HJR 42

<target><bill>HJR 42</bill><subject>HJR 42</subject><comm>HFIN26</comm></target>

2496

HOUSE COMMITTEE REPORT

(11)
Date Referred to Committee: March 4, 2010 **FURTHER REFERRALS:**

Date of Committee Action: 4/10/10

The FINANCE Committee considered: **HOUSE JOINT RESOLUTION NO. 42**

Proposing amendments to the Constitution of the State of Alaska creating a transportation infrastructure fund.
HJR 42-CONST. AM: TRANSPORTATION FUND

Recommends it be replaced with [ ] HCS *or* [✓] CS for HJR 42 **(** JUD **)**
***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
DHS
LWF
LAW
LEG
MVA
DNR
DPS
REV
DOT
UA

***NEW* FISCAL NOTES**
*Assigned by Chief Clerk's Office

List by Dept(s):	*FN#	Fiscal	Indet.	Zero

***PREVIOUS* FISCAL NOTES**

List by Dept(s):	FN#	Fiscal	Indet.	Zero
GOV	1	✓		

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
	Thomas			✓	
	Gara			✓	
Mike Doogan	Doogan			✓	
	Joule			✓	
	Foster			✓	
Anna I. Fairclough	FAIRCLOUGH	✓			
	AUSTERMAN	X			
	KELLY	✓			
Chair:	Stoltze			✓	
Chair:	Hawker			✓	

2497

ALASKA STATE LEGISLATURE

Interim:
P.O. Box 109
Wrangell, AK 99929
Phone: (907) 874-3088
Fax: (907) 874-3055

Session:
State Capitol, Room 406
Juneau, AK 99801-1182
Phone: (907) 465-3824
1-800-686-3824
Fax: (907) 465-3175

REPRESENTATIVE PEGGY WILSON
HOUSE DISTRICT 2

SPONSOR STATEMENT
House Joint Resolution 42

"Proposing amendments to the constitution of the State of Alaska creating a transportation infrastructure fund"

HJR 42 will put a constitutional amendment before voters to change the Alaska constitution to allow a dedicated fund for Capital Transportation Projects.

In FY10 87% of our transportation budget came from the federal government. The current federal reauthorization legislation has already expired and is being extended month to month until new legislation can be passed. The new federal reauthorization bill is unfavorable for states with small populations by emphasizing mass transit and green transportation. It favors toll roads, bridges, and other transportation that are self-funding. Alaska's small population makes these self pay options prohibitive. There aren't enough cars on the road, people on the ferries or residents landing at our airports to generate the economy of scale that is needed.

The roads, bridges, airports, ferries and transit systems that make up our state's transportation system are essential to mobility, commerce and economic development. This system enhances economic competitiveness, increases safety and enhances quality of life. There is a growing imbalance between system use and capacity as well as the need for new infrastructure to access our valuable resources. To insure Alaska has the infrastructure necessary to develop our resources as well as providing a quality of life for our citizens we must commit to funding transportation. Having a guaranteed amount that can be counted on from year to year will allow Alaska to tackle today's congestion and maintenance projects as well as developing the needed access to resources and energy.

The crafters of the constitution grandfathered in dedicated funds. They realized that some funds would be needed no matter the economic or political climate. Transportation was one of the funds that predated the constitution. It lasted for several years until it was eliminated.

26-LS1411\P

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HJR 42
(H) Publish Date: 2/10/10

Identifier (file name): HJR-042-OOG-DOE-2-9-10
Title: Constitutional amendment creating a transportation infrastructure fund
Sponsor: House Transportation Committee
Requester: House Transportation Committee

Dept. Affected: OOG
RDU: Elections
Component: Elections
Component Number: 21

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information					
OPERATING EXPENDITURES	**FY 2011**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
Personal Services							
Travel							
Contractual		1.5					
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	**0.0**	**1.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ( )							

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF		1.5					
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	**0.0**	**1.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2010) cost: ______

POSITIONS

Full-time							
Part-time							
Temporary							

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

The passage of this resolution would require the constitutional amendment to appear on the 2010 general election ballot. The cost of providing information about the constitutional amendment in the Official Election Pamphlet, as required by AS 15.58 is $1.5. Should the addition of this question require printing an 8-1/2 by 18 inch ballot, the cost will increase to $22.0.

Prepared by: Gail Fenumiai, Director
Division: Division of Elections
Phone: 465-4611
Date/Time: 2/9/10, 3:49pm

Approved by: Linda Perez, Director
Division of Administrative Services
Date: 2/9/2010

(Revised 10/13/2009 OMB)

2499

Withdrawn
4/10/10

Conceptual AMENDMENT #1

OFFERED IN THE HOUSE

BY REPRESENTATIVE KELLY
BY REQUEST

To: CS HJR 42(JUD)

Page 2, beginning of line 4 insert

"state fuel taxes and registration fees received by the fund in that year and a percentage of the"

Renumber accordingly.

2500

HOUSE COMMITTEE REPORT

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List by Dept(s):	*FN#	Fiscal	Indet.	Zero

***PREVIOUS* FISCAL NOTES**

List by Dept(s):	FN#	Fiscal	Indet.	Zero
GOV	1	✓		

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
[signature]	Thomas			✓	
[signature]	Gara			✓	
Mike Doogan	Doogan			✓	
[signature]	Joule			✓	
[signature]	Foster			✓	
Anna I. Fairclough	FAIRCLOUGH	✓			
[signature]	AUSTERMAN	X			
M. Kelly	KELLY	✓			
Chair: [signature]	Stoltze			★	
Chair: [signature]	Hawker			★	

2501

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HJR 42
(H) Publish Date: 2/10/10

Identifier (file name): HJR-042-OOG-DOE-2-9-10
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CHANGE IN REVENUES ( )							

FUND SOURCE (Thousands of Dollars)

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Estimate of any current year (FY2010) cost: ____________

