

ALASKA STATE LEGISLATURE
SENATE TRANSPORTATION STANDING COMMITTEE

March 17, 2005

1:36 p.m.

MEMBERS PRESENT

Senator Charlie Huggins, Chair
Senator John Cowdery, Vice Chair
Senator Hollis French

MEMBERS ABSENT

Senator Gene Therriault
Senator Albert Kookesh

COMMITTEE CALENDAR

Overview Presentation: Department of Transportation/Public Facilities - Briefing on Construction Force Accounts, Leasing and Purchasing of Equipment Compared to Private Sector

Overview Presentation: Geotechnical Drilling

PREVIOUS COMMITTEE ACTION

No previous action to record.

WITNESS REGISTER

Ms. Nona Wilson, Legislative Liaison
Department of Transportation & Public Facilities
3132 Channel Dr.
Juneau, AK 99801-7898

POSITION STATEMENT: Commented on the overview presentation

Mr. Frank Richards, Engineer
Department of Transportation & Public Facilities
3132 Channel Dr.
Juneau, AK 99801-7898

POSITION STATEMENT: Delivered the overview presentation

Mr. Mark O'Brien, Contract Officer
Department of Transportation & Public Facilities
3132 Channel Dr.
Juneau, AK 99801-7898

POSITION STATEMENT: Commented on the overview presentation

Mr. Howard Thies, Director
Department of Transportation & Public Facilities
3132 Channel Dr.
Juneau, AK 99801-7898
POSITION STATEMENT: Commented on the overview presentation

Mr. Gary Hogins, Engineer
Department of Transportation & Public Facilities
3132 Channel Dr.
Juneau, AK 99801-7898
POSITION STATEMENT: Commented on the overview presentation

Mr. Dave Stanley, Geologist
Department of Transportation & Public Facilities
3132 Channel Dr.
Juneau, AK 99801-7898
POSITION STATEMENT: Commented on the overview presentation

Mr. Kyle Brown
Discovery Drilling
1134 Olive Lane
Anchorage, AK
POSITION STATEMENT: Commented on the overview presentation

Mr. Brian Wille
Alaska Water Well Association
13161 Shelburne Rd
Anchorage, AK
POSITION STATEMENT: Commented on the overview presentation

Mr. David Harper
Alpine Drilling
PO Box 110496
Anchorage, AK 99511
POSITION STATEMENT: Commented on the overview presentation

Mr. Hal Ingalls
Denali Drilling
6780 Lauden Circle
Anchorage, AK
POSITION STATEMENT: Commented on the overview presentation

Mr. Jay Johnson
JJC
9180 Wolfram
Juneau, AK 99801

POSITION STATEMENT: Commented on the overview presentation

Mr. Dick Cavanaugh
No address provided

POSITION STATEMENT: Commented on the overview presentation

Mr. Mike Miller
No address provided

POSITION STATEMENT: Commented on the overview presentation

ACTION NARRATIVE

CHAIR CHARLIE HUGGINS called the Senate Transportation Standing Committee meeting to order at [1:36:04 PM](#). Present were Senators John Cowdery, Hollis French, and Chair Charlie Huggins.

[1:37:03 PM](#)

MS. NONA WILSON, legislative liaison, Department of Transportation and Public Facilities (DOT/PF), introduced the overview.

Overview Presentation: Department of Transportation

[1:38:01 PM](#)

MR. FRANK RICHARDS, chief maintenance and operations engineer, DOT/PF, briefed the committee on Force Account Construction and Geotechnical Drilling.

[1:38:58 PM](#)

Maintenance & Operations Mission
Operate, maintain, safeguard and control the state's infrastructure system of highways, airports and harbors.

Regional boundaries

Highway/Road Mileage:

- Central Region - 1707 CL miles
- Northern Region - 3415 CL miles
- Southeast Region - 490 CL miles

DOT&PF Maintenance Stations

84 stations statewide

National Highway System

2113 center line miles

Alaska Highway System

1508 center line miles

DOT&PF Airports

258 State-owned Airports

[1:41:05 PM](#)

What is Force Account Construction?

