

STATE OF ALASKA

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

OFFICE OF THE COMMISSIONER

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February 8, 2011

The Honorable Representative Thomas
The Honorable Representative Stoltze
Co-Chairs, House Finance Committee
State Capitol Bldg, Rooms 505 & 515
Juneau, Alaska 99801

Dear Co-Chairs Thomas and Stoltze:

In response to questions posed by the House Finance Committee on January 31, 2012, during the department's Budget Overview, the following information is provided:

- *How much of Anchorage International Airport's (ANC) revenue subsidizes Fairbanks International Airport (FAI)?*

Consistent with Federal Aviation Administration (FAA) requirements and the provisions of the Alaska International Airport System (AIAS) Passenger Terminal Lease and Operating Agreement, AIAS revenues are collected through rates and fees designed to recover AIAS system costs, rather than individual airport costs.

A helpful analogy might be how ANC charges the same landing fee for use of its north-south runway as it does for use of its east-west runways, without regard to differences in capital and operating costs between runways. Instead, charges for use of the airport facilities are intended to generally allocate cost responsibility to users based on the types of service required to meet the needs of those users. This allows for economical "synergy" within the AIAS, as the sum of the parts together provide greater revenue generating potential than they likely would individually.

In the case of a system of airports like AIAS, the safety and service levels provided to airlines are augmented by the existence of two airports in the system which together provides comparable levels of service and enhanced capacity supporting complex international cargo flight operations.

The generally accepted accounting principles (GAAP) enterprise fund reporting for AIAS shows a calculation of individual airport net operating income/(loss) and capital contributions; however no allocation of debt service or investment income is made. Moreover, use of that information to identify any "subsidy" between airports may likely be misleading as the revenues collected are derived from the system's rates and fees structure, which makes no attempt to provide for individual airport "profitability" or measure "subsidy" between the system's airports.

This is also consistent with FAA requirements precluding retention of "retained earnings" beyond that needed for reasonable operational contingency as well as strict prohibition against transfer of "retained earnings" or "dividends" outside of the system.

Finally, AIAS system rates and fees are developed to fund the airport's operating and capital costs through a process of negotiations and consultancy with the principal airlines using the facilities to, among other things establish prices that are not only cost based, but that also try to serve as incentives for provision of optimal airline service to the benefit of the respective airport's communities.

- *Are we disenfranchising a local jet fuel provider? Is the lack of fuel coming from Flint hills a result of premiums the state is charging? Provide the contact person at Department of Revenue who can speak to this.*

DOT&PF does not have any expertise to discuss oil production taxes or royalty oil issues associated with Flint Hills Refinery. Matthew Fonder is the new director of the Tax Division at the Department of Revenue and is a good contact for further discussions. He can be contacted at 269-1033.

- *Is there a contingency plan if Flint Hills shuts down? By building fuel tanks are we disenfranchising Flint Hill?*

Background:

- Fuel market is entirely private
- AIAS facilitated communication amongst all parties during '09 fuel shortage and continues to closely monitor situation.
- Fuel shortage caused by swift and unexpected recovery in air cargo market; carriers under nominated, providers under produced
- Fuel price and supply are a large part of airline routing decisions
- Competition assures global competitiveness

Status:

- Three new fuel suppliers for a total of five.
- Alaska Fueling and Service Company (AFSC) began constructing 16m gallons of additional storage this fall for a total of 36m gallons on airport. Supply is augmented by 20m gallons of storage at the Port of Anchorage.
- Supply adequate for foreseeable future