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Date/Time: 2/9/10, 3:49pm

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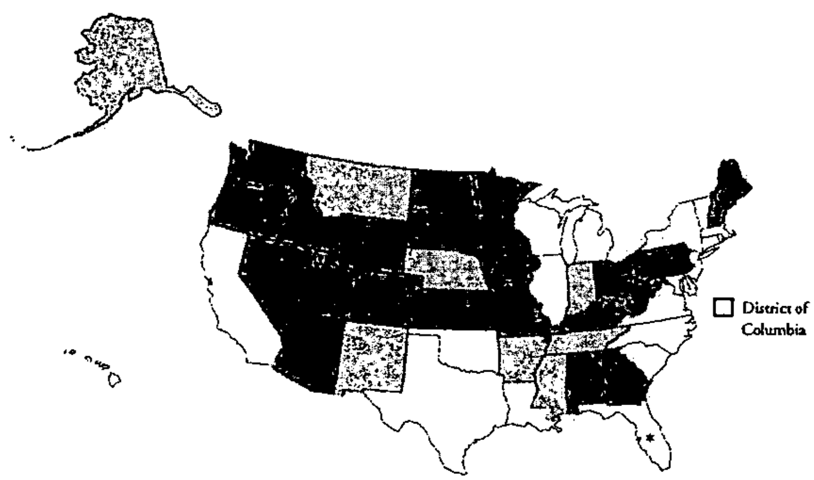
Figure 1. Use of Gas Tax Revenue for Highways



■ Constitutional Dedication of Gas Tax Revenue for Highway Purposes
▨ Statutory Dedication of Gas Tax Revenue for Highway Purposes
☐ No Exclusive Dedication of Gas Tax Revenue for Highway Purposes

*The Florida constitution designates fuel tax revenues for highway purposes, but statute apportions some to mass transportation.
Source: *Fueling Transportation Finance: A Primer on the Gas Tax*, The Brookings Institution, March 2003.

In 2005, South Dakota eased its restriction on spending from the state highway fund, allowing expenditures for public transportation.

One consequence of gas tax use restriction is that it limits states' ability to spend on transit. From 1998 to 2001, only 11 states spent more than 5 percent of gas tax revenues on transit,[23] and only 4 percent of states spent more than 15 percent of gas tax receipts on transit. If states do not use gas tax revenue for transit, it often is difficult for them to receive federal funds for transit projects due to federal matching requirements. Funding for transit in Rhode Island, South Carolina and Tennessee is totally funded by gas tax revenue.[24] Gas tax assists with public transportation funding in 15 states.

Another restriction issue relates to distribution of gas tax receipts within states. The 2003 Brookings report on the gas tax concluded that gas tax distribution in some states appears to penalize cities and urban areas.[25] In many states—such as Colorado, Ohio, Missouri and Washington—urban areas are "donors" of gas tax revenue to other regions. Distribution formulas in some states date to the time when the state highway network was under construction and greater investment needs existed in rural areas.[26] Other states apportion funds evenly among all counties. Such formulas hurt the heavily populated, congested urban areas. Washington has acted to change the formula to more accurately reflect current needs, and California uses a formula based on tax receipts, registered motor vehicles and in each county. [27]

Federal Earmarking

Federal earmarks decrease the amount of flexible transportation money for states and divert money from higher priority projects.

TO: Representative Peggy Wilson
Chair
House Transportation Committee

FROM: Larry Persily
Legislative Aide
House Finance Committee Co-Chair Rep. Mike Hawker

RE: Funding options for a long-term statewide transportation plan

DATE: Sept. 28, 2009

As per your request, I have prepared this summary of possible funding options for a multiyear, statewide transportation initiative. There are three basic options for raising a substantial amount of money for a comprehensive transportation plan: Taxes, taking from savings, or borrowing against future state revenues in one form or another. All of the most feasible choices fall into those three categories.

I did not include as an option the possibility of relying on annual legislative appropriations in the state capital budget. Though that certainly is an option in the legal and political sense, and would not require new or increased taxes or issuing bonds or any legislative action outside of the annual budget battles, it also would not create any new money for highways, roads, harbors, airports or ferries. Simply put, it would not add anything to the state's financial resources and would merely continue the annual fight for transportation funds vs. other needs statewide. It doesn't get us anywhere that we haven't been for years. Therefore, I have left it off the list of productive options, assuming the status quo is not acceptable to the committee as it looks at how to generate a substantial amount of money or a dedicated revenue stream to fund the state's growing backlog of highway, road and other transportation projects.

For this discussion, the Department of Transportation has compiled the numbers for state capital spending the past 10 years on highways and roads, harbors, airports and ferries. The numbers are included in a separate Power Point presentation; they fluctuate year to year, generally linked to the rise and fall of oil prices and state revenues.

The rest of this report explains options for a statewide transportation funding plan, including some history; some legal, financial and political considerations; and pros and cons for several of the options. Please consider this report an ongoing work in progress, which I can expand or amend or update to meet the committee's needs.

2504

Motor fuel taxes

Certainly, one option would be for the state to dedicate motor fuel taxes to highway construction and repair and other transportation needs.

The cleanest way would be for the Legislature to seek voter approval of a constitutional amendment for a dedicated fund. Such an account existed at statehood but was abolished the next year. Some have suggested over the years that perhaps the Legislature could somehow "reclaim" the dedicated fund for transportation-related purposes. Not likely, say the lawyers. A 1990 attorney general's opinion was not favorable to this approach, nor was a Sept. 15, 2009, Legislative Legal Affairs opinion prepared for this committee or a recent attorney general opinion. The Alaska Constitution prohibits dedicated funds, except for those that existed at statehood or are required by federal law. The 1990 attorney general legal opinion, the Sept. 15 Legislative Legal opinion and the recent attorney general opinion said the Legislature's 1960 decision to eliminate the motor fuel tax dedication cannot be reversed by legislative action; it would require an amendment to the constitution.

If legislators go with the constitutionally dedicated fund approach, a two-thirds majority vote is required in each legislative chamber to put a constitutional amendment on the ballot. State law requires that amendments must be scheduled for the next general election after legislative action.

As for the tax itself, after a one-year hiatus the state on Sept. 1, 2009, resumed collecting its excise tax on motor fuel. The 8-cent-a-gallon tax on highway fuel is the lowest state motor fuel tax in the nation. Alaska's tax rate has not changed since 1970.

