

MINUTES
SENATE FINANCE COMMITTEE
February 27, 2003
9:03 AM

TAPES

SFC-03 # 11, Side A
SFC 03 # 11, Side B

CALL TO ORDER

Co-Chair Gary Wilken convened the meeting at approximately 9:03 AM.

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Con Bunde, Vice Chair
Senator Ben Stevens
Senator Lyman Hoffman
Senator Donny Olson
Senator Robin Taylor

Also Attending: LARRY PERSILY, Deputy Commissioner, Department of Revenue; PAM VARNEY, Executive Director, Legislative Affairs Agency; TIM LAMKIN, Staff to Senator Gary Wilken;

Attending via Teleconference: From Fairbanks: LARRY BREDEMAN, Tanana Chiefs Conference

SUMMARY INFORMATION

SB 51-BONDS OF BOND BANK AUTHORITY

The Committee heard testimony from the Department of Revenue. The bill was reported from Committee.

CHANGE IN LONGEVITY POLICY

The Committee heard from the Legislative Affairs Agency regarding this administrative matter of business. The Committee adopted a policy.

SCR 1-SUPPORT ROADS/HOT SPRINGS LOOP ROAD

The Committee heard from the sponsor, and the Tanana Chiefs Conference. Two amendments were considered and adopted and a committee substitute was reported from Committee.

#SB51

SENATE BILL NO. 51

"An Act relating to revenue bonds issued by the Alaska Municipal Bond Bank Authority and the total amount of bonds and notes outstanding of that authority; and providing for an effective date."

Co-Chair Wilken gave a brief overview of the legislation, sponsored by the Senate Rules Committee by request of the Governor, as follows.

SB 51 increases the Alaska Municipal Bond Bank's total borrowing limit from \$300 million to \$500 million. In addition, the amount of revenue bonds may be issued in any one fiscal year is increased from \$50 million to \$75 million. The current limits have not been raised since 1983 and 1984.

LARRY PERSILY, Deputy Commissioner, Department of Revenue, gave a history of the Alaska Municipal Bond Bank Authority (MBBA) created in 1975 to assist municipalities in issuing debt for projects. By working through the bond bank authority, he stated, municipalities could obtain lower interest rates on debt and lower issuance costs. He stressed that the debt is not the State's, but rather general obligation bonds or revenue bonds issued by municipalities.

Mr. Persily listed the first statutory borrowing limit of the MBBA as the \$50 million annual limit on the amount of revenue bonds that could be issued during any one year, which has not increased in 20 years. He furthered that the second statutory limit is the \$300 million maximum total general obligation and revenue debt that could be carried by the MBBA at any one time. This statute, he reminded has been in place since 1984.

Mr. Persily assured that the MBBA has sufficient reserves to continue financing at the proposed higher levels. He informed that the MBBA reserves are utilized to pay the costs of the Authority as well as pay annual dividends to the State treasury.

Mr. Persily reported that the Authority has issued \$27 million in revenue bonds in FY 03 to date with an additional \$50 million possible. He remarked this would be a record amount, although it would be above the statutory annual limit of \$50 million.

Mr. Persily furthered that the total debt amount of the MBBA was \$235 million in January 2003. He stated that the possible additional issuances in the remainder of FY 03, plus issuances in FY 04, would increase the total debt and the \$300 limit would almost be reached.

Mr. Persily listed the proposed projects for which revenue bonds have been issued in FY 03 as follows.

Juneau hospital expansion	\$25 million
Juneau port improvements	5.6 million
Valdez hospital replacement	19 million
Lake Peninsula Borough dock project	1 million
City of Homer seawall	1 million
City of Homer dock improvements	1 million
Kenai Peninsula Borough solid waste project*	
City of Fairbanks fire protection facility*	
*amount not available	

Mr. Persily then listed the proposed projects for which general obligation bonds have been issued in FY 03 as follows.

Northwest Arctic Borough school projects*	
City of Petersburg refinancing existing debt	\$1 million
Aleutians East Borough school project*	
Kodiak Island Borough refinancing existing debt	\$3 million
*amount not provided	

Co-Chair Green asked how additional revenue would be generated and additional expense incurred yet no changes are reflected in the fiscal note, which is zero.