The AIAS does not buy, transport, store, or dispense fuel for commercial sale to airlines. Similarly, it does not fund or construct fueling facilities for commercial usage. To be clear, AIAS is not building fuel tanks. The entire fuel supply chain at both Fairbanks and Anchorage is private-market based and subject to supply, demand, and price-point economics. There are currently five fuel suppliers in the Alaskan aviation market. Fuel price and stable fuel supplies are significant factors in airline routing economics and decisions. Competition amongst suppliers assures Alaska remains globally competitive price and supply-wise. Flint Hills currently provides approximately one-third of the total aviation fuel supply. In response to significant fuel shortage concerns expressed by its airline members, the Alaska Fuel Supply Consortium (AFSC) is adding 16 million gallons of fuel storage this fall at Anchorage International Airport for a total of 36 million gallons. This capacity is augmented by 20 million gallons of fuel storage already at the Port of Anchorage

- *Provide what we have expended, the total cost and what we will get out of each Roads to Resources project.*

Project Title	Project Number	Prior Funding	Expended	SFY 2013 Request
Ambler Mining District	63812	\$5.25	\$1.94	\$4.0
Umiat (Foothills West)	62210	\$25.1	\$18.5	\$10.0
Tanana	--	--	--	\$10.0
Klondike Highway IUH	--	--	--	\$2.5

(Dollars in Millions)

The Ambler Mining District road projects connects to an known mineral rich area located on the south side of the Brooks Range in the Upper Kobuk region and has proven copper rich deposits. All-seasons access for exploration and development would allow this large region to likely explode with mine

development as these stranded deposits would have the means to get to market. A public-private partnership will be explored to proceed with financing and construction.

The road to the Umiat region opens up proven reserves of both oil and gas resources on the north flank of the Brooks Range, west of the Dalton Highway. It accesses a region largely located on state land, thus royalties would ensue and added volume shipped through TAPS.

The road extension to Tanana, would open up the Tofty area, known for placer gold mining. The project would also link up the community of Tanana with the state highway network, initially by a river ferry or winter ice crossing.

The Klondike Highway Industrial Use Highway project plans for refurbishing and strengthening the pavement and bridge structures on the Klondike Highway to accommodate the large increase in traffic from Yukon and British Columbia. Extra-large ore trucks will arrive at the AIDEA-owned ore terminal at the Port of Skagway for shipment to ore smelters around the world. The IUH concept permits tolls to be charged only to the much heavier ore trucks, thereby leaving the road a free public highway to all other users. This results in transferring the higher costs of capital and maintenance needed for these heavy hauls directly to the ore transport.

- *What is the potential cost benefits/impact, long term, if communities are connected? For example, we could cut down on the number of airports, etc. that we would need to maintain. Are there any capital projects currently funded or in the STIP that get to this?*

Last year the department developed an Excel model that helps identify when building inter-community roads between two or more villages would be more cost effective than building duplicate infrastructure (schools, airports, clinics, landfills) in them. It is called the Cluster Model.

The model looks at all the different types of state capital and operating costs in sustaining local governments, and accounts for both the added costs (school buses, power lines, longer roads, bridges and their maintenance) as well as the avoided costs (fewer schools, clinics, airports, etc.).

Briefly, the model enables us to draw these general conclusions:

- After about 15-30 miles (less if major bridges are needed), the added road costs outweigh the savings.
- The relative size of nearby communities matters. Too small and not that much is needed; too large and it is hard to justify sharing facilities.
- Prior to new school construction is the best time to evaluate. New schools are expensive and become sunk costs that can't be saved once in place.
- Savings and costs usually occur in different agencies and saved costs and added costs don't readily offset. For example, DOT&PF costs would go up for added road miles, while Department of Education would see lower school construction and operating costs.

We have shared the model and report with the Rural Sub-cabinet, who expressed interest in its application.