The average state tax nationwide (total of excise and all other state taxes on motor fuel) is 28.6 cents on gasoline and 27 cents on diesel (Alaska collects the same 8 cents per gallon on gasoline and diesel). In addition, several states allow counties and municipalities to impose a local tax, plus many states add a sales tax, gross receipts tax, underground storage tank fee and other fees to motor fuels. Wyoming, at 14 cents a gallon in total gasoline taxes, is the closest to Alaska, while at least 16 states collect more than 30 cents a gallon when all their taxes are combined.

The federal tax rate is 18.4 cents per gallon.

If, for example, an Alaskan owned a vehicle that got 20 miles per gallon and drove 15,000 miles a year, the state tax would be $60 for the year, with $138 in federal taxes.

The 2008 legislative suspension of motor fuel taxes applied to all tax types, including marine fuel, jet fuel and aviation gasoline. The state does not tax heating fuel, fuel sales to government agencies, or fuel for electrical generating plants operated by utilities.

Consumers who use gasoline or diesel for off-road vehicles and equipment, such as mining and construction equipment that does not travel the highway, can apply to the state for a refund of 6 cents per gallon from the 8-cent tax.

The tax is paid not at the retail level but by fuel wholesalers, which greatly reduces the number of tax returns to the state. There are about 230 taxpayers that collect and remit motor fuel taxes to the state.

Alaska in Fiscal Year 2008 collected:

- $30 million from its 8-cent tax on highway fuel (gasoline and diesel).
- $5.6 million from marine fuel (5 cents a gallon).
- $4.5 million from jet fuel (3.2 cents per gallon, with an exemption for flights originating in a foreign country and refueling in Alaska and also flights leaving Alaska for a foreign destination).
- $670,000 for aviation gasoline (4.7 cents).

Alaska's motor fuel revenues do not vary much year to year; collections have ranged between $39.2 million and $41.8 million over the past five years.

All of the state's motor fuel revenues are deposited into the general fund. State law requires that 60 percent of aviation fuel tax proceeds must be shared with municipalities that own and operate an airport. The state in FY2007 sent $147,322 to municipalities under this revenue-sharing provision:

- Juneau, $79,914
- Ketchikan Gateway Borough, $23,428
- Kenai, $16,822
- Anchorage (Merrill Field), $16,510
- Kodiak, $6,955
- Soldotna, $1,531
- Palmer, $1,093
- Wasilla, $1,069

The approximately $41 million a year Alaska collects in all motor fuel taxes puts it between tobacco taxes ($74 million) and alcohol taxes ($39 million) among state excise tax revenues in FY2008. Motor fuel taxes provided about 7 percent of the state's non-oil and gas tax revenues in FY2008.

If, for example, the Legislature wanted to seek voter approval for a constitutional amendment to dedicate motor fuel taxes (gasoline and diesel only, not aviation or marine fuels) to transportation projects, and at the same time double the tax rate to 16 cents a gallon (still far below the national average), that would generate an estimated $60 million a year for a comprehensive highway funding initiative.

With such a constitutionally dedicated fund, the Legislature could either appropriate the tax receipts annually, paying cash for projects, or the state could issue revenue bonds to raise a large amount of money up front and then use the tax receipts to repay the bonds over time. This is just a hypothetical suggestion, not a recommendation.

In addition to needing a constitutional amendment, in order to issue bonds secured by a dedicated motor fuel tax the Legislature also would need to adopt statutory authority for the State Bond Committee to issue the bonds on behalf of the state. A statute similar to the Alaska International Airport System authority at AS 37.15.410 - 37.15.550 would need to be established to provide the framework for the motor fuel tax bond issuance.

Pros Easy to collect and administer; no new program.
Clear link between users and payers.
Provides option of dedicated annual appropriations
or revenue to repay bonds, or both.
Revenue stream continues indefinitely.
Taxing ourselves could help Alaska's congressional delegation counter the argument that Alaskans have their hand out too much in Washington.

Cons: Cost to consumers of higher taxes.
Politics of a tax increase.
Politics of opening the door to dedicated funds.

<u>Revenue bonds and general obligation bonds</u>

If lawmakers prefer raising cash up front for immediate transportation needs, rather than stretching out the construction work to match the motor fuel tax revenues available each year, the Legislature could opt for issuing bonds.

Continuing with the example of a 16-cent tax on gasoline/diesel that raises $60 million a year, the state could use that revenue stream to cover debt service on a revenue bond issue of about $400 million in today's market for transportation projects. Even though $60 million a year, plus any potential gain from increased motor fuel consumption over the years, would cover annual debt service on closer to $800 million in bonds, investors would discount the annual estimated tax receipts to reduce any risk that the revenues might come up short. The market, for example, would require that the state's estimated tax revenues equal two times the annual debt service on the bonds, to provide protection for investors. That's likely what it would take to earn an AA rating for the bonds.

Under this scenario, $60 million in estimated annual tax receipts would cover $30 million in annual debt service. The remaining $30 million a year would be available for annual appropriation for transportation projects.

The actual amount the state could borrow in revenue bonds would depend on the motor fuel tax rate, bond interest rates at the time of issuance and other factors. The interest rate charged on revenue bonds would depend mostly on the creditworthiness of the revenue source — does the market believe the tax (or some other revenue source) would actually raise enough money to pay off the debt.

If it wanted, the state could borrow additional funds — beyond what it could access under the traditional scenario above — by paying a higher interest rate and issuing what is called subordinate debt. Under that scheme, the state could go to the market and essentially say to borrowers, OK, the first-lien bond holders have claim to the first 50% in tax revenues each year, but any subordinate borrowers willing to bet on the next 30% of the estimated tax receipts each year could earn a higher interest rate for loaning money to the state. Under such a debt issuance, the state would be compensating those subordinate borrowers for the higher risk that perhaps, just maybe, Alaskans would buy less motor fuel and tax revenues would fall short of what's needed to fully cover the bond debt. Under such a plan, the state could leverage 80% of its estimated tax revenues to raise a total of $600 million on today's bond market. This would leave 20% of the tax available for annual appropriations after the debt service payments, or about $12 million a year. Leveraging anything more than 80% of the projected revenues would be extremely costly to the state in high interest rates.

