2008

The Honorable Kyle Johansen  
Alaska State Legislature  
State Capitol, Room 13  
Juneau, AK 99801-1182

Dear Representative Johansen:

I respectfully request a hearing on HB 322 establishing a state transportation fund. This powerful idea ensures a permanent solution to meet the state's transportation needs. Alaska's transportation needs now far exceed the capacity of long standing federal sources.

Transportation infrastructure is at the heart of a growing economy, and Alaska needs to take charge of this responsibility. The state funds generated by this transportation endowment offer significant advantages over the rule-bound federal sources, which often result in both project delays and much higher costs. Alaska can no longer expect to see an ever improving transportation system, without a sustained level of funding from our own contribution.

In the 1980's the state surplus was used to build as much as possible resulting in a severe boom then bust economy. When oil prices dropped, the state economy took a significant downturn. A transportation fund bridges over the lean years, ensuring a stable source of funding that leads to a positive economic environment.

Enclosed is a copy of the legislation, the Governor's transmittal letter, a sectional analysis and fiscal notes.

We look forward to discussing this important piece of legislation with you and your committee.

Sincerely,



Leo von Scheben, P.E., L.S., M.B.A.  
Commissioner

## Enclosures

cc: Russ Kelly, Legislative Director, Office of the Governor  
Randy Ruaro, Special Staff Assistant, Office of the Governor  
Mary Siroky, Legislative Liaison, Dept. of Transportation & Public Facilities

## **Sectional Analysis of HB 322.**

HB 322 creates a transportation fund, gives the commissioner of revenue management authority, and specifies a predictable yearly amount which will be available for appropriation for transportation purposes.

A new section will be added to Alaska Statute 37.14 which already recognizes other funds such as the Alaska Heritage Endowment Fund, the Mine Reclamation Trust Fund, and the Investment Loss Trust Fund.

### **Section 1. Creation of Alaska Highway Transportation Fund**

Section 1 of the bill creates a transportation fund, determines how the fund value will be calculated, and gives authority to manage the fund to the commissioner of revenue.

**Proposed Sec. 37.14.900** creates the transportation fund. The fund would consist primarily of appropriations, but will also include other contributions or investment income. The commissioner of revenue would manage the fund so that the fund would be self-sustaining.

**Proposed 37.14.910** provides that, on a yearly basis, 5% of the five year average value of the fund will be made available for appropriation to the capital projects fund established in AS 44.42.080. The Department of Transportation and Public Facilities could use the funds for transportation projects.

**Proposed sections 37.14.920 & 930** provide the commissioner of revenue with necessary authority to manage and invest the funds, and specify that the market value of the fund must be calculated in accordance with generally accepted accounting principles.

### **Section 2: Transition Clause.**

Section 2 is a transition clause which will be in effect during the years 2008-2012. This section is necessary because the statute will require that any appropriations be based upon a five year average fund value. Until the fund has been in existence for a full five years, the fund's average values will be calculated according to the fund's value during all available years.

### **Section 3: Effective Date**

Section 3 provides for an immediate effective date.

SARAH PALIN  
GOVERNOR  
GOVERNOR@GOV.STATE.AK.US



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

P.O. Box 110001  
JUNEAU, ALASKA 99811-0001  
(907) 465-3500  
FAX (907) 465-3532  
WWW.GOV.STATE.AK.US

January 15, 2008

The Honorable John Harris  
Speaker of the House  
Alaska State Legislature  
State Capitol, Room 208  
Juneau, AK 99801-1182

Dear Speaker Harris:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill establishing a state transportation fund.

An efficient and functional transportation system is vital to Alaska's economy. For the first time in Alaska's history, a reliable source of state financing would be in place. The bill would result in a predictable yearly amount that would be available to supplement state transportation financing. With growth over time through investment and future contributions, the fund could help ensure Alaska's transportation infrastructure is adequately maintained and improved.

Declining federal funding and the need for transportation infrastructure to grow our economy make establishing a transportation fund a smart and fiscally responsible decision. In addition, high oil prices resulting in budget surpluses, uniquely position Alaska to utilize our non-renewable natural resource wealth to generate renewable dollars for years to come. A stable source of transportation funding would benefit current and future generations of Alaskans alike, and would reduce Alaska's dependence on federal aid dollars. Furthermore, the use of state funds would allow critical projects to be completed much sooner than through the traditional federal highways program. This is because the state funded projects are not subject to the time consuming scrutiny the federal funding process entails.

The Honorable John Harris

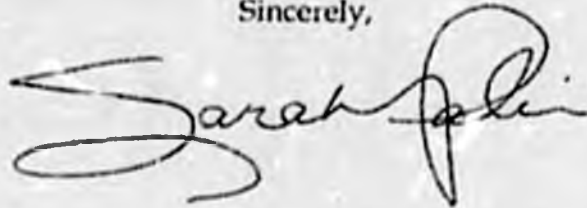
January 15, 2008

Page 2

The need for this new, permanent source of funding for transportation could not be more evident. Ruttled pavements, delayed projects, and urban congestion are common problems in this state. Federal transportation dollars, though adequate in past decades, no longer meet all the basic needs of the state. Like education, transportation is a basic government service and one that affects the daily lives of all citizens. Other states are enacting their second and third tier of non-federal financing mechanisms. It is time for Alaska to enact its first.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in black ink, appearing to read "Sarah Palin". The signature is fluid and cursive, with a large initial "S" and a distinct "P" at the end.

Sarah Palin  
Governor

Enclosure

# FISCAL NOTE

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

Fiscal Note Number: \_\_\_\_\_  
Bill Version: HB 322  
( ) Publish Date: \_\_\_\_\_

Identifier (file name): HB322-FC-TF-02-18-08 Dept. Affected: Fund Capitalization  
Title: Transportation Fund RDU: Capital Spending  
Sponsor: Rules for the Governor Component: Transportation Fund  
Requester: Senate Finance Component Number: \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>		0.0	0.0	0.0	0.0	0.0	0.0	0.0

<b>CAPITAL EXPENDITURES</b>		500,000.0						
-----------------------------	--	-----------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>								
-------------------------------	--	--	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF		500,000.0						
1005 GF/Program Receipts								
1037 GF/Mental								
Other Intergovernmental Receipts								
<b>TOTAL</b>		0.0	500,000.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2008) cost: 500,000.0 GF

**POSITIONS**

Full-time								
Part-time								
Temporary								

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

The Governor's proposal for a transportation fund is for an FY08 appropriation of \$500,000.0 and an additional \$500,000.0 in FY09. These two appropriations fund the endowment which is estimated to provide an annual minimum of \$50,000.0 to the Department of Transportation and Public Facilities via a percent of market value calculation.

Funding of the fund via the FY08 supplemental requires an immediate effective date.

