

ALASKA STATE LEGISLATURE
SENATE TRANSPORTATION COMMITTEE

January 23, 2001
1:35 p. m.

MEMBERS PRESENT

Senator John Cowdery, Chair
Senator Jerry Ward, Vice Chair
Senator Robin Taylor
Senator Gary Wilken
Senator Kim Elton

MEMBERS ABSENT

All Members Present

COMMITTEE CALENDAR

SENATE BILL NO. 36
"An Act relating to international airports revenue bonds; and
providing for an effective date."
HEARD AND HELD

PREVIOUS COMMITTEE ACTION

SB 36 - No previous action recorded.

WITNESS REGISTER

Kurt Parkan, Deputy Commissioner
Department of Transportation &
Public Facilities (DOTPF)
3132 Channel Dr.
Juneau, AK 99801-7898
POSITION STATEMENT: Supports SB 36

Cliff Augue, Vice-President Alaska Airlines Properties & Facilities
Alaska Airlines
P.O. Box 68900
Seattle, WA 98168
POSITION STATEMENT: Supports SB 36

Bill O'Leary
Comptroller Alaska International Airport System
P.O. Box 196860
Anchorage, AK 99519
POSITION STATEMENT: Supports the bill
SENATE TRA COMMITTEE

Mort Plumb
Director, Anchorage Airport
P.O. Box 196860
Anchorage, AK 99519
POSITION STATEMENT: Supports SB 36

Dave Eberle
PE Regional Director
Department of Transportation & Public Facilities
P.O. Box 19600
Anchorage, AK 99519-6900
POSITION STATEMENT: Supports SB 36

ACTION NARRATIVE

TAPE 01-2, SIDE A
Number 001

CHAIRMAN JOHN COWDERY called the Senate Transportation Committee meeting to order at 1:35 p.m. Senators Elton, Ward, Wilken, and Chairman Cowdery were present. The first order of business was SB 36.

#SB36

SB 36-INTERNATIONAL AIRPORTS REVENUE BONDS

CHAIRMAN COWDERY invited Kurt Parkan, Deputy Commissioner DOTPF, forward to testify and answer questions.

KURT PARKAN introduced Bill O'Leary and Mort Plumb. He explained that SB 36 is a bill that increases the authorization for the International Airport Revenue Bonds to support capital improvement projects (CIP). DOTPF is negotiating a 5-year CIP business plan with the airlines operating out of the Anchorage and Fairbanks airports. Currently CIPs are funded on a cash basis rather than bonded and projects are planned every year rather than over a five year period. The bonds would be paid back over a period of approximately twenty-five years.

Most airports sell bonds for large projects. The current Alaska system of funding capital projects annually and on a cash basis is somewhat unique. Funding large projects on a cash basis causes wide fluctuations in the rate base for the airlines on a year-to-year basis. Developing a 5-year CIP plan and funding the projects through the sale of bonds would allow the airlines more continuity in their expense projections.

MR. PARKAN said that Mort Plumb was present to discuss the
SENATE TRA COMMITTEE

specifics on the projects and Devin Mitchell was there to talk about the bonding. He said SB 36 is a fairly simple bill, the airports, the airlines and the state worked cooperatively and mutually agreed on the approach they are taking.

SENATOR ELTON said that he understood that the bonds would be paid off through passenger landing fees and concessionaires but he was unsure how funding with bonds would affect the concessionaires.

MR. PARKAN said that concessions - parking and various other fees are a separate source of revenue. Although there is a relationship, the landing fees provide the bulk of the monies for repayment of the bond. [PORTION OF TAPE INDISCERNIBLE.]

SENATOR ELTON wanted to know what percent of the bond indebtedness would be paid with landing fees and what part with other revenues, such as tie downs.

MR. PARKAN said that Bill O'Leary could help with specifics but basically the CIPs directly affect landing fees and indirectly affect concessionaires and others paying fees to the airport. After all sources of revenue are determined for the year and the net need is set, the landing fees are adjusted up or down accordingly.