Mr. Persily compared preparation of the annual budget for the MBBA to that of projecting oil prices; it is difficult to accurately estimate the future activity. He explained that in years of less than anticipated issuance activity, the MBBA expends fewer funds, and in years of higher activity, a supplemental budget request is submitted to cover the additional expenses. Therefore, he stated, the fiscal note does not reflect additional funds, as the intention would be to request supplemental funds if activities in FY 04 are higher than anticipated. He exemplified that the FY 03 initial appropriation was \$522,700 and because of higher activity the Department has requested \$142,000 supplemental funding to cover bond issuance expenses.

Co-Chair Green asked if the FY 03 supplemental request is for reimbursement of funds already expended.

Mr. Persily corrected that the funds have not yet been expended although they would be expended by the end of March 2003 if this legislation were to pass, thus allowing additional bond issuances.

Co-Chair Green wanted to know the consequences if this bill did not pass into law and the supplemental request was approved.

Co-Chair Wilken commented that this bill should pass.

Mr. Persily responded that once \$50 million limit was reached those remaining communities requesting bond issuance in FY 03 would be instructed to reapply the following fiscal year.

Senator Hoffman asked the delinquency rates.

Mr. Persily assured that no community has every defaulted on a Municipal Bond Bank loan.

Senator Hoffman clarified his request for the instances of overdue payments.

Mr. Persily would provide this information.

Senator Olson pointed out that the increase from \$300 million to \$500 million would almost double the amount of bonded indebtedness of the MBBA. He asked the impact this would have on the bond rating.

Mr. Persily responded that the MBBA currently has sufficient reserves to cover a \$500 million debt, and therefore the increase would not jeopardize the bond rating. He furthered that each bond issuance is rated individually based upon the specific project and municipality involved.

Mr. Persily then elaborated on the decision to request the authority for a limit that would be viable for several years to avoid the need to make repeated requests over the same period of time. He also noted that several municipalities are now funding projects rather than obtaining funding from the State and federal governments. Therefore, he expected more bonds would be issued.

Senator Taylor offered a motion to report SB 51 from Committee.

Without objection SB 51 moved from Committee with individual recommendations and zero fiscal note #1 from the Department of Community and Economic Development and zero fiscal note #2 from the Department of Revenue.

CHANGE IN LONGEVITY POLICY

PAM VARNEY, Executive Director, Legislative Affairs Agency, testified that the Senate and House of Representatives employment policy has been in effect since 1988 "and has worked well for the Legislature with the exception of longevity steps J through M." She cited AS 39.27.022(d), which permits a committee of the Legislature to determine whether longevity pay increments would be granted under this statute to employees under the authority of that committee. She requested the Senate Finance Committee not adopt this portion of the statute, but rather adopt a separate policy.

Ms. Varney informed the Members of the other committees that voted to not adopt this policy: Senate Rules Committee on February 3, 2003; House Rules Committee on February 4; Legislative Council on February 20; Administrative Regulation Review Committee on February 19. She furthered that the House Finance Committee and the Legislative Budget and Audit Committee have scheduled this matter for consideration. She noted that if all committees take this action, the Legislature would have a consistent policy throughout the Legislative Branch.

Ms. Varney specified the difficulties with the term "continuous" as contained in current statute. She explained that some staff work for different legislators at various wage steps, or work at different pay ranges during the legislative session and the interim. These employees, she stated, would not qualify for scheduled step increases because the salary steps are not continuous.

Ms. Varney referenced proposed language, which does not include the word "continuous." [Copy on file.]

Senator Olson asked the disadvantages of adopting the different policy.

Ms. Varney was unaware of opposition and could not perceive any disadvantages. She stressed that staff to both Majority and Minority legislators are affected, as well as those in nonpolitical positions.

Co-Chair Green offered a motion that the Senate Finance Committee not adopt AS 39.27.022-Pay increments for longevity for State service but instead adopt their own plan, which better applies to legislative service. This new policy is before the Members and

would be effective January 16, 2003.

There was no objection and the motion PASSED.