Prepared by: Mary Siroky - Legislative Liaison  
Division: Commissioner's Office - DOT&PF  
Approved by: Nancy Siagle  
Admin Division Director - DOT&PF

Phone 465-4772  
Date/Time 2/18/08 1:00 PM  
Date 2/18/2008

# FISCAL NOTE

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

Fiscal Note Number: 2  
Bill Version: HB 322  
(H) Publish Date: 1/17/08

Identifier (file name): 0045-DOR-TRE-01-14-08 Dept. Affected: Revenue 04  
Title: Alaska Transportation Fund RDU: Taxation and Treasury  
Component: Treasury  
Sponsor: Governor  
Requester: Governor Component Number: 121

**Expenditures/Revenues** (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Contractual	1,000.0		1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>1,000.0</b>		<b>1,000.0</b>	<b>1,000.0</b>	<b>1,000.0</b>	<b>1,000.0</b>	<b>1,000.0</b>	<b>1,000.0</b>

<b>CAPITAL EXPENDITURES</b>								
-----------------------------	--	--	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>								
-------------------------------	--	--	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	1,000.0		1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
<b>TOTAL</b>	<b>1,000.0</b>		<b>1,000.0</b>	<b>1,000.0</b>	<b>1,000.0</b>	<b>1,000.0</b>	<b>1,000.0</b>

Estimate of any current year (FY2008) cost: 0.0

**POSITIONS**

Full-time	0	0	0	0	0	0	0
Part-time							
Temporary							

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

This fiscal note represents the estimated accounting, custodial, performance measurement, financial advisory and internal and external portfolio investment management costs allocable to the new Transportation Endowment Fund (TEF). As a comparison, the cost of managing the Public Employee Retirement Systems and Teacher Retirement Systems is 21 basis points per year. General fund programs that are separately managed have an average cost of 11 basis points per year. The TEF would be invested with a moderately aggressive risk asset allocation profile meaning that it would include domestic and international equities, real estate, and alternative investments asset classes. These asset classes are managed with external investment managers. Because the fiduciary is the Commissioner of Revenue and not a board of directors there would be a reduction of costs. I believe there would be a preference to use passive as opposed to active investment management for a number of investment allocations that would further reduce investment management fees. At a funding level of \$1 billion dollars an estimated cost of 10 basis point or 1 million dollars would be very reasonable considering the anticipate level of management oversight and investment management that an endowment of this size would require.

Prepared by: Brian C Andrews  
Division: Revenue / Treasury  
Approved by: Jerry Burnett  
Department of Revenue

Phone 907 465-3669  
Date/Time 1/14/08 12:00 AM  
Date 1/14/2008



March 25, 2008

Rep. Kyle Johansen  
House Transportation Committee  
Room 13  
State Capitol  
Juneau, Alaska 99811

RE: HB 322

Dear Rep. Johansen,

The Alaska Municipal League would like to go on the record showing their support for HB 322. As you know, we feel that transportation issues in the State have been inadequately addressed. In the light of decreasing federal funds, we must find some method to ensure that transportation needs in our communities be build and/or maintained to the best of our ability.

We think that 2 percent of market value is a wise choice at this time, as revenues will go up and down with the market. We will not find ourselves spending too much ..... or too little in relationship to how Alaska fares financially in any particular year.

Again, we support this bill and feel that it is a first step in stemming some of the difficulties and anxiety that we all feel when it comes to transportation issues. The League is anxious to work with the State to put together a transportation strategy that works.

Sincerely,

Kathie Wasserman  
Executive Director

25-GH2045/C  
Kane  
3/27/08

**CS FOR HOUSE BILL NO. 322( )**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**TWENTY-FIFTH LEGISLATURE - SECOND SESSION**

**BY**

**Offered:**  
**Referred:**

**Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act establishing the Alaska transportation fund and relating to the fund; and**  
2 **providing for an effective date."**

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

4 **\* Section 1. AS 37.14 is amended by adding new sections to read:**

5 **Article 10. Alaska Transportation Fund.**

6 **Sec. 37.14.900. Alaska transportation fund. (a) The Alaska transportation**  
7 **fund is established as a separate trust fund of the state. The fund consists of**

- 8 (1) appropriations to the fund;
- 9 (2) donations or gifts to the fund;
- 10 (3) income earned on investments of fund assets; and
- 11 (4) realized and unrealized capital gains.

12 (b) The commissioner of revenue shall manage the fund as an annuity, with  
13 the goal that if no additional contributions are made to the fund, it will be fully  
14 depleted without further contribution. The legislature may make additional

1 contributions to the fund that may either go toward increasing the amount of the  
2 annual payment or extending the term of the annuity fund, or a combination of both.  
3 The commissioner shall invest the assets of the fund in a manner likely to yield at  
4 least a five percent real rate of return over time.

5 (c) Money from an appropriation made to the fund remaining in the fund at  
6 the end of a fiscal year does not lapse and remains available for investment and  
7 appropriation in successive fiscal years.

8 (d) Nothing in this section creates a dedicated fund.

9 **Sec. 37.14.910. Market value of the fund.** The Department of Revenue shall  
10 determine the market value of the fund annually as of the close of business on  
11 June 30 of each year in accordance with generally accepted accounting principles for  
12 the determination of fair value.

13 **Sec. 37.14.920. Powers and duties of the commissioner of revenue.** In  
14 carrying out the investment duties under AS 37.14.900 - 37.14.990, the  
15 commissioner of revenue has the powers and duties set out in AS 37.10.071. Not  
16 later than the 10th day following the convening of each regular session of the  
17 legislature, the commissioner of revenue shall make available a report to the  
18 legislature on the condition and investment performance of the fund and, based on  
19 the payment schedule established by the legislature, the amount available for  
20 appropriation to the capital project fund identified in AS 44.42.060(2).

21 **Sec. 37.14.990. Definition.** In AS 37.14.900 - 37.14.990, "fund" means the  
22 Alaska transportation fund established in AS 37.14.900.

