

ALASKA STATE LEGISLATURE
SENATE TRANSPORTATION STANDING COMMITTEE

May 10, 2003

9:05 a.m.

MEMBERS PRESENT

Senator John Cowdery, Chair
Senator Thomas Wagoner, Vice Chair
Senator Gene Therriault
Senator Donny Olson

MEMBERS ABSENT

Senator Georgianna Lincoln

COMMITTEE CALENDAR

SENATE BILL NO. 216

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

MOVED SB 216 OUT OF COMMITTEE

PREVIOUS ACTION

SB 216 - See Transportation minutes dated 5/9/03

WITNESS REGISTER

David R. Eberle
Project Manager for the Terminal Redevelopment
Department of Transportation &
Public Facilities
P.O. Box 196900
Anchorage, AK 99519-6900

POSITION STATEMENT: Answered questions on SB 216

Mike Barton
Commissioner, Department of Transportation &
Public Facilities
3132 Channel Dr.
Juneau, AK 99801-7898

POSITION STATEMENT: Answered questions on SB 216

Morton V. Plumb Jr.
P.O. Box 196960
Anchorage, AK 99510-6960

POSITION STATEMENT: Answered questions on SB 216

Kip Knudson
Deputy Commissioner of Aviation
Department of Transportation &
Public Facilities

3132 Channel Dr.

Juneau, AK 99801-7898

POSITION STATEMENT: Answered questions on SB 216

Tom Boutin
Department of Revenue

PO Box 110400

Juneau, AK 99811-0400

POSITION STATEMENT: Answered questions on SB 216

ACTION NARRATIVE

TAPE 03-20, SIDE A

CHAIR JOHN COWDERY reconvened the Senate Transportation Standing Committee meeting at 9:05 a.m. Present were Senators Thomas Wagoner, Donny Olson and Chair John Cowdery. Senator Gene Therriault arrived momentarily. SB 216 was before the committee.

#SB 216

SB 216-INTERNATIONAL AIRPORTS REVENUE BONDS

SENATOR THOMAS WAGONER announced he had questions regarding self-insuring and airport authority.

CHAIR JOHN COWDERY stated it was his understanding that if the bill is given legislative approval and there are no schedule delays, the project would be completed no later than May or June 2004.

COMMISSIONER MIKE BARTON, Department of Transportation & Public Facilities, agreed that is the plan.

SENATOR WAGONER said he thought he knew why the decision was made to self-insure the project, but he wondered what the policy would be for future projects.

DAVID EBERLE, project manager for terminal redevelopment, Department of Transportation & Public Facilities (DOTPF), explained the project is not self-insured. There is an owner controlled insurance program whereby the state places the insurance with a carrier, but the state isn't paying the bill.

They consolidated all contractor insurance under an owner-controlled program and purchased one policy to cover all contractors. The net result is reduced overall insurance cost.

CHAIR COWDERY asked if that was a good decision.

MR. EBERLE said he thought so. They still have the equivalent amount of insurance without each contractor having a separate policy.

CHAIR COWDERY noted the limits weren't adequate.

MR. EBERLE acknowledged that was a valid argument.

SENATOR WAGONER added there is a \$10 million policy to cover a \$20 million loss.

CHAIR COWDERY said it's up to \$30 million.

MR. EBERLE said an E&O [error and omission] policy is seldom tapped to the limit, but in this case it was. The state selected the same limit as was selected for the Healy Coal Plant, which seemed adequate at the time. Certainly more insurance was available, but it's always a question of how much you want to invest in insurance.

SENATOR WAGONER asked if they had a bond in addition to the insurance and did they have E&O coverage as part of either the state or another policy.

MR. EBERLE explained, "Typically in the design industry, they carry a general E&O policy to cover the design firm. It's pretty minimal though; it's like \$1 million. And then as design firms sign up for major projects, part of that project cost, if the owner chooses, is to pick up that insurance policy just for that project. Either way, we [the state] end up paying for the E&O policy for that particular project. The question is, what limits do we want and do we place the insurance or do they place the insurance? Those are really the only questions that are out there."

SENATOR WAGONER asked if the state insurance program also insured the design firm on an E&O policy.

MR. EBERLE replied it did; the state placed a separate E&O policy on the project.

SENATOR WAGONER opined the state is underinsured then asked the commissioner whether forming an airport authority might keep this situation from occurring in the future.

COMMISSIONER BARTON said he didn't believe that an authority was the answer because it would have to address the same issues. He recommended a review of the project management and more involvement with third party design reviews. The contributing factors need to be identified and addressed.

SENATOR WAGONER said he was looking for some way to change the process and provide for a review to avoid some of the current difficulties in the future.

CHAIR COWDERY advised he intended to hold hearings in the interim to address the problems. He acknowledged that some of the \$30 million overrun was not associated with errors.

COMMISSIONER BARTON agreed.

CHAIR COWDERY asked for an accounting of the cost overrun.