#SCR1

CS FOR SENATE CONCURRENT RESOLUTION NO. 1(STA)
Relating to economic development generated by new road construction and to the design and construction of the Hot Springs Loop Road to connect Chena Hot Springs and Circle Hot Springs, of a highway along the Bradfield/Iskut Rivers transportation corridor, of the Knik Arm Crossing, and of a road from Illiamna Bay to Pile Bay.

TIM LAMKIN staff to Co-Chair Wilken, read the sponsor statement into the record as follows.

Senate Concurrent Resolution 1
"Relating to economic development generated by new road construction and to the design and construction of the Hot Springs Loop Road to connect Chena Hot Springs and Circle Hot Springs."

SCR 1 is submitted to advance economic development in Interior Alaska.

This resolution addresses the following:

- 1) There is considerable tourism activity at both Chena and Circle Hot Springs. Connecting these two sites will spur further tourism activity at both locations, and potentially at new sites established along the way.
- 2) Local residents also frequent these locations, not only to enjoy the hot springs' facilities, but also to access fishing, hunting, camping and hiking areas that intersect the routes to both hot springs. Extending the road to form a loop will extend and improve access to these Alaskan resources and pastimes.
- 3) The increased traffic along this Loop Road will lend itself to increased commercial and industrial activities, including resource extraction and entrepreneurial ventures, thus promoting job opportunities and long-term economic growth to the area and to the State.

Across Alaska there may be many worthwhile road construction projects currently under consideration to improve Alaska's highway infrastructure. However, SCR 1 does not intend to give preference to any one project. Instead, it aims to identify

and evaluate one model project that would significantly improve the quality of life and potential for development in Interior Alaska and encourage further like discussions in other areas of our State.

Co-Chair Wilken referenced maps of the proposed Hot Springs Loop Road and additional proposed projects that had been added to the resolution in the Senate State Affairs committee substitute. [Copies on file.]

Hot Springs Loop Road

Co-Chair Wilken indicated the location of Central, Circle and Circle Hot Springs approximately 130 miles north of Fairbanks. He informed that the hot springs have been a destination for trappers and travelers from around the world for 80 to 90 years. He next located Chena Hot Springs on the map, about 60 miles from Fairbanks, which he stated has been developed into an "absolutely world class destination" for viewing the Aurora Borealis or bathing in the hot springs. He pointed out the 260-mile distance to travel to both locations. He explained the proposal to link the two roads, creating a loop. This, he stated would make travel to these destinations a manageable two-day, two-night trip.

Co-Chair Wilken noted the relation of the existing roads and proposed road within the Fairbanks North Star Borough and the federally owned Steese National Conservation Area.

Bradfield/Iskut Corridor

Co-Chair Wilken informed that this project was included in the resolution at the request of Senator Taylor.

Senator Taylor indicated that Southeast transportation plans propose extending the road system on Wrangell Island to Fools Inlet on the southern end of the island, with a shuttle ferry carrying vehicles and passengers to the Cleveland Peninsula on the mainland. He continued that the plans include constructing a 12 mile long road along the Tyee power lines of the Four Dam Pool, which is currently under construction, to link with existing logging roads on Revillagigedo Island leading into Ketchikan. He stated that another shuttle ferry would connect Wrangell to roads into Petersburg.

Senator Taylor next pointed out the Dick Sykes Logging Camp and the 26 miles of logging road built from the camp along the Bradfield River. He declared that this area has been clear-cut logged and is not "pristine wilderness." He informed that 11 more miles of road

would reach the Canadian border, and 23 additional miles of road would link to an existing mine. He told of large ore trucks utilizing the existing road along the Iskut River between the mine and Highway 37, which he said is the newest highway in British Columbia, Canada.

Senator Taylor reported that an average of 72 trucks with empty refrigeration containers travel southbound on this highway each day. He also told of "well over 100 million salmon" that could not be processed and transported to market.

Senator Taylor emphasized this road has been under consideration for over 40 years, with both the United States and Canadian governments constructing portions of the road. He expressed that the roads should be connected. He stated that other potential sites for a road connection between Southeast Alaska and British Columbia would not be permitted because they are located in designated wilderness areas.

Senator Taylor noted that the proposed road would require construction of a "small tunnel at the upper end".

Senator Taylor surmised that the construction of this road and accompanying shuttle ferry would "totally turn around our marine highway system" and "we would no longer be paying the high subsidy that we currently pay."