23 \* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

# The Transportation Fund with an endowment approach.

Year	Annual 5% Investment	Inflation Adjustment	Cumulative Investment	Adjusted Cumulative	Beginning of Year Fund Balance	Earnings @ 8%	End of Year Fund Balance	2008 Purchasing Power
0					1,000,000,000	80,000,000	1,080,000,000	1,036,800,000
1	54,000,000	54,000,000	54,000,000	50,000,000	1,026,000,000	82,080,000	1,108,080,000	1,022,284,800
2	55,404,000	53,487,840	109,404,000	103,187,840	1,052,876,000	84,214,080	1,136,890,080	1,009,051,089
3	56,844,504	52,483,210	166,248,504	155,631,050	1,080,045,576	86,403,646	1,166,449,222	997,065,816
4	58,322,461	51,734,321	224,570,965	207,395,371	1,108,126,761	88,650,141	1,196,776,902	986,297,758
5	59,838,845	51,149,476	284,409,810	256,544,847	1,136,938,057	90,955,045	1,227,893,101	976,717,399
6	61,394,855	50,587,075	345,804,665	309,141,922	1,166,498,446	93,319,876	1,259,818,322	968,296,915
7	62,990,916	50,105,600	408,795,581	359,247,525	1,196,827,406	95,746,192	1,292,573,598	961,010,103
8	64,628,680	49,673,832	473,424,261	408,921,157	1,227,944,918	98,235,593	1,326,180,512	954,832,336
9	66,309,026	49,298,818	539,733,287	458,220,975	1,259,871,486	100,789,719	1,360,661,205	949,740,506
10	68,033,060	48,982,899	607,766,347	507,203,874	1,292,628,145	103,410,252	1,396,038,397	945,712,992
11	69,801,920	48,721,888	677,568,267	555,925,562	1,326,238,477	106,098,918	1,432,337,395	942,729,590
12	71,616,770	48,515,070	749,184,037	604,440,638	1,360,718,625	108,857,490	1,469,576,115	940,771,498
13	73,478,806	48,362,075	822,662,842	652,802,686	1,396,097,309	111,687,785	1,507,785,094	939,821,258
14	75,389,255	48,251,578	898,052,097	701,054,244	1,432,395,839	114,591,667	1,546,987,507	939,862,724
15	77,349,375	48,172,831	975,402,272	749,277,075	1,469,638,131	117,571,050	1,587,209,182	940,861,021
16	79,360,456	48,114,958	1,054,762,722	797,492,032	1,507,848,723	120,627,898	1,628,476,620	942,862,521
17	81,423,831	48,067,196	1,136,186,553	845,759,229	1,547,052,789	123,764,221	1,670,817,013	945,794,796
18	83,540,851	48,036,847	1,219,727,413	894,128,076	1,587,276,162	126,982,093	1,714,258,255	949,666,599
19	85,712,913	48,019,275	1,305,440,326	942,647,350	1,628,545,342	130,283,627	1,758,828,969	954,467,822
20	87,941,448	48,017,897	1,393,381,774	991,365,246	1,670,867,521	133,671,002	1,804,538,523	960,189,480
21	90,227,926	48,024,199	1,483,606,701	1,040,329,445	1,714,330,597	137,146,448	1,851,477,044	966,823,681
22	92,573,852	48,037,720	1,576,183,553	1,089,587,166	1,758,903,192	140,712,250	1,899,615,447	974,363,601
23	94,980,772	48,058,050	1,671,164,325	1,139,185,221	1,804,634,675	144,370,774	1,948,005,449	982,803,459
24	97,450,272	48,084,853	1,768,614,598	1,189,170,073	1,851,555,177	148,124,414	1,996,679,591	992,138,496
25	99,983,980	50,117,817	1,868,598,577	1,239,587,891	1,899,695,611	151,975,649	2,051,671,260	1,002,364,959
26	102,583,563	50,898,705	1,971,182,140	1,290,484,576	1,949,047,697	155,927,016	2,105,014,713	1,013,480,075
27	105,250,736	51,421,322	2,076,433,876	1,341,906,918	1,999,763,977	159,981,118	2,159,745,095	1,025,482,040
28	107,987,255	51,991,528	2,184,420,131	1,393,897,446	2,051,757,841	164,140,627	2,215,898,468	1,038,369,996
29	110,794,923	52,607,229	2,295,015,054	1,446,504,674	2,105,103,544	168,408,284	2,273,511,828	1,052,144,021
30	113,675,591	53,268,381	2,408,283,445	1,499,773,055	2,159,836,237	172,786,899	2,332,623,136	1,066,805,116

Rep Fairclough

### The Transportation Fund with a 10 year Annuity Payout

Year	Annual Investment	Inflation Adjustment	Beginning Year Balance	Earnings @ 8%	End of Year Balance
0	-	-	1,000,000,000	80,000,000	1,080,000,000
1	149,000,000	149,000,000	971,000,000	74,480,000	1,095,480,000
2	149,000,000	143,040,000	856,480,000	68,518,400	924,998,400
3	149,000,000	137,318,400	775,996,400	62,079,872	838,076,272
4	149,000,000	131,825,664	689,076,272	55,126,262	744,202,534
5	149,000,000	126,552,637	595,274,534	47,616,363	642,820,896
6	149,000,000	121,490,532	493,820,896	39,505,672	533,326,568
7	149,000,000	116,630,911	384,326,568	30,746,125	415,072,694
8	149,000,000	111,965,674	266,072,694	21,285,815	287,358,509
9	149,000,000	107,487,047	138,358,509	11,068,681	149,427,190
10	149,427,190	93,087,047	-	-	-
	1,490,427,190	1,238,397,913			

### The Transportation Fund with a Perpetual 5% Payout

Rep. Fairclough

### The Transportation Fund with a Perpetual 5% Payout

Year	Annual 5% Investment	Inflation Adjustment	Cumulative Investment	Adjusted Cumulative	Beginning of Year Fund Balance	Earnings @ 8%	End of Year Fund Balance	2008 Purchasing Power
0					1,000,000,000	80,000,000	1,080,000,000	972,000,000
1	54,000,000	54,000,000	54,000,000	54,000,000	1,026,000,000	82,080,000	1,108,080,000	900,072,000
2	55,404,000	49,863,600	109,404,000	103,863,600	1,052,876,000	84,214,080	1,136,890,080	835,993,872
3	56,844,504	48,173,694	166,248,504	150,037,294	1,080,045,576	86,403,646	1,166,449,222	778,997,713
4	58,322,481	42,886,486	224,570,985	192,923,778	1,108,126,781	88,650,141	1,196,776,902	728,392,853
5	59,838,845	39,962,583	284,409,810	232,886,362	1,136,938,057	90,955,045	1,227,893,101	683,558,147
6	61,394,055	37,366,553	345,804,485	270,252,915	1,166,498,446	93,319,876	1,259,818,322	643,935,031
7	62,990,916	35,066,533	408,795,381	305,319,448	1,196,827,406	95,748,192	1,292,575,598	609,021,277
8	64,628,680	33,033,867	473,424,061	338,353,315	1,227,944,018	98,235,593	1,326,180,512	578,365,372
9	66,309,026	31,242,792	539,733,087	369,596,107	1,259,871,486	100,789,719	1,360,661,205	551,561,458
10	68,033,060	29,670,144	607,766,147	399,266,250	1,292,628,145	103,410,252	1,396,038,397	528,244,785
11	69,801,920	28,295,103	677,568,067	427,561,353	1,326,236,477	106,098,818	1,432,335,395	508,087,605
12	71,616,770	27,098,957	749,184,837	454,660,311	1,360,718,825	108,857,490	1,469,576,115	490,795,492
13	73,478,806	26,064,894	822,663,642	480,725,205	1,396,097,309	111,687,785	1,507,785,094	476,104,024
14	75,389,255	25,177,809	898,052,897	503,014	1,432,395,839	114,591,667	1,546,987,507	463,775,793
15	77,349,375	24,424,136	975,402,272	530,327,150	1,469,838,131	117,571,050	1,587,209,182	453,597,721
16	79,360,459	23,791,898	1,054,762,732	554,118,848	1,507,848,723	120,627,898	1,628,476,620	445,378,644
17	81,423,831	23,269,563	1,136,186,563	577,388,411	1,547,052,789	123,764,223	1,670,817,013	438,847,133
18	83,540,851	22,847,924	1,219,727,413	600,236,336	1,587,278,162	126,982,093	1,714,258,255	434,149,537
19	85,712,813	22,517,688	1,305,440,326	622,754,324	1,628,545,342	130,283,627	1,758,828,969	430,848,227
20	87,941,448	22,271,871	1,393,381,774	645,026,195	1,670,887,521	133,671,002	1,804,558,523	428,920,002
21	90,227,926	22,102,514	1,483,609,701	667,128,709	1,714,330,597	137,146,448	1,851,477,044	428,254,871
22	92,573,852	22,003,596	1,576,183,553	689,132,305	1,758,903,182	140,712,255	1,899,615,447	
23	94,980,772	21,969,485	1,671,184,325	711,101,770	1,804,634,875	144,370,774	1,949,005,449	430,326,392
24	97,450,272	21,895,068	1,768,614,598	733,096,838	1,851,555,177	148,124,414	1,999,679,591	432,903,180
25	99,983,980	22,075,868	1,868,598,577	755,172,736	1,899,695,811	151,975,649	2,051,671,260	436,405,364
26	102,583,563	22,207,933	1,971,182,140	777,380,669	1,949,087,697	155,927,016	2,105,014,713	440,773,936
27	105,250,736	22,387,595	2,076,432,876	799,768,264	1,999,763,977	159,981,116	2,159,745,095	445,953,886
28	107,987,255	22,611,703	2,184,420,131	822,379,967	2,051,757,841	164,140,627	2,215,898,468	451,896,533
29	110,794,923	22,877,434	2,295,215,054	845,267,401	2,105,103,544	168,406,284	2,273,511,828	458,556,904
30	113,675,591	23,182,202	2,408,899,645	868,439,603	2,159,836,237	172,786,899	2,332,623,136	465,903,180
31	116,631,157	23,522,343	2,525,521,802	891,912,227	2,215,991,879	177,279,359	2,393,271,337	473,996,252
32	119,663,567	23,899,783	2,645,185,388	915,531,830	2,273,607,770	181,880,822	2,455,488,392	482,569,177
33	122,774,820	24,306,575	2,767,960,189	939,438,375	2,332,721,572	186,617,726	2,519,339,298	491,716,874
34	125,966,965	24,744,772	2,893,927,153	963,283,147	2,393,372,333	191,469,787	2,584,842,120	501,497,727
35	129,242,108	25,214,316	3,023,189,259	987,979,463	2,455,600,014	196,448,001	2,652,048,015	511,833,260
36	132,602,401	25,716,147	3,155,771,660	1,013,422,910	2,519,445,614	201,555,649	2,721,001,263	522,707,857
37	136,050,063	26,250,177	3,291,821,723	1,039,698,788	2,584,951,200	206,796,096	2,791,747,296	534,108,601
38	139,587,365	26,816,399	3,431,409,088	1,122,000,089	2,652,159,931	212,172,795	2,864,332,726	546,024,538
39	143,218,836	27,414,388	3,574,625,724	1,163,134,473	2,721,118,080	217,689,267	2,938,805,377	558,447,470
40	146,940,269	27,041,500	3,721,565,983	1,205,939,773	2,791,865,108	223,349,209	3,015,214,317	571,370,768

