

**ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE**

January 31, 2008

1:33 p.m.

MEMBERS PRESENT

Representative Kyle Johansen, Chair
Representative Mark Neuman, Vice Chair
Representative Anna Fairclough
Representative Craig Johnson
Representative Wes Keller
Representative Mike Doogan
Representative Woodie Salmon

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

STATE TRANSPORTATION IMPROVEMENT PLAN

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

JEFF OTTESEN, Director
Division of Program Development
Department of Transportation & Public Facilities (DOT&PF)
Juneau, Alaska

POSITION STATEMENT: Continued is presentation on the STIP and answered questions.

ACTION NARRATIVE

CHAIR KYLE JOHANSEN called the House Transportation Standing Committee meeting to order at [1:33:23 PM](#). Representatives Johansen, Johnson, Keller, Neuman, Doogan, and Salmon were present at the call to order. Representative Fairclough arrived as the meeting was in progress.

State Transportation Improvement Plan

[1:33:34 PM](#)

CHAIR JOHANSEN announced the only order of business would be the continuation of the State Transportation Improvement Plan (STIP) presentation, and directed the committee to page 13 of the handout. He asked Mr. Ottesen to explain the new handouts.

[1:34:12 PM](#)

JEFF OTTESEN, Director, Division of Program Development, Department of Transportation & Public Facilities (DOT&PF), explained to members that the blue, two-page draft document summarizes the strategic highway safety plan. Its key point is that four state agencies, several federal agencies, and many local agencies jointly prepared the plan.

MR. OTTESEN said Congress mandated that states develop strategic highway safety plans. Congress envisioned government agencies making a joint effort to accomplish the task. He encouraged members to read the document and stressed that highway safety needs more attention.

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MR. OTTESEN began his presentation, as follows:

The simple take away number is if we do what we're doing today, which is a pretty good job, if we just continue doing that, in 10 years up to 1,000 deaths, five to six times that major injuries, and \$5 billion in societal costs [will have occurred] from highway accidents. That will be our tax as a state. If you think about the chances of dying in a highway accident with 1,000 deaths in 10 years, it's a remarkably high set of odds. It's less than 1 in 1,000 for each individual here in the room. It's very real. It's very tragic. I just got a notice today of another tragedy in the Kenai area - a 13 year old boy died. It goes on and I now see those reports every time they come in and they sometimes are just heartbreaking. So, enough of that.

[1:35:59 PM](#)

The other handout is on functional class, a few slides. We call them the pyramid charts. I'll take a minute just to explain the first one and then the rest of it will go easy. [These are] the four major classifications in functional class from arterials, the most important roads in terms of their purpose down to local roads. And then the chart further down is representative of the number of lane miles. So this is a representation of how many lane miles of each class and then it also illustrates who owns those lane miles so you see for the top two classes, arterials and major collectors, DOT is the predominant owner and those two classes total up to about 30 percent of the lane miles in the state.

Prior to 1991, and a change in federal law at that time, our federal dollars could only go to those top tiers. There was no ability to spend them below on minor collectors or local class roads. In 1991 the law changed for Alaska and Alaska only. No other state has this permission and it's both a good thing and a bad thing.

[1:37:09 PM](#)

MR. OTTESEN continued:

The good thing is you can now work on roads that are functionally classed in the lower tiers but the bad thing is you've tripled your mileage that these dollars could apply to and it makes it harder then to focus on the top roads, which is really where the action occurs. I'll show you that in the next two slides.

... The second one presents the four tiers in exactly the same order, arterials down to local, but it's now reflecting the amount of traffic each is carrying. So you can see those top two tiers are only 30 percent of our miles of road but they are carrying 35 percent of total traffic. So, that's really where people are traveling, the predominance of their miles.

[1:37:56 PM](#)

REPRESENTATIVE NEUMAN asked how to incorporate the information to specific areas. He asked if the same facts and percentages hold true in the Mat-Su Borough.

MR. OTTESEN said they hold true for any place on the road network. The community of Kenai would have the same numbers as Anchorage and the same hierarchy of roads exists in both. The Parks Highway and Glenn Highway are major arterials. The lesser roads are classified as major collectors, minor collectors, and local roads.

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MR. OTTESEN continued his presentation:

The third slide simply shows you where the accidents occur in this state and we have a value we assign to a fatal accident, to a major injury accident, to a minor injury accident and to a property damage accident. When the number of accidents is multiplied by the class of accidents, 86 percent of the accidents occur in the top two tiers.

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REPRESENTATIVE DOOGAN asked if roads are classified according to their use in a specific area or whether it is a matter of how roads are designed.