Senator Taylor informed that approximately \$1.5 million in federal highway funds are being utilized for "the initial scoping". He told of meetings with Canadian officials on this matter.

Co-Chair Wilken asked if the existing roads are public roads.

Senator Taylor replied that "guarded access" is granted to the Canadian portion of the road because of the types of vehicles currently traveling to and from the mine. He furthered that the Alaskan portion of the road is a U.S. Forest Service road is available to the public although it is overgrown.

Co-Chair Wilken asked an estimate of the cost to complete this project.

Senator Taylor spoke about a haul road for transporting resources. He indicated that one engineering firm conducted a survey in 1986 and estimated the cost would be \$29 million, including construction of the tunnel. He qualified that additional costs would be incurred to update this cost study. He complained about the air surveys and cost estimates performed by the Department of Transportation and

Public Facilities, arguing that the \$180 million to \$350 million estimates derived from these surveys are over projected. Therefore, he concluded that no official accurate estimate exists at this time, and he projected the cost of a "paved road quality" would be approximately \$200 million. He added that a "utility grade" road would cost approximately \$50 to \$60 million.

Senator Taylor expressed that mining companies are interested in establishing operations in the proposed area, but are currently prevented from doing so because of the lack of electrical service and road connection. He asserted the proposed road would bring energy supplies and road access into Southeast Alaska.

Co-Chair Green clarified this project requires a joint effort between Alaska and Canada.

Senator Taylor affirmed and told of an 1825 treaty between the Russians and the British relating to trapping and trading rights and access to the Pacific Ocean.

Senator Olson asked the total population that would be affected by this project, noting the number of communities impacted.

Senator Taylor asserted that the 7,000 residents of Prince of Wales Island as well as Juneau residents would benefit from this road connection. He relayed that road travel between Juneau and the Lower 48 requires ferry transportation to Skagway and calculated that the new corridor would eliminate 350 miles from the current route. He concluded that a minimum of 70,000 people would benefit.

Senator Olson asked the cost of maintaining this road. He pointed to the steep grade at the site of the proposed road.

Senator Taylor did not have an estimate of maintenance costs. However, he pointed out that the mining company maintains the road between the mine and Highway 37 year-round. He spoke to the limited snowfall in the current year and surmised that maintenance of this road would be no less costly than other roads in Southeast Alaska and would be less expensive than the road to Valdez or the road from Skagway.

Senator Taylor then commented on legislation passed in 1986 relating to the Whittier Tunnel and Bradfield Haul Road, and authorized the Alaska Industrial Development and Export Authority (AIDEA) to issue revenue bonds for toll roads. He indicated that this generated \$29 million.

LARRY BREDEMAN, Tanana Chiefs Conference, testified via

teleconference from Fairbanks, representing Circle City in favor of the Hot Springs Loop Road. He also supported the inclusion of the proposed Wrangell road in this resolution.

Mr. Bredeman spoke to concerns that the Hot Springs Loop Road must be paved. He pointed out that rental vehicles are restricted from driving on unpaved roads. He asserted that pavement would allow economic development and he encouraged the pavement of roads statewide.

Co-Chair Wilken expressed that he would research whether car rental agencies classify the High Float Road as gravel. He noted that the road between Circle and Central is one of only two roads that access to the Yukon River.

Senator Olson asked if the witness, as representative of the Tanana Chiefs Conference (TCC), has received indication of any opposition from residents preferring to remain isolated from surface connection to Fairbanks.

Mr. Bredeman replied that he has not received comments of such concerns. He noted that due to hardships in the fishing industry, residents are seeking alternative revenue sources. He reiterated that the largest concern voiced to him is the need to upgrade existing roads before constructing new roads.

Senator Olson asked the opinions of the non-Native population that would be affected.

Mr. Bredeman surmised that some prefer no changes to Alaska; however, he did not have documentation of such opposition.

Senator Bunde understood this is substantial investment. While the federal government would fund a significant portion of the construction, he pointed out that maintenance expenses would be the responsibility of the State. He asked if area residents would be willing to contribute to these expenses.

Mr. Bredeman replied that he is willing to forgo a portion of his permanent fund dividend to pay such expenses. He suggested he could conduct a survey of affected residents to determine whether others would agree.