Definition: 23 CFR 635.201 Subpart B

The term *force account* shall mean the direct performance of highway construction work by a State highway agency, a county, a railroad, or a public utility company by use of labor, equipment, materials, and supplies furnished by them and used under their direct control.

[1:42:06 PM](#)

SENATOR FRENCH asked Mr. Richards whether force accounting was using state or federal money to do work on a state project.

MR. RICHARDS answered yes. The federal dollars prescribe certain cost analysis. It is using capital dollars to cover state salaries and equipment costs. It also includes the cost of materials and leased equipment through private vendors.

SENATOR COWDERY asked whether the DOT/PF considers unknown costs when bidding jobs.

MR. RICHARDS responded conceptually yes.

[1:44:33 PM](#)

MR. MARK O'BRIEN, chief contract officer, DOT/PF, clarified there are two different kinds of force accounts. One force account refers to a time and materials contract, which is done under an existing contract where DOT encounters unknown expenses. The contractor gives those expenses to the DOT. The other force account is where DOT uses state forces to accomplish the entire project.

SENATOR FRENCH said it sounds like force accounting and privatization are on two different sides of the ledger.

MR. RICHARDS responded contracting is on the other side of the ledger.

CHAIR HUGGINS asked Mr. Richards to clarify public interest findings.

MR. RICHARDS informed the committee a public interest findings is a cost determination of what it would take to perform the work. DOT compares what it would cost to hire out a contractor as opposed to doing the work using state employees.

[1:46:45 PM](#)

MR. RICHARDS explained if a project would be less costly using state resources they opt to go with a force account approach.

CHAIR HUGGINS asked Mr. Richards to describe the minimum essential elements that cause the project to go to a private contract.

MR. RICHARDS explained it would be a typical design project that utilized plans and specifications that defined the work to be accomplished. Contractors bid based on that information. If it is cost effective to use a contractor, DOT will opt for that measure.

CHAIR HUGGINS asked whether a public interest finding determines whether it will be force account work or a private contract.

MR. O'BRIEN indicated yes.

CHAIR HUGGINS asked Mr. O'Brien how much discretion the DOT has when making the decision.

MR. O'BRIEN responded if the public interest finding failed then DOT could not conduct the work using state forces.

CHAIR HUGGINS further inquired whether there was a percentage factor involved.

MR. O'BRIEN advised there was a 28 percent savings factor.

MR. RICHARDS reminded the committee the type of work they are talking about is a maintenance or preventative type activity.

[1:50:42 PM](#)

SENATOR COWDERY inquired if DOT pays the same wages on force accounts as a contractor would pay.

MR. RICHARDS answered state employees are paid the bargaining contract.

SENATOR COWDERY stated a contractor has to pay Davis-Bacon wage determinations.

MR. HAL INGALLS, Denali Drilling, interrupted to say he cannot believe the DOT can save 28 percent by doing construction work themselves. He said if that is true then the State of Alaska

should do all the construction work in the state. The private sector cannot compete.

[1:53:12 PM](#)

SENATOR COWDERY asked Mr. O'Brien whether the DOT maintains a contingency fund for oversight.

MR. O'BRIEN replied there are no contingencies. The state does not have a line item for that.

MR. RICHARDS said under the State Transportation Improvement Program (STIP), the DOT estimates the dollar amount to perform the work without contingency. He added a legislative audit was completed on public interest findings. The audit indicates the processes and methodologies used by the DOT appear to be straightforward.

[1:55:44 PM](#)

MR. KYLE BROWN, Discovery Drilling, testified he does not understand how the DOT can make a savings determination when there has not been a bid process on a job. Contractors do not have access to bids.

MR. RICHARDS responded the public interest findings are public record. To make that determination, the DOT compares like work. For example, if the job is a chip seal in Ketchikan, they compare the cost for the state to do the work with actual contract bids.

MR. BROWN asserted contractors and DOT workloads vary month-to-month and year-to-year.

SENATOR COWDERY commented three years ago the DOT performed chip seal work on the Seward Highway, which didn't go to bid. It was an experimental project where chips were hauled on state equipment from Fairbanks. He stated he does not believe a cost analysis was done for that project.

