

**ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE**

April 30, 2005

1:33 p.m.

MEMBERS PRESENT

Representative Jim Elkins, Co-Chair
Representative Carl Gatto, Co-Chair
Representative Vic Kohring
Representative Mark Neuman
Representative Bill Thomas

MEMBERS ABSENT

Representative Mary Kapsner
Representative Woodie Salmon

COMMITTEE CALENDAR

HOUSE BILL NO. 237

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

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 237

SHORT TITLE: INTERNATIONAL AIRPORTS REVENUE BONDS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

03/29/05	(H)	READ THE FIRST TIME - REFERRALS
03/29/05	(H)	TRA, FIN
04/30/05	(H)	TRA AT 1:30 PM CAPITOL 17

WITNESS REGISTER

KIP KNUDSON, Deputy Commissioner of Aviation
Department of Transportation & Public Facilities (DOT)
Anchorage, Alaska

POSITION STATEMENT: Offered information on HB 237.

DAVID EBERLE

Anchorage International Airport
Department of Transportation & Public Facilities
Anchorage, Alaska

POSITION STATEMENT: Offered information on HB 237.

MICHAEL MARTING, Controller
Alaska International Airport System
Department of Transportation & Public Facilities
Anchorage, Alaska
POSITION STATEMENT: Offered information on HB 237.

ACTION NARRATIVE

CO-CHAIR JIM ELKINS called the House Transportation Standing Committee meeting to order at [1:33:39 PM](#). Representatives Elkins, Gatto, Neuman, and Kohring were present at the call to order. Representative Thomas joined the meeting while it was in progress.

HB 237-INTERNATIONAL AIRPORTS REVENUE BONDS

CO-CHAIR ELKINS announced that the only order of business would be HOUSE BILL NO. 237 "An Act relating to international airports revenue bonds; and providing for an effective date."

KIP KNUDSON, Deputy Commissioner of Aviation, Department of Transportation & Public Facilities (DOT), said the bill is an increase of \$288 million in the bonding cap for Anchorage and Fairbanks airport projects. The increased bond capacity will be used to sell bonds to pay for a five-year capital program that was recently negotiated with the carriers, including terminal renovations for A and B concourses in Anchorage and a terminal redevelopment in Fairbanks. He said the international system is a revenue enterprise fund, so all of the bonds are paid for with fees generated at the airports, and no general funds are used. "We are an entity unto our own when it comes to selling bonds," he noted. He said DOT signed contracts with the 26 major operators at the two airports. There was a five-month negotiation of what projects would be included in the five-year program, and it was approved in January, he said. "Now we're just looking for the legislature to move our cap upwards so we can sell more debt," he concluded.

[1:37:32 PM](#)

CO-CHAIR GATTO asked if Anchorage's new terminal "C" used all federal money.

MR. KNUDSON said a very small portion was federal money.

CO-CHAIR GATTO asked if it is used by Alaska Airlines only.

MR. KNUDSON said it is now, but if there is a need for a new carrier, Alaska Airlines would be asked to accommodate it.

CO-CHAIR GATTO said he believed there was already an extensive retrofit on the "A" and "B" terminals for earthquake proofing.

MR. KNUDSON said he was unfamiliar with that. This project is for seismic retrofit for concourses "A" and "B".

CO-CHAIR GATTO said the \$140 million spent in Anchorage will be paid by the carriers, which means the traveling public will pay.

MR. KNUDSON said yes, it will be paid by the traveling and shipping public. The shippers' portion is 80 percent, he said.

[1:41:19 PM](#)

REPRESENTATIVE KOHRING said he is worried about cost overruns.

MR. KNUDSON said he is just as concerned, and there are measures now to ensure the outcome.

DAVID EBERLE, Anchorage International Airport, Department of Transportation & Public Facilities, Anchorage, said the contracting process will help control the costs because the contractor is involved early in the design. The contractor makes estimates along the way, he explained. Unless there are unknowns, the job should stay within the projected price. This time, DOT hired a program manager, and there is an oversight committee that meets monthly regarding costs and changes. He said they are also working closely with the municipality to prevent delays.

