

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**March 26, 2002**  
**9:19 AM**

**TAPES**

SFC-02 # 42, Side A  
SFC 02 # 42, Side B  
SFC 02 # 43, Side A

**CALL TO ORDER**

Co-Chair Pete Kelly convened the meeting at approximately 9:19 AM.

**PRESENT**

Senator Pete Kelly, Co-Chair  
Senator Dave Donley, Co-Chair  
Senator Jerry Ward, Vice Chair  
Senator Lyda Green  
Senator Gary Wilken  
Senator Alan Austerman  
Senator Loren Leman  
Senator Donny Olson

**Also Attending:** SENATOR JOHN TORGERSON; SENATOR ROBIN TAYLOR; SENATOR GENE THERRIAULT; GREGG MALONEY, Special Education, Division of Teaching and Learning Support, Department of Education and Early Development; BOB LABBE, Director, Division of Medical Assistance, Department of Health and Social Services; DAN EASTON, Director, Division of Facility Construction & Operation, Department of Environmental Conservation; BRAD PIERCE, Senior Economist, Office of Management & Budget, Office of the Governor

**Attending via Teleconference:** From Anchorage: GOVERNOR BILL SHEFFIELD; MARK MYERS, Director, Division of Oil and Gas, Department of Natural Resources; WILL ABBOTT, Commissioner, Regulatory Commission of Alaska, Department of Community and Economic Development; From Fairbanks: ANDY WARWICK, Chair of Board of Directors, Fairbanks Water & Sewer, Inc

**SUMMARY INFORMATION**

SB 345-SCHOOL SERVICES FOR DISABLED STUDENTS

The Committee heard from the sponsor, the Department of Education and Early Development, and the Department of Health and Social Services. The bill was moved from Committee.

SB 319-SHALLOW NATURAL GAS LEASING

The Committee heard from the sponsor, the Department of Natural Resources, and took public testimony. One amendment was considered and adopted, and the bill reported from Committee.

SB 280-WATER/SEWER/WASTE GRANTS TO UTILITIES

The Committee heard from the sponsor, the Department of Environmental Conservation, the Department of Community and Economic Development, and industry representatives. The bill was held in Committee.

SB 111-BONDS TO FUND PORTS AND HARBORS

The Committee heard from the sponsor, the Office of the Governor, and took public testimony. The bill was held in Committee.

#SB345

SENATE BILL NO. 345

"An Act relating to medical assistance for rehabilitative services for certain children with disabilities; relating to agreements to pay medical assistance for covered services paid for or furnished to eligible children with disabilities by a school district; and providing for an effective date."

This was the first hearing for this bill in the Senate Finance Committee.

Senator Green, the sponsor of the bill, informed the Committee this bill would allow school districts to act as vendors in supplying special services to Medicaid eligible students thereby qualifying for reimbursement from the federal Medicaid program for those services. She noted the passage of this bill would allow Alaska to join 42 other states already being reimbursed through this funding mechanism.

Senator Green noted these services for students with learning disabilities and other special needs are already provided and expensed in existing school district budgets. She estimated the

expected reimbursement monies could accrue several million dollars for the State's school districts and supplement their budgets. She stressed that school districts would be held accountable for establishing and maintaining a billing process for this Medicaid reimbursement program.

Senator Green noted the accompanying fiscal note is the result of the Department of Health and Social Services' need to employ a program administrator to oversee this program. She voiced concern that small districts might need assistance from larger districts to establish a billing system, but clarified this would be a "voluntary" rather than mandatory program involving federal receipts.

GREGG MALONEY, Director of Special Education, Division of Teaching and Learning Support, Department of Education and Early Development, informed the Committee that school districts are experiencing increasing operating costs, and the Medicaid funds generated from this program could "help offset" the increasing expenses without requiring "significant" state resources.