SENATOR ELTON asked what he should tell a (hypothetical) concessionaire approaching his office and asking whether or not this would put upward price pressure on his rental fees.

MR. PARKAN said that everyone shares in payment of the costs of operating the airport. Concessionaires are a cost center that is looked at frequently but he couldn't say whether or not this would affect specific concessionaire fees.

SENATOR COWDERY followed up by asking what the impact to concessionaires would be if the projects were not funded with a bond package but on a cash basis instead.

MR. PARKAN said that the impact to concessionaires would be similar either way. The biggest impact variation would be to the airlines because they make up the difference in the annual cost of operation of the airport. Cash funding translates to large increases in landing fees when large projects are undertaken. With bond funding those costs are spread out over time.

Number 759

SENATOR WARD wanted to know whether any of the additional bonding authorization would go toward paying for the extension of the

railroad to the airport for parking.

MR. PARKAN said it would not. The railroad is funding that entire project through its own sources of revenue. DOTPF has nothing included in this 5-year CIP for that project.

SENATOR WARD wanted reassurance that there were no state dollars for the extension of the railroad.

MR. PARKAN said the extent to which they are spending money on that project is mostly in review of the building permit, establishing a lease with the railroad and costs incurred by anybody that wants to do business at the airport.

SENATOR COWDERY asked if there would be employee parking if the railroad is extended or if it is anticipated that employees would park elsewhere.

MR. PARKAN was not prepared to talk about the railroad project but said that employees would need a fair size, designated employee parking area.

SENATOR WILKEN wanted clarification on the 2-3 provisions in the 5-year plan. To his understanding, a 5 year plan is decided upon, bond authorization is received for 2 years, and then something happens so that DOTPF comes back for authorization for 3 more years of bonding. He wanted to know when DOTPF comes back for the 3 year authorization and whether approval starts another roll of projects.

Number 939

MR. PARKAN said DOTPF would be coming back in 2 years for the next 3-year proposals. This would provide a series of revenue bonds and is an approach that was negotiated with the airlines. It's an approach most airlines use. DOTPF would be returning for future CIPs for bond financing forms so it would be a continual series of revenue bonds to fund projects and would be paid off over time.

SENATOR WILKEN asked if this was a 2-year request with a 3-year window before looking at another 2 years.

MR. PARKAN said no, the operating agreement would end and they would negotiate with the airlines well in advance of that so that there would be no gap.

SENATOR WILKEN asked why they didn't use a 6-year plan and fund every 2 years.

MR. PARKAN said this is the plan that had been worked out over the period of about a year with much discussion.

SENATOR WILKEN asked what the effect would be on landing fees if the facility was all built.

Number 1079

MR. PARKAN asked Bill O'Leary to answer.

BILL O'LEARY, financial comptroller for the Alaska International Airport System, said the projected landing fees for the next 5 years are in the \$.60 to \$.90 range. Currently the landing fee is \$.89 per 1000 pounds certified maximum gross take-off weight, which is the measure used to calculate landing fees.

SENATOR WILKEN wondered where he had gotten the \$1.40 rate.

MR. O'LEARY said it is currently \$.89. It had been lower than that in previous years but, to his knowledge, it had never been above that rate.

SENATOR WILKEN asked if the effect of that 5-year bond would be to drive those fees down.

MR. O'LEARY's response was inaudible.

SENATOR WILKEN said that the bill's impact on landing fees would be revenue neutral.

MR. O'LEARY said that, based on their projections, they will max out at close to what the landing fees are at this time.

SENATOR TAYLOR asked for comment on an Anchorage newspaper article that said it appeared that the \$204 million that was authorized and unspent has been earning interest. That interest is being used, in part, for the cost overruns as DOTPF and Anchorage argue about how earthquake-proof the structure is.