Projects that assist with connecting rural communities at this time:

- Aleknagik Road and Wood R. Bridge (STIP)
- Iliamna – Nondalton Road and Newhalen R. Bridge (STIP)
- King Cove to Cold Bay Road (STIP)
- Pile Bay to Williamsport Road and Iliamna R. Bridge (STIP)
- Kake to Petersburg Road (STIP and FH)
- North POW Island Spine Road (STIP and FH)
- Roads to Resources to Tanana (GF)
- Nelson Island Inter-Community Roads (GF)

- *Signs are needed in the safety corridor areas to let drivers know of pull out areas. Are signs for this area on our project list? If not, why not? Commissioner said we could supply list of relevant projects for the next few years.*

The Department received \$30.0 from the legislature in 2002 to install slow vehicle signs. We installed DELAY OF 5 VEHICLES ILLEGAL – MUST USE TURNOUTS signs at the entry points to all the corridors except the Sterling Hwy. Additionally, we installed multiple KEEP RIGHT EXCEPT TO PASS signs on every segment of the highway where there were 3 lanes passing lanes, some of which had a history of head on collisions in the center lane opposing the passing lane. We have installed blue and white “P” (parking) 1000 FT and “P” with arrow signs with each new paving project to identify existing turn outs that can be used for parking. These frequently require a 90 degree turn to enter. A vehicle has to almost come to a stop to enter – causing more delays than they solve. Most of these signs are still up today.

At the time of the last sign request (2002) there were only two “real” slow vehicle turnouts built to usable standards. They were on the Seward Highway at Milepost 113.5 southbound and Milepost 52.5 northbound. A turn out must be parallel to the highway and be close to 600 ft. long to effectively function as place for a vehicle with a trailer to slow down, pull over, stop, and then be able to pull back into traffic. We’ve built 3 more Slow Vehicle Turnouts for northbound traffic within Turnagain Pass in 2009. In 2010, we launched a design for 10 more turnouts and 3 more passing lanes from Turnagain Pass to Anchorage. In 2011, we launched a design for more than a dozen Slow Vehicle Turnouts spread out between Soldotna and Homer.

Building passing lanes is the Department’s goal for two lane highways. They allow for slowing and no need for stopping. Providing them every 5 to 10 miles on busier two lane roads gives drivers the best opportunity to comply the Delay of 5 Vehicles law. DOT&PF has been building passing lanes with each “10 mile” widening and shoulder work project as federal funds allow. Many passing lanes have been built over the last decade.

- *Provide policy on moving assets and resources to storm events.*

See Winter Maintenance Coordination attachment.

- *STIP FY14 and 15 shrinkage.*

Preparing the new STIP for Federal Fiscal Year (FFY) 12 to 15 was difficult as Congress has not passed a long-term authorization bill, and the Highway Trust Fund (HTF) is widely reported to have far less funding in future years than needed for even current spending levels. In FFY13 Federal surface transportation outlays must be reduced by at least 30% if the revenue issue for the HTF is not addressed.

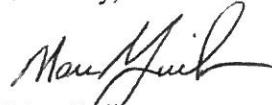
In November 2011, the US Senate Environment & Public Works Committee proposed a 2-year bill at 2011 funding level (about \$450 million to Alaska). This bill has only passed the one committee, and no agreement as to where the additional funding would be achieved has been reached.

In view of the possibility that Congress will at least solve the funding issue for the HTF for the years 2012 – 2013, we have planned the STIP around the 2011 funding level (\$450 million) for the first two years. Thereafter, in view of the tremendous uncertainty, we have reduced the planned spending level for years 2014 and 2015 (\$320 million). There are risks in both over estimating and under estimating the likely revenue for the STIP. Over estimating leads to starting too many projects and creating expectations that are ultimately dashed. Under estimating leads to having too few projects ready for construction and losing funds to another state. We concluded a balanced approach was the best course at this time.

Should Congress find a long-term solution and increase spending after FFY13, then we will have time to update the STIP accordingly. If on the other hand, no solution is forthcoming, we have hedged our estimate of funding so as to not be overly draconian, when the inevitable delays in projects due to lesser funding have to be made. We have discussed this estimate with the two federal agencies with jurisdiction (Federal Highway Administration and Federal Transit Authority) and they concur in this approach. The new STIP is expected to be approved this month by these same two agencies.

If you or your committee members have any further questions, please feel free to contact Mary Siroky at 465-8974.