Co-Chair Kelly explained the proposed reimbursement process would entail the State providing funding for the special services that school districts provide, the federal Medicaid program would reimburse the school districts for those services, and the school districts would reimburse the State.

Mr. Maloney responded this bill does not mandate the process Co-Chair Kelly outlined; however, suggests it as an option. Mr. Maloney stated that each participating school district would work with the Department to develop a plan.

AT EASE 9:25 AM / 9:27 AM

BOB LABBE, Director, Division of Medical Assistance, Department of Health and Social Services, echoed Mr. Maloney's comments regarding the bill.

Senator Ward mentioned that Mr. Labbe had previously worked with this Medicaid reimbursement program in Oregon.

Senator Green offered a motion to "move SB 345 out of Committee with accompanying fiscal notes and individual recommendations."

There being no objections, SB 345 was REPORTED from Committee with a previous \$138,000 fiscal note dated 3/05/02 from the Health Purchasing Group, Division of Medical Assistance, Department of Health and Social Services, and a new \$787,000 fiscal note dated

3/05/02 from Medicaid Services, Division of Medical Assistance, Department of Health and Social Services.

#SB319

CS FOR SENATE BILL NO. 319(RES)

"An Act relating to shallow natural gas leasing; and providing for an effective date."

This was the first hearing for this bill in the Senate Finance Committee.

SENATOR JOHN TORGERSON, sponsor of the bill, explained that the original shallow gas leasing program was established to enable "exploration and production of shallow gas lease deposits in rural areas to supply energy" to rural area users. He informed the Committee the changes proposed in this bill would "evolve the program into a more robust and viable commercial program that should benefit all parties." He stated the key elements in the proposal include such things as the generation of increased revenue to the State by raising application fees for shallow gas leasing from \$500 to \$5,000 thereby keeping the fee more in line with the actual expense of processing the application; lowering the Department of Natural Resources administrative costs by instituting automatically renewable leases and removing "unworkable deadlines" for issuance of leases; providing better reservoir management; replacing the 3,000 foot depth requirement with language stating that some portion of the field must be within 3,000 feet of the surface; increasing field acreage to allow for a viable leasing program; removal of the requirement for prospective applicants to conduct a title search; improving protection for surface land owners; and implementing a conversion methodology to allow existing leases to be converted to the new program.

MARK MYERS, Director, Division of Oil and Gas, Department of Natural Resources testified via teleconference from Anchorage to voice the Department's support of the bill. He stated these warranted changes would convert the program into a commercial program that would provide benefits to the State and landowners.

JOHN TANIGAWA, Special Projects Manager, Evergreen Resources Corporation, testified via teleconference from Mat-Su in support of SB 319 as it removes obstacles to exploration activities. He stated the bill is economically sound, and an "excellent example" of the State working with industry to benefit government, industry, "but

particularly the public."

KEVIN TABLER, representative, Unocal, testified via teleconference from Anchorage to voice that Unocal supports the amendments to this bill. He asserted that the shallow gas-leasing program enhances access to and development of the State's resources.

CHARLOTTE MACCOY, representative, Teck Cominco Alaska, testified via teleconference from Anchorage to voice support for this bill. She stated the proposed amendments address concerns Teck Cominco has regarding bonding requirements. She alerted the Committee that private lands might have been inadvertently omitted from proposed language regarding the depth issue change located on page 4, in Sections 7 and 8.

Mr. Myers shared with the Committee that the Department recognizes Teck Cominco's concerns and stated an amendment could address both of Teck Cominco's concerns.

Co-Chair Kelly asked Mr. Myers to work with Senator Torgerson to develop amendment language.

The bill was SET ASIDE. [Note: This bill was brought back before the Committee later in the meeting.]

#SB280

CS FOR SENATE BILL NO. 280(RES)

"An Act permitting grants to certain regulated public utilities for water quality enhancement projects and water supply and wastewater systems."

This was the first hearing for this bill in the Senate Finance Committee.