He noted that if the legislature gave the additional authorization and DOTPF sold the additional bonds, there would be leveraging at a higher rate in working the capital and there would be an additional income stream to use until that money is used for construction. DOTPF is making money off the bonds already issued, yet the cost of those bonds is factored into the revenue stream. He then said that landing fees would have to go down if they never built anything because they would be making more on the investment return on the bonds than the rate payment of the bonds.

SENATOR TAYLOR wondered why they were even talking about this because he thought authorization to build something had been given almost 3 years ago and not much had happened. Some building

materials sitting in paid storage were to be used in a building for which there was not even a building permit issued.

MR. PARKAN said that Senator Taylor was referring to the terminal project that they had gotten bond authorization for and for which they are now collecting and using interest monies. The proposal before the legislature currently is related to the ongoing annual CIP program, whether it be a ramp, taxiway, environmental work, or maintenance facility work. It is for normal projects and is largely unrelated to the terminal project.

Number 1377

SENATOR WARD thought it might be beneficial to discuss the related projects all at once.

SENATOR TAYLOR said that he understands that DOTPF is always going to need a certain amount of bonding authority to take care of ongoing capital needs at the airport. From Senator Wilken's question, he understands that bonds are paid off and then the department asks to issue new bonds. He asked if it is necessary to return to the legislature every time additional bond authority is needed.

MR. PARKAN said DOTPF needs legislative authorization every time additional bonding is needed. DOTPF is looking to stabilize costs to the system and therefore to the public, who ultimately pays for airline tickets. Without bonding there would be large spikes in landing fees that would have a more immediate negative impact on the flying public. Bonding allows the cost fluctuations to be spread out over time.

SENATOR TAYLOR said he understood that, but since the bonding authority given for the terminal was apparently being separated from the ongoing bonding needs, is this what was meant by the 2 year and 5 year plan so DOTPF could see what would be done over time.

MR. PARKAN said that is essentially correct. DOTPF has authority over the terminal project and will need additional authority to cover the specifically identified projects for the new package. The specific projects on the list have been negotiated with the airlines in advance.

SENATOR TAYLOR said this is different than a normal DOTPF capital budget where you're working off a Statewide Transportation Improvement Program (STIP) list. When DOTPF sells bonds, it has to do those projects outlined by the bonding authority.

MR. PARKAN said DOTPF is compelled to use the monies for the projects specifically listed in the bonding authority. There can be no deviation.

SENATOR COWDERY wanted the two original bond packages explained.

MR. PARKAN said the previous revenue bond authority bills were for \$179 million and (he believes) \$25 million for the Anchorage terminal project. Those bonds have been sold and some federal funds have been received through a letter of intent that contributes to the project.

Number 1595

SENATOR COWDERY asked whether or not the \$25 million bond had any impact on the landing fees or whether the bond would be paid with federal funds in the future.

MR. PARKAN said there was an offset to the extent that DOTPF can use the federal funds. He didn't think the bonds themselves are directly paid from the federal fund. The debt is paid from the international airport revenue fund; the federal funds received are an offset to the total cost.

SENATOR WARD asked whether the terminal would be paid for with any new bond funds.

MR. PARKAN referred the question to Mr. Plumb.

MR. MORT PLUMB, director of the Ted Stevens Anchorage International Airport, said some items overlapped, such as asbestos abatement and relocation costs of regional airlines.

SENATOR COWDERY asked that DOTPF get the specific information to Senator Ward and they agreed to do so.

Number 1780

SENATOR TAYLOR asked if the cost overruns were included in the additional authority requested on the second bond package so that funds from both authorities could be used to build the terminal.

MR. PLUMB said he wouldn't characterize it that way exactly. Some areas have changed from the original to the final design so there are probably areas that overlap.

SENATOR TAYLOR said that means yes, meaning there isn't enough money in the original bond package to build the terminal.

MR. PARKAN said that the items listed are additional items. An example given was the relocation of regional airlines. Although it was in the original proposal, the actual relocation was much more extensive and expensive so additional funding is needed to cover those costs.

SENATOR TAYLOR again referred to the Anchorage newspaper article that said that there were significant increased costs to the terminal itself. He wondered whether the article was completely off base or not. He wanted to know where the authority or money came from to pay the cost overruns if indeed there were significant increased costs.

MR. PARKAN replied that DOTPF does not know what the full impact will be for the delay in obtaining a building permit for the terminal project. The department has an insurance policy, which it will use to recover some of the costs of the delay. At this point, the only thing that is impacted by the delay is the foundation work. The foundation contract will be followed by the construction of the C Concourse. As a result of the separate contracts, the cost impact of the delay is less.

Number 1953

SENATOR TAYLOR wondered about accountability within DOTPF since the department decided on the design and then accelerated the schedule. When the city pointed out problems and didn't issue the permit, cost overruns occurred. Senator Taylor thought that the department should bear part of the responsibility for those cost overruns and serious delays.

MR. PARKAN said that in a project of this size, the problems experienced so far are not unusual. He didn't want to speak specifically about which person or persons are responsible for the design problems. The department is pleased that the Municipality of Anchorage found the design problems and that they are being addressed.

SENATOR TAYLOR said that when DOTPF files an insurance claim for between 5 and 10 million dollars for the delays, the insurance company would probably turn around and try to recover some of its costs from the design engineer. He felt that there must be someone at fault for the insurance company to pay out such a large sum of money.

MR. PARKAN said that attorneys would determine the answers to those questions.

SENATOR TAYLOR wanted assurance that there would be some level of

accountability for the \$10 million payout and that the legislators would be informed of the particulars.

MR. PARKAN said that insurance is purchased for situations such as this. Premiums are paid and the insurance is secured.

SENATOR COWDERY asked whether a contingency was originally calculated in for cost overruns.

MR. DAVE EBERLE, program manager for the terminal project, answered via teleconference saying that the original project had about a \$19 million contingency for the \$230 million project.

SENATOR COWDERY asked if all contingency funds had been used.

MR. EBERLE said there are remaining funds but that the budget is in need of updating so he doesn't have an exact figure.

SENATOR WARD asked for the original completion date for the terminal.

MR. EBERLE said that the original completion date for the new C concourse was 2002 and now it is projected to be late April or early May 2003.

SENATOR WARD then wanted to know the name of the original project manager.

MR. EBERLE said that Rides Alaska was involved in some of the original concept development and is now providing some project management reports, cost schedulers and secretarial services. They are not the lead program manager at this time.

MR. PARKAN added that the performance measure of overall success and the ability to complete the project by September 2004 is on track.

SENATOR WARD then asked about the current status on permitting from the city.

MR. EBERLE explained that the permit is being issued incrementally as DOTPF provides design information that is reviewed by the city. A permit for the bulk of the remaining foundation is expected on February 6, 2001 and all foundation permits would be in hand by the end of March. There will also be a similar permitting process for the structure and steel itself. The first approval is anticipated on February 19, 2001, with final approval by the end of March 2001. This is the rough schedule for the first phase contract. It is anticipated that the permit for the second phase will be in hand by

the end of April and before the bids are opened.

SENATOR WARD wanted to know which city permits, if any, were in hand.

MR. EBERLE said they have permits covering about one-half the foundation work that has been done.

SENATOR COWDERY asked Cliff Argue, Alaska Airlines representative for both Anchorage and Fairbanks, to come forward to answer questions.

SENATOR ELTON asked Mr. Parkan to clarify the accountability issue. It's his understanding that the first level of accountability in the new bonding authorization is that the carriers have approved the list of projects for the Anchorage and Fairbanks airports. He asked Mr. Parkan to talk about that process and approval.

MR. PARKAN said that the project list was developed with the airlines at the Anchorage and Fairbanks airports. Although the agreement hasn't been finalized, they are comfortable enough with the negotiating teams to present the full package now.

SENATOR ELTON asked what would happen if the industry said that it wasn't comfortable with the list as presented and whether amounts or projects would change.

MR. PARKAN said an agreement is an agreement and they will agree on all components including the CIP. To the extent that there is disagreement, changes would be made.

Number 2380

SENATOR ELTON said that hearing that industry is comfortable with the list would be about the best accountability possible.

SENATOR COWDERY asked for testimony from Cliff Argue.

MR. ARGUE, staff vice-president of properties and facilities for Alaska Airlines and chair of the Anchorage and Fairbanks airlines airport affairs committee, came forward. He said that the affairs committee consists of all the carriers at the two airports that are currently signatory to the operating agreement. He noted that the committee has spent almost 2 years negotiating the new operating agreement; one of the primary objectives was to come up with a 5-year business plan. Part of that business plan was the list of approved capital projects. Prior to this they operated on a year-to-year basis, which caused a fair amount of economic uncertainty to the carriers. The 5-year program provides an ability to

forecast cost exposure over time.

The current bill represents the natural progression of the negotiations. Throughout, the state was asked for the 5-year business plan and to maximize the use of revenue bonds to finance that plan. Given the size of the current project and the size of the additional 5-year capital program, the airlines didn't feel it appropriate or prudent to try to finance with cash. This is exactly what the carriers are asking for. The actual list of projects on the 5-year capital improvement program represents many hours of negotiations between the state and the airlines. It reflects a compromise position that the negotiating committee for the airlines feels very comfortable with and has recommended for approval to the full body of airlines.

There is a provision in the agreement that if projects need to be added later on, that can happen through another voting process.

MR. ARGUE said that the use of revenue bond debt is common among most airports throughout the United States. Getting the additional bond authority is the first step so that DOTPF can begin the process of funding these projects, which are separate and apart from the terminal project currently underway. There is a small amount of overlap but, for the most part, the money is for new projects needed at both the Anchorage and Fairbanks airports. This approach is good solid public. On behalf of the airlines serving these two airports, he urged the committee to pass the legislation because it is important to provide the additional infrastructure at both airports.

SENATOR TAYLOR asked for specific examples of things the airlines wanted but didn't get.

MR. ARGUE said that there were many compromises over the course of the two years. However, he didn't have anything specific to cite.

SENATOR TAYLOR couldn't understand why the negotiations would be difficult when the air carriers are the ones funding the bill through landing and other fees. It would seem that if that group wanted to pay for something, there wouldn't be much argument about it. He noted that the project has over \$12 million for environmental compliance and clean up and over \$14 million in security related items. He wondered whether those were the kinds of items that caused difficulty in negotiations.

MR. ARGUE said that it was actually somewhat the opposite. The state presented its list of capital projects that they saw needed over the next 5-years and the airlines questioned each and every one of those as to whether it was needed at all and what the timing

for that item would be. A great deal of time was spent looking at the state's original list, cutting items from that list and reaching a time frame for items left on the list.

SENATOR TAYLOR said he understood. He then noted, according to the newspaper article, the 300-foot walkway to assist passengers through the terminal and the tour group baggage facility might be cut. He observed that the things the public might want most were the first to be cut. He is concerned that the traveling public, those paying for the facility, don't have a role in determining which items will be cut.

MR. ARGUE said that the airlines were very much involved with the state in determining which items would be cut. The features just mentioned were prioritized and, as mentioned earlier, the exact list is not established. The walkway is recognized as being a very important customer service feature but the tour group baggage are could be deferred. The airlines and the airport are sensitive to the traveling public and that's why this project moved forward in the first place. They are trying to minimize the impact of any cuts that have to be made.

SENATOR COWDERY asked if the cut items could be put back at some time and where the money would come from.

MR. PARKAN said that some items, such as the moving sidewalk, could be added later. Mr. Eberle could speak to that.

Number 1985

MR. EBERLE said that three alternates have been identified as distinct pieces of work that could be added at a later date if funding comes available. Some projects in the terminal must be done now or the opportunity will be lost. Examples of those are adding a basement, widening the concourse, or making the gate concourse area wider. Those need to be done as a part of original construction or not at all. These types of items were prioritized in the base contract while elements that can be added later were not.

SENATOR COWDERY asked where the additional funding would come from and whether more bonds would be necessary.

MR. EBERLE said that they would have to sit down with the airlines and determine when items would be put back into the program.

SENATOR WILKEN said it sounded as though there were really two levels of negotiations. First, the negotiating team had to meet with the state and then it went back to all the airlines to advise

them of any issues or potential changes.

MR. EBERLE said yes, the negotiating committee consists of just six airline representatives and there are about 26 airline signatories. During the process, the team had to go back and advise the full group of issues being discussed with the state. This isn't unusual in negotiations between airlines and airports. There are other issues, such as access and how the cash would flow through the airport, and each takes time to discuss and negotiate.

SENATOR WILKEN asked about the dynamics of the 26 airline signatories and whether it takes a simple majority vote to approve the new plan.

MR. ARGUE said it's an interesting dynamic because four distinct types of airlines serve the two airports: the regional carriers, domestic airlines serving the lower 48 from Anchorage and Fairbanks, international carriers, and the cargo carriers, such as UPS and FedEx. Each has different issues, wants and desires and, for the most part, there has to be much give and take. In voting they try to reach a consensus. When a critical mass of the carriers agree then that becomes the airline position.

SENATOR WILKEN asked Mr. Parkan for the name of the general contractor.

MR. PARKAN said that for the terminal project, Kewitt is performing the foundation work and Parsons Brinckerhoff is the program management for the entire project.

SENATOR COWDERY wanted clarification of the vote as asked by Senator Wilken as it sounds like a negative type of voting.

MR. ARGUE said that's correct for the new project, but the question Senator Wilken asked was about voting among the airlines on a particular issue. With respect to project voting, 66 2/3 percent of the total airline signatories must vote no on a project for it to be deferred.

SENATOR WARD asked if it took a consensus to come up with the new list.

MR. ARGUE said the list was arrived at through negotiation as mentioned previously. The airlines started with a longer list that had been presented by DOTPF.

SENATOR WARD said that he had received calls from smaller carriers and he wondered where they fit into the list decision-making process.

MR. ARGUE said that the list was developed and agreed to by consensus of the negotiating committee and then presented to the full group on a no objection basis. He didn't recall any particular objections from a specific carrier on the list of capital projects. This can best be described as consensus or no objection from the carrier group. It should be noted that everyone doesn't respond every time.

SENATOR WARD asked for permission to hold the bill until he could talk to the Municipality of Anchorage about it.

SENATOR COWDERY announced that the bill would be held, noting that more questions need to be answered.

SENATOR TAYLOR noted that the bill is structured in such a way as to take effect immediately. With this in mind, he asked what the timeline is for authorization and issuance of the bonds and how critical that might be to the projects.

MR. PARKAN said that the FY02 fiscal year projects are included in this bill so it is critical that this measure pass so that funding is available for next year's capital programs.

SENATOR TAYLOR said he wanted to know when they anticipate getting it passed and having authority to issue the bonds. He wanted a specific date.

MR. PARKAN said they anticipate that the bill will pass during the present legislative session. DOTPF could then sell the bonds in the fall as it has done with the two previous bond bills.

SENATOR COWDERY said that the last time bonds were sold the market was very favorable. He wanted to know what is anticipated this time if the bill passes in the next month or two.

MR. O'LEARY thought the interest rate projections are between 6 and 6.5 percent.

There being no further discussion, CHAIRMAN COWDERY adjourned the meeting at 2:45 p.m.

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