Alaska DOT&PF
Transportation Funding and
Other Myths
Why Alaska’s Transportation
Future Needs Everyone’s
Attention -- March 2007
Today’s Focus

- Status of transportation funding
  - National trends that have emerged
  - Impacts to Alaska
  - Why the optimism of SAFETEA-LU passage in 2005 is dimming
Myth #1
Federal Program is Large and Adequate For National Needs

- **Reality:**
  - AASHTO, US Chamber of Commerce, AGC, others are commenting on the national shortfall in adequate federal funding
    - “Nation is living off the investment of prior generations” (AASHTO)
    - Of ~50¢/mile to operate private vehicle, only 2¢ is going to highways (US Chamber)
    - Need 10¢ national gas tax increase just to return to 1993 “purchasing power” levels (AASHTO)
  - Rep. Young sought $100 B increase in funding; but President would not agree during SAFETEA-LU debate.
Myth #2
But Federal Funds Are Adequate for Alaska Needs

- **Reality:**
  - Yes, the federal program for Alaska is largest in history – about $500 M per year -- but...
  - Net-net to projects is lower than early 1990’s ($173 M average to 2007-2009)
  - Many reasons for this:
    - More set-asides, more earmarks, bond payments, more going to non-project uses, sharing with more recipients, less than full appropriation, more process costs, etc.
Myth #2
Why Federal Funds No Longer Adequate for Alaska’s Needs

- Indicators:
  - NHS pavements, $750 M needed, + $90 M annually
    - (Total NHS program is now $95 M/yr)
  - Project “repeat cycle” is 1-2 human lifetimes
  - Total NHS funds now adequate for 2-3 statewide projects per year (previous 8-10 in 1990’s)
  - AGC notes construction inflation is 3X CPI
    - Highway construction even higher (4X CPI) of all construction types!
    - Construction inflation occurring nationwide
Myth #3
__X__ Region’s Needs Can Be Met with Priority Shift

- Reality:
  - Every corner of state believes they are underserved in allocation of funds
    - Anchorage – Transportation Plan = $2 Billion
    - Mat-Su – Transportation Plan >$1 B
    - Southeast – Major roads and ferries > $1 B
    - Gas Pipeline – $0.4 B + inflation
    - Plus, plus, plus
  - Total Statewide Need ~ $10 - $12 Billion
    - 10 years Fed-aid resource + $1.5 Billion (?)
  - The problem is the limited resource; not the allocation or unreasonable needs
Myth #4
Unlimited Appetite for Funds, Scope, Service, Bears No Consequence

Reality:

- “Zero-sum game” “Opportunity cost”
- Policy makers, other regions are observant
- Case in point: Alaska’s perception among other states
  - Other states openly hostile at times
  - Congressional attention (Kirk amendment)

Issue applies within state as well
Myth #5
Future of Federal Highway Trust Fund is Secure

- Reality:
  - 2009 prediction (funds decrease ~25%)
  - Permanent shortfall thereafter
  - Reasons:
    - SAFETEA-LU was not fiscally balanced
    - Fuel tax impacts due to high energy costs
    - Solvency requires 3¢ (+16%) federal gas increase tax by 2009
    - Alaska STIP amendment must consider whether this will be fixed by 2009
AASHTO Highway Fund Prediction for 2009 and Beyond

Highway Program Funding Faces Major Cuts as soon as 2009
Highway Account funding and account balances

Funds return to 2008 level in 6 years if no tax+
AASHTO Transit Fund Prediction for 2010 and Beyond

Public Transportation Funding Faces Major Cuts as soon as 2010
Transit funding and Transit account balances

Ferry fund source could decline too
Myth #6
Other States are Expecting a Larger Federal Program Fix

- Reality:
  - US average is 30% federal/ 70% other
  - Sharp increase in non-federal funds occurring
    - Private investments now 5% growing to 10%
    - Trend toward local bonds too
      - Orange County $12 B
      - Seattle Transportation bonds
    - Washington State 14.5¢ tax increase in 3 years
  - Texas needs $70 Billion; looking to tolls
  - Oregon testing “in state” mileage tax (toll)
Myth #7
Planning for AMHS Lacks Consistency

- **Reality:**
  - 3 prior administrations have arrived at same basic conclusion:
    - Reduce AMHS costs via dayboat scheme
      - Requires speed and/or water distance reduction
    - Roads to ferry terminals that shorten ferry runs aren’t nowhere
      - Metlakatla, King Cove, S. Mitkof, Port Simpson BC
  - **Benefits**
    - Reduced operating and user costs
    - Better service; higher ridership, hence farebox improves
    - More sustainable system, considerate of total needs of state
Myth #8
Meeting Needs Does Not Require a Sequenced Approach

- **Reality:**
  - Even with a significant “windfall” implementation of major improvements must occur step-wise.
  - Imagine $250 M annually in new non-federal funds:
    - Per capita share ~ $25 M per 70,000 persons
      - SE Region ~10 years for one major road, or
      - Mat-Su ~5 years for Palmer-Wasilla Hwy.
      - Anchorage ~6 years for Hwy to Hwy Connector
  - If shared with local and other organizations, even longer period of time required for major road and ferry projects.
Myth #9
Ferries Are Equal of Roads, if Measured Fairly

- Reality:
  - On state operating subsidy alone, roads are 400 times as cost effective (VMT facilitated)
    - User fees even more skewed
    - Capital costs also higher over time
  - B/C analysis fail to capture costs or benefits beyond 10-15 years (discount rate variable)
    - But...roads built many decades ago still serving state, without replacement and constant upgrades
    - Ferries are replaced continually; roads are repaired
    - Ferries use considerably more fuel
  - Roads, if as costly to sustain as ferries would use up the Permanent Fund in about 15 months!
Myth #10
Road Costs are Rising Rapidly
Improving Ferry Effectiveness

• Reality:
  - Road capital costs are rising rapidly; but ferries face same inflationary trends
  - Road operating costs are rising much more slowly than are ferries
  - Ferries are facing security and safety regulations that impact both capital and operating costs; roads are not affected
  - Roads, where possible, remain a better solution for region, but...

• AMHS is necessary and most sustainable when:
  - It is made more cost efficient
  - Offers service that is routine and convenient
Alaska's Transportation Funding

Sum-Up

- News unpleasant...but DOT’s responsibility to inform
  - Most knowledgeable of HTF issues
  - New federal regulations require STIP adjust to best available financial information
  - STIP amendment necessary to reflect these financial facts
  - Without awareness, policy makers can’t address

- Transportation is exceedingly important but funding picture is not optimal:
  - Historic reliance on federal funds (primarily) appears increasingly inadequate for high-level needs
  - Long-standing resistance to increasing state gas taxes

- In a global economy, dare we delay too long?
Federal Reauthorization Up Soon (Again??)

- 2007 is 4\textsuperscript{th} year since TEA-21 ended
  - 2-1/2 years remain for SAFETEA-LU
  - Reauthorization efforts usually begin 2 years prior
  - AASHTO, others gearing up for next authorization
- Major issues next reauthorization:
  - Highway Trust Fund health
  - Donor/donee pressure increasing
  - What is the purpose of a federal program?
SE Specific Issues

- Shakwak funds – very uncertain future
  - No new funds received in 2+ years
  - Without Shakwak both regional road and ferry projects must compete with other state needs
  - Reason: recent federal appropriations bills are rescinding our source of Shakwak funds.
Questions/Comments?