SENATOR GENE THERRIault, sponsor of the bill, reported that "under current law, privately owned public water and wastewater utilities are not eligible to participate" in certain State grant funding opportunities. He commented this ineligibility places the privately owned utilities' ratepayers at a disadvantage when compared to ratepayers of municipally owned utilities. He explained this legislation provides "for inclusion of privately-owned water and waste water utilities in the State water and wastewater grant program, if the Regulatory Commission of Alaska (RCA) regulates the rates." He noted that the Senate Resources Committee version of

this bill "removes criteria inserted by the Senate Labor & Commerce Committee" stipulating that the utility must serve as the primary utility for the municipality. He explained the Resources version of the bill thereby expands the "pool" of utilities the bill would apply to.

Senator Therriault noted "that regulation by the RCA ensures that all the economic benefits of these grants" would provide funding for utilities' upgrades and expansions without forcing ratepayers to burden the expense. He furthered that this bill would also allow utilities "to expand in areas that are on the peripheral of the existing system, thereby providing water and wastewater services to families" who are currently outside of the service area.

Senator Therriault noted the Resources Committee substitute makes grants available for public water and wastewater utilities; however, restricts grants for solid waste improvements to municipality owned utilities.

Senator Therriault summarized the intent of this bill is to make grant funds available to provide Alaska's residents with safe water and sewer regardless of whether the water and wastewater utility is owned by a municipality or a private group.

Senator Therriault reiterated that the Labor & Commerce Committee version of this bill is more narrowly drafted than the Resources Committee version; therefore, a zero fiscal note from the Department of Environmental Conservation accompanies the Labor & Commerce Committee's version, while a \$93,000 fiscal note from the Department accompanies the broader Resources Committee version.

Co-Chair Kelly inquired if Senator Therriault agrees with the analysis supporting the \$93,000 fiscal note.

Senator Therriault responded the Resources Committee version allows for a larger pool of utilities to qualify for the grants; and not all of them have sophisticated accounting systems or are sizable entities with a sufficient number of employees to manage the grant application process. He continued that the Resources version would allow small utilities such as trailer park operators, who might not have much grant processing expertise, to apply for the grants. He commented this might result in the State needing to provide staff to assist recipients during the grant process; therefore, he noted, some of the fiscal note is legitimate.

Senator Therriault communicated to the Committee that the language of the bill is drafted to apply to utilities statewide, and would allow municipally owned water and waste water utilities that are

grappling with privatizing their utilities to make that decision without being burdened with complying with the current grant funding restrictions.

Senator Olson asked why the initial grant program excludes private water and wastewater utilities.

Senator Therriault responded that initially, municipalities managed most of the systems and current scenarios were not anticipated.

ANDY WARWICK, Chair, Board of Directors, Fairbanks Water & Sewer, Inc., testified via teleconference from Fairbanks, and voiced that Fairbanks Water & Sewer's customers would be "favorably" impacted by the passage of this bill.

Senator Therriault commented that the Regulatory Commission of Alaska (RCA) would not permit any grant monies used to expand a facility to be calculated as part of the rates paid by the utility's users. He clarified that ratepayers could not be charged as if the utility had acquired a loan or invests private capital; therefore, "because of the RCA rate regulation, the benefit of the grant does flow through to the individual ratepayer."

Senator Green asked if a utility's ratepayers would absorb the costs of improvements if a grant were not in place.

Senator Therriault noted that costs incurred for improvements, upgrades, expansions and the like would be passed on to the ratepayers if a private or commercial loan were in place.

Senator Green asked if RCA has different criteria considerations for grant requests from a municipally owned utility grant application compared to a privately owned for profit utility.

WILL ABBOTT, Commissioner, Regulatory Commission of Alaska, Department of Community and Economic Development, testified via teleconference from Anchorage and responded there are no differences in the process.

Senator Green inquired how many utilities would be affected by this legislation.