MR. OTTESEN replied roads are classified by both. Arterial roads are at one end of the continuum, local roads are at the other. The primary purpose of an arterial road is to move traffic from place to place, not to provide access to adjacent property. That is a function of local roads. He pointed out local driveways are not located along the Glenn Highway. Access to local property is from a second tier road.

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REPRESENTATIVE DOOGAN asked how the classification system would apply to a 12-mile gravel road in, for example, Representative Salmon's district that connects a village to the garbage dump.

MR. OTTESEN replied that road would be classified as either a major or minor collector because it serves two purposes. People might use that road to travel a distance but might also use it to access a private home. That type of road falls in the middle

of the continuum; DOT&PF has difficulty assigning classifications to such roads.

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REPRESENTATIVE DOOGAN commented that assigning road classifications in an urban area would be easier because traffic patterns can be studied and design standards can be applied. He asked how DOT&PF assigns the classifications in rural Alaska.

MR. OTTESEN said the main road in a village is often linked to an airport, school, or other major points. Those roads are typically classified as major collectors and are eligible for federal funding. He noted the arterial road classification is relatively rare.

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CHAIR JOHANSEN questioned whether arterials are classified as part of the National Highway System.

MR. OTTESEN replied, "That is a different classification but there is a strong connection between arterials and the National Highway System. He pointed out that not all arterials are on the National Highway System but almost all National Highway System routes are arterials. He continued his presentation.

So, I just wanted to show you the functional class and how it relates to the use of the system.

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REPRESENTATIVE JOHNSON referred to the statistics Mr. Ottesen talked about earlier and asked if 86 of 100 accidents happened on arterial roads.

MR. OTTESEN noted the numbers are a reflection of the accidents and their severity. He explained:

So a property damage accident only - that is there's only property damage, there's no human injury, would be weighted at a standard value for property damage only accidents. An accident involving a fatality would be weighted much, much higher. Several million dollars is the typical value that's assigned to this.

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REPRESENTATIVE JOHNSON asked whether the value amount includes any legal action involved or whether it represents the total economic picture including any settlements. He also asked whether two passengers in a vehicle would count as two accidents.

MR. OTTESEN explained that a collision is considered to be a single event. An average value derived from national standards is assigned to it. The property damage category reflects damage to the vehicle but no reported injuries.

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REPRESENTATIVE JOHNSON asked Mr. Ottesen if he could provide the total number of accidents with the weighting or a copy of the formula. He commented three accidents could account for 86 percent.

MR. OTTESEN pointed out the weighting contains values assigned to accidents that are nationally recognized and used by DOT&PF consistently. Those values and accident records are used in the safety project selection process to identify which projects will best serve the population. He stated, "In rough tiers, a property damage accident is valued at several thousand dollars. A minor injury is valued at about \$10,000. A major injury is valued at - it can be as much as almost \$100,000 and when you get to fatal they go up to the millions."

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REPRESENTATIVE JOHNSON ascertained that a fatal accident would skew the numbers quite a bit so that the dollar factor of one accident on a local road might cause DOT&PF to view the safety of that road differently than reality would otherwise dictate.

MR. OTTESEN said when getting down to that much detail, traffic engineers would have pretty good records on the cause of the accident. Sometimes alcohol is involved and the road features have nothing to do with the cause. The vast majority of accidents, over 90 percent, are caused by driver behavior.

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REPRESENTATIVE JOHNSON remarked that number is used when assigning a value for the purpose of deciding what projects will be included in the Statewide Transportation Improvement Projects

(STIP). He continued, "You said that you did it on public safety and so you evaluate it and you prioritize based on this so I am assuming that this number feeds into the STIP somewhere."

MR. OTTESEN said correct.

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REPRESENTATIVE JOHNSON expressed concern that the STIP could be manipulated by assessing a value and using an inconsistent formula and again asked Mr. Ottesen to provide him with more information about the formula.

MR. OTTESEN said DOT&PF uses nationally respected sources to determine the values. The department consistently applies those values to all projects.

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REPRESENTATIVE JOHNSON asked if all states use the same numbers.

MR. OTTESEN said he believes they do and said the numbers are from the American Association of State Highway Transportation Organizations (AASHTO).

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REPRESENTATIVE SALMON asked what ownership the state has in village roads and airports.

MR. OTTESEN answered the ownership of roads is often mixed and varies from village to village. However, the functional class is determined regardless of ownership. A road's primary purpose determines its functional class.

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REPRESENTATIVE KELLER asked if accidents caused by driver behavior are represented in the triangle.

MR. OTTESEN said it represents all accidents. The purpose of the triangle is to illustrate that when DOT&PF designs a particular segment of road, its engineers analyze data from the accidents that occurred on that road that might influence the design.

