

ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE

May 3, 2001

1:12 p.m.

MEMBERS PRESENT

Representative Vic Kohring, Chair
Representative Beverly Masek, Vice Chair
Representative Drew Scalzi
Representative Peggy Wilson
Representative Mary Kapsner

MEMBERS ABSENT

Representative Scott Ogan
Representative Albert Kookesh

COMMITTEE CALENDAR

HOUSE BILL NO. 64

"An Act relating to international airports revenue bonds; and providing for an effective date."

- MOVED CSHB 64(TRA) OUT OF COMMITTEE

PREVIOUS ACTION

BILL: HB 64

SHORT TITLE: INTERNATIONAL AIRPORTS REVENUE BONDS

SPONSOR(S): RLS BY REQUEST OF THE GOVERNOR

| Jrn-Date | Jrn-Page | | Action |
|----------|----------|-----|---------------------------------------|
| 01/16/01 | 0097 | (H) | READ THE FIRST TIME - REFERRALS |
| 01/16/01 | 0097 | (H) | TRA, FIN |
| 01/16/01 | 0098 | (H) | FN 1: (REV) |
| 01/16/01 | 0098 | (H) | GOVERNOR'S TRANSMITTAL LETTER |
| 05/03/01 | | (H) | TRA AT 1:00 PM CAPITOL 17 |
| 05/03/01 | | (H) | Moved Out of Committee MINUTE(TRA) |
| 05/04/01 | 1526 | (H) | TRA RPT CS(TRA) NT 4DP |
| 05/04/01 | 1526 | (H) | DP: MASEK, WILSON, SCALZI, KOHRING |
| 05/04/01 | 1526 | (H) | FN2: (REV) |
| 05/04/01 | 1526 | (H) | REFERRED TO FINANCE |

WITNESS REGISTER

KURT PARKAN, Deputy Commissioner
Office of the Commissioner
Department of Transportation & Public Facilities
3132 Channel Drive
Juneau, Alaska 99801
POSITION STATEMENT: Explained HB 64.

KIP KNUDSON
810 O Place
ANCHORAGE, Alaska 99501
POSITION STATEMENT: Testified in support of HB 64.

DAVID EBERLE, Regional Director
Central Region
Department of Transportation & Public Facilities
PO Box 196900
Anchorage, Alaska 99519
POSITION STATEMENT: Answered question on HB 64.

DEVEN MITCHELL, Debt Manager
Treasury Division
Department of Revenue
PO Box 110405
Juneau, Alaska 99811
POSITION STATEMENT: Answered questions on HB 64.

ACTION NARRATIVE

TAPE 01-34, SIDE A
Number 0001

CHAIR VIC KOHRING called the House Transportation Standing Committee meeting to order at 1:12 p.m. Members present at the call to order were Representatives Kohring, Scalzi, Wilson, and Masek. Representative Kapsner joined the meeting as it was in progress.

HB 64-INTERNATIONAL AIRPORTS REVENUE BONDS

[Contains discussion of SB 218]

CHAIR KOHRING announced that the committee would consider HOUSE BILL NO. 64, "An Act relating to international airports revenue bonds; and providing for an effective date."

Number 0111

REPRESENTATIVE MASEK made a motion to adopt the proposed committee substitute (CS) for HB 64, version 22-GH1060\C, Cook, 5/2/01, as a work draft. There being no objection, Version C was before the committee.

KURT PARKAN, Deputy Commissioner, Office of the Commissioner, Department of Transportation & Public Facilities (DOT&PF), came forth to explain HB 64. He stated that [HB 64] is an important bill for the international airport system, and represents a time when the state, the airport system, and the airlines worked cooperatively. He explained that the international airport system is composed of the Fairbanks and Anchorage airports. An operating agreement is used with the carriers that fly into those two airports. That operating agreement has been five years in length and expired last July. He said the department has been in "holdover" since then, by continuing the existing operating agreement, and has been in negotiations with the airlines for about a year and a half to come up with a new operating agreement.

MR. PARKAN remarked that one of the benefits of the operating agreement, which is a residual agreement, is that the airlines are willing to pay the costs of operating, maintaining, and building the airport system. In exchange, [the airlines] are able to review and concur with approval projects that [DOT&PF] brings forward. He added that it is unique in state government in that those who are essentially paying the bills - the airlines - have an opportunity to work with [the department] in developing the capital improvement program and to give [DOT&PF] the go-ahead to do those projects; [DOT&PF] then brings them forward to the legislature for authorization. There is a mechanism in the event that [the airlines] reject a project, whereby [DOT&PF] can come back the following year and do the project.