Senator Therriault answered that 36 utilities are eligible under current regulations, with projections of another 50 utilities qualifying under the Resources Committee version and a relatively small number of additional utilities qualifying under the Labor & Commerce Committee version.

Senator Green asked for characteristics and locations of the additional utilities.

Senator Therriault responded that the additional 50 utilities would include small ones such as trailer parks and some subdivisions.

Senator Green requested a list of the utilities be supplied to the Committee. She asked if an option for low-interest loans was considered, as she is concerned the expansion of the program might compete with other statewide requests for grant funding.

Senator Therriault noted that other legislation does allow utilities to be eligible for the State's low-interest loan program; however, he agreed that the Resources "version of the bill brings in a lot of new competitors for the available grant dollars."

Senator Ward asked for clarification that the fiscal note would provide Department support to the fifty new utilities that might apply for the grants.

Senator Therriault responded in the affirmative, as a number of the utilities have never participated in the grant program and would need assistance in the application process.

Senator Ward asked why assisting these utilities in completing their grant applications would result in the need for additional staff.

Senator Therriault responded that in any application process, the Department provides assistance to the applicants. He commented that municipalities that have previously applied for the grants are familiar with the process.

Senator Ward questioned why it is the responsibility of the Department to assist in helping people apply for these grants.

Senator Green noted that grant writing is the issue.

Senator Lemman questioned if the owner's equity increases as a result of the grant supported improvements, and who is compensated for the improvements if the utility is sold to another party.

Senator Therriault responded that if improvements were made, the value of the asset would increase; however, RCA regulations guarantee that ratepayers could not be charged for the improvements through paying higher rates.

Senator Therriault commented that the asset base of the utility

does increase regardless of whether it is publicly or privately owned. He reiterated that the underlying goal is to provide safe water and sewer systems to Alaskans.

Senator Leman asked if the RCA grant regulations would protect ratepayers from paying higher rates to a new owner who purchased the grant-improved utility.

Mr. Abbott clarified that the increased assets are called "contributed capital," and "recorded in the books," they remain there. He continued that if the facility transfers from a municipally owned to a privately owned business, the contributed capital remains on the books, and the new owner could not claim a rate of return from it.

Co-Chair Kelly surmised that the contributed capital would be reflected in the sale price.

Mr. Abbot responded that would be correct.

Senator Austerman asked for further clarification of the value process when a private utility sells its grant improved utility to another private enterprise.

Senator Therriault stated the assets transfer from one owner to another; however, any improvements resulting from grants as "contributed capital" remain "on the books." He furthered that the new owner would not be paying for something that could not be recouped.

Co-Chair Kelly noted the improvements could be reflected in the sale price of the utility, but could not be reflected in the rates.

Senator Austerman commented that state grants would enable an owner to "build a bigger and better machine," which would garner the current owner more profit when the utility is sold regardless of the rate structure.

Co-Chair Kelly concurred, but stressed the new owner would be aware "that a certain portion of that asset you can't recoup costs on through the rate structure."

Senator Austerman responded that if a utility is improved and enlarged, it could serve more customers and reap more revenue and other benefits.

Senator Ward voiced the understanding that these grant dollars could not be used for expansion, but only for refurbishing.

Senator Therriault corrected that the grants could be used for expansion or for refurbishment of a utility.

Senator Ward noted that using grant money for maintenance on a utility would "free up" the owner's money for other expansion needs and, in this situation, the expansion would not be classified as contributed capital.

Mr. Abbott concurred.

Senator Ward furthered that if a utility received a five million dollar grant and used those funds for maintenance expenses, and subsequently invested five million dollars of private funds to expand their facility, the expansion would be treated as an asset.

Again, Mr. Abbott concurred.

Senator Therriault stated his understanding that the dollar amount of the grant would be considered as contributed capital, no matter what it is used for, and; therefore, could not be considered in the rate base.

Mr. Abbott concurred.