MR. RICHARDS agreed. He clarified the project was done in 1997 on the Seward Highway. The DOT learns from input from the public and from the Legislature.

MR. RICHARDS resumed the Powerpoint presentation:

[1:59:38 PM](#)

Brief History on Force Account Issues
FHWA shift from Build Out to Maintenance

Preventative Maintenance
Growth of Deferred Maintenance
Contractor vs. State Forces

[2:01:46 PM](#)

FHWA Preventative Maintenance and Pavement Rehabilitation
Funding

[2:03:46 PM](#)

Where is DOT&PF using Force Account
Central region
Southeast region
Northern region

[2:05:33 PM](#)

MR. RICHARDS explained DOT uses chip seal in the Southeast region because they do not have access to hot mix due to lack of availability of hot plants. DOT can get hot mix in the Central region. Chip seal and hot mix are essentially the same cost to the state.

[2:07:11 PM](#)

SENATOR COWDERY asked Mr. Richard to explain recycled asphalt.

MR. RICHARDS explained recycled asphalt is ground used asphalt mixed with oil.

[2:08:29 PM](#)

SENATOR COWDERY stated the cost of recycled asphalt was low.

MR. RICHARDS agreed and said recycled asphalt is a commodity and a benefit to state.

[2:09:17 PM](#)

REPRESENTATIVE CARL GATTO asked whether used asphalt that was not recycled was waste material.

MR. HOWARD THIES, director, DOT/PF, reported some people buy used asphalt from the DOT. They try not to waste it because it does have value.

MR. RICHARDS resumed the Powerpoint presentation:

[2:10:02 PM](#)

Rental Equipment Requested by Northern Region

[2:11:34 PM](#)

CHAIR HUGGINS stated a private contractor could look at the cost of the equipment and wonder how the DOT could determine that force would be the right method.

MR. INGALLS interrupted to claim the list provided was enough equipment to declare the State of Alaska a major construction company. He said if the state wants to be in the construction business the private sector will fight to keep them out.

[2:13:12 PM](#)

MR. BROWN asked whether the people who operate the equipment are state workers. He inquired as to their level of expertise.

MR. THIES responded they were a maintenance crew. They are not building construction roads. They are using the equipment to patch holes and do minor repair work. It is not the intention of the DOT to put contractors out of work.

CHAIR HUGGINS asked Mr. Thies to explain the use of the John Deere 550 Dozer.

MR. THIES said it was on the Dalton Highway for use for patching. It is a 60-day rental from the private sector at a cost of approximately \$1,500-2,000 a month.

[2:16:43 PM](#)

MR. RICHARDS said the Governor challenged the DOT to reduce costs and so they surplused equipment that was not being used. So far they have surplused 250 pieces of equipment.

[2:17:56 PM](#)

SENATOR COWDERY asked for a list of equipment the DOT owns.

MR. RICHARDS said he would provide one before the next meeting.

[2:18:38 PM](#)

MR. RICHARDS resumed the Powerpoint presentation:

Maintenance and Operations
 General Fund Authorizations
 Historic Construction Expenditures
 AMHS, Highways and Aviation

[2:20:55 PM](#)

Highway and Aviation Programs

[2:21:58 PM](#)

Example of Force Account Highway Project
End of Powerpoint presentation

[2:23:54 PM](#)

Question and Answer session

SENATOR COWDERY asked for a reasonable limit on the use of force accounts.

MR. RICHARDS gave the Northern region as an example. He stated DOT was at their limit without adding personnel. They are doing an 8 million dollar project from Dalton Highway to Cordova.

SENATOR COWDERY reiterated he would like the DOT to define for the committee a reasonable amount to place as a limit on the use of a force account.

MR. RICHARDS stated the DOT would like to have the flexibility to not have a defined upper limit. Flexibility allows them to better manage their money.

Overview Presentation: Geotechnical Drilling

[2:27:44 PM](#)

DAVE STANLEY, chief geologist, DOT gave a Powerpoint presentation titled Geotechnical Drilling.

Geotechnical Drilling Explained

Program Status

Program Cost Control

[2:29:47 PM](#)

SENATOR COWDERY asked whether there are engineering companies available in Alaska that certifies the public findings.