Dedicating motor fuel taxes for transportation spending is not a new idea; half of the states have revenue bonds backed by motor fuel taxes.

One point to keep in mind is that any dedication of motor fuel taxes to repay revenue bonds would mean those tax dollars are no longer available in the general fund for annual appropriation. In a real sense, it is a cut to future revenues, leaving a little less for legislators as they build the annual state budget.

Another option — if lawmakers wanted to raise even more money at a bond sale than motor fuel taxes could support in a straight revenue bond issuance — would be to go to voters twice: Once, for a constitutional amendment to dedicate motor fuel taxes to highway projects, and, in a second vote, to seek public approval of general obligation bonds for highway projects. The Legislature could use the two approvals to issue both revenue and general obligation bonds to amass a larger war chest for transportation funding.

If legislators want to go with debt, using revenue bonds to pay for some of the state's transportation needs would avoid placing the entire burden on the state's capacity for general obligation bonds.

Or the legislature could skip the dedicated-fund, revenue-bond approach and go with straight general obligation bonds to raise substantial funds for transportation projects.

2508

General obligation bonds are painless in a way, in that they do not require a new tax or dedicated revenue stream. Rather, they are a binding pledge that one way or another, no matter what other demands are placed on state revenues, the State of Alaska will repay the debt. The money could come from motor fuel taxes, driver's license fees, oil production taxes — it really doesn't matter where the dollars come from once the taxes or fees are deposited into the general fund. And bondholders don't much care either where the debt service money comes from, as long as the state pays on time. The debt service payments simply become part of the annual appropriations package approved by legislators, the same as the state share of municipal school construction debt.

General obligation bonds require a vote of the public; revenue bonds do not.

A downside to general obligation bonds is that the promise to use general fund revenues to make payments on the debt means there would be less money available in the years ahead for legislators to spend on other needs. For example, a bond issue of $700 million or so that commits the state to repay $50 million a year for 20 years means that much less money would be on the table for school foundation funding, public health, state troopers or anything else.

Certainly, there is an element of fiscal risk for the state to borrow money and promise to pay it back from future general fund revenues at a time of declining North Slope oil production and uncertainty of the proposed Alaska natural gas pipeline. Oil has been the major source of state revenues for more than three decades, and Alaskans hope that new oil discoveries — and a gas pipeline — will do the same for many more decades to come. But there is no guarantee of future oil and gas revenues, and Alaska has always been cautious not to overextend itself in general obligation borrowing.

The bond market would react negatively if the state tried to issue too much general obligation debt. Unfortunately, there is no exact answer to the question: How much debt could the state issue without risking a downgrade by rating agencies and subsequently higher borrowing costs. The imprecise answer is: It depends on the future price of oil.

Assuming oil hung out around today's $65- to $70-per-barrel price range, the state next year probably could take on an additional $500 million in new general obligation debt without much risk of a rating downgrade. If the Legislature wanted to build on that initial $500 million, and if the public approved, the state probably could issue as much as an additional $1.5 billion or so over the next five to ten years and still keep within the guideline that total debt load not exceed 5 percent to 8 percent of annual unrestricted revenues.

Of course, those numbers assume oil prices stay high enough to avoid any budget deficits; no other substantial new debt shows up on the state's books to eat away at cash flow; and the state retires its existing debt on schedule.

The state in Fiscal Year 2010 will pay about $200 million on debt (general obligation bonds, certificates of participation, state share of municipal school construction debt and other borrowings). The Department of Revenue Spring 2009 forecast predicted unrestricted general fund revenue in Fiscal 2010 at $3.2 billion, at $58.29 oil — 5 percent to 8 percent of that would be $160 million to $256 million. The state's $200 million in debt payments fall well within the acceptable range.

At $65 oil, however, due to the revenue boost from the progressivity factor in the state's oil production taxes, the acceptable range for debt service from unrestricted revenues would climb to $300 million to $400 million, giving the state capacity to take on additional debt. This example, while showing the benefit of higher oil prices, also shows the risk of betting on future oil revenues.

In considering a possible general obligation bond issuance for transportation projects, the Legislature would want to consider:

- How much money is needed for projects statewide?
- How much could Alaska borrow without jeopardizing its favorable credit ratings?
- What other needs exist that might also require general obligation bonds in the future? If the state issues too much debt for transportation projects it could leave Alaska short of borrowing capacity for other needs in the years ahead, until the highway bonds are retired or new revenues boost the state's cash flow.
- How much less would it cost the state to spend cash each year for transportation projects rather than borrowing money and paying interest? Legislators would want to weigh the cost of borrowing against the benefit of having a substantial amount of cash up front to complete projects sooner than paying for the work by annual appropriations. Inflation will drive up the cost of construction in the years ahead, so the sooner the state contracts for the work the less it would cost. But interest on bonds adds up to a substantial amount. There's also the calculation that future dollars used to repay debt are worth less than today's dollars — a consideration when borrowing money and paying it back in the years ahead.
- The Legislature would want to ask how much the state already owes, if there is any new debt coming on line, and the schedule for paying off existing debt.

  The state's debt obligations as of June 30, 2009, totaled $502.8 million in general obligation bonds. State officials expect to issue an additional $150 million in bonds in 2010 (the second half of a transportation bond issue approved by voters in November 2008). The debt service on the state's general obligation bond debt in Fiscal 2011 is scheduled at $53.8 million — not counting any payments that might be due on the $150 million in bonds to be issued next year.

In addition to its general obligation debt, the state had $51.4 million outstanding in certificates of participation debt as of June 30, 2009, with no additional debt authorized. Payments on the outstanding certificates of participation total about $8 million a year.

The state also is responsible for the debt on the Atwood Building (state office building) in Anchorage, the Anchorage jail and the soon-to-be-built Matanuska-Susitna Borough Goose Creek prison. That debt totaled $309.7 million as of June 30, 2009. No additional debt is authorized at this time. The annual payments on the existing debt are about $26.5 million.

And as of June 30, 2009, the state's share of annual debt service on municipal school bonds totaled about $106 million a year — with more debt possible after this fall's municipal elections. The state's share of outstanding municipal school bond debt is about $900 million.