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Senator Ward reiterated that if a private utility receives grant money for maintenance needs; this would essentially free up the owner's money for capital improvements. He asserted that by using grant money in this fashion, the owner's capital improvements would increase the value of the utility because those improvements would not be classified as grant capital improvements.

Mr. Abbott stated that regardless of how a grant is utilized by a utility the funds are considered contributed capital from which an owner could not profit. He furthered that the cost of expansions and improvements made to the utility using private funds could be recouped with rate increases.

Senator Ward questioned if the RCA, in its grant request process, reviews an entire utility's operation.

Mr. Abbott responded that all components are considered by RCA during the grant request process.

Senator Green questioned the previous sale of the Fairbanks North Star Borough water and wastewater utility to a private entity considering that the municipally owned utility would have qualified for State grants.

Senator Therriault responded that the sale of the Fairbanks utility to a private entity disqualified the utility from applying for the grants. He opined the Fairbanks North Star Borough's decision to sell its utility "was a smart decision" because the privately owned group managing the utility has upgraded the utility and made it a much more efficient operation. He predicted that numerous local governments would be grappling with the decision as to whether to sell their water and wastewater utilities in the upcoming years. He questioned if, in the pursuit of achieving higher levels of efficiency, the current eligibility for grants criteria might be a deterrent.

Senator Green asserted the for-profit nature of private ownership would "set it apart" from publicly owned facility where the revenue generated supports the facility or is deposited into a municipality's budget.

Senator Therriault contended that much of the profit in the Fairbanks's utility is reinvested in the facility; whereas before the municipality "siphoned off money, quite a bit of the money." He asserted that the facility "suffered" because of that, and under the current private ownership, the facility is becoming more modernized and efficient.

Senator Austerman applauded the privatization of the utility; however, voiced concern over a policy change on how state grants would apply to the private sector resulting in the "potential for profitability" from receiving those grants. He cautioned that the Senate Resource Committee version of the bill "opens the door quite a bit" and may result in "opening Pandora's box."

Co-Chair Kelly inquired if Senator Austerman prefers the Senate Labor & Commerce Committee version of the bill.

Senator Austerman stated that the versions are similar "philosophically."

Senator Therriault understood the concern with expanding the grant applicants beyond the eligible original pool and agreed that the Senate Resources Committee substitute does expand the program significantly, resulting in a sizable fiscal note. He noted the Senate Labor & Commerce committee substitute only extends eligibility to utilities that are the primary water and wastewater

utility servicing a community.

Senator Ward inquired as to the number of privately owned utilities that would be eligible under provisions in the Senate Labor & Commerce committee substitute.

DAN EASTON, Director, Division of Facility Construction & Operation, Department of Environmental Conservation responded that of the 36 municipality utilities the Senate Labor & Commerce committee substitute would apply to, only the utility operating in Fairbanks is privately-owned. He noted that the Kake Tribal Corporation currently owns the City of Pelican's water system; however, ownership is being transferred to the City of Pelican.

Senator Ward inquired if there is a list available of the communities that would be eligible under the Senate Resources committee substitute of the bill.

Mr. Easton responded that of the approximately 50 utilities that could be eligible under the Senate Resources committee substitute of the bill, RCA maintains a list of the 20 currently regulated by RCA.

Senator Ward asked why the State is obligated to supply personnel to help utilities apply for these State grants as indicated by the fiscal note from the Department of Community and Economic Development.

Co-Chair Kelly stated there are regulations in the Department of Community and Economic Development program that obligates the State to provide assistance to small communities.

Mr. Easton elaborated that in addition to the State assisting small communities with their grant applications, the majority of the Department's efforts are in the actual administering of the grant. He explained that the Department does not disperse grant funds in a lump sum, but rather reimburses the grantee as a project progresses. He continued that ten percent of the grant funds are withheld until a project is finished, and the State completes a final audit on the project.

Senator Ward asked the witnesses if the majority of the funding in fiscal note accompanying the Senate Resources committee substitute is for administration of the grants.

