



Alaska Department of Transportation & Public Facilities

Arctic Ports 2011 Conference

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Public Port Financing Is Diverse

- No overall, long-term, certain federal program.
 - ACOE, DHS, EPA partially fund some elements.
- User fees play a major role; most ports self finance operations from users; some recover capital too.
 - NW and some eastern ports seem the exception.
- Local and/or state taxing authority or grants in some circumstances.
- Tremendous demand for port capital due to Panama Canal widening



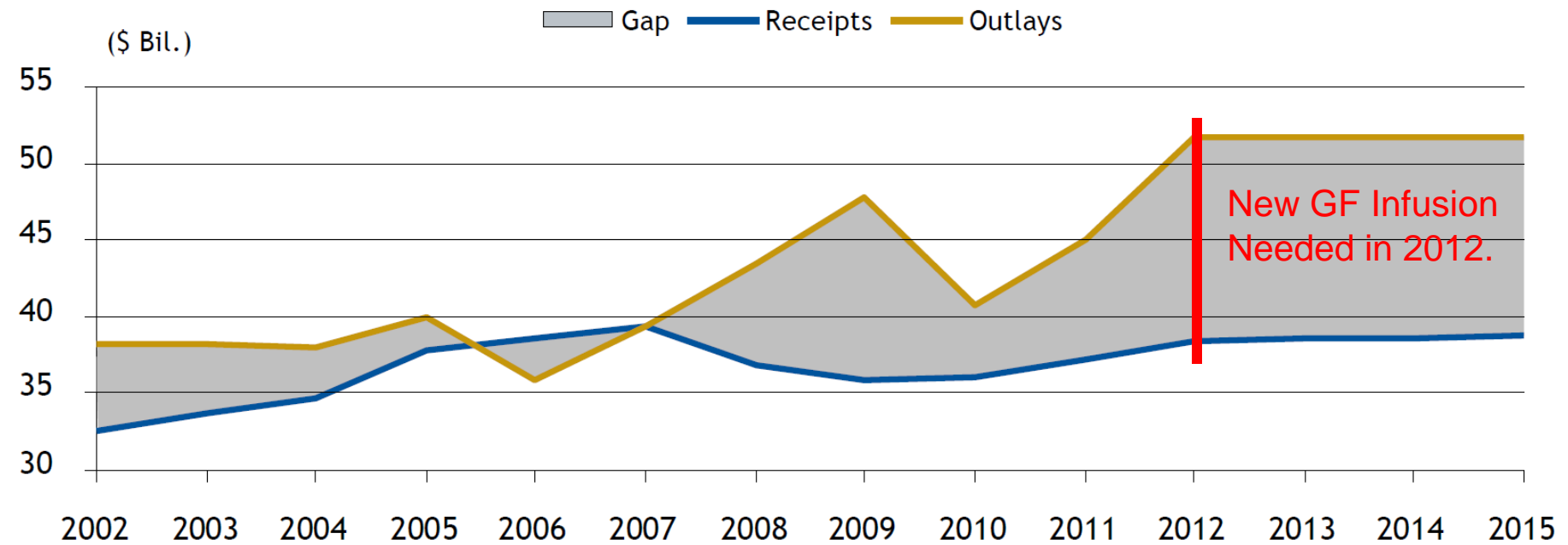
Federal Programs Appear Constrained

- Recent comments from Fitch Ratings on the Federal-aid highway program:
 - “once a formula-driven program funded on a multiyear basis is now morphing into a program where future policy is less certain, funding levels are less predictable, and the program is more dependent on frequent action to extend authorization and on general fund transfers that may need to be done on an annual basis...”
 - “...has become more subject to annual legislative discretion...has a greater risk of policy changes diminishing funding levels in the future.”
- Other programs, such as FAA program facing similar difficulty.



HTF Insolvency

Gap Between Highway Expenditures and Receipts

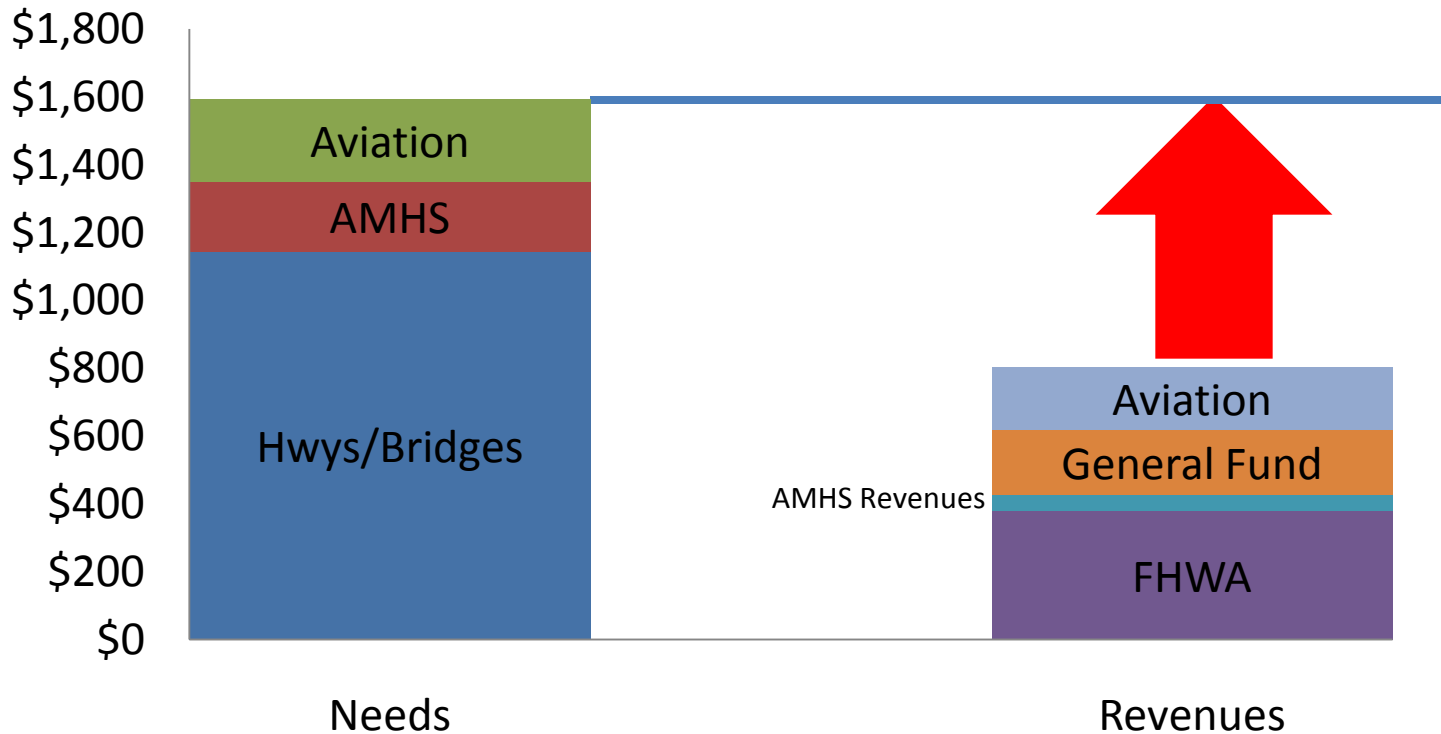


Source: Fitch, Office of Management and Budget.



Other State Systems Short

Needs Vs. Revenues (2009)





Port Institutional Organization

- Occur on many different levels nationally:
 - State, regional, local (city or county).
 - Alaska primarily uses borough-level ports.
 - Many private endeavors also.
- Arctic Alaska includes both organized and unorganized borough.
 - Sparse population, limited financial resources.
- Who would/should be responsible for a new Arctic port?



Four Choices for Funding

Who Pays?	Our Money	Other's Money
When? Now	Direct appropriation from GF (Example state or local capital budget)	Appropriation from Federal Government (Example: Federal Earmarks)
Future (Borrowing)	Our Children's Money (Example: General Obligation Bonds)	Other's Children's Money (Example: Stimulus)

P3's— Private capital funds; user's pay over time.



P3's – Public Private Partnerships

- ▶ Increasingly common means to achieve public goods, typically infrastructure
- ▶ General characteristics:
 - Contract between public-sector and private party for a public service or good
 - Substantial private sector role; typically design, finance, build and operations involved
 - Costs of endeavor borne by users (not taxpayers); some exceptions too
 - Requires robust economics to cover risk, ensure profit
 - Private entity often a new special purpose company
 - Ownership duration and terms variable; transfer of asset to government is common after time period



Why the Trend to P3's?

- Someone else's money involved
- Off books of government spending or debt
- Brings private sector expertise and management skills
- Possible tax advantages to private investors
- Aligns risk and reward to single entity
- What's old is new again
 - Early American toll roads, continental railroad were P3's too
 - More recent examples too



Alaska's Economics An Issue

- P3's generally require a robust business case
 - Strong demand
 - Reliable future revenue stream
 - Manageable and known costs
- Alaska setting:
 - Sparse population; long distances
 - High costs, difficult environment
 - Boom-bust commodity price also an issue



Fitting PPP's to Alaska

- Many Alaska projects require government help
 - Thin economics due to low user base
 - High costs due to environment, geography
 - Other ways to tap into private expertise
- AIDEA has long been in business to assist beneficial quasi-public projects
 - Skagway ore terminal
 - Major expansion in progress today
 - Red Dog road and terminal
 - Ketchikan Shipyard and Drydock



Linking Need to Funding

- Funding should relate to overall purpose:
 - Sovereignty – federal issue
 - Homeland protection – federal issue
 - Resource protection – federal and state issue
 - Search and rescue – federal and state issue
 - Off-shore resources – federal, limited state
 - On-shore resources – state issue
 - Economic development – state issue



Canada's "Northern Strategy"

- Sovereignty
 - Deepwater port, vessels and year round military base
- Environment
 - Monitor and protect on- and off-shore resources
- Social and Economic Development
 - Improve circumstances of residents
 - Enable resource development for jobs and tax base
- Governance
 - Working for sustainable local governance



Key Take Aways

- No single governmental entity likely to cover full costs of Arctic Port: federal, state or local.
- Resource user(s), may bring economies of scale to help finance.
 - Today's push for minerals and fuels could expand opportunities
 - Some form of private participation seems desirable (essential) (AIDEA, P3's or ?).
- Institutional structure will need to be determined.
- Strong national rationale for Arctic maritime presence— will policy shift and funding follow?



Final Thought

- Alaska place names reflect the early exploration era: Spanish, Russian and British names abound.
- Evidence that new opportunity sparked much competitive exploration and claiming
- Arctic Ocean era has much the same pattern
 - Is our national interest being served by a tepid response?