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MR. OTTESEN continued his presentation:

I was just going to say that when you asked us to prepare this presentation you had four broad topics and they are shown on page 1 of the slides. We are done with two of them. We've done the general overview and the federal funding rules. We've done the SHAKWAK funding. We are now about to start the federal funding process as it relates to state funding and then we'll wrap up with the STIP, but I think there's been so much building going on, we can go fairly quickly from here forward.

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MR. OTTESEN continued:

We're at the bottom of page 12. The slide reads, "Federal Funds and State Budget Authority," and I'm going to explain how they relate and is there a one-to-one relationship and I'll explain that term in the next slide here.

At the top of page 13, here I compare the two terms of art, the federal funds themselves and then their presence in the state budget. You'll see there are a lot of differences. The federal funds come to the state by a funding type, the apportionment type, and we talked about apportionment and all of the different kinds of apportionment: bridge apportionment, safety apportionment, National Highway System apportionment. On the other hand, when we write the budget we write it by the name of the project so we're now - we're already sort of using two different systems. The budget at the state level says project X, so many million dollars, the fund source is federal funds. It's already - we're not talking in the same terms. We're not talking about apportionment. We're talking about the name of a project and not the funding type.

The shelf life for those federal funds is generally one year. An exception might be earmarks and a couple other categories but the general shelf life of federal funds is one year, whereas in the state budget, when we get authority in the state budget to use federal

funds, that is ten years and in some cases even longer. They say you can extend it indefinitely if you can show that you are still working.

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MR. OTTESEN continued:

When we write a STIP with federal funds, we are constrained to a dollar level, to an estimated or predicted dollar level. In other words, we have to write the STIP to a budget. The capital budget doesn't have that same constraint on the federal side. It certainly does on the general fund side but on the federal side, there isn't a firm budget and what often happens is we end up with more federal authority than we will ever have federal dollars. So your state budget doesn't have this one-to-one relationship and, in fact, we might be building a project next year that is relying upon state authority received in next year's budget or received in a prior year's budget. There is no absolute relationship to the year of appropriation on the state side and the year of expenditure with the federal dollars.

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The controlling documentation is quite different. The STIP controls the federal side and its rules. The whole state budgeting process, the capital budget process, is the controlling document on the state ledger side. How that is amended is different. The STIP amendment is done by a STIP amendment. The capital budget is done through [Legislative Budget and Audit] LBA in the interim or through a reappropriation, some type of legislative action.

And then, finally, the two branches of government are involved: the executive branch on the STIP side, the legislative branch on the capital budget side. Let me just talk about this one-to-one relationship because over the years I get asked this question a lot and people will say, "Why don't we just have a capital budget that is precisely what you think you're going to spend on the STIP?" It's a very simple and I think a concept that people want to grab on to and feel would be a very good way to control DOT, if I may be

so bold. I think it would also be a very good way for us to ensure that we lose federal funding in each and every year. The federal project process invariably has projects that slip. They hit a delay in permitting. They hit a delay in the environmental process, the community process that we go through, the right-of-way certification process, and whenever one of those projects gets delayed, we accelerate a different project to ensure those federal funds are not lost because those federal funds are use or lose if we don't have another project in its place. So we need to have enough authority on the state side that we can move projects around to not lose them and this happens every year in the July-August timeframe. There is a mad dash to figure out what can go and what's got to be substituted so that dollars are not lost.

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CHAIR JOHANSEN said that is the main reason for the frustration of his constituents and others - anticipating a project but having it pushed back. When that occurs, he gets phone calls from people who think the project has been pulled. He asked how to relay to the public the reason for the delay and whether DOT&PF gets similar phone calls.

MR. OTTESEN agreed that is clearly a problem. He was not sure of a clear, easy solution. He stated that as the summer season approaches, everything gets compressed. DOT&PF has to commit to obligating the federal dollars by August. If DOT&PF cannot make that commitment, it has to plan substitution projects, which creates a mad dash to check right-of-way permits, etcetera. In a perfect world, DOT&PF would take time to communicate its plan to the public but if it tried to do so by August, the federal dollars could be lost. He said if DOT&PF loses the dollars, it would not be a good steward of the system or of the public process. He repeated that he does not have an eloquent solution.

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CHAIR JOHANSEN asked if DOT&PF chooses substitute projects from the \$200 million of projects that are ready to go.

MR. OTTESEN said DOT&PF usually picks from projects that are already in the STIP. He explained:

What usually is happening is you have a list of projects that are in the STIP. Let's just hypothetically say it's 20 projects. Well there have been cost increases on several of them and we don't have enough money now to do all 20. We're only going to be able to advance 16 of the 20. So what we're really doing is taking that obligation limit planned for four projects and spreading it across the other 16. So, 16 projects in my example are proceeding. Four projects that were in the STIP are going to be delayed. That's essentially what the give and take is. Sometimes we're looking for a new project to slip in. That's a little more rare.