Mr. Easton affirmed that is correct.

AT EASE 10:20 AM / 10:24 AM

Co-Chair Kelly requested Senator Therriault to further analyze the differences between the two-committee substitutes. Co-Chair Kelly noted the bill would be held in Committee at this hearing.

Senator Wilken disclosed he is a minority shareholder in the Fairbanks Sewer & Water utility company.

Senator Wilken commented that the sale of the Fairbanks North Star Borough's water and wastewater utility to a private company is reflective of a new trend in the industry. He continued that as this trend continues, other changes in regulations might occur.

Senator Wilken contended that the passage of this bill would benefit the ratepayers, not the shareholders of a utility.

Mr. Abbott reiterated there is no rate of return or profit on improvements funded by contributed capital.

Senator Wilken characterized contributed capital "as a transparent asset," for it could not be reflected in the sale price nor could the prospective buyer profit from it.

Mr. Abbott agreed with Senator Wilken's comments.

Senator Ward asked if the private business group that purchased the Fairbanks' utility knew it was ineligible for the State grants.

Senator Wilken responded that being ineligible for these State grants was a concern of the new owners of the Fairbanks' utility; however they felt they could operate the utility more efficiently with or without those funds.

Senator Green asked if the additional grant applicants allowed through the Senate Resources committee substitute would be considered at the same level as the original pool of applicants.

Mr. Easton responded that all applicants would be added to the grant pool; however, the new applicants would be at a "slight disadvantage" as the current grant system prioritizes by assigning points to projects that are already underway or in stages of development.

Senator Green asked about incentives to utility systems to expand into new service areas.

Mr. Easton responded that at some point it would be important to clarify "whether these grants would be available to developers to

be used as part of constructing a new development."

Senator Green voiced that any expansion in the number of eligible participants would affect the grant "pool."

Senator Austerman asked if the RCA is involved in the sale of a utility and its sale price, or if involvement is limited to the rate structure.

Mr. Abbott responded that the RCA is involved in a sale to the extent of determining if the sale price is "reasonable" and within the ability of the utility to recover the purchase price from rates levied and continue to be viable. He contended the RCA does not intend to get too involved in ownership transfers as "it is a sale between two consenting parties, and as long as the purchasing party understands what they could base their rate structure on," the RCA is satisfied.

Co-Chair Kelly asserted this bill would be held in Committee to afford the sponsor additional time to address concerns.

Co-Chair Donley voiced support for the State to investigate avenues to enable this program to be self-sustaining; perhaps using program receipts to recoup costs associated with the program.

The bill was HELD in Committee.

#SB319

CS FOR SENATE BILL NO. 319(RES)

"An Act relating to shallow natural gas leasing; and providing for an effective date."

[This bill was heard earlier in the meeting]

AT EASE 10:33 AM / 10:34 AM

Amendment #1: This amendment deletes "field subject to lease under AS 38.05.177" and inserts "field, if a part of the field is within 3,000 feet of the surface" on page 4, lines 26-27 and page 5, line 26.

Senator Wilken offered a motion to adopt Amendment #1.

Co-Chair Kelly objected for discussion.

Senator Torgerson explained that Amendment #1 addresses an oversight in the bill that limits producing gas to "lands leased from the state." He stated that the adoption of this amendment would make the language consistent throughout the bill.

Co-Chair Kelly withdrew the objection.

There being no objection, Amendment #1 was ADOPTED.

Senator Leman moved "to report the committee substitute for Senate Bill 319 Finance from Committee with individual recommendations and accompanying fiscal note."

There being no objection, CS SB 319 (FIN) was REPORTED from Committee with a new zero fiscal note, dated 3/22/02 from the Department of Natural Resources.

