

ANCHORAGE CHAMBER OF COMMERCE

STATE & LOCAL GOVERNMENT AFFAIRS COMMITTEE

ISSUE PAPER & RECOMMENDATIONS

**STATE BOND PROPOSITION B
ON THE NOVEMBER 5, 2002 STATEWIDE BALLOT
(\$102,805,000 of state-guaranteed “revenue anticipation” bonds and
\$123,914,500 of state General Obligation bonds for certain
transportation projects around the state)**

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PART I. FACTUAL AND LEGAL BACKGROUND

What is being proposed?

There are two parts to Bond Proposition B. One part would authorize the State of Alaska to issue \$102,805,000 of “transportation revenue anticipation” bonds — which are sometimes called “GARVEE bonds” — to pay for accelerated construction of several transportation projects around the state that qualify for federal highway aid. The other part would authorize the State to issue \$123,914,500 in bonds to pay for certain other transportation projects around the state. The bonds in both parts would be guaranteed by the State of Alaska through a pledge of its full faith and credit, and therefore would be “General Obligation” (G.O.) bonds.

What are these “GARVEE bonds” and exactly what “transportation revenue” do they “anticipate”?

“GARVEE bonds” are bonds issued by a state for projects that legally qualify for federal highway funding under federal law, but the federal funds for them either have not yet been appropriated by Congress or have been appropriated for payment over a period of several years in the future. The issuance of state bonds in anticipation of receiving this federal funding allows the construction of those projects to begin without waiting until Congress actually appropriates the federal funding. When the state finally does receive the money, it is used to pay off the “GARVEE bonds.”

In the case of the transportation projects to be funded under Bond Proposition B, Alaska will receive the federal funds to pay off these bonds under the Public Law 105-178, the federal Transportation Equity Act for the 21st Century, and any further applicable federal law enacted in the future.

What are the transportation projects that will be paid for with these “GARVEE bonds”?

Bethel: Ptarmigan Street improvement	\$ 1,480,000
Fairbanks: Richardson Highway / North Pole interchange	16,100,000
Seward: Nash Road rehabilitation	2,600,000
Anchorage: C Street “Phase III” (Dimond Blvd. to O’Malley Rd, including interchange at O’Malley Rd. and grade separation for the Alaska Railroad crossing near 68th Ave. and C St.)	36,100,000
Kenai Peninsula: Kenai River bridge	28,000,000
Ketchikan: South Tongass Highway widening and path extension “Phase I”	5,000,000
Kodiak: Chiniak Road rehabilitation	6,000,000
Matanuska-Susitna: Seward Meridian Road (Parks to Seldon Rd.)	<u>7,525,000</u>
TOTAL	\$102,805,000

What are the transportation projects that will be paid for with the regular state G.O. bonds?

Anchorage: Abbott Loop extension and reconstruction (Abbott Rd. to 48th Ave.)	\$37,500,000
Donlin Creek: Donlin Creek Access Road	4,000,000
Fairbanks: Downtown street improvements	8,000,000
Kenai Peninsula: North Kenai Spur Rd. repavement (MP 22 – 29.7)	10,612,000
Ketchikan: Ketchikan Gateway Borough Road surface treatment	600,000
Ketchikan: North Tongass Highway widening and realignment (Ward Cove to Whipple Creek)	1,900,000
Kotzebue: Ted Stevens Way reconstruction	4,400,000
Matanuska-Susitna: Old Glenn Highway rehabilitation (MP 0 – 18.6)	13,225,000
Nome: Bering St., Seppala Dr. and Front St. rehabilitation and Front St. safety and enhancements	5,090,000
Sitka: Sawmill Creek Road upgrade “Phase I”	5,500,000
Wasilla: South Church Road	1,200,000
Whittier Harbor renovation	2,449,000
Seldovia Harbor renovation	2,628,000
Petersburg (Middle & South Harbors) renovation	3,729,000
Juneau (Auke Bay, Aurora, Harris & Taku Harbors, Douglas Harbor and Dock, and North Douglas Launch Ramp) renovation	7,119,000
Ketchikan (Thomas Basin, Hole-in-the-Wall & Knudson Cove Harbors, Ryus Float, and Bar Harbor North) renovation	3,938,000
Sitka (Thomas, Crescent & Sealing Cove Harbors) renovation	2,234,500
Cordova Harbor renovation	4,876,000
Wrangell (Standard & Shoemaker Harbors, Reliance Float, and Inner Harbor Fish and Game Dock) renovation	3,492,000
Yakutat Harbor renovation	526,000
Klawock Harbor and Seaplane Float renovation	<u>896,000</u>
TOTAL	\$123,914,500

In Anchorage, isn’t the “Abbott Loop” project the so-called “Bragaw extension” through the Far North Bicentennial Park?

Yes, it is. The proposal to pay for that extension with state bond proceeds instead of federal highway funds should accelerate the construction of the project and avoid getting bogged down in the federal funding process because of Far North Bicentennial Park’s park status. However, using state bonds to pay for this project will not relieve

it from any legal requirement to obtain the necessary permits for it.

What commitment is the State of Alaska making if it pledges its full faith and credit or General Obligation to secure these bonds?

The State of Alaska is promising to take whatever action is necessary – no matter how drastic – to ensure that the principal and interest (the “debt service”) on these bonds will be paid on time and in full. Such action, if necessary, could include the enactment of temporary or permanent taxes on individuals and/or businesses in order to have the necessary money to pay the debt service, or that action could include using income from the Permanent Fund.

Does the State’s General Obligation and pledge of its full faith and credit apply to Permanent Fund principal?

No. Under the constitutional amendment creating the Permanent Fund, its principal cannot ever be spent. Since pledging Permanent Fund principal would be tantamount to spending it if the State could not otherwise pay the debt service on these bonds, the Fund’s principal cannot legally be pledged under the constitution.

Would the State of Alaska also be pledging its same full faith and credit in guaranteeing the proposed GARVEE bonds?

Yes.

PART II. PROS AND CONS

Pros

The two Anchorage projects that would be built — the C Street extension to O’Malley/Minnesota and the extension of Abbot Loop north to 48th Avenue — will provide desperately needed north-south traffic access across the Anchorage Bowl. Right now only Lake Otis Parkway, the Old and New Seward Highways and Minnesota Drive provide significant access to south Anchorage from downtown. C Street and Arctic Blvd. run only a little south of Dimond Blvd. and do not provide access to Oceanview, Klatt and other neighborhoods in south Anchorage. Adding these two new alternative routes may not eliminate congestion on the existing routes, but it will relieve that congestion. More importantly, it will keep the congestion from becoming almost impossible as Anchorage continues to grow in the future.

The bonds will bring over \$70 million of construction projects to Anchorage alone, stimulating the local economy and ensuring the continued viability of the construction industry. In addition, a significant portion of the economic activity stimulated by projects outside Anchorage will still benefit the economy here.

Building these projects now will avoid increases to their price tags due to inflation.

Cons

The Associated General Contractors of Alaska (AGC) believes the potential disad-

vantages with these bonds outweighs the advantages, and accordingly the AGC does not support these bonds as proposed.

Accelerating all these projects into the immediate time horizon risks exceeding the capacity of the construction industry in Alaska, which could over-heat the construction market and cause project costs to rise unnecessarily.

Apart from including projects tailored to win support for the bonds from communities around the state, there appears to have been no coherent plan or philosophy for choosing the projects that would be built with these bonds, nor for justifying the acceleration of their construction.

There is no plan to pay for the maintenance of the new projects that would be built.

There is no plan to add projects to the state construction agenda to replace those whose construction would be accelerated under the proposed bonds.

The acceleration of nearly a quarter of a billion dollars' worth of construction projects into the next four years does not include provisions to account for other major construction projects that may also be during that period, such as the national missile defense system or even a natural gas pipeline.

Once the projects are built, a substantial portion of Alaska's future federal highway funding may end up going to pay the debt service on these GARVEE bonds, and reducing the funds available for new construction projects thereafter — in other words, after the construction boom fueled by these bonds, there could be a bust in the construction industry as future construction tails off.

The Far North Bicentennial Park must be preserved in its current state. Cutting it into two pieces with the Abbott Loop extension will ruin the park and may allow parts of it to be developed for artificial recreational purposes such as little league baseball.

PART III. SALGA COMMITTEE'S RECOMMENDATION TO THE BOARD.

Below are two alternative resolutions for the Board's consideration, one in favor of Bond Proposition B (Alternative A) and one opposing it (Alternative B). The State and Local Government Affairs Committee recommends that the Chamber Board of Directors *take no position on* Bond Proposition B appearing on the ballot in the November 5, 2002 general election. The Committee believes that, while there are significant advantages to be gained from these proposed, there are significant disadvantages as well, and the question of which outweighs the other is too close to call, in the Committee's opinion.

[Alternative A — in support of Bond Proposition B]

**Board of Directors, Anchorage Chamber of Commerce
Resolution 2002/03-__
In Favor of Bond Proposition B on the November 5, 2002 Ballot
(\$226,719,500 in bonds for transportation projects)**

WHEREAS, Bonding Proposition B appearing on the November 5, 2002 general election ballot would, if approved, authorize the State of Alaska to issue \$102,805,000 of state-guaranteed rev-

enue-anticipation bonds for highway projects qualifying for federal highway funds which would be repaid with the federal highway funds when and as received, and to issue \$123,914,500 of General Obligation bonds for other transportation projects which would be repaid from the general financial resources available to the State of Alaska, including the General Fund; and

WHEREAS, the bond proceeds would fund two highway projects in Anchorage — namely, the extension of C Street south to O'Malley Road and the extension of Abbott Loop north to 48th Avenue — that are both urgently needed to alleviate congestion in vehicular traffic flowing north and south within and through Anchorage; and

WHEREAS, both of the Anchorage highway projects would be significantly delayed if they were to be funded through conventional highway funding sources instead of through the proceeds from these proposed bonds; and

WHEREAS, the two Anchorage highway projects will inject over \$70 million directly into the local economy, while many of the projects elsewhere in the state will stimulate the local economy because so much commerce flows through Anchorage;

WHEREAS, delaying these projects will increase their construction costs if they are built later on;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Anchorage Chamber of Commerce that the Board supports the State's issuance of the state-guaranteed transportation revenue anticipation bonds and state General Obligation bonds, recommends that Chamber members vote "yes" on Bond Proposition B appearing on the ballot for the general election on November 5, 2002, and will inform the Chamber's membership of this Resolution, and of the Board's reasons for adopting it;

AND FURTHER RESOLVED that the Chamber will issue a press release and public announcement of this Resolution, and send copies of it to the other chambers of commerce in Alaska and the press.

DATED _____, 2002

[Alternative B — against Bond Proposition B]

**Board of Directors, Anchorage Chamber of Commerce
Resolution 2002/03-__
Against Bond Proposition B on the November 5, 2002 Ballot
(\$226,719,500 in bonds for transportation projects)**

WHEREAS, Bonding Proposition B appearing on the November 5, 2002 general election ballot would, if approved, authorize the State of Alaska to issue \$102,805,000 of state-guaranteed revenue-anticipation bonds ("GARVEE bonds") for highway projects qualifying for federal highway funds which would be repaid with the federal highway funds when and as received, and to issue \$123,914,500 of General Obligation bonds for other transportation projects which would be repaid from the general financial resources available to the State of Alaska, including the General Fund; and

WHEREAS, there are only two projects in Anchorage that will be funded with proceeds of these

proposed bonds, and although both of them would alleviate vehicular traffic congestion in Anchorage, neither of them would represent any kind of permanent or long-term solution to that congestion; and

WHEREAS, the acceleration of federally funded highway construction projects through the use of GARVEE bonds issued in anticipation of those federal funds will risk a cutback in highway construction once these accelerated projects are built and future federal funds have to be diverted to pay principal and interest on these GARVEE bonds instead of funding new projects; and

WHEREAS, there is no apparent plan or philosophy behind the selection of the projects to be built, nor any criteria justifying the acceleration of these particular projects instead of others that could be built;

WHEREAS, there is a significant risk — especially in light of the proposed national missile defense system and perhaps that of a natural gas pipeline — that the proposed bonds could end up over-heating Alaska’s construction industry, with the result that the projects might cost more to build than they would have if their construction were done in a more orderly fashion and pace;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Anchorage Chamber of Commerce that the Board opposes the State’s issuance of the state-guaranteed transportation revenue anticipation bonds and state General Obligation bonds, recommends that Chamber members vote “no” on Bond Proposition B appearing on the ballot for the general election on November 5, 2002, and will inform the Chamber’s membership of this Resolution, and of the Board’s reasons for adopting it;

AND FURTHER RESOLVED that the Chamber will issue a press release and public announcement of this Resolution, and send copies of it to the other chambers of commerce in Alaska and the press.

DATED _____, 2002