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CHAIR JOHANSEN said he thinks that is also the cause of some of the Legislature's frustration. He commented that legislators know DOT&PF needs some "wiggle" room but some people think it has too much.

REPRESENTATIVE DOOGAN said if he had an idea of the amount of federal funds the state would have to forego to get control of DOT&PF, he might agree to do so but he doesn't think the trade-off is that exact. He then said Mr. Ottesen's document says the executive branch decides on the federal funds in the state budget. He asked if that means every STIP amendment is approved.

MR. OTTESEN said the state executive branch, i.e., DOT&PF, prepares that amendment. The commissioner submits it to the federal agency that actually approves it. That decision is made internally.

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REPRESENTATIVE DOOGAN asked if the STIP amendments are routinely approved.

MR. OTTESEN said the approval rate is 100 percent with the caveat that a STIP amendment could be approved except for the Fairbanks metropolitan area because of air quality issues. He furthered:

They have some extra work to go through called conformity and if their work was not complete, they can approve the STIP...with geographic exceptions so

we would get a 95 percent approved STIP and two or three weeks later the other piece of it would be approved later on.

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REPRESENTATIVE NEUMAN said people want transparent accountability in government. He stated, "I want to see some correlation of where our state funds are and what's there as compared to what may be there in federal and how those monies are being spent." He asked if Mr. Ottesen's document provides that information.

MR. OTTESEN indicated that DOT&PF's budget is partly federal but state funds have also been appropriated to projects. That amount has been sizeable in the last few years, hundreds of millions. Those projects do not show up in the STIP; they fall under another process. He said those projects could be included [in the STIP] for the public to see, but DOT&PF is not legally required to do that and the workload that would require would be huge. He noted others have advocated that DOT&PF include federal projects in the STIP for the sake of transparency. He does not oppose doing that but is concerned about the workload. He stated that on scored community projects, a project not completed in '06 would be first to go in '07.

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MR. OTTESEN told members last year DOT&PF had to let two Southeast projects slip; buses for Ketchikan and Juneau. DOT&PF needed those dollars for a different project so that the project could go to bid. He told the Southeast Region those buses would be funded first next year.

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REPRESENTATIVE NEUMAN asserted that he has heard comments that DOT&PF seems to be out of control in that it has a large budget but no one seems to "know where it's at." He asked how he should respond to those comments and repeated that he would like to see a more transparent process.

MR. OTTESEN said one possibility is to make sure that all projects are located in the same place so that people do not have to look for information in separate silos. He noted that to find a general fund project, one would have to find the project name by region on the website. Federal projects are

found under the STIP. He acknowledged that is not the most transparent of systems but is the system DOT&PF has right now. The second issue of how to make the decision making process more transparent is difficult because of the timing problem during the summer. He said he is asking regional planners to tell communities that projects are delayed and why and that those projects will be given priority the next year. He reminded members that federal funds will lapse if DOT&PF spends 60 or 90 days on a public process during the summer.

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REPRESENTATIVE SALMON asked Mr. Ottesen if he is familiar with the Eureka to Rampart Road.

MR. OTTESEN said he is.

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REPRESENTATIVE SALMON said that 30 mile road has two bridges and about 14 miles of that road have been completed although the project has been ongoing for 30 or 40 years. He said he did not see that project in the STIP and asked when it will be completed.

MR. OTTESEN told Representative Salmon the Eureka-Rampart road is part of the Alaska Highway System, which is comprised of 1500 miles. That system only gets about \$16 to \$18 million per year statewide so it is grossly under funded. All Alaska Highway System projects have been waiting to be completed for years.

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REPRESENTATIVE SALMON asked for written information about that project.

MR. OTTESEN said he would have regional staff provide a report. He pointed out the regional director would be addressing the committee in two weeks and can also answer that question.

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CHAIR JOHANSEN noted he invited the three regional directors to address the committee.

REPRESENTATIVE JOHNSON asked the number of projects that either slip each year or from which funding is taken to finish another project.

MR. OTTESEN said the number is in the 10s depending on the year, and could be 20 to 30 in a bad year. He said the cause is not only the high cost, it is also the erratic nature of the federal funds.

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REPRESENTATIVE JOHNSON asked if DOT&PF has a public information officer.

MR. OTTESEN said it does.

REPRESENTATIVE JOHNSON remarked:

So we're talking 30 projects that slip. ...Having been press secretary for this body, I can tell you that I've done 30 press releases in a day. I find it appalling that...if a public information officer cannot handle 30 information distributions to communities, I've got some serious concerns. What do they do?