## The Transportation Fund with a 10 year Annuity Payout

Year	Annual Investment	Inflation Adjustment	Beginning Year Balance	Earnings @ 8%	End of Year Balance
0	-		1 000 000 000	80 000 000	1 080 000 000
1	149 000 000	149 000 000	931 000 000	74 480 000	1 005 480 000
2	149 000 000	134 100 000	856 480 000	68 518 400	924 998 400
3	149 000 000	120 690 000	775 998 400	62 079 872	838 078 272
4	149 000 000	108 621 000	689 078 272	55 126 262	744 204 534
5	149 000 000	97 758 900	595 204 534	47 616 363	642 820 898
6	149 000 000	87 983 010	493 820 898	39 505 672	533 326 568
7	149 000 000	79 184 709	384 326 568	30 746 125	415 072 694
8	149 000 000	71 266 238	266 072 694	21 285 815	287 358 509
9	149 000 000	64 139 114	138 358 509	11 066 661	149 427 190
10	149 427 190	57 725 653			
<b>Total</b>	<b>\$1,490,427,190</b>	<b>\$970,469,124</b>			

Above illustrates a \$1 billion Transportation Fund structured to an annuity spenddown in 10 years. It results in almost \$1.5 billion in transportation projects accomplished in 10 years. Adjusted for 10% annual construction inflation, it represents \$970 million in 2008 dollars.

Below illustrates the HB322 proposed Transportation Fund with a perpetual payout of 5%. It takes 21 years to accomplish \$1.5 billion in transportation projects. Adjusted for inflation, it takes 31 years to accomplish what the annuity payout does in 10 years.

Daily Treasury Yield Curve Rates as of March 31, 2008

1 yr	2 yr	3 yr	4 yr	5 yr	6 yr	7 yr	8 yr	9 yr	10 yr
1.55%	1.62%	1.79%	2.13%	2.46%	2.67%	2.88%	3.07%	3.26%	3.45%

*\*Assumptions*

1. \$1 billion is invested in US Treasuries with 10 different durations - \$100mm each for 1yr, 2yr, 3yr ... 10yr respectively.
2. At the end of each year, \$100mm is taken out along with all interest earned so far.
3. No re-investment is performed at the end of each year.
4. For the endowment method, 8% annual earning, 5% EoY Fund Balance payout with 5 year average

Endowment Earning            8.00%                      Payout %            5.00%  
 Endowment initial balance                      \$1,000 mm

EoY	Cash Outflow \$ mm	Adjusted Cash Outflow \$ mm	Reserve Fund Balance	Flow of Reserve Fund	Endowment Method		
					EoY Balance Before Payout	Pay out \$ mm	EoY Balance After Payout
1	124.875	115.554	9.321	9.321	1,080.00	54.00	1,026.00
2	123.325	115.554	17.092	7.771	1,108.08	54.70	1,053.38
3	121.705	115.554	23.243	6.151	1,137.65	55.43	1,082.22
4	119.915	115.554	27.604	4.361	1,168.80	56.18	1,112.62
5	117.790	115.554	29.840	2.236	1,201.62	56.96	1,144.66
6	115.330	115.554	29.616	-0.224	1,236.24	58.52	1,177.71
7	112.660	115.554	26.722	-2.894	1,271.93	60.16	1,211.77
8	109.780	115.554	20.948	-5.774	1,308.71	61.87	1,246.84
9	106.710	115.554	12.104	-8.844	1,346.58	63.65	1,282.93
10	103.450	115.554	0.000	-12.104	1,385.57	65.49	1,320.08
<b>Total</b>	<b>1,155.54</b>	<b>1,155.54</b>					

DOR Treasury 4-1-08

## Crossroads Ahead



Why a State Funded  
Transportation Program is  
Right for Alaska

## What We Will Address

- State of Alaska's transportation system
  - Declining conditions
  - Limitations to meeting needs
  - What other states are doing; why these approaches are a poor fit for Alaska
- The Alaska Transportation Fund
  - Advantages of non-federal funds
  - Core concepts for using the fund
  - Immediate and future priorities
  - How projects would be selected

## State of Alaska's Transportation Infrastructure - 2008

- Safety: high-accident roads await funds, seasonal airport surfaces not ideal
- Congestion: traffic growing faster than new capacity constructed
- Deteriorating conditions: pavement, rutting, ferry machinery breakdowns, harbor facilities aging
- Preventative maintenance: adequate funds to avoid costly repairs not available