MR. STANLEY answered yes. The DOT contracts out 50 percent of the design work.

[2:31:09 PM](#)

CHAIR HUGGINS asked why the State of Alaska has to do the other 50 percent of the work.

MR. STANLEY stated several reasons. The DOT has been drilling for 50 years. It is part of their core function. Geologists, foundation engineers, project managers and project designers all work as team to provide the design for geotechnical work. The expertise developed over the years, and the equipment makes the DOT well suited. The DOT is also cheaper than the private

sector. In 2002 and 2003 cost studies showed the DOT could do the work for \$100 an hour cheaper than the private sector.

[2:32:59 PM](#)

SENATOR COWDERY asked whether retirements and PERS were calculated in the study.

MR. STANLEY admitted he could not answer the question. He added the DOT does not look at costs in the same way the private sector does.

[2:33:53 PM](#)

MR. BROWN asked for a copy of the cost analysis.

MR. STANLEY implied he would get one for the committee members.

[2:35:30 PM](#)

MR. STANLEY resumed the Powerpoint presentation:

Program status.

- 10 drill rigs located throughout the state
- Drilling staff
- Typical crew size
- Contract drilling
- Cost comparison

SENATOR COWDERY asked the lifetime of a drilling rig.

MR. STANLEY responded 15 years.

[2:37:48 PM](#)

REPRESENTATIVE GATTO inquired whether they used a timing device to collect the number of hours the drill is in operation.

MR. STANLEY responded yes.

REPRESENTATIVE GATTO asked whether a private operation would have used a drilling rig more often than the state over a course of 10 years.

MR. STANLEY said he did not know. He resumed the Powerpoint presentation.

[2:39:13 PM](#)

Program cost control

- Managing drill rigs to meet demand and reduce cost
- Surplus old drill rigs

HEWCF credits already accrued
Make fleet more versatile and cost effective
Managing staff level to meet demand

[2:41:27 PM](#)

CHAIR HUGGINS asked how much a track unit costs.

MR. STANLEY responded they were a minimum of \$250,000.

[2:43:04 PM](#)

CHAIR HUGGINS inquired about the salary of a crew lead operator.

MR. STANLEY advised it was around \$23 an hour.

[2:45:14 PM](#)

MR. KYLE BROWN, Discovery Drilling, testified construction is not the role of government. He claimed state equipment utilization in the past has been marginal to poor.

[2:48:08 PM](#)

MR. BROWN voiced there were major inefficiencies of equipment usage within the DOT and gave several examples.

[2:51:19 PM](#)

MR. BROWN alleged state employees have no motivation to excel because of restrictions on their union contracts. He expressed frustration that taxpayer money is used to buy expensive equipment that the government is using to take work away from the private sector.

[2:52:11 PM](#)

MR. STANLEY advised the committee the DOT has drafted specifications for the state equipment fleet. Also the state does not do environmental drilling due to lack of training as well as liability issues.

[2:53:47 PM](#)

MR. DAVID HARPER, Alpine Drilling, asserted state government should only be involved in providing services and labor for the people when the private sector cannot.

[2:56:50 PM](#)

MR. BRIAN WILLE, Arrow Pump and Well Service/Alaska Water Well Association, agreed with the other contractor's concerns and added a personal experience.

[2:57:50 PM](#)

MR. INGALLS pointed out force accounting should not be used without bidding jobs. He asserted each year things change that could affect a job bid. He maintained the state does not take into consideration unknown costs, therefore the end total cost of the job is never justified.

[3:06:10 PM](#)

MR. DICK CAVANAUGH alleged the DOT was using voodoo accounting.

MR. MIKE MILLER contended contractors never see the public interest findings. He asked whether they could be put on the website along procurements. He disputed DOT's claim of a 28 percent savings when state workers perform the work.

[3:11:54 PM](#)

CHAIR HUGGINS announced the committee was out of time. There will be a follow up meeting in the future. He commented the public interest findings seem to be a weak link and asked the DOT representatives to work on making it easier for the public to see.

There being no further business to come before the committee, Chair Huggins adjourned the meeting at [3:15:28 PM](#).