AT EASE 10:36 AM / 10:44 AM

#SB111

CS FOR SENATE BILL NO. 111(TRA)

"An Act relating to the issuance of certificates of participation to finance deferred maintenance and construction projects for certain public harbor facilities; giving notice of and approving the entry into, and the issuance of certificates of participation in, lease- financing agreements for those public harbor facility projects; repealing a provision relating to the financing of construction and renovation of facilities for certain ports and harbors; and providing for an effective date."

This was the first hearing for this bill in the Senate Finance Committee.

SENATOR ROBIN TAYLOR, sponsor of the bill, explained this is "primarily a bond package bill" to fund construction and facility upgrade projects in municipal ports and harbors the Department of Transportation and Public Facilities has identified. He stated the facilities' needs, according to engineering surveys and Department estimates, amount to \$44,521,500.

Senator Taylor stressed that the goal of upgrading the harbors in such places as Sitka, Petersburg, Valdez and other ports throughout

the State, is to enable the State "to turn over all future maintenance responsibilities and ownership of these harbors to the individual communities." He asserted that the investment of the State's capital now would reduce future maintenance requests.

Co-Chair Kelly asked Senator Taylor to explain the Certificates of Participation process.

Senator Taylor explained that by issuing a Certificate of Participation (COP), the State of Alaska guarantees the funding; however, the security is found within the project itself and the project, in essence, is owned by the certificate holder during the time the project is being paid off.

Senator Taylor clarified this is the current funding mechanism, however, announced he would prefer the use of general obligation (GO) bonds with the decision made by Alaska's voters as to whether these are the projects to fund. He stated the bill is crafted using the COP funding because this is the process considered the prior fiscal year.

Senator Green noted the backup material indicates the City of Nome is in need of additional funding for capital improvements to its dock; however, she understood that the City of Nome owns the dock.

Senator Taylor corrected that the State owns the dock in Nome.

Senator Green referred the Committee to page 1, Section 1, line 10 of the bill that indicates both Nome and Adak own their docks.

Senator Taylor voiced that the Nome harbor and dock project was fully funded and deleted from the most recent project list identified by the Department.

Co-Chair Kelly informed the Committee that the list [copy on file] is in need of being updated.

Senator Taylor noted there was a unique problem in the Adak harbor because that harbor was conveyed to the Adak Native Corporation by the federal government, however, a funding mechanism was found to rebuild their small boat harbor.

LOREN GERHARD, Chair, Juneau Docks and Harbors Board, and Executive Director, Southeast Conference, testified in support of this bill as many Southeast Conference community members' harbors are in need of repair. He voiced appreciation for the Legislature's role in completing harbor improvements in such places as Ketchikan, Sitka and Craig. He informed the Committee that many communities "are

hard-pressed" to find funds to allocate to harbor deferred maintenance. He stressed that harbors are an integral component of a communities' economy as they generate significant commerce from such things as commercial fishing, sport fishing, and tourism. He noted that once the improvements allowed under this bill are completed, the transfer of the dock systems to the communities "would remove the responsibility to the State and would allow communities to establish priorities" for docks and harbors. On behalf of the Southeast Conference members, he urged the Committee to approve this bill.

Senator Austerman noted this bill reflects an approximate \$7 million allocation for Juneau and requested clarification that the responsibility for all of Juneau's harbors would be transferred from the State of Alaska to the City and Borough of Juneau.

Mr. Gerhard responded that is correct.

Senator Austerman asked if the list of City and Borough of Juneau harbors included in the bill encompasses all of the city's harbors.

Mr. Gerhard replied that the list is complete.

BUDD SIMPSON, citizen of Juneau, member, Juneau Docks and Harbors Board, and Chair, Juneau Docks and Harbors Board Capital Improvement Projects Committee, noted that Juneau's harbors, all of which are owned by the State, have not received any State funding since 1989 and are "in dire need" of deferred maintenance. He commented that the City has funded some harbor maintenance projects through local users' fees.