## Poor Pavement Conditions

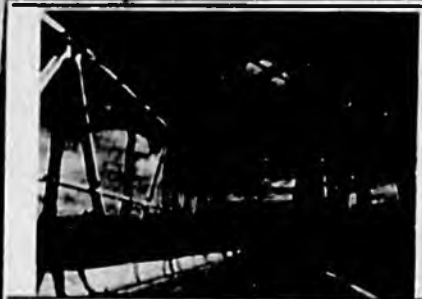


Kenai Peninsula: Robinson Loop Road



North Star Borough  
Goldstream Road  
Kenai Peninsula: Sterling Highway

## Bridge Deficiencies



Bridge No. 948  
 Route 1  
 Location: Johnson River  
 Inspector: Elmer Hart & Son Co. Inc.  
 Date: 10/19/96  
 Photo: 72

Alaska Highway Bridge after over-height strike - reduced to single lane traffic



Glenn Hwy Eagle River  
 Bridge Rail damaged

86 or just over 10% of bridges need seismic retrofits

5

## Climate Change Problems

Settlement due to thawing on Glenn Highway (top and bottom).



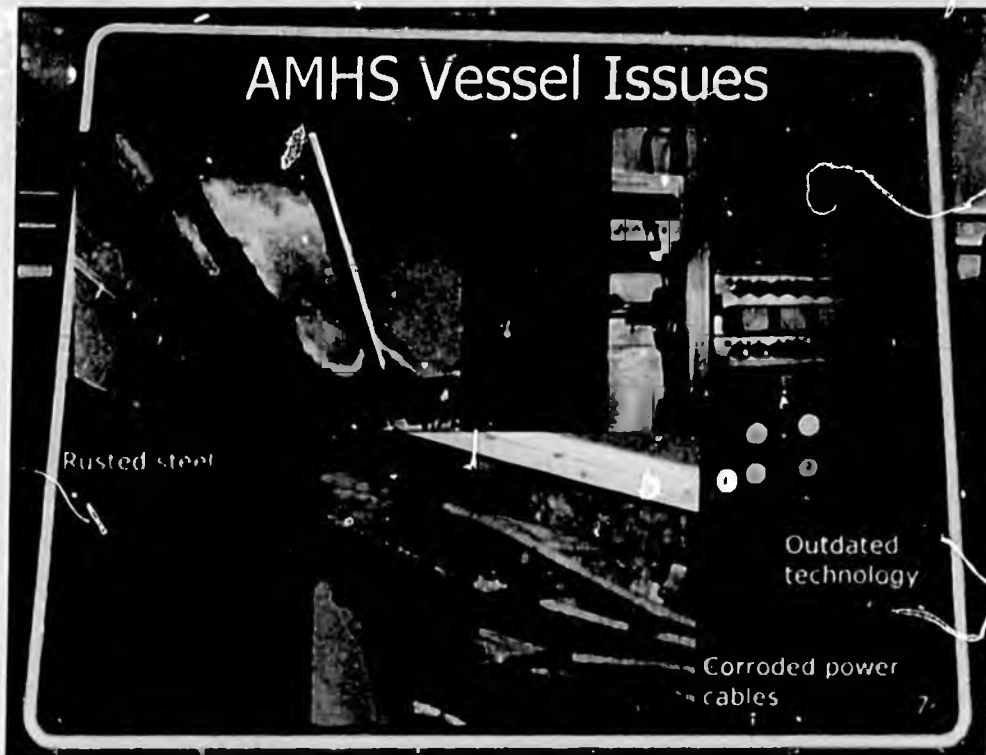
Copyright 2000 by the Alaska Department of Transportation  
 and Public Safety



Copper River is now threatening the CR Highway

6

## AMHS Vessel Issues



## Harbor Repair Examples



## Airport Needs Unmet



Nanwalek Airport,  
nearby hazards,  
poor drainage



Savoonga  
Airport, runway  
rutting



Birchwood  
Airport,  
pavement  
cracking

9

## Example of Funding Constraints

Location	Cost to Build	Years of Federal NHS Funds*
Anchorage, Hwy to Hwy	\$750 M	10
Fairbanks, 3 Major Hwys.	\$700 M	9.3
AMHS: New Mainliner	\$250 M	3.3
<b>Totals</b>	<b>\$2.3 Billion</b>	<b>~30 Years</b>

\*If all other NHS projects delayed

These three routes are also  
priority safety corridors.

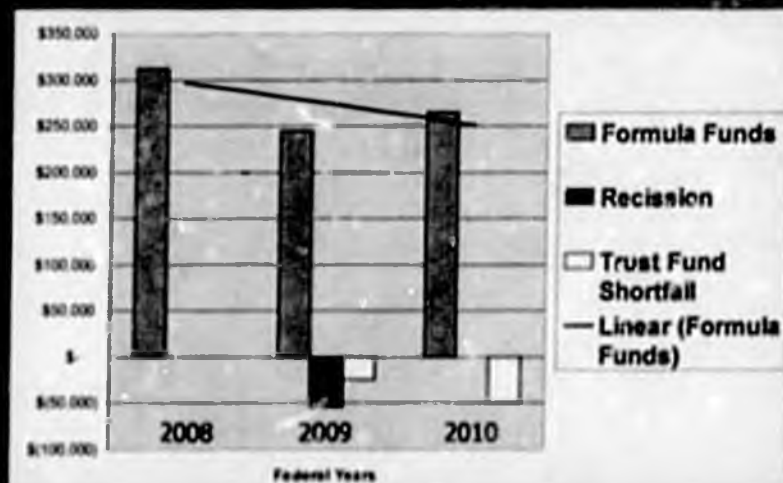
10

## Contributing Weaknesses

- Federal funds effectiveness has declined because:
  - Earmarks and new set-asides have reduce funds to basic needs
  - Inflation is high, reducing what the funds accomplish
  - Federal laws and rules keep expanding
  - Limited state M&O funds has changed our use of federal funds
  - Highway trust fund revenue not adjusted since 1993

