

**ALASKA STATE LEGISLATURE**  
**SENATE TRANSPORTATION STANDING COMMITTEE**

February 24, 2005

1:40 p.m.

**MEMBERS PRESENT**

Senator Charlie Huggins, Chair  
Senator John Cowdery  
Senator Hollis French

**MEMBERS ABSENT**

Senator Gene Therriault  
Senator Albert Kookesh

**COMMITTEE CALENDAR**

SENATE BILL NO. 92

"An Act relating to charges paid or collected by users or occupants of an airport facility owned or controlled by the state."

HEARD AND HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 92

SHORT TITLE: AIRPORT CUSTOMER FACILITY CHARGES

SPONSOR(S): SENATOR(S) STEVENS B BY REQUEST

02/04/05	(S)	READ THE FIRST TIME - REFERRALS
02/04/05	(S)	TRA, FIN
02/24/05	(S)	TRA AT 1:30 PM BUTROVICH 205

**WITNESS REGISTER**

Sheryl Sutton  
Staff to Senator Ben Stevens  
Alaska State Capitol  
Juneau, AK 99801-1182

**POSITION STATEMENT:** Sponsor of SB 92

Mark Pfeffer  
Venture Development Group  
Anchorage, AK

**POSITION STATEMENT:** Supports SB 92

Kip Knudson  
Department of Transportation & Public Facilities  
3132 Channel Dr.  
Juneau, AK 99801-7898

**POSITION STATEMENT:** Commented on SB 92

John Steiner  
Attorney Generals office  
Alaska Court System  
303 K St.  
Anchorage, AK 99501-2084

**POSITION STATEMENT:** Commented on SB 92

#### **ACTION NARRATIVE**

**CHAIR CHARLIE HUGGINS** called the Senate Transportation Standing Committee meeting to order at [1:40:49 PM](#). Present were Senators Hollis French, John Cowdery, and Chair Charlie Huggins.

[1:41:32 PM](#)

#### **SB 92-AIRPORT CUSTOMER FACILITY CHARGES**

CHAIR HUGGINS announced SB 92 to be up for consideration.

SHERYL SUTTON, staff to Senator Ben Stevens introduced SB 92. She spoke of both SB 92 and of the committee substitute, (CS). In 2001 a bill was passed regarding customer facility charges. During negotiations specific issues were identified as needed clarification. SB 92 clarifies and expands the utilization of a customer facility charge. SB 92 adds a maintenance charge, which when collected will pay for the maintenance and operation of the facility. SB 92 assures the Alaska Department of Transportation Public Facilities through a public hearing process will set any charges.

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MS. SUTTON added the CS has an effective date added to SB 92. The changes made in the CS revolve around the flow of funds.

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CHAIR HUGGINS made a motion to use version \F as a working document. Hearing no objections, the motion carried.

CHAIR HUGGINS clarified SB 92 is an evolution of a previous bill introduced in 2001.

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SENATOR COWDERY stated the main focus of the CS is to clarify the customer facility charge (CFC) is not revenue of the state and that the bonds would be marketable.

MS. SUTTON agreed.

SENATOR COWDERY asked whether there were other airport projects that use CFCs.

MS. SUTTON responded there were none she was aware of.

SENATOR COWDERY asked if the rental cars would be subject to the same taxes when they move to the new facility.

MS. SUTTON deferred the question to Mark Pfeffer.

SENATOR COWDERY asked Mr. Pfeffer the number of cars the new facility would hold.

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MARK PFEFFER, Venture Development Group, testified rental cars would be subject to the same taxation as presently. The facility will hold approximately 1,400 cars.

SENATOR COWDERY asked whether all the car rental companies would be moved to the new facility.

MR. PFEFFER answered all eight concessionaires would operate out of the new facility.

SENATOR COWDERY asked if the revenue and debt service would change after the 30-year lease expired.

MR. PFEFFER speculated the state could elect to continue to impose the facility maintenance portion of the charge.

SENATOR COWDERY asked whether the rental car companies would be forced to move to the new facility.

MR. PFEFFER answered their concessions agreement requires them to relocate. Those operating off site are not required to collect any CFC charges from their customers.

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SENATOR HOLLIS FRENCH asked Mr. Pfeffer if there would be more space in the parking garages at the airport.

MR. PFEFFER said yes.