Number 0357

REPRESENTATIVE WILSON asked for clarification on what happens when a project is rejected.

MR. PARKAN responded that if the airlines don't want [DOT&PF] to do a project, [DOT&PF] comes back the next year, brings it forward to [the airlines], and can then bring it to [the legislature] for its ultimate decision-making.

MR. PARKAN continued, explaining that when [DOT&PF] started negotiations this time, the airlines want to take a different approach to how the capital program is funded. They want to use a model that is used in almost every other major airport in the country, which is bond financing of their CIP (capital improvement project).

MR. PARKAN said the reasons are these: They want some certainty regarding the costs for doing business at the airport system. Every year there is a CIP, that could go up or down, and [the airlines] don't really know what to expect in terms of their rates and fees; therefore, they want something that goes beyond one year. Furthermore, [the airlines] want [DOT&PF] to come forward with more than just a year's package of projects. He said [DOT&PF] agreed to the concept and worked out a five-year CIP that essentially lasts the length of the operating agreement.

Number 0589

MR. PARKAN informed members that HB 64 represents the first two years of those projects. The intent would be to sell the bonds this fall, and [DOT&PF] would use interim financing to deal with the construction of some of those projects. He added that there is a 20-year payback [which he later clarified is 25 years] with the bonds through the international airport revenue fund. Essentially, the airlines pay the debt.

REPRESENTATIVE SCALZI asked Mr. Parkan to explain more about the increase [in the years of the operating agreement].

MR. PARKAN answered that the operating agreement has the five-year CIP, but the projects themselves are an attachment to the agreement. Therefore, [DOT&PF] has been locked into those projects. He said [DOT&PF] feels the two-year bond package would allow a reasonable amount of time.

REPRESENTATIVE KAPSNER asked Mr. Parkan to explain the international airport fund and whether it is federal money or taxes paid by consumers.

Number 0821

MR. PARKAN responded that the international airport revenue fund is an enterprise fund and is not related to the general fund or a federal fund. All the costs associated with doing business and maintaining the airport system are borne by the users of the

system. Passengers contribute by paying the airline tickets. They also pay passenger facility charges: \$3 every time they leave either Fairbanks or Anchorage and go outside Alaska. All concessions such as rental-car companies and parking garages contribute to the operations of the system.

MR. PARKAN noted that there are federal AIP (Airport Improvement Program) funds through FAA (Federal Aviation Administration) for construction. That money is based on [DOT&PF's] entitlements, which are determined by the amount of cargo and number of passengers. He noted that Anchorage Airport is the number one cargo airport in the country in terms of landed weight.

CHAIR KOHRING asked whether that is what the governor referred to in the third paragraph of his letter [provided in the committee packets], when he wrote that federal capital grants are a source of money to pay off the bonds.

MR. PARKAN answered in the affirmative.

REPRESENTATIVE WILSON asked Mr. Parkan to explain the added language [on page 2 of the proposed CS, Version C].

MR. PARKAN responded that the language looks identical to the language that the Senate Transportation Standing Committee added to its version [SB 218]. It requires [DOT&PF] to provide reporting on the projects.

Number 1008

REPRESENTATIVE MASEK asked why the funding is less in the proposed CS, on page 1, line 8, than what the governor suggested in his letter.

MR. PARKAN answered that the \$5 million reduction in the proposed CS was at [DOT&PF's] recommendation. There was \$5 million that [DOT&PF] had identified as a project for relocation costs. The airlines preferred that [DOT&PF] not bond funds, but cash-fund them. He said [DOT&PF] has some residual money in its account that will be rolled forward in credit to that project.

Number 1088

[There was a motion to move CSHB 64 from committee, but it was withdrawn in order to take testimony.]

CHAIR KOHRING noted that the Senate has passed legislation and that there are two major issues: one is the dollar amount difference, and the other is the accountability issue.

Number 1153

KIP KNUDSON testified via teleconference and stated that the bill is of great interest to all the airlines at Anchorage and Fairbanks. He stated that it was a long process to achieve the agreement between the airlines and the airport; he noted that he had participated on the negotiating committee.

CHAIR KOHRING stated that it is good to hear from a private sector company in support of the bill. He asked how the proposed CS differs from the original bill in its accountability.

MR. PARKAN responded that the additional language asks the department to annually give a report to the legislature on its anticipated needs for the next fiscal year and its expenses from the previous year.

CHAIR KOHRING asked Mr. Parkan to address the problems with the current reconstruction of the Anchorage airport. There were some seismic concerns, which cost the state money.

MR. PARKAN deferred to David Eberle.

DAVID EBERLE, Regional Director, Central Region, Department of Transportation & Public Facilities, testified via teleconference. He answered that the project, called Phase One, is the foundation in structural steel for the new concourse. That contract was awarded a little over a year ago. At that time [DOT&PF] was in the process of securing building permits through the Municipality of Anchorage, and anticipated a 70-day timeframe. Shortly after the award of the contract, the municipality, in reviewing the design and the permit application, discovered some design errors and brought those to the attention of the designer. The designer then responded and made appropriate changes. On that basis, he said, [DOT&PF] procured the steel through the construction contract and began some of the foundation work. Further into the review, the municipality's reviewer requested more detail regarding some of the design assumptions and wanted to see a full-fledged computer model that simulates the behavior of the building and the seismic condition.

Number 1438

MR. EBERLE continued, stating that the contractor became engaged in a lengthy debate over the adequacy of that model. It took over six months to resolve how the building would behave in a seismic event. The result of not having permits, he said, was that [DOT&PF] basically had its contractor in a holding pattern. After lengthy discussions between the designer and the municipality, it was agreed that the municipality as well as [DOT&PF] would hire third-party engineering firms to take up the reviews. Those two third-party firms made decisions on anything that had controversy. He stated that they now have all the foundation permits and should have all the permits for the new concourse by the end of May or early June.

MR. EBERLE remarked that there are some changes to foundations previously built that will have to be undertaken; however, those are relatively minor in nature and will total less than \$100,000 worth of work. The biggest impacts are having the contractor on hold; changes to the foundations that have occurred as this process went on; and the time delay. The second phase of the project, he said, is "on the street" now for bids. Bid opening will be in early June, but not until all the building permits are secure.

Number 1582

CHAIR KOHRING asked how much money is involved in the reconstruction.

MR. EBERLE reiterated that redoing the work is not the major cost. The major cost is the delay time and the changes to foundations from bid time to what is ultimately constructed. He added that there are also going to be some changes to the steel, but those are relatively minor. Mainly, it is an impact cost to the construction and having the contractor and consultants on for an extra year.

CHAIR KOHRING asked whether those numbers have been added up.

MR. EBERLE answered that [DOT&PF] does not have a firm handle on all the costs, but is anticipating that the costs will exceed \$5 million and could approach \$10 million.

Number 1620

REPRESENTATIVE SCALZI asked whether this is going to impact other contracts the contractors may have, and whether they are secure in the delay.

MR. EBERLE responded that [DOT&PF's] intention is to treat the construction contractors fairly. This delay is not their fault.

MR. PARKAN clarified that there is a 25-year [payback with the bonds], not a 20-year payback as he'd mentioned earlier.

CHAIR KOHRING noted that the fiscal note in the packet reflects the original legislation. The proposed CS reflects the Senate's version of the fiscal note [for SB 218].

Number 1734

REPRESENTATIVE MASEK made a motion to adopt the fiscal note for [SB 218, the companion bill]. There being no objection, it was so ordered.

DEVEN MITCHELL, Debt Manager, Treasury Division, Department of Revenue, came forth and stated that the fiscal note in the committee packets is for the CS for SB 218. He noted:

Similar to the transaction we entered into in 1999, the ... bonds for the [terminal] development project, we would have a similar plan of finance with these bonds. We would have two years of capitalized interest, where we would pay our interest expense from principal that we issue upfront, so there we be no impact on the revenues of the system during that period of time. Then debt service would begin in FY [fiscal year] '04. We'd had half a year's debt service, approximately \$4.7 million, ramping up to a levelized debt service of \$12.25 million per year through the 25-year term of the bonds.

MR. MITCHELL stated that he used an interest rate assumption that is relatively conservative. He said he expects the ultimate debt-service payments to be well below the numbers indicated in the fiscal note.

Number 1825

CHAIR KOHRING noted that, philosophically, he thinks this is a good approach as far as the packaging. He asked Mr. Parkan what

assurances there are that DOT&PF will not be coming back to [the legislature] for more money.

MR. PARKAN responded that before the committee is [DOT&PF's] annual CIP that [DOT&PF] always comes to the legislature for. He said [DOT&PF] will be coming back in two years for another series of projects that will last through the next three years. He added that there will also be some projects that will continue to be cash-funded, and [DOT&PF] will be coming back every year for those.

Number 1915

REPRESENTATIVE MASEK moved to report CSHB 64, version 22-GH1060\C, Cook, 5/2/01, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 64(TRA) was reported from the House Transportation Standing Committee.

ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 1:45 p.m.