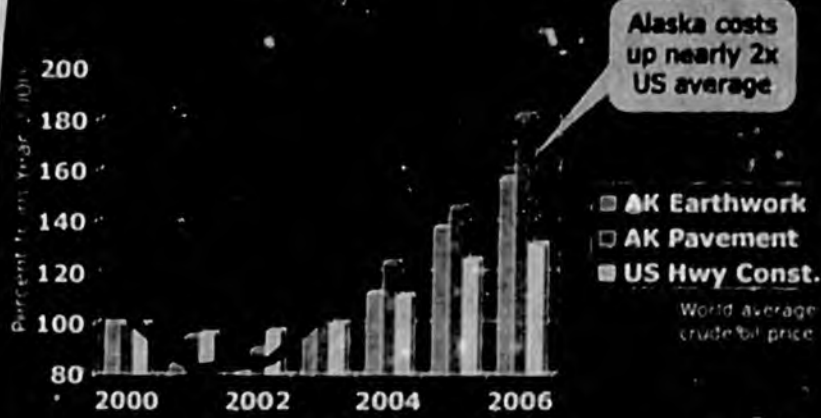
11

## Federal Funds Decline



12

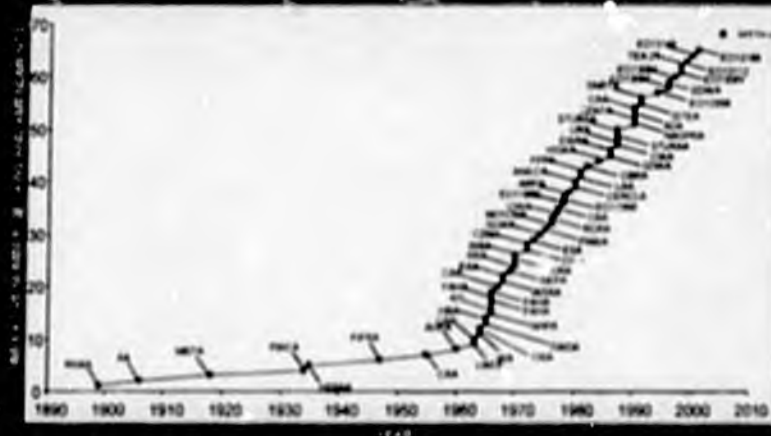
## Inflation is an Issue



Costs indexed to 100 in year 2000

13

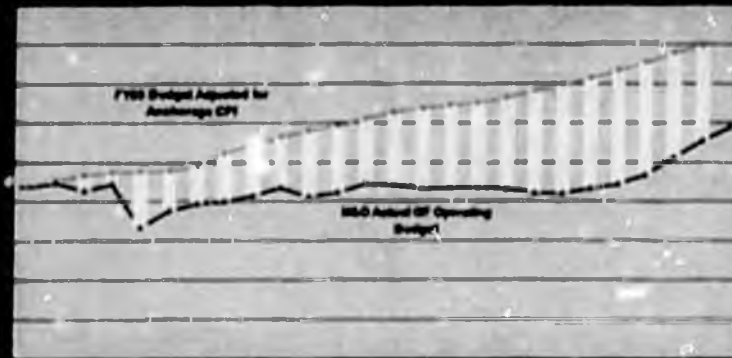
## Growth of Federal Laws



For FHWA Presentation 2004

14

## M&O \$ Shortfall Since 1983



This gap has been filled by shifting some federal funds to major maintenance activities that were once state funded.

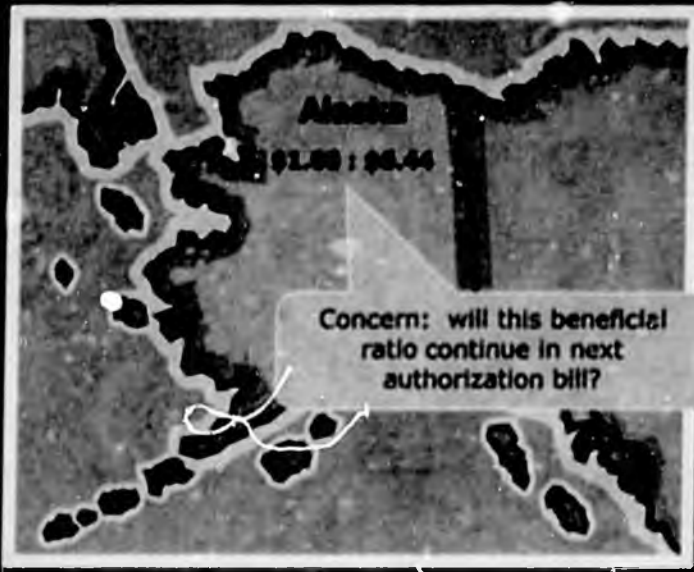
15

## Scope of Alaska's Needs

- Lane miles per 1000 population
  - US average: 28 lane miles
  - Alaska: 44 lane miles
- Only 24x7, ocean certified, ferry system, longest route system
- Largest state aviation system
- Longest coastline, high need for ports and harbors
- Unmet needs vastly greater in Alaska due to late start in infrastructure

16

• Biggest Return  
of Federal Highway Funds



Most States Have Diversified



## Other States

- Adopting user fee approaches:
  - Tolls
  - Lease roads and bridges to private concessions (PPP)
  - County level bonds for state roads
  - Tax on miles driven
- These have little merit to meet the majority of Alaska's needs

19

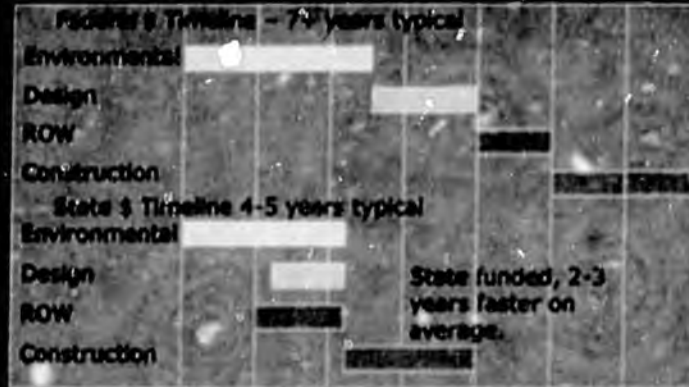
## State Fund Advantages

- Projects completed faster
  - Avoided federal oversight, parallel actions
- Less costly to construct
  - Reduced time avoids cost escalation
- Complex federal laws avoided
  - NEPA, 4(f), Buy America, do not always apply
- Significant public benefits achieved sooner
  - Public safety improved
  - Delay time and fuel costs reduced
  - Economic development facilitated
  - Asset life extended

20

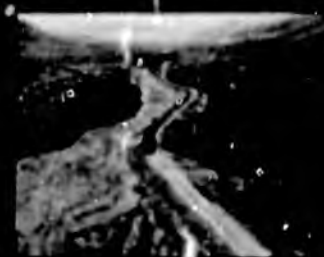
# State Funds Advantages

Years



21

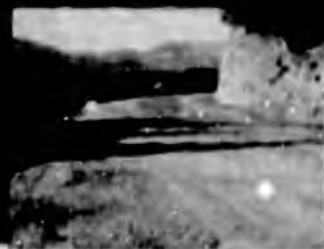
# State Funded Successes



Dalton Highway 3 years saved



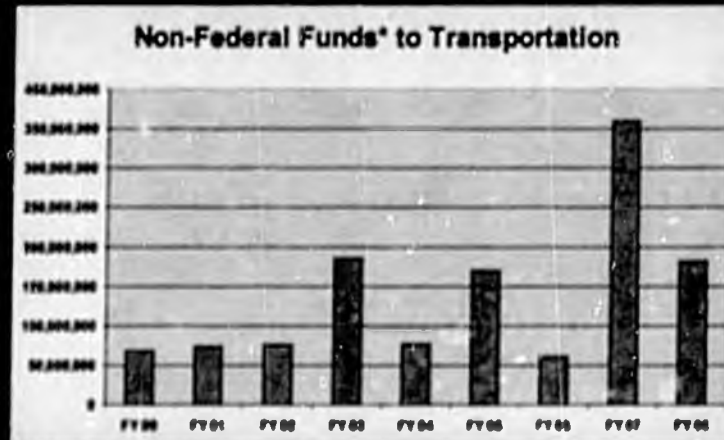
Anchorage, Elmore Road 2 years saved



McCarthy Road 3 years saved

22

## Erratic State Appropriations to Transportation



\*Excludes state funds appropriated to match federal funds

23

## Federal Fund Limitations

- The Highway and Transit Program can not meet the needs & expectations of Alaska citizens
- Federal Aviation Program, is also limited
- Other transportation needs such as ports and harbors have no continuous funding program

24

## Alaska Transportation Fund

- Core concepts:
  - Available to all modes
  - Local and state projects eligible
  - Funds used in “program” approach
  - AS 44.42.050 (transportation planning) guides project selection process
    - Data driven needs assessment
    - Public process, with scoring
    - Nationally recognized and respected approach continued

25

## Why this Approach?

- Episodic funding difficult for both private and public sectors
  - 1987 downturn led to layoffs, business closures
  - ATF will be there when most needed!
- Sustaining a “system” needs a sustainable revenue source
  - Predicted growth in fund provides inflation proofing
- User fees impractical and improbable
  - Raising \$50 million would require raising fuel tax from 8¢ to 20¢ (a 150% increase)

26

## AS 44.42.050

(1) The department shall develop a comprehensive, intermodal, long range transportation plan.

(2) The plan shall be available to the public and shall include information on the following:

(a) The availability and use of federal and state funds.

(b) The availability of that component to the governor and to the public and evaluation by any reasonable means and may include cooperation with officials and organizations of government and other interested corporations and other organizations.

(c) A list of projects scheduled for design, construction for a period of not less than two years that is consistent with the plan.

(d) The estimated cost of each project and the estimated cost of each project.

(e) The cost-effectiveness analysis required by the department and the maintenance of an existing transportation system.

27

## What a "Program" Means

	Program Approach	Project Approach
Funded by	Major Steps	Project Total
Parked funds	Low ▲	High
Public benefits	Maximized ▲	Less
Inflation loss	Minimum ▲	High
Best example	US Interstate	Earmarks

28

## Funds applied annually to projects in several steps of completion

Projects	Permits	Design	ROW	Construct
A	\$			
B	\$			
C		\$		
D		\$		
E			\$	
F			\$	
G				\$
H				\$

29

## Initial Priorities - 2 Years

- Initial priorities for ATF funds:
  - Address priority public safety needs
    - Intersections, rumble strips, signage
  - Ready-to-construct projects
    - Shows immediate progress
    - Uses prior investment to good purpose
  - Preservation, reducing deferred maintenance backlog
  - Support to significant economic needs, congestion issues

30

## Why Safety?

- Safety's importance:
  - 75-85 lives lost each year in state
  - 500-600 major injuries
  - \$500 Million per year, in societal costs
- State goal is to reduce these tragedies by 1/3 over ten years
- Only strong new initiatives and investments will make this possible

31

## Why Preservation?

- Extends useful life of assets
  - \$1 can save \$4 if timely
- Wealth of data to guide allocations
  - Management systems: pavement, maintenance, bridge
- Often an unfunded gap between federal funds and state M&O budgets
  - Airport needs
  - Bridge guard rail

32

## Why Congestion Relief?

- Why congestion needs attention:
  - Growing problem in several areas
  - Adds costs to business and users
  - Often a factor in accidents
- Lane miles growing more slowly than number of vehicles on highways
  - Elmore Road estimated to save \$9.5 M per year in congestion and reduced travel
  - Only 4 years to recover state investment

33

## Why Economic Development?

- Transportation often essential element to economic investment.
  - Red Dog, TSAIA freight success both benefited from state investment in transportation.
- Alaska Constitution: Article 8, Sec. 5: "The legislature may provide for facilities, improvements, and services to assure greater utilization, development, reclamation, and settlement of lands."
  - Much of Alaska lacks sufficient economic investment to be truly sustainable.
  - Investment leads to good jobs which helps communities and citizens.

34

## After First 2 Years

- Rely on statewide assessments of modal needs to help divide the funds
  - Consider several modes
  - Review local and state owned assets
- Review both deferred maintenance and new improvements
- Apportion \$\$ to systems based on the degree of overall need

35

## Update all Needs Assessments

- 2030 Plan good baseline data for:
  - Highways, bridges, aviation, transit
- 2008 AMHS Plan will update ferry needs assessment
- 2008 Port and Harbor study will update system assessment
- Updated assessments will help allocate \$\$ between modes

36

## Crossroads Ahead

**Under  
Investment:  
Stagnation,  
Dangers,  
Congestion,  
Repairs Needed**



**Alaska  
Transportation  
Fund:  
Safety  
Improvements,  
Gas-Line  
Readiness,  
Congestion Relief,  
Economic Support**

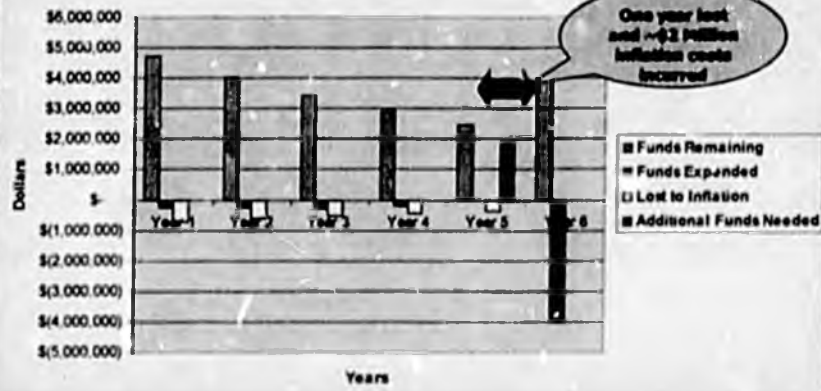
## 'What a "Program" Means

- Funding applied as needed
- Priorities set; each project proceeds as quickly as possible
  - adjustments made in response to each project's progress
  - earliest projects hold priority
- US Interstate: Fantastic achievement due to a "program" approach

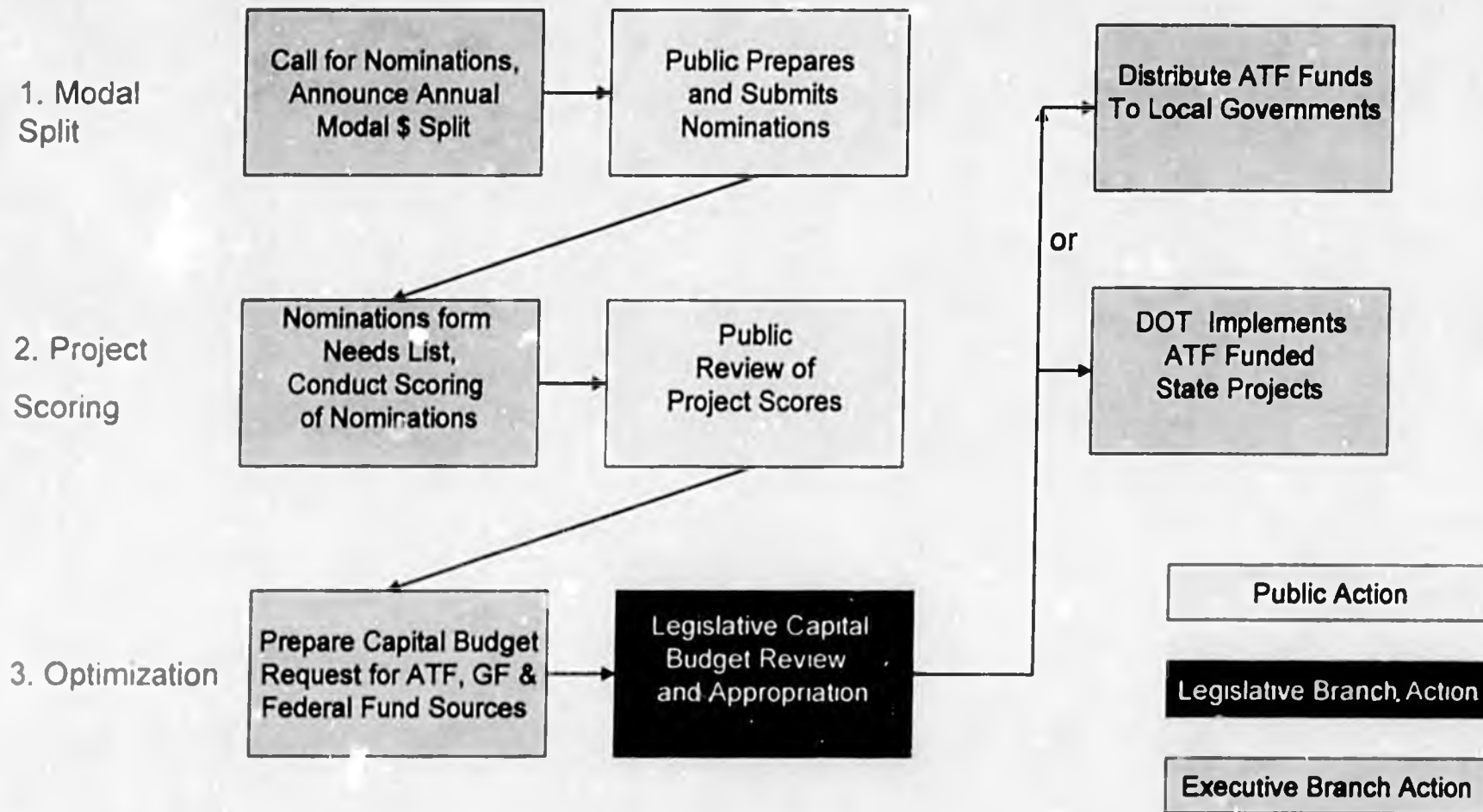
38

# Costs of "Project" Approach

## Inflation and Lost Time



# ATF Project Selection Public Processes



## How the Alaska Transportation Fund Would Work

With the ATF eligible for all modes of transportation administered by Alaska DOT&PF, we envision there would be a three-step process in allocating the funds. These steps include:

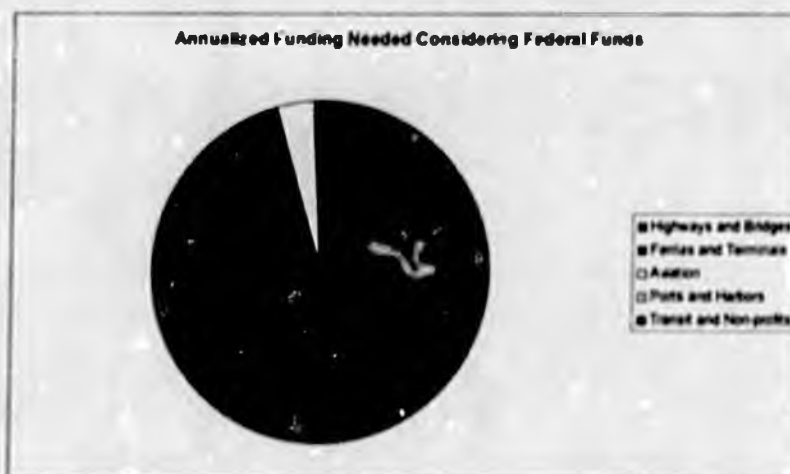
1. Determining the funding split that goes to each *mode*.
2. Scoring *projects* using modal criteria to determine the order they should be funded.
3. Optimizing the use of state funds to maximize the lack of federal restrictions.

### 1. How We Would Evaluate the Modal Split of Funds

The recently completed *2030 Long Range Transportation Plan* has identified the backlog of annualized funding needed over a twenty year period to address both preservation (life cycle) and replacement needs as well as desirable system improvement and expansion. These figures vary widely by mode and are also being met to some degree by various federal capital programs. These are quantified with data available at this time as:

**Annualized Funding Needed by Mode and Available Federal Funding**

Mode	Preservation/ Replacement	System Development	Federal Revenue
Highways and Bridges (90%)	\$395 M	\$552 M	\$275 M
Ferries and Terminals (5%)	\$23 M	\$36 M	\$20 M
Aviation facilities (3%)	\$62 M	\$123 M	\$160 M
Ports and Harbors <sup>1</sup>	Not quantified	Not quantified	--
Transit and Non-profits Vans (1%)	\$7 M	Not quantified	--



<sup>1</sup> The state has requested capital funding to review port and harbor needs in all areas of the state including coastal and river communities. If this funding request is appropriated, then this effort will provide the necessary data to make this calculation.

## ***ADOT&PF's Responsibilities as Owner***

*Let's Get Moving 2030* addresses ADOT&PF's responsibilities for the state-owned transportation systems. The technical analysis quantified the current backlog and future needs for these responsibilities through 2030.

<b>System</b>	<b>Annual Total Needs (millions)</b>	<b>Responsibility</b>	<b>Annual Needs (millions)</b>	<b>Total Needs to 2030 (millions)</b>
Highways and Bridges	\$1,049	System Development: Building and expanding roads and bridges	\$552	\$12,699
		Life Cycle Management (Highways): Preventive maintenance, rehabilitation, and reconstruction	\$367	\$8,435
		Life Cycle Management (Bridges): Preventive maintenance, rehabilitation, and reconstruction	\$28	\$644
		Routine Maintenance	\$104	\$2,402
AMHS	\$154	System Development: Fleet additions	None Quantified	None Quantified
		Life Cycle Management: Fleet replacement	\$26	\$600
		Life Cycle Management: Fleet refurbishment or recertification	\$23	\$529
		System Development: Terminal additions or replacements	\$10	\$231
		Operations and Maintenance	\$120	\$2,760
Aviation	\$224	System Development: Building and expanding airports	\$123	\$2,814
		Life Cycle Management: Preventive maintenance, rehabilitation, and reconstruction	\$62	\$1,427
		Routine Maintenance	\$39	\$905
Other Activities	N/A	Planning and Budgeting: Prioritizing projects and balancing budgets between regional plans and modes	—	—
		Access to Non-State Services: Provide links to private transportation such as commercial air, rail and freight	—	—