MR. EBERLE explained most of the \$33 million overrun was associated with permitting problems, which could be traced back to the design problems. This impacted the contractor's schedule and extended the construction period.

CHAIR COWDERY asked if Coffman Engineers were the design engineers for Concourse C.

MR. EBERLE said they were the structural design engineers.

CHAIR COWDERY said he assumes Coffman Engineering would finish the project and noted the real difficulty centered on seismic problems and not the major design.

MR. EBERLE said the structural design and issues surrounding the model were the source of the significant problems that led to the permit delays, but the municipality's interpretation of the code differed from the designer's interpretation and that too caused delay.

CHAIR COWDERY asked who was right.

MR. EBERLE said that experts would make that determination.

CHAIR COWDERY asked whether the municipality would have any liability.

MR. EBERLE said he didn't believe so.

CHAIR COWDERY questioned, "They had a code that wasn't followed?"

MR. EBERLE replied that's what they believe. He added there was a legislative audit regarding the causes of the permit delays and the recommendation was that the current statute that puts the state under the permitting authority of the local jurisdiction should be more flexible to allow a third party review on major projects.

CHAIR COWDERY asked if there was legislation to that effect being developed.

MR. EBERLE said Representative Rokeberg introduced HB 264 and he wasn't sure of its status.

CHAIR COWDERY announced his staff would get a copy of the audit. He believes local codes should be followed and in this instance, they were not.

MR. EBERLE clarified he wasn't suggesting that the state be exempt from local codes, it's simply a question of whether the municipality does the review or a third party is so charged.

CHAIR COWDERY asked which way would be the most expensive.

MR. EBERLE replied it was done in the very most expensive way. The municipality was paid to review the design but, because they couldn't reach consensus, the state hired a third party to review so they paid twice.

CHAIR COWDERY said there was a third party brought in because there was a lot of compromise from the municipality.

MR. EBERLE agreed; bringing in the third party was an effort to bring resolution.

SENATOR OLSON he's from a different district, but the changes are impacting aviation in general. Because he received passionate phone calls regarding the elimination of the small taxiway to make way for the fuel maintenance facility he asked for a comment.

9:21 am

COMMISSIONER BARTON said there is no plan to eliminate Victor Taxiway, but a new fuel maintenance facility is needed because there are code problems associated with the current facility. Another issue is that a lot of expensive equipment is sitting in the open exposed to the weather. The storage site that was selected is under review, but it isn't part of C Concourse.

CHAIR COWDERY wanted to make it clear that the proposed legislation is not related to the maintenance facility.

COMMISSIONER BARTON agreed.

SENATOR OLSON said there is no doubt that a maintenance and storage facility is needed, it's a matter of where it would be located.

COMMISSIONER BARTON said he was looking at the options. He noted the FAA said they wouldn't buy more equipment for the Juneau airport until covered storage was available. They haven't said the same about Anchorage, but storing the equipment outside isn't a wise use of money.

SENATOR OLSON asked what he should tell someone who calls and asks about the status of the facility.

COMMISSIONER BARTON replied they're evaluating the site to determine whether it's properly located.

CHAIR COWDERY asked if it might stay in the same spot.

COMMISSIONER BARTON said it was possible and he would be happy to walk the site with Senator Olson and review the options.

SENATOR OLSON said there is concern that the Victor Taxiway is being choked off because of the relationship between the quick turn facility (QTF) and the fuel pump area. He asked what the future plans are for the quick turn facility.

CHAIR COWDERY said he would also like an explanation of the voting arrangements for the projects. Specifically, he wanted to hear about the meaning of no participation and what a negative vote means.

MORT PLUMB, director of the Ted Stevens Anchorage International Airport, addressed Senator Olson's concern regarding the quick turn facility (QTF) and the fuel pumping area by explaining that both are 66 feet from centerline, which is the same as the current distance from the blast fence to the centerline. However, there are other obstacles such as stop signs and guardrails that are closer to the taxiway than the blast fence that would restrict wingspans.

CHAIR COWDERY said he thought the current barriers were temporary.

MR. PLUMB acknowledged that there has probably been confusion because a part of the Victor Taxiway was closed during the construction of the QTF, but now it's open.

He said he would be happy to work with Senator Olson to address his concerns regarding wingspan restrictions.

SENATOR OLSON replied he is concerned the area might be restricted to very small aircraft. Removing a stop sign or guardrail is relatively easy and inexpensive, but making alterations to a new \$10 million quick turn facility is not.

MR. PLUMB said the obstacles he identified have been there for years.

SENATOR OLSON pointed out that the QTF is new.

MR. PLUMB agreed it is new in 2003.

SENATOR OLSON asked for verification that it cost \$10 million.

MR. PLUMB replied he didn't have the exact figure, but it was over \$8 million.

SENATOR OLSON stated his concern is that, when you spend that much for a facility, he views it as permanent. He then asked what the long term plans are for the facility because it would certainly entail a permanent structure.

MR. PLUMB agreed it would include a permanent structure.