[1:54:10 PM](#)

SENATOR FRENCH asked whether it was only the rental car companies who would pay into the concessionaires fund.

MR. PFEFFER answered yes.

SENATOR FRENCH asked how much the facility would cost to build.

MR. PFEFFER answered \$42 million.

SENATOR FRENCH commented the last big airport project cost substantially more than planned. He asked Mr. Pfeffer how he plans to recoup any additional building costs.

MR. PFEFFER answered it would all be paid through customer facility charges. It is a private sector initiative.

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SENATOR FRENCH asked Mr. Pfeffer if he was bearing the risk of exceeding projected building costs.

MR. PFEFFER answered that he was bearing the risk of delivery. Venture Development Group will be the ground lessor for the facility. They will be required to develop plans to the level of review by the airport and building permit process. They will receive a bid from a contractor. A third party independent cost estimator will bid it as a back up check. Contingencies will be built into the contract and bonded.

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SENATOR FRENCH said it sounds like the contractor would absorb the risk if the building costs rise.

MR. PFEFFER agreed but added the contractor would put limits into the contract.

SENATOR FRENCH expressed his concern about the cost being exponentially more than the original plan, and it might cripple the concessionaires.

MR. PFEFFER admitted the process is not perfect but it is better than the alternatives.

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SENATOR COWDERY asked Mr. Pfeffer who would pay the remaining debt on the parking facility if Anchorage relocates the airport in the future.

MR. PFEFFER speculated the city would have to incorporate extinguishing existing debt on all facilities.

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CHAIR HUGGINS asked him to explain the design build timeline.

MR. PFEFFER explained the lease application has been submitted. The commissioner of the Department of Transportation (DOT) will give notice of the intent to collect the facility charge, which is a 90-day notice period. An early CFC charge will commence, which pays for debt service for \$1.5 million to complete soils investigations and take the design to 35 percent. So far these processes take up to three months. The guaranteed maximum price would be received from the contractor. The price would be lined up with bond documents. Alaska Industrial Development and Export Authority (AIDEA) would be the conduit to issue the bonds. Bonds would be sold and construction would commence in mid summer of 2005. Spring of 2006 vertical construction would begin.

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CHAIR HUGGINS asked who would be responsible for traffic pattern connectivity.

MR. PFEFFER explained it was all part of the project.

CHAIR HUGGINS asked where the rental cars would park in the interim.

MR. PFEFFER advised they would relocate to below grade level. Rental cars will be returned to the long-term parking lot.

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SENATOR FRENCH asked if there would be less parking available during construction.

MR. PFEFFER said yes.

CHAIR HUGGINS asked the number of rental car agencies that are committed to the CFC.

MR. PFEFFER replied he has written commitment from six of the eight current rental car companies.

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MR. PFEFFER added the rental companies would either choose to participate or move off the premises.

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MR. PFEFFER reported there was no opposition so far. Car rental companies go through a bid process when applying to operate on the airport premises. The airport has imposed an eight-company limit.

CHAIR HUGGINS commented the alternative for other car rental companies is they can locate off site.

MR. PFEFFER agreed and said they can bid when the bid opens and bump another rental agency that bid less money for the terminal spot. This process maximizes revenues to the state.

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CHAIR HUGGINS asked whether this type of system is used anywhere else.

MR. PFEFFER responded the trend across the country is going to parking terminals such as the one he is proposing to build.

CHAIR HUGGINS asked Mr. Pfeffer to explain the price mechanisms and surcharges imposed on the customer.

MR. PFEFFER described a concession fee of 10 percent, a state tax of 10 percent, a local Anchorage city tax of 8 percent, a customer facility charge of \$4.00. All tolled it equals 33 percent.

CHAIR HUGGINS asked him to explain the roles of the interested parties to the project.

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MR. PFEFFER explained the airport owns the ground and they decide how to use it to the best interest of the city. The Municipality of Anchorage has jurisdiction on the design process. Once the final step is completed, the facility becomes the property of the state.

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CHAIR HUGGINS asked whether there have been any problems anywhere else in the country with this type of facility.

MR. PFEFFER responded no. He added Alamo Rental Car Agency filed bankruptcy nationally a few years ago that caused a consolidation in the industry.

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CHAIR HUGGINS asked Mr. Pfeffer how he would handle environmental issues.