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MR. OTTESEN said DOT&PF uses a different technique. Staff makes personal phone calls to people in the community.

REPRESENTATIVE JOHNSON questioned whether that technique has been working.

MR. OTTESEN replied, "The question is has it been working at every level of the community. The city council may know, the city manager may know. I'm not sure every person in the coffee shop knows." He acknowledged the value of using a press release and noted the public information officer has not yet worked over an entire STIP cycle.

REPRESENTATIVE JOHNSON commented that he receives phone calls from the people in the coffee shops. He said he'd much rather they be notified because the mayor will find out elsewhere.

MR. OTTESEN said he appreciated that comment.

[2:12:55 PM](#)

REPRESENTATIVE DOOGAN indicated that Mr. Ottesen referred to \$16 to \$18 million in annual funds appropriated to the Alaska Highway System and asked if those funds are federal dollars.

MR. OTTESEN replied they are federal dollars plus the associated match; usually a 90:10 ratio.

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REPRESENTATIVE DOOGAN questioned why more money isn't available for that program.

MR. OTTESEN explained that DOT&PF uses a formula that allocates a pie. The formula is partly in regulation and partly in statute. DOT&PF can change the regulation but not the statutory requirement.

[2:14:12 PM](#)

MR. OTTESEN directed members to copies of the pie chart in the committee packet that categorizes DOT&PF's flexible federal dollars: 48 percent of those dollars goes to the National Highway System; 8 percent goes to the Alaska Highway System, which has about 1,500 centerline miles; 2 percent goes to the TRAC program, which covers trails and recreational access; 39 percent goes to community class roads; and the remaining 3 percent is left to provide "a little wiggle room." He repeated the Alaska Highway System is the least well funded; it consists of state level highways that connect communities. The federal government does not consider them to be at the level of National Highway System roads. He said if one was to divide the funding stream by the number of road miles and assumed an average cost of \$1 million per mile, a new project could be built every 120 years.

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REPRESENTATIVE DOOGAN asked if the federal government determines the amount of Alaska Highway funding.

MR. OTTESEN said the state determines the Alaska Highway System funding.

REPRESENTATIVE DOOGAN asked if that state-level decision is based on road traffic.

MR. OTTESEN said the decision is made using a combination of factors. However, the 1991 decision that determined community roads to be eligible for federal funding tripled the miles that were eligible but reduced the number of miles allowed for high-level roads. He pointed out that DOT&PF is facing the dilemma that when everything is a priority, nothing is a priority.

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REPRESENTATIVE DOOGAN asked:

If the Alaska Highway System is basically ... big roads that don't fit the National Highway System ... and because we've got it divided by category, I'm going to make the assumption that these are more likely to be big rural roads than big urban roads because the big urban roads are more likely to be National Highway System roads. Then, because this information is divided by category as opposed to by location, it is impossible for [legislators] to make any sort of a reasoned judgment about the allocation by area, i.e., if there are people living someplace in Alaska because they have the misfortune to fall under the Alaska Highway System as opposed to under community roads or National Highway System roads that their roads are never going to get finished. Right? I mean how do we get to grips as policymakers with those kinds of questions considering the way this information is presented to us?

MR. OTTESEN said DOT&PF is trying to communicate through the 2030 document and legislative presentations the harsh reality of the state's list of transportation needs versus limited funding. He said the situation is a daily dilemma for him. The facts that federal funding rules have changed, costs have increased, and DOT&PF has no second or third source of funding have created a situation where very deserving projects go wanting. DOT&PF can, according to its regulations, spend National Highway System funds on Alaska Highway System projects. The National Highway System is where the economy is taking place because of heavy commuter and freight traffic so DOT&PF is cautious about taking funds from those projects.

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REPRESENTATIVE DOOGAN asserted that although he understands the difficulty of decision making with limited funds, his point is that he is not sure he can identify what is getting funded and what is not, because he is unable to identify which roads fall under which category. He needs to be able to locate specific projects on a map rather than try to locate them by funding source.

MR. OTTESEN said those maps are available on the Internet and that he would provide copies to the committee.

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REPRESENTATIVE DOOGAN maintained the problem is that DOT&PF does not manage it that way. He furthered, "You're managing it this way and it seems to me that that's where a lot of the difficulty arises, is if you're managing it by category when it's actually built by location."

MR. OTTESEN said he was not sure that characterization is correct. DOT&PF's system has evolved over time. Past give-and-take interactions with the legislature created the terms and some were codified in regulation and statute.

REPRESENTATIVE DOOGAN said he understood.