One other requirement to remember for general obligation bonds is this: The ballot question must list the specific projects that would be funded by the bonds. The ballot issue can be written to allow some discretion for state transportation planners, but the general requirement to list actual projects usually forces a political discussion and compromise along geographical lines — there has to be something (enough) on the list for each region to garner sufficient legislative votes and the public's vote for passage.

Pros: Revenue bonds would not directly limit the state's future general obligation bond capacity.
Revenue bonds stand alone and do not draw directly from general fund.
General obligation bonds do not require new or increased taxes.
The state could raise a substantial amount of funds with a bond issue.

Cons: Basing revenue bonds on the public's acceptance of higher motor fuel taxes.
There is a real cost to borrowing money.
Debt service commits future state revenues and could create tighter budgets in the future.

Toll road financing

The state could use highway tolls instead of motor fuel taxes to cover the debt on revenue bonds for specific, high-traffic projects. Many states pay for mayor highways through toll-financed debt issuance. But is there a highway project in Alaska with enough traffic to generate enough money to pay the bills? It takes a lot of cars and trucks paying a lot of dollars to pay back tens of millions or maybe hundreds of millions in toll road bonds, along with maintenance costs.

2511

At one extreme, for example, New Jersey's two toll roads — the Turnpike and the Garden State Parkway — recorded more than 670 million vehicle trips in 2007, deriving 92 percent of their revenues from tolls (the rest came from roadway concessions). Of that toll revenue, more than half was paid by out-of-state motorists driving all or some of the more than 320 miles on the two toll roads. The revenues covered all expenses and debt payments; as of 2007, the New Jersey Turnpike Authority carried almost $5 billion in outstanding bond debt. The state opened its first toll road segment more than 50 years ago.

At the other end of the traffic scale, South Carolina sold revenue bonds to finance construction and opened the Southern Connector eight years ago, providing a 16-mile bypass around a congested traffic area south of Greenville (on the road between Atlanta and Charlotte). The short toll road carries fewer than 6 million vehicles a year, less than 1% of the traffic on New Jersey's toll roads. Though the road is short, it took a very long time to build the project — 34 years from the first proposal to ribbon cutting.

In Alaska, the Knik Arm Bridge and Toll Authority proposes to pay for most of the crossing's construction costs with bonds financed by toll revenues. KABATA estimates 6 million toll-paying trips per year by the third year of operations for the proposed Knik Arm Crossing. The authority believes the toll revenues would be sufficient to cover several hundred million dollars in construction costs, though skeptics are less certain of traffic projections. The bond market could very well require state backup for toll road revenue bonds to protect investors against unknown toll receipts falling short of projections.

The only existing toll operation in Alaska is the Whittier Tunnel, though the toll revenues cover only a small portion of the actual construction costs and operations.

Pros: Users pay the costs.
No general fund dollars.

Cons: Are Alaskans willing to pay a toll to use existing highways that are now free?
Are Alaskans willing to pay a toll for new highways?
And is the state willing to back the bonds, in case toll revenues come up short?

Public-private partnerships

Public-private partnerships, known as 3Ps, were quite the rage in the 1990s as states and municipalities looked for new ways to pay for highway construction. But, like many hot new financing schemes, the 3Ps are less popular these days.

The Knik Arm Bridge and Toll Authority had pegged its financing future to a 3P plan — a privately run toll road.

The state-established toll authority is waiting for federal approval for the Knik Arm Crossing and dealing with the Endangered Species Act listing for Cook Inlet beluga whales. Meanwhile, further negotiations on the details of a financing plan are mostly on hold. The private firms interested in financing, building and operating the project had wanted the state to guarantee a minimum level of traffic and toll revenues; anything less than the guaranteed minimum and the state could have been required to write a check to cover the shortfall. Using the state treasury as a backstop for financing did not go over very well with the Palin administration. Besides, the problems in the worldwide credit market have dampened interest in privately financed, publicly owned transportation projects, leaving such a financing option uncertain for the Knik Arm crossing. But all that is waiting for federal permit approval and more work on belugas.

One difficulty the Knik Arm crossing faces — and why investors would like some kind of guarantee — is that traffic is an unknown. It's not like when the State of Indiana cut a deal in 2006 to lease out the Indiana Toll Road for 75 years to a joint venture of Spanish and Australian firms. In exchange for handing over the next 75 years of toll revenues, Indiana received $3.8 billion cash for the deal. But in making the deal, Indiana could point to a 50-year history of proven toll revenues on the highway.

Simply put, it's difficult to sell Blue Sky (unknown revenues from future projects) to investors.

Endowment funded by the Permanent Fund or Constitutional Budget Reserve

Lawmakers could withdraw a large sum of money from the Constitutional Budget Reserve or earnings reserve account of the Permanent Fund, using the money to establish a separate, dedicated Alaska Transportation Fund. The choice then would be whether to use investment earnings from the new fund to pay for construction projects on an annual cash basis, or issue debt and use the earnings to pay back the bonds.

Either way — annual appropriations for specific projects or making debt service payments on bonds — would require a constitutional amendment to establish the endowment and dedicate it and its revenues to transportation projects.

Withdrawing money from the Permanent Fund principal also would require its own constitutional amendment. Taking the money for the new endowment from the Permanent Fund earnings reserve or Constitutional Budget Reserve would require a legislative appropriation — not a constitutional amendment — though certainly a politically contentious appropriation.

And any reduction in the investment balance of the Permanent Fund — from principal or earnings reserve — would reduce future dividends. The less money in the fund earning a profit on investments, the less earnings would be available for future dividends.

As for taking the money from the Constitutional Budget Reserve Fund, that could leave the state short if a steep drop in oil prices required a deep draw on the CBRF. The fund's balance as of Sept. 21 was about $8 billion, sufficient for several years of small to moderate budget deficits if oil prices fall. There is always the risk, however, of large draws on the fund if world oil prices collapse. Tapping the budget reserve for a new transportation endowment also would reduce future earnings by the reserve fund — a $2 billion reduction in the CBRF, for example, would significantly reduce the annual investment earnings that help feed the fund.