Sincerely,



Marc Luiken
Commissioner

cc: House Finance Committee Members
Pat Kemp, Deputy Commissioner, Highways & Public Facilities, DOT&PF
Steve Hatter, Deputy Commissioner, Aviation, DOT&PF
Mary Siroky, Director, Administrative Services
Matthew Fonder, Director, Tax Division, DOR
Bruce Tangeman, Deputy Commissioner, DOR

Attachment

Alaska Department of Transportation and Public Facilities



Winter Maintenance Coordination

It is the policy of the department that the safety of the traveling public and department personnel is the primary consideration at all times. Due to the nature of the Alaska winter, it is reasonable to anticipate that there will be times when weather events will overwhelm the capabilities of individual maintenance stations. With public and employee safety in mind, it is critical that the department utilize the appropriate resources (personnel, equipment, and materials) in responding to winter storm events regardless of station/district/region boundaries. It is the responsibility of the Chief of Statewide Maintenance and Operations (M&O) and the Regional Maintenance Directors/Chief to insure that the appropriate resources are allocated to safely conduct winter operations, particularly during major weather events. Personnel, equipment, and materials from any and all maintenance stations can be dispatched to any area of the State at the discretion of the Chief of Statewide M&O, Deputy Commissioners, and Commissioner.

Winter Storm Coordination. Service Level I and II roads shall be anti-iced, plowed, sanded or deiced if necessary, and widened as quickly as possible. Snow and ice removal will continue until the defined level of service is achieved, even if it involves working extra hours at night, weekends, or legal holidays. Maintenance crews should work vigorously to maintain all roads in as good a condition as is possible with the equipment, materials, and personnel available. When weather events result in highway conditions that exceed the capabilities of the assigned maintenance personnel to provide safe driving conditions within a reasonable timeframe, consideration shall be given to requesting assistance from other maintenance stations. Primary consideration shall be given to utilizing personnel and equipment from adjacent and/or nearby maintenance stations. If adjacent and/or nearby maintenance stations are unable to provide additional resources, the Regional Maintenance Director/Chief shall examine all available regional resources in order to allocate additional personnel and equipment to the maintenance station in need.

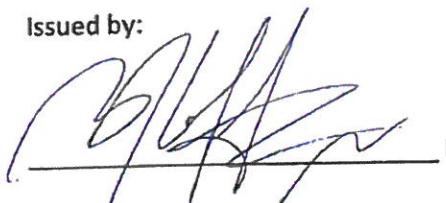
If the weather event exceeds the capabilities of the region to provide adequate resources to efficiently and effectively conduct snow and ice control and removal operations, the Regional Maintenance Director/Chief shall contact the Chief of Statewide M&O to request additional support from outside the region. At this point, the Chief of Statewide M&O shall contact the

other Regional Maintenance Directors to identify the appropriate available personnel and equipment to be dispatched to the impacted station.

It is the goal of the department to be proactive in responding to weather events. When weather forecasts indicate that a major weather event is going to impact a specific geographic area, the Regional Maintenance Director/Chief and the Chief of Statewide M&O shall coordinate to identify supplemental resources ahead of the event. Prior to and during major weather events, specific personnel and equipment shall be identified as available supplemental resources from outside the impacted area. At the direction of the Chief of Statewide Maintenance and Operations, these supplemental resources shall be dispatched to the impacted area to assist in snow and ice control and snow removal operations.

Level of Service Coordination. Proper snow and ice control operations include coordination between adjacent stations/districts/regions. This assures that obvious changes in level of service on continuous sections of highway are avoided.

Issued by:



Issue Date 1/6/12

Michael J. Coffey
Chief, Statewide Maintenance and Operations
Alaska Department of Transportation and Public Facilities

Approved by:



Effective Date 1/6/12

Patrick J. Kemp, P.E.
Deputy Commissioner, Highways & Public Facilities
Alaska Department of Transportation and Public Facilities