BRAD PIERCE, Senior Economist, Office of Management & Budget, Office of the Governor, stated this bill is drafted as a COP that "is essentially a revenue bond" using marine motor fuel tax receipts of approximately \$6.1 million. He explained that the fiscal note for all the projects is expected to total \$45 million.

Mr. Pierce shared that the Administration views this as a "user pay" scenario, which they advocate to be the funding source instead of a GO bond. He characterized the harbors and docks as valuable assets that pay for themselves through such things as moorage fees. He furthered that the user-pay principle established in this situation could set "an important precedent to identify this fund source and use it to pay for these bonds, where we wouldn't have to use our GO capacity for this." He voiced the possibility that these user fees could also be used in the future to fund other projects. He summarized that the Administration "is very much in favor of the revenue bond approach," specified in the drafting of this bill.

Mr. Pierce conveyed that the Governor supports using GO bonds for such things as school construction.

Senator Green asked how the Marine Fuel Tax revenue is currently used.

Mr. Pierce responded, "there are two segregated accounts within the general fund:" one consists of revenue generated from a Highway Motor Fuel Tax and the other from the Marine Motor Fuel Tax. He commented that both accounts are specifically identified in statute.

Senator Green asked if there is a provision that would prohibit these taxes from being specified as a funding source for these projects.

Mr. Pierce stated these taxes could be used for this purpose.

Senator Green asked if the Marine Fuel Tax is in effect Statewide.

Mr. Pierce responded users in coastal communities and other areas of the state where boats are used pay the tax.

Senator Green voiced that some users do not have ports or harbors in their area.

Mr. Pierce concurred.

GOVERNOR BILL SHEFFIELD, Representative, Port of Anchorage, testified offnet from Anchorage to notify the Committee that the Port of Anchorage is undergoing a six million dollar FY 02 State Capital Budget appropriation upgrade project in conjunction with a \$160 million expansion and rehabilitation project. He related to the Committee that the Port of Anchorage is a regional port that serves 80 percent of the State of Alaska and 90 percent of the people of the State. He conveyed that the Port's business increases two percent a year and in twenty years the business volume would be double its current level. He stressed that the demands of this growth applies pressure for continuing expansion and improvements. He conveyed the need for continuing financial support from the State for infrastructure improvements to maintain efficiency and to ensure reasonable freight rates.

Governor Sheffield shared that upon completion of the current projects, the Port of Anchorage would be 51 percent federally financed with the remainder of funding contributed by the State, the Municipality of Anchorage, and other minor funding mechanisms.

He urged the inclusion of the Port of Anchorage in this bond bill and explained how this bill's proposed funding allotment would coordinate with other funding sources in financing future Port projects.

PAUL ANDERSON, Mayor Pro Tem, City of Petersburg, testified via teleconference from Petersburg, in support of the updated monetary numbers reflected in the bill as Petersburg's harbors are old and in need of upgrades.

SFC 02 # 43, Side A 11:06 AM

GREG MEISSNER, Member, Wrangell Harbor Board, testified via teleconference from Wrangell to voice support for this bill.

JAMES STOUGH, Member, Wrangell City Council, testified via teleconference from Wrangell, to voice support for this bill.

DAN HICKMAN, Member, Petersburg Harbor Board, testified via teleconference from Petersburg in support of the bill. He asked the Committee to move this bill forward, and indicated that the City of Petersburg is looking forward to assuming ownership of the harbors.

Co-Chair Donley commented that the Administration does not appear to realize the importance of the Port of Anchorage to the Railbelt and Bush Alaska. He stated that the efficiency of the Port directly impacts the rates that a vast majority of consumers pay for groceries and other goods that enter the State through the Port. He stated that the Legislature should recognize that the Port of Anchorage and the Anchorage and Fairbanks airports are systems that affect a lot of people and areas.

The bill was ordered HELD in Committee.

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#### **ADJOURNMENT**

Co-Chair Pete Kelly adjourned the meeting at 11:09 AM.