To secure bonds and receive the lowest interest rate possible, the state likely would have to pledge not only the earnings from the transportation fund but also the principal to protect investors in case earnings fall short in any given year and cannot cover the debt service.

Pros: No new taxes.
Substantial funds could be made available.

Cons: A dedicated fund would require a constitutional amendment.
Any withdrawal from the Permanent Fund would reduce future dividends.
Any draw on the Constitutional Budget Reserve could cause problems in the years ahead if oil prices fall and the state runs a deficit.
A year of low or negative investment earnings on the transportation fund would require a draw on the fund's principal to pay debt service or fund projects.

Allocating a portion of oil royalties or Permanent Fund earnings

Instead of withdrawing money from the Constitutional Budget Reserve or the Permanent Fund, the Legislature could consider diverting a percentage of future oil and gas royalties away from the general fund to a transportation fund. Or diverting a portion of Permanent Fund earnings to transportation projects.

For example, Alaskans amended the constitution in 1976 to direct at least 25 percent of oil and gas royalties to the Permanent Fund. They could be asked a similar question to establish the Alaska Transportation Fund. A 2.5 percent annual dedication of oil and gas royalties would raise approximately $55 million a year at $65 oil. The fund could be used to pay directly for projects each year or as collateral for a revenue bond issue with earnings to help cover debt service payments.

Of course, any diversion of royalties to a special fund would reduce state general fund revenues in future years. And it would require a constitutional amendment for the dedicated fund.

There also is the option of drawing each year on Permanent Fund earnings. The Legislature could adopt a percent-of-market-value approach for imposing a limit and governing the availability of Permanent Fund earnings for annual appropriation. If, for example, the Legislature wanted to adopt an annual withdrawal limit of no more than 5 percent of the Permanent Fund's market value (as the Permanent Fund trustees and others have long proposed), it could choose to dedicate — from within that 5 percent — 0.25 percent of the market value for annual appropriation to transportation projects. At a market value of $32 billion, that would generate $80 million a year.

Though much of the public is skeptical of the POMV approach for limiting annual expenditures from the Permanent Fund, perhaps some would react more favorably if a comprehensive, statewide transportation initiative were part of the deal?

Pros: No new taxes.
Substantial sum of money would be available.

Cons: Any diversion of oil and gas taxes or royalties away from the general fund could create revenue shortages in years of low oil prices.
Dedicated funds require a constitutional amendment.
Using Permanent Fund earnings could result in lower future dividends.
The politics of using Permanent Fund earnings would be controversial.

Selling off future state oil taxes or royalties

The state could raise cash today by selling off a portion of its future revenue stream from oil taxes or royalties. The state could approach investors and turn over a percentage of future taxes or royalties or even a fixed amount of barrels of oil each month in exchange for a large, up-front cash payment. Mining companies often generate cash for new developments this way by forward selling future gold production.

The risk to investors is that oil prices or production could fall, leaving them short. Which means investors would pay the state a discounted price for the future revenue stream.

The risk to the state is shortchanging the general fund of future revenues.

Pros: No new taxes.

Cons: Diverts future state revenues away from the general fund and annual appropriation process.
It would cost less to raise the same amount of money by general obligation or revenue bonds.

Stimulus Build America Bonds

The state could save money by availing itself of the Build America Bond program offered under the federal economic stimulus act. Under this program, the federal government pays a substantial portion of the interest on taxable public debt issues. The subsidy is available only on financings that could otherwise be sold as tax-exempt debt but where the issuer elects to sell taxable bonds to receive the federal subsidy equal to 35% of the interest expense on the bonds. The federal aid essentially buys down the state's cost to below the interest rate of tax-free debt

The State of Alaska could save 25 to 100 basis points on actual debt costs under the program, depending on the market, the term of the bonds, size of the bond issue and the issue's debt rating. It is estimated that in the current market a $100 million, 20-year AA-rated bond issue by the State of Alaska would be priced at about 4.2% on a tax-exempt basis, while under the Build America Bond program the true cost to the state would be approximately 3.3%.

The idea is that the higher interest earned on taxable bonds would be attractive to some investors (such as pension funds and other institutional investors that do not pay income tax), and attractive to investors looking for lower-risk public debt, while the federal subsidy would drop the actual cost to states and municipalities below the lower interest rate they normally pay on tax-exempt bonds.

The federal subsidy on Build America Bonds is 35 percent of the interest rate for the life of the bonds. The subsidy is available on bonds issued through Dec. 31, 2010. There is no limit on the amount of bonds that can be issued under the program, though only government projects that otherwise would qualify for tax-exempt financing — such as schools, roads, universities and such — are eligible for the program.

The White House reported that 66 bond issues, totaling $11 billion, were issued in the first seven weeks of the program. Several of the early issuances were for transportation work, including the New Jersey Turnpike Authority and New York State's Metropolitan Transportation Authority.

The state would face an extremely tight timeline to get in on this program, and the Legislature would need to consider changing statute to eliminate the requirement for a competitive bond sale to speed up the process.

Pros: Federal assistance reduces cost of borrowing.
No dollar limit to federal program.

Cons: Dec. 31, 2010, deadline for participation. That could be extremely tight if the bonds cannot go before voters until the November 2010 general election.

Creative financing

One idea the state has discussed with financial services firm J.P. Morgan Chase is using a general fund appropriation, say maybe $2 billion, to create an oversize reserve for a bond issuance of an equal amount by a public corporation of the state. Debt service on the bonds, perhaps around $145 million a year, could be covered by the general fund with help from earnings on the $2 billion reserve.

The benefit of the oversized reserve is that it likely would achieve an AAA rating for the bond issue and therefore lower interest rates. The downside is that the $2 billion in reserve is then yield restricted to the yield on the bonds that are issued. This essentially guarantees that the state would earn less on the $2 billion than it would pay in interest on the bonds. This is because in periods of low investment earnings the state would still be responsible for all of the debt service, but in periods of high earnings any investment earnings on the reserve in excess of the rate on the bonds must be paid to the IRS.

While this idea would ensure that $2 billion would be available for transportation projects, it is not beneficial from a financial perspective and the state would be better off simply appropriating $2 billion to fund projects without any borrowing.