Senator Hoffman asked if the communities or the TCC have adopted any official resolution supporting this project.

Mr. Bredeman replied that no resolution has been adopted to date.

Knik Arm Crossing

Co-Chair Wilken opined, "This will change the face of South Central Alaska. It's a huge project."

Co-Chair Green furthered, "It does speak for itself and has been widely publicized." She told of the potential for nearby residents to become trapped by the recent Miller's Reach Fire, and the realization that this area does not have an escape route.

Co-Chair Green demonstrated on the map that this crossing would complete a loop. She indicated the distance between the proposed crossing and the City of Anchorage is less than one mile. She predicted that utilizing this crossing would eliminate approximately two and one-half hours driving time for travelers from Fairbanks, Talkeetna and other northern origins.

Co-Chair Green added that the possible addition of a rail line would create a direct route for timber and other products from Fairbanks, Healy and the Northern Susitna Valley, into Anchorage.

Co-Chair Wilken asked the location of Port McKenzie and the Goose Bay State Game Refuge in relation to the proposed crossing.

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Senator Bunde indicated the locations on the map.

Senator Taylor asked how the proposed crossing would link to existing roads in Anchorage.

Senator B. Stevens detailed the route across Ship Creek and Gambell Road, following a bluff and linking to an existing road.

Senator B. Stevens then emphasized that the population in the Mat-Su region is one of the fastest growing in the State. He informed that currently people from Wasilla and the Palmer area commute to Anchorage for their means of economic sustainability. He stated that this crossing would create a mechanism that would reduce the commute to about one-third the amount of time.

Senator B. Stevens furthered that Anchorage is "essentially bordered by water on three sides and Bicentennial Park on the east side and our ability for potential growth in the Anchorage Bowl is at capacity." He asserted that this corridor is essential to allow continued growth in the Mat-Su Valley without overburdening the

current road system. He opined, "The benefits of this project are huge."

Co-Chair Wilken asked if shipping activity occurs above the location of the proposed crossing in the Knik Arm.

Senator B. Stevens explained the shipment of gravel from a location north of Goose Bay to the Port of Anchorage. He stated this is a "small tug and barge operation" which operates year-round. He reported that large shipping operations do not travel past the port.

Co-Chair Green added that shipping activity on the Mat-Su side of the Knik Arm is centered at Port McKenzie, which is undergoing upgrades to its road access infrastructure. .

Senator B. Stevens assured that no additional dredging from the U.S. Corps of Engineers would be required.

Co-Chair Wilken next asked the ownership of the land north of the Knik Arm, which would be accessed by the proposed crossing.

Senator B. Stevens informed that most of the land is privately owned. He stated that much of the land is developed for agriculture, that many cabins are located in the area, as well as a growth of residential housing.

Co-Chair Green interjected that the population is "still rather sparse". She noted that much of the land is divided into 640-acre parcels and 320-acre parcels with some active farms and diaries.

Senator Olson pointed to the map and the appearance that the distance between Wasilla "proper" and Downtown Anchorage is the same along the existing Glenn Highway route as along the proposed Knik Arm Crossing route.

Co-Chair Green indicated areas on the map where the distance would be shorter, agreeing that for many other areas the distance would not be shorter. However, she pointed out that the diversion of some traffic to the proposed route would reduce the number of vehicles traveling on the Glenn Highway, which would lessen the travel time along that route as well.

Senator Taylor asked the estimated cost of this project.

Co-Chair Green responded that a current estimate was not available.

Co-Chair Wilken expressed that the expense would be significant,

indicating the total project includes more elements than the bridge itself.

Senator Bunde asked if opposition to the project has been expressed by those residing in the now-isolated areas who do not want increased access from Anchorage.

Co-Chair Green had not received notification of such concerns.

Pile Bay to Iliamna Bay

Co-Chair Wilken informed that this proposal is included in the committee substitute at the request of Senator Dyson.

Senator Bunde described the disrepair of the existing gravel road crossing, which is "little used" at present to portage commercial fishing vessels between Cook Inlet to Lake Iliamna and down Kvichak River to Bristol Bay. He informed the low usage is due to narrow passages on steep hillsides.