SENATOR OLSON asked how much more money might be put into the QTF in the next ten years.

MR. PLUMB replied he didn't know of any other expenditure other than for routine maintenance and utilities.

SENATOR OLSON asked about larger or different tanks and more pumps.

MR. PLUMB said environmental compliance issues might drive changes in the future, but to his knowledge there are no current plans to make changes.

SENATOR OLSON asked what kind of savings might be realized if the QTF was moved now compared to ten years from now.

MR. PLUMB replied he didn't have an answer.

SENATOR OLSON asked about the proposed rate change for tie downs in leased areas. He noted the airport lessees have received notice that the rates will increase by 50 percent, which makes it seem as though the cost overruns are being borne by the small operators.

KIP KNUDSON, deputy commissioner of aviation for the Department of Transportation & Public Facilities, explained that the department rewrote Title 17 rural and international airport land rental regulations in 1999. The international regulations were promulgated about two years ago and the department is following the process and procedures for rate setting on all types of fees set forth in those regulations.

The second issue is that when the operating agreement was up for negotiation between the signatory carriers and the airport, the signatory airlines were looking for ways to spread the cost to other fee payers. They perceived that the percentage of pure non-airline revenues was too low so they asked that the state raise the land rents from six cents per square foot to nine cents per square foot. For auxiliary uses such as rental cars, the rates would rise from nine cents per square foot to twelve cents. Although this is almost a 50 percent increase, this would be the first increase in international airport land rental rates in 30 years and is still just a fraction of the fair market value for land rental in Anchorage. Although any rate increase impacts a business, it was the signatory airlines that suggested the increase and they will bear the lion's share.

He noted that a number of leaseholders would see their increase phased in because regulations restrict rental increases to not more than ten percent in the first five years of a lease. The

theory is that if you had a land lease for longer than five years you would have enjoyed a low rate. If you were a new leaseholder, you hadn't had that opportunity so an increase was less fair.

SENATOR OLSON made the point that some businesses were downsizing, but couldn't downsize their land use.

DEPUTY COMMISSIONER KNUDSON replied there is never a good time to increase fees, and it's particularly difficult in a bad industry cycle. However, the signatories asked for the increase and they will pay the most.

SENATOR OLSON stated the small guys are paying for the overrun.

DEPUTY COMMISSIONER KNUDSON said the increase isn't designed to pay for the overruns. This was conceived years ago and it's fallen to the current administration to implement the rent increase.

9:40 pm

SENATOR OLSON asked if there was any chance for the increase to be phased in instead of taking place in a month and one half.

DEPUTY COMMISSIONER KNUDSON replied the commissioner could rescind the fee increase, but the phase in strategy couldn't be instituted because the process is set by regulation.

SENATOR WAGONER commented the major carriers such as Federal Express and United Parcel Service are able to pass the rate increase on to the consumers, but the small operators don't have that ability. Even so, he wondered why they would ask for a rate increase.

DEPUTY COMMISSIONER KNUDSON explained the signatories were looking for diversification of the fee base; they were not trying to put smaller operators out of business.

COMMISSIONER BARTON advised that when land rents were raised at the Juneau airport, state airport rates were pointed to as being a better deal comparatively.

SENATOR OLSON said he realizes the administration is faced with enhancing economic opportunities. However, if rates can't be raised incrementally then perhaps there should be statutory changes to allow that freedom. It's likely that some of the

small carriers won't be in business next year if they're faced with such increases.

COMMISSIONER BARTON said he didn't know whether they could put a phase in into regulation, but they could look at the possibility and perhaps statutory changes would be necessary. He cautioned that changing regulations is not a fast process.

SENATOR OLSON asked how fast the bonds could be sold since the cash flow crisis was looming.

COMMISSIONER BARTON said he was quite sure the bonds would be purchased quickly. Although he didn't know how long it would take to get them to market, he didn't think meeting the September deadline would present a problem.

SENATOR OLSON asked Mr. Boutin how fast bond issues could be sold.

TOM BOUTIN, deputy commissioner of the Department of Revenue and State Bond Committee, explained that the first component is the feasibility study after which the resolution amendment and the official statement are drafted. Finally, the rating agencies issue a rating. He estimated that it could be completed within a 60 day period.

SENATOR OLSON asked about previous bonding issue difficulties.

DEPUTY COMMISSIONER BOUTIN said the only situation he was aware of related to the issue in 1975 to build the international terminal. In that case, the state made a mistake and issued the bond before the airlines were in agreement and the bonds had to be defeased. He advised he kept documentation of that error in his office as a reminder to be cautious.

COMMISSIONER BARTON pointed out that page 17 of the financial information outlines the mechanics of taking a bond to market.

CHAIR COWDERY asked for a motion.

SENATOR WAGONER motioned to move SB 216 and attached fiscal note from committee with individual recommendations. There being no objection, it was so ordered.

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There being no further business to come before the committee, Chair Cowdery adjourned the meeting at 9:52 am.