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REPRESENTATIVE FAIRCLOUGH noted she represents District 17, the Eagle River area. That district has waited more than 10 years for a road [upgrade] on a road that 35,000 people use every day so the problem is not unique to rural Alaska. The list of projects is prioritized according to lane miles, traffic and other specific criteria. The regional offices can provide layouts for the regions. She explained:

How it works, as I understand it from my community's perspective is small community members, 5 or 10 people, get together and they form a list of projects. In my community it's labeled the community council. In a tribal entity it would be a tribal entity. They forward those projects through to the mayor or whatever the local government is. They are prioritized there throughout their whole community so Eagle River and the road that I'm talking about had to go to the big city, Anchorage, stand before the big city and say how our project and the miles that were

valuable to our community lined up against the needs of C Street that was sort of a larger corridor, wider, and they create a master plan inside of that tribal government or a municipality that goes forward.

They fund that many different ways. In my community we have a road service area board that we actually handle and tax ourselves to go out and help implement projects. The city of Anchorage goes to their voters and they choose a different path. So there are all of these different paths that we work with DOT on and they advise us and we do a transfer of responsibilities in different things to upgrade those roads. But please don't let the public think that there isn't a well thought-out process because, believe me, I banged my head on this process for 10 years trying to get around it to see if there were different ways that we could push or pull. Certainly we are the legislative body that should say and feel like we want to be involved in the process of picking and choosing but I warned this committee early on that you have to be able to give it a statewide approach in your look and your application and not an Eagle River approach to a statewide plan.

So I believe what Mr. Ottesen has been telling us, and he has been trying to explain to us at our request, was the federal component of this project. The department has much bigger projects that have it all lined up and he's referred you to the computer or on to the website that has those master plans by inch and miles, by road by miles, and we've asked them to explain this component. That's not the entirety of DOT. It's not the entirety of the Municipality of Anchorage or all of the resources that we bring to bear to bring projects so that rubber can meet a surface that people can travel on or that water can be traversed off of our ferry system.

I know that [we want] to get to the bottom of something here but the people that work for the State of Alaska in all of our departments do great work. They should be very proud to be able to bring to us from every department, including DOT, a set of criteria and open themselves up to sit in front of us and have us keep asking what, why, where, how and when. Please know that they have systems in place

that you can challenge that hold water per se. They are good systems. I've been - don't get me wrong but bureaucracy is a nightmare. You can't breathe through it. I understand that but we have good guides sitting in front of us.

I'll get off my soapbox but it took me a long time to get around the federal component of the process and Representative Salmon, I'm with you. After 20 years on my road, 10 we've been in the plan. We've been on the entire erosion quantity of this for close to 20 years in trying to get one segment, I think it's nine miles, done up to our park system and I understand.

Anyway I want to thank you and your team for all that you do and I know that the federal process is cumbersome and I appreciate you offering to the federal delegation ways and means that they could make our lives easier and I just would go on record again to say that I do support the governor and looking at a transportation fund so that we can, as Representative Doogan and Representative Salmon have said, we have roads that need to have maintenance done and we have to look at a statewide approach to accomplish those things. Thank you Mr. Chairman.

[2:27:21 PM](#)

REPRESENTATIVE JOHNSON referred to the chart and asked if the 2 percent for the TRAC transferred to the Anchorage Metropolitan Area Transportation Solutions (AMATS) is a mandated amount or the state match and how it filters down to the small chart.

MR. OTTESEN said AMATS has a great deal of latitude with those funds once it receives them. The Legislature passed legislation in an attempt to control the amount of money spent on TRAC-like projects. That legislation was litigated in the Superior Court. He said he believes the amount actually spent is about 10 percent.

[2:28:52 PM](#)

CHAIR JOHANSEN directed members to the bottom of page 13.

[2:29:05 PM](#)

MR. OTTESEN continued his presentation:

Let's turn to the top of page 14 if we may and just talk about the Alaska STIP and what is coming up. At this point in my presentation, when I was making it, I really questioned which way I should take you. ... I showed you the criteria and how we use criteria because we do use a lot of criteria and there are very elaborate nomination packages that answer dozens of questions about each project. The regional staffs work very hard with photographs and maps and write-ups. We answer questions about economic purpose and safety and a whole series of benefits and whether or not the community is behind the project. A project gets scored, at least in the CTP category. That scoring then is followed as closely as we know how when we prioritize them and put them into the STIP. To me the real hiccup in our system right now is that we're just not moving fast enough. We've got a good list of projects. People want them but the dollars for a series of reasons are just not coming at us fast enough. We can only build what we're appropriated to build to. That's been our dilemma. We've gone from a system, low inflation, lots of federal dollars, not too many strings, delivering good projects and all has changed in about four years and those three or four years have been nightmarish. High inflation, lots of changes at the federal level, and it's been frustrating. It's frustrating for staff, I can tell you that. It's frustrating for communities. It's frustrating for people sitting in your jobs and I think if I can give you one takeaway message, we're not going to solve this problem by re-dividing the pie somehow. That's not going to solve it. The pie simply has to get bigger. That's my takeaway.