Senator Hoffman affirmed he has traveled this route and upgrades and repairs are necessary.

Senator B. Stevens furthered that the road is primarily used as portage for the Bristol Bay gillnetting fleet between Homer and Seldovia fishing grounds and Bristol Bay. He informed that a span of bridge with a 12-foot width restriction is an impediment for the newer, wider fishing boats. He stated that the route had been used more in the past before the construction of the wider boats.

Co-Chair Wilken requested Senator Dyson to prepare information on the impacted residents and economic development for the region.

Senator Hoffman commented that the affected area had been in his election district before redistricting occurred.

Amendment #1: This amendment inserts language on page 3, following line 12 of the committee substitute to read as follows.

WHEREAS the Donlin Creek Road project has been a project identified as a project that will greatly enhance economic development and establish a transportation corridor in the Kuskokwim area, which will have a profound effect on future development in the region.

This amendment also inserts language on page 3, following line 28 of the committee substitute to read as follows.

FURTHER RESOLVED that the Alaska State Legislature supports the continued effort for construction of the Donlin Creek Road.

Senator Hoffman moved for adoption.

Co-Chair Wilken objected for an explanation.

Senator Hoffman asserted that construction of this road would access the largest economic development potential in rural Alaska. He compared the 3 million ounces of proven reserve at Fort Knox to the proven reserves of Donlin Creek of approximately 28 million ounces. He listed economic benefits to the region: employ 500-600 during construction; employ 450-550 in operation with the average salary of \$49,000 and annual total salaries of \$25 to \$40 million; \$50 to \$80 million annual expenditures in the region; estimated annual production of 1 to 1.4 million ounces.

Senator Hoffman described the proposed 15-mile road between Crooked Creek and Donlin Creek.

Senator Bunde commented that the other proposed projects are public roads and noted this road would be on private land. He asked if the road would become public or be a private road.

Senator Hoffman responded that he would research the matter.

Senator Taylor remarked that the State has "assisted" other mining activities, exemplifying the construction of the port and road to the Red Dog Mine. He informed that this project was funded through the issuance of bonds and that tolls are now collected. He spoke of the Statewide Transportation Improvement Plan (STIP) and opined that the State is less involved in selecting road projects. He supported the use of toll roads to finance the construction of all the proposed projects included in this resolution.

Co-Chair Wilken removed his objection and the amendment was ADOPTED.

Amendment #2: This amendment inserts new language on page 3, following line 28 of the committee substitute to read as follows.

FURTHER RESOLVED that the Alaska State Legislature supports the design and construction of a road to Rock Creek, bypassing Moon Light Springs, for the development of mineral extraction on the Seward Peninsula.

Senator Olson moved for adoption.

Co-Chair Wilken objected for an explanation.

Senator Olson spoke to the amendment informing that Novagold has identified mining reserves in the affected area, within three miles outside the City of Nome boundary. He explained that current access to Rock Creek is by the Glacier Creek Road, which travels along Moon Light Springs, the city's drinking water supply. He detailed the proposal to construct a three-mile road between the Nome Teller Road and the Glacier Creek Road, bypassing the spring.

Senator Olson warned of the potential contamination of the water supply if an accident involving tanker trucks traveling to the mine were to occur.

Co-Chair Wilken removed his objection and the amendment was ADOPTED.

Senator Taylor offered a motion to report CS SCR 1 (FIN) from Committee.

Senator Bunde objected for discussion. He expressed he wanted consideration of other funding sources for these projects.

Co-Chair Wilken agreed and explained the attempts of the Alaska Congressional Delegation to secure a six-year appropriation of \$450 million to the Denali Commission for "the Rural Road Initiative" that would require no matching funds. He recommended that this resolution should be in effect at the time the U.S. Congress reauthorizes federal highway funding for the Denali Commission.

Senator Taylor commented on maintenance expenses of these roads. He told of road maintenance in British Columbia, which is privately contracted and inspected by government personnel.

Senator Bunde removed his objection and CS SCR 1 (FIN) moved from Committee with individual recommendations and accompanying zero fiscal note #1 from the Department of Transportation and Public Facilities.

#

ADJOURNMENT

Co-Chair Gary Wilken adjourned the meeting at 10:14 AM