And, as with all debt, there would be costs of issuing the bonds — about $20 million for $2 billion in bonds

An additional downside is such a large appropriation for the bond reserve would be dependent on high oil prices to generate the extra general fund cash needed to fund the reserve. Or lawmakers could draw on the Constitutional Budget Reserve to set up the $2 billion account, reducing the state's oil-price cushion in future years.

Pros: Ensures $2 billion for transportation projects.
No new taxes.

Cons: It would reduce the state's earnings on the $2 billion put into reserve.
The state would lose flexibility in using the $2 billion while it's held in reserve.

Federal funds

Separate but pertinent to this discussion is the fact that the federal Highway Trust Fund is running close to empty. The account, which pays the federal share of highway projects nationwide, is supposed to be continuously refilled with federal motor fuel tax receipts. But tax revenues are not keeping up with spending needs, with the gap especially troublesome as Americans buy less gasoline and diesel and pay less in taxes.

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Congress approved a stopgap $7 billion appropriation for the highway fund before adjourning for its summer recess. The money, however, is not expected to last much past the end of the federal fiscal year Sept. 30, which means Congress will need to take further action to maintain the fund.

This was the second year Congress has had to appropriate general fund dollars to bail out the trust fund. Lawmakers added $8 billion to the account last September.

The point of this information is the reality that Alaska probably should not look to Congress and the federal government for substantial additional amounts of transportation funds for the next several years. Congress will have enough trouble finding the money just to maintain existing commitments for federal sharing.

The separate Power Point presentation accompanying this report shows year-to-year federal funding for transportation projects in Alaska.

CAMBRIDGE SYSTEMATICS

Alaska Transportation Finance Study

final report

prepared for

Alaska Municipal League

prepared by

Cambridge Systematics, Inc.

January 2009

www.camsys.com

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Executive Summary

The Alaska Municipal League (AML) commissioned Cambridge Systematics, Inc. to conduct an objective assessment of the current finance trends, challenges, and possible options to meet Alaska's transportation funding needs. This work involved a significant amount of analysis and produced multiple layers of findings that have been documented in this report, the Transportation Finance Study. Nevertheless, the work may be summarized into the following three categories of findings.

UNDER INVESTMENT IN THE STATE'S TRANSPORTATION INFRASTRUCTURE

Almost every state and the Federal Government have been chronically under investing in their transportation infrastructure and Alaska is not an exception. Over the last several years, studies at the national and state levels have painted a dire picture of transportation funding over the long term: the average funding gap for the Federal shortfall is almost $60 billion annually through 2017 (10-year average) to maintain the current condition and performance of the nation's surface transportation system.

- Underinvestment in Alaska may have more severe consequences than for almost any other state because the Alaska's economy is highly dependent on resource extraction industries. These industries are highly transportation-intensive; their growth is the most likely offset to declining oil production and may be the State's best opportunity to diversity, but will require investment. In addition, the State's far-flung communities, harsher environment and less mature roadway network amplify the effects of under investment.
- In its 2030 Transportation Plan, the Alaska Department of Transportation and Public Facilities (ADOT&PF) estimated its annual highway and bridge needs at approximately $1.1 billion per year of which about $530 million is unfunded on state-owned facilities alone (excluding local roads and street needs), with Federal and state funding covering about half of the needs.
- In Alaska, routine highway maintenance remains underfunded and the backlog in life-cycle needs is over three times the level of spending in annual highway maintenance activities at the state level. Adding the AMHS unfunded needs, and Alaska's transportation funding gap increases to $720 million. These figures still do not include needs of transit, and locally funded roads, both in urban and rural areas of the State, or aviation. Furthermore, it does not include any transportation capacity needs to meet travel demand growth in the future.

- Alaska's transportation capital spending (from state and local revenue sources) as a percentage of the Gross State Product (GSP) for 2006 is the fourth lowest compared to other states. If Federal funding is included, the transportation spending as a percentage of GSP increases placing Alaska in the top 10 states, clearly indicating the State's reliance on Federal funding to meet its transportation needs.

CURRENT FEDERAL FUNDING AT RISK

Alaska has historically received on average roughly 75 percent of its total transportation funding needs from Federal sources. This dependence is quite likely to put Alaska in a very vulnerable position when the Federal transportation funding is reauthorized next year for the following reasons:

- Federal Highway Trust Fund went broke this past year and Congress provided only one year of stop-gap funding. Longer-term fixes, however, may include lower levels of funding, which would increase state competition for Federal allocations.
- The current negotiations over reauthorization are further reducing the difference between donor states (which have increased in the previous reauthorization from 90 percent of their contribution to 92 percent) and donee states, of which Alaska is one of the highest.
- Reauthorization funding policies appear to place far more emphasis on tolling or other user fees and metropolitan transit/transportation networks, rather than highway funding or legislative earmarking. Some proposals would push greater responsibility to states or cities for financing their transportation improvements.
- Federal support for Alaska's transportation needs is being challenged by other states because of the perception that Alaska's financial capacity is substantially better off than other states. The lower 48 and the Federal government see the Alaska Permanent Fund currently has almost $28 billion and Alaska is the only State that collects neither income taxes nor state sales taxes, and its 8 cents-per-gallon (cpg) gas tax is the lowest rate in the country.

OPTIONS FOR CLOSING THE GAP

In order for Alaska to close some of the gap in underinvestment and improve its competitive position for the next reauthorization of Federal transportation legislation, we propose some options for increasing state revenues with a mix of six sources that include increases to user fees such as the fuel tax and vehicle registrations fees, new sales tax on vehicles and the wider use of local sales taxes, reinstitution of the Local Service Roads and Trails (LSR&T) fund, and establishment of an Alaska Transportation Fund (ATF) or comparable fund.

Option One would generate roughly $151 million annually, or about 28 percent of the $535 million annual gap. It has the following six components:

- Increase fuel taxes from 8 cents per gallon (cpg) to 18 cpg (national average) and index the rate to inflation, generating about $38 million annually.
- Increase vehicle registration fees by 50 percent from $100 to $50 biannual fee, generating slightly less than $23 million annually.
- Impose a vehicle sales tax of 0.5 percent, yielding about $10 million annually
- Encourage local jurisdictions to impose a 0.5 percent sales tax, which if enacted throughout the State would earn about $30 million annually
- Capitalize the Alaska Transportation Fund (ATF) with $1 billion, which with a 8 percent return should earn about $50 million annually.