REPRESENTATIVE KOHRING asked if project labor agreements are going to be a factor.

MR. EBERLE said there will be no project labor agreements. Non-union can bid on the project, but the wages will be governed by federal laws.

REPRESENTATIVE KOHRING said he wants to see the design, because he felt the last project was overdone.

MR. EBERLE said the project is only 15 percent designed, but the design won't be as high as the quality of concourse "C".

CO-CHAIR GATTO asked how a contractor was chosen before a design was submitted.

MR. EBERLE said the contractor was picked through a competitive proposal process. The first stage was a statement of interest from experienced firms, followed by a screening process of picking the best five firms, he explained. Then DOT asked those firms to provide a formal proposal describing staffing, how they will approach the work, and their fee structure. The prime contractor will be limited to 20 percent of the work, and the balance will be a competitive bid on the open market for subcontractors, he added. A great share is still open to anybody, he said.

CO-CHAIR GATTO asked if any part will be cost-plus.

MR. EBERLE said it is not cost-plus "in the true sense of the word," but the contractor will bid a mark-up on the subcontracts. There will be an incentive for the contractor to save money, he noted.

REPRESENTATIVE KOHRING asked the impact on traveler fees.

MICHAEL MARTING, Controller, Alaska International Airport System, Department of Transportation & Public Facilities, said the airlines will assume the lion's share of the costs. He said the landing fee is currently \$1.07 and is expected to go up about \$.55. The cost of an operating lease is generally about five percent of total airline costs, he said. The landing fee is the biggest fee, and it would go up by about 50 percent he said. "If you multiply [the] 50 percent increase to them, times the 5 percent component that the airline fee that airports make up--it's a very small--it's about one quarter of one percent impact." It is a rough calculation, but it is fairly insignificant, he said. On a landing fee, currently for a 737-400 "with this increase their landing fee would go up about an extra \$78 per landing for them to land a typical size plane." That converts to about a \$.54 increase per passenger, he said. He said it is hard to see what it will do to a ticket price, but "probably very little."

CO-CHAIR GATTO said, "You said it would increase airline costs by 5 percent."

MR. MARTING said the rates and fees at airports account for about 5 percent of airline operating costs.

CO-CHAIR GATTO said if a ticket price goes up by half of 5 percent--just 2.5 percent....

MR. MARTING said no, "5 percent is their percentage of all of total costs that make up their cost base. There's a 50 percent increase in the landing fee at this single airport ... due to this construction. So you would take 50 percent--and that's just at one airport, it's not a 50 percent across the board impact to that 5 percent of their costs--in the worst case, if it were, you would take 50 percent times the 5 percent component of their cost and that only converts to .025 percent."

CO-CHAIR GATTO said he is still not getting it. One-twentieth of 50 percent is not less than one; it's probably two or two and one half.

MR. MARTING said 50 percent times 5 percent is .025; that is a quarter of a percent.

MR. KNUDSON said the bottom line is the ticket increase will be negligible. The carriers have looked at these financial data and considered it feasible and acceptable, he said.

CO-CHAIR GATTO said, "Fifty percent times .05 is 2.5, and I don't know how else to cut it." With a \$500 ticket, he said he wants to know the increase to the person buying the ticket.

MR. KNUDSON said a \$500 ticket could see a \$.54 increase.

CO-CHAIR GATTO said he disagreed with the numbers.

MR. MARTING said another calculation is that an average plane would pay another \$78 to land, and by dividing that per passenger, the increase is \$.54 per passenger. He will get an airline response to this concern, he said.

CO-CHAIR ELKINS announced that HB 237 would be held over.

ADJOURNMENT

[1:59:19 PM](#)

There being no further business before the committee, the House Transportation Standing Committee meeting adjourned at 2:00 p.m.