MR. PFEFFER replied that environmentally the terminal is better than the present process. There would be less traffic since the parking terminal will house everything needed for the maintenance of the rental cars.

CHAIR HUGGINS asked Mr. Pfeffer to describe the role of his company.

MR. PFEFFER explained his company is a commercial real estate developer in Anchorage.

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MR. PFEFFER added Venture Development Group is a long time company that has a long track record. The company has a solid structure. All contracts are insured and bonded.

[2:27:50 PM](#)

CHAIR HUGGINS asked what agency has leverage over Venture Development Group.

MR. PFEFFER answered the DOTPF, AIDEA, the rental car industry, and the Municipality of Anchorage

CHAIR HUGGINS announced a short recess at [2:29:20 PM](#).

CHAIR HUGGINS reconvened the meeting at [2:39:28 PM](#).

KIP KNUDSON, deputy commissioner, Department of Transportation and Public Facilities (DOTPF) testified the Ted Stevens International Airport and the DOTPF have worked together on the project and it meets with their approval.

SENATOR COWDERY asked Mr. Knudson what would happen in the event of a tragedy such as an earthquake.

MR. KNUDSON responded SB 92 does not envision details such as that. He assumes damages would be covered by insurance.

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JOHN STEINER, assistant attorney general, Department of Law (DOL), informed the committee his primary client is the international airport system. The DOL is working on the project on behalf of the DOT/PF. He has reviewed SB 92 for compliance with state law and is comfortable with SB 92 and also with Venture Development Group. He noted the trustee would hold the maintenance reserves generated by the CFC. In 30 years, the reserve fund will dissolve into an airport fund to use for continued maintenance of the facility but the details are not fully worked out.

MR. STEINER confirmed what Mr. Pfeffer said regarding the terms of the memorandum of understanding as currently drafted, the CFC is proposed to be implied only on cars rented at the airport or cars delivered to renters to be picked up at the airport. If the airport is moved in the future, he does not know what would happen to the remaining debt of the facility. Fundamentally the bond obligation is not a state obligation. Details regarding an extreme change such as moving the airport are not addressed in SB 92.

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CHAIR HUGGINS asked Mr. Steiner if SB 92 applies only to Ted Stevens International Airport.

MR. STEINER answered no, SB 92 applies to any state owned airport.

CHAIR HUGGINS asked Mr. Steiner if he believed SB 92 to be legally sound.

MR. STEINER stated the proposed airport terminal is a public/private partnership. There are not many models like this but he sees no conflicts.

CHAIR HUGGINS asked Mr. Steiner if the average person has a clear and easily accessible alternative to rent a car in Anchorage without using the concessionaires, therefore avoiding all the additional airport terminal fees.

MR. STEINER said yes. The airport has specific commercial rental agreements with off airport providers. A van would transport the customer to an off site rental agency. There are also cabs and busses. On site vendors are prohibited from advising customers how to get around the additional fees.

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CHAIR HUGGINS asked if he knew of any circumstances that would allow rental car agencies to opt out of the parking terminal agreement creating a financial risk to the project.

MR. STEINER responded a feasibility study would be done to determine the market for rental cars. Typically because of airport traffic, there is a good market.

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SENATOR FRENCH asked who determined the \$4 daily CFC fee.

MR. PFEFFER answered it was the rental car industry.

SENATOR FRENCH remarked that nothing in SB 92 indicates what the fee will be.

MR. PFEFFER commented there would be an annual adjustment.

CHAIR HUGGINS asked Mr. Pfeffer who sets the fee.

MR. PFEFFER responded it was the DOTPF. Prior to an adjustment, they advertise and take public comments.

SENATOR FRENCH asked if the \$4 fee would cover the projected \$42 million dollar figure of the project.

MR. PFEFFER responded yes.

SENATOR FRENCH commented if SB 92 passes it does not necessarily mean the building would be built; it just puts the mechanics in place.

MR. PFEFFER agreed.

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CHAIR HUGGINS asked Mr. Pfeffer if all the agencies involved in the project were solid.

MR. PFEFFER answered it was an A-team project. He said he was approached by the industry in 2000 and was asked to help with the project. The fundamentals of the project are good. It provides a great product to the customers. The airport likes it and the car rental industry is in support. There is zero fiscal impact to the state.

[3:00:40 PM](#)

There being no further business to come before the committee, Chair Huggins adjourned the meeting at [3:01:14 PM](#).