Option Two would generate roughly $291 million annually, or about 55 percent of the $535 million annual gap. It has the following six components:

- Increase fuel taxes from 8 to 28 cpg and index the rate to inflation, generating about $76 million annually.
- Double vehicle registration fees from $100 to $200 biannual fee, generating over $45 million annually.
- Impose a vehicle sales tax of 1.5 percent, yielding over $31 million annually
- Encourage local jurisdictions to impose a 1.5 percent sales tax, which would earn about $89 million annually
- Capitalize the Alaska Transportation Fund (ATF) with $1 billion, which with a 8 percent return should earn about $50 million annually.

Option Three also would generate $291 million annually (55 percent of the $535 million annual gap), but it would reduce the two sales taxes and instead reinstitutes the Local Service Roads and Trails (LSR&T) fund:

- Same increase in fuel taxes (8 cpg to 28 cpg and index the rate to inflation), generating about $76 million annually.
- Same doubling of vehicle registration fees from $100 to $200 biannual fee, generating over $45 million annually.
- Impose a state vehicle sales tax of 1.25 percent and a 1.25 percent local sales tax, which would earn over $26 million and $74 million annually, respectively
- Capitalize the Alaska Transportation Fund (ATF) with $1 billion, which with a 8 percent return should earn about $50 million annually.
- Assume the State reinstitutes the LSR&T program at about $20 million annually.

Withdrawn
4/1/10

Conceptual **AMENDMENT** #1

OFFERED IN THE HOUSE **BY REPRESENTATIVE KELLY BY REQUEST**

To: CS HJR 42(JUD)

Page 2, beginning of line 4 insert

"state fuel taxes and registration fees received by the fund in that year and a percentage of the"

Renumber accordingly.

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FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HJR 42
(H) Publish Date: 2/10/10

Identifier (file name): HJR-042-OOG-DOE-2-9-10
Title: Constitutional amendment creating a transportation infrastructure fund
Sponsor: House Transportation Committee
Requester: House Transportation Committee

Dept. Affected: OOG
RDU: Elections
Component: Elections
Component Number: 21

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information					
OPERATING EXPENDITURES	**FY 2011**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
Personal Services							
Travel							
Contractual		1.5					
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	**0.0**	**1.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ( )							

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF		1.5					
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	**0.0**	**1.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2010) cost:

POSITIONS

Full-time							
Part-time							
Temporary							

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

The passage of this resolution would require the constitutional amendment to appear on the 2010 general election ballot. The cost of providing information about the constitutional amendment in the Official Election Pamphlet, as required by AS 15.58 is $1.5. Should the addition of this question require printing an 8-1/2 by 18 inch ballot, the cost will increase to $22.0.

Prepared by: Gail Fenumiai, Director — Phone 465-4611
Division: Division of Elections — Date/Time 2/9/10, 3:49pm
Approved by: Linda Perez, Director — Date 2/9/2010
Division of Administrative Services

(Revised 10/13/2009 OMB)

SWAMC

Southwest Alaska Municipal Conference

3300 Arctic Boulevard, Suite 203 Anchorage, AK 99503 p: 907.562.7380 f: 907.562.0438 www.swamc.org

Alaska Peninsula
Aleutian Chain
Bristol Bay
Kodiak Island
Pribilof Islands

SWAMC RESOLUTION 09-02

A RESOLUTION OF THE SOUTHWEST ALASKA MUNICIPAL CONFERENCE URGING THE GOVERNOR AND THE ALASKA LEGISLATURE TO CAPITALIZE STABLE LONG-TERM TRANSPORTATION FUNDING FOR ALASKA

WHEREAS, Alaska's transportation system has fallen far behind the needs of Alaska for cost effective transportation which allows economic growth and the safe cost effective movement of people, goods, and services; and

WHEREAS, the Alaska Highway System, the Alaska Marine Highway System, Alaska Airports, Alaska ports and harbors, and Alaska's local roads all need several years of significant funding for infrastructure improvement, upgrade and expansion; and

WHEREAS, the general appropriation process has resulted in significant underfunding of transportation infrastructure; and

WHEREAS, the Federal Highway Trust Fund is experiencing significant shortfalls, further contributing to a decrease in transportation funding for Alaska; and

WHEREAS, the economic future of Alaska is highly dependent upon a quality, cost effective transportation system; and

WHEREAS, the development of Alaska transportation infrastructure is dependent upon a steady and reliable stream of revenue; and

WHEREAS, the development of an energy policy that works for Alaska requires a quality transportation system in order to be successful; and

WHEREAS, estimates of annual funding needs for transportation infrastructure improvements, upgrades, and expansions exceed $300 million per year; and

WHEREAS, the State of Alaska is in a position to proactively develop a long-term transportation financing program.

-MORE-

NOW, THEREFORE BE IT RESOLVED that the Southwest Alaska Municipal Conference urges the Governor and the Alaska Legislature to establish a Transportation Trust Fund for Alaska or other suitable and sustainable funding mechanisms that generate at least $300 million annually to accomplish the following purposes:

- Generate investment earnings to develop transportation infrastructure in Alaska.
- Improve, upgrade and expand State of Alaska roads and highways.
- Improve, upgrade and expand the Alaska Marine Highway System.
- Improve, upgrade and expand the airports in Alaska.
- Improve and expand Alaska's ports and harbors.
- Provide regular funding to Alaska's communities to improve, upgrade and expand local roads built to local road standards.

AND, BE IT FURTHER RESOLVED that not less than 15-percent of the total funding will be allocated to each of the five programs each year (roads and highways; Alaska Marine Highway System; airports; ports and harbors; public transit and local roads).

PASSED AND ADOPTED by a duly constituted quorum of the Southwest Alaska Municipal Conference Membership this Thirtieth day of January, 2009.

Signed:

Tom Abell

Tom Abell
President

Attest:

Michael Catsi

Michael Catsi
Executive Director