CHAIR JOHANSEN said he thinks the committee understands that point.

[2:31:02 PM](#)

MR. OTTESEN continued his presentation:

So if I can talk about '08 and '09 Mr. Chairman, those are kind of the immediate years of the STIP. You've already heard a lot of this and we can go fairly quickly and then just for an eye toward what will happen in 2010 after reauthorization.

The STIP is essentially a federal rule created, I guess in part, because DOTs were thought to be not disclosing their plans to the public. So it came in 1991. They were told to start writing these STIPs. Do it in a public process that would tell the public what, why, when and who and where are we going to do a project. So they mandated that we write a STIP. They've written rules now twice - the process rules in '93 and then again now in 2007. It's all about giving the chance for the public to understand what we're doing and to understand when things change.

The two over-arching authorities to our STIP are Federal Highways and Federal Transit. Federal Highways is located here in Juneau. Federal Transit is located in the Seattle office of Region 10. Those two offices have to review every STIP and every STIP amendment and approve those documents before we can proceed to actually embark upon building the projects that are in the STIP or doing any other work for that matter, be it design work or right-of-way work.

[2:32:13 PM](#)

MR. OTTESEN continued:

So, on the top of page 15, this you've already heard me talk about. We've got these rescissions coming. They're going to require that the 2008 STIP be modified through an amendment and that amendment will be we're waiting on the 2030 plan to be done so that we can start the STIP amendment and then we do that. It takes so many days and then we can begin working those projects. That's just - at this point it's just a fact of life that we have to accommodate.

[2:32:42 PM](#)

There is another issue in 2009. When Congress passed the bill known as SAFETEA-LU...in order to balance the bill and balance the budget, they built in what is known as a rescission in the 2009 year. It's written into law. The Alaska portion of that national rescission is \$55 million so that means that we have to be ready to give. When they give us that money in 2009, we're going to have to give \$55 million of it

back. So we have to write the STIP with that rescission in mind because it is law. The only way it can be undone is if Congress changes that law so there is no other mechanism available for that to change.

[2:33:26 PM](#)

A second issue with the Highway Trust Fund is that it is simply not generating revenue as fast as they thought it would so you also have a problem with its solvency. That number has very much been in flux. When I wrote this presentation about two weeks ago, we were told that the insolvency was going to be about \$5 billion but would require that they cut spending by about \$18 billion. That was the number I was getting and, in fact, I even got that number from a source this month, in the month of January. Since I've come back from my meeting back East, that number has gotten smaller. Now it's going to be a billion dollar shortfall in that trust fund and it's going to slow down spending \$4 to \$5 billion. I can explain if you'd like why a \$1 billion dollar shortfall results in a slowdown of spending four times larger but it's a pretty complex answer. I don't think it gives you a lot of real meaning to understand it. Just know that the program will have to be made smaller to accommodate that.

So we have two 2009 issues that we have to accommodate when we write a fiscally constrained STIP. There is still a possibility that Congress could fix one or both of those and so we have to keep that in our mind too, that we may have a STIP that has to be amended at a later date to deal with extra money if there are fixes coming.

[2:34:52 PM](#)

REPRESENTATIVE NEUMAN asked, "With the \$55 million in rescission funds, and that's out of a total of how much expected to - an estimate?"

MR. OTTESEN answered about \$200 million.

[2:35:15 PM](#)

REPRESENTATIVE NEUMAN asked, regarding the immediate STIP amendments necessary to avoid loss of funds, whether that loss would be in addition to the \$55 million.

MR. OTTESEN affirmed that is correct. He said DOT&PF has a 2008 problem, a different rescission. The 2009 rescission is planned and written into the SAFETEA-LU legislation. The 2009 rescission was done in an appropriation bill.

[2:35:44 PM](#)

REPRESENTATIVE NEUMAN asked if the \$55 million is Alaska's share of the \$9 billion.

MR. OTTESEN said yes. He added it is either a \$55 million rescission or an \$86 million rescission, depending on which interpretation of the law is applied.

[2:36:24 PM](#)

CHAIR JOHANSEN asked when DOT&PF sends its STIP to the Federal Highway Agency, whether the process to adopt amendments is completely internal and closed or whether the process allows for input from the public or the state.

MR. OTTESEN stated the process is completely internal to the two agencies. He reminded members that DOT&PF had a 45-day comment period before it was sent to the federal agencies.

[2:37:20 PM](#)

MR. OTTESEN continued his presentation:

Okay - so the bottom of 15. We've already talked about this one. This is the 2008 fund notices. I talked about it on that slide last week or Tuesday where we got notices that change the kind of funding we're going to get for this year. I think we really don't need to belabor that unless you'd like but it means we're going to do less in the highway reconstruction category and those dollars will have to be shifted to spend on highway bridge and safety work.

At the top of 16, we talked about the rescission. It's either \$55 or \$86 million. The lawyers are going to, I guess, ultimately decide that back in D.C. It obviously - it actually is going to create the

possibility where we're going to end up with more obligation limit than we are when we have apportionment because what we're rescinding is apportionment. I don't know that it really makes a difference. You can't spend the federal dollars. You can't spend them but we've never been in a position before where we had no spare apportionment and had more obligation limit. Historically obligation limit has always been the controlling factor. So that may be a technical problem and not worth your attention but it does, from our standpoint. It's like gee, this has never happened before. It's just a new wrinkle to our business.

[2:38:44 PM](#)

REPRESENTATIVE NEUMAN commented one apportionment plus one obligation equals \$1 dollar. He asked whether those dollars can be moved to other jobs.

MR. OTTESEN said DOT&PF can move obligation limit to any apportionment, but if DOT&PF has to rescind them to the federal authorities, DOT&PF will end up with an obligation limit that it cannot match to apportionment. DOT&PF will be short in a different way. In the past, DOT&PF always had surplus apportionment but an inadequate obligation limit. DOT&PF sees itself with the opposite circumstance in 2009.

[2:39:30 PM](#)

REPRESENTATIVE NEUMAN asked if [those funds] can be recovered in any way.

MR. OTTESEN said Congress will have to change the law. He indicated that historically, changes have been made so he expects Congress to do something. He cautioned that the country is in a presidential election cycle and a new administration will be coming on board.

[2:40:05 PM](#)

REPRESENTATIVE NEUMAN asked if the state can do anything to facilitate those changes.

MR. OTTESEN suggested adopting a resolution of support to address the issue. He said other states have adopted resolutions. This is a nationwide problem nationwide because it

takes projects off the streets that would have put people to work.

[2:40:51 PM](#)

REPRESENTATIVE KELLER asked Mr. Ottesen if he said apportionment is a promise.

MR. OTTESEN said he did.

REPRESENTATIVE KELLER expressed concern, "They give you a promise. With a promise they are going to take back a promise. Just explain to me a little bit about what's going on there. I'm missing something."

MR. OTTESEN stated the state needs that promise to be matched up with a dollar of obligation limit to be able to spend the obligation limit. He likened the formula to epoxy, which requires mixing two parts to make it useable.

REPRESENTATIVE KELLER asked whether political good will is driving the federal agency to make promises.

MR. OTTESEN said he believes the reason for the built-in rescission in 2009 is that it was written into law in 2005. Both the House and Senate wanted much bigger transportation bills at that time. Representative Don Young, chair of the House Transportation Committee at that time, wanted the bill to include \$375 billion. The President threatened to veto the bill if it exceeded \$275 billion. He recalled the Senate amount was [\$320] billion. The final bill contained a little more than \$275 billion. To raise revenue without raising taxes, a few things were "tweaked," one being assumptions about future revenue flow. If the revenue flow assumption is changed, the model appears to have more money. The bill also included the rescission feature to balance everything in four years.

[2:42:44 PM](#)

REPRESENTATIVE SALMON referred to page 7, and asked whether DOT&PF has to follow all of the regulations for federal grants or whether they also apply to state money. He also asked whether the regulations apply to projects built on state land.

MR. OTTESEN said many of the laws represented on the document would apply regardless of funding source but some of them do not. For example, wetlands laws, the Endangered Species Act,

and the Clean Air Act are not affected by funding source but other laws are only applicable to federal funds.

[2:43:33 PM](#)

REPRESENTATIVE SALMON asked whether the same applies to state money.

MR. OTTESEN replied state money is easier to use but if a federal action is required, such as a Corps of Engineers permit, the National Environmental Policy Act (NEPA) must be followed. If no federal action is required, DOT&PF could build the project without a NEPA document. He said it depends on the impact on water, land and animals.

[2:44:07 PM](#)

REPRESENTATIVE DOOGAN asked Mr. Ottesen to put the information on rescissions into a timeline. He asked when, during the STIP process, DOT&PF finds out which number [the \$55 or \$86 million] it will have to account for in the STIP itself.

MR. OTTESEN said he could not answer that question for a year or more. The department is writing those numbers this week.

[2:45:00 PM](#)

REPRESENTATIVE DOOGAN asked how DOT&PF deals with that situation.

MR. OTTESEN said DOT&PF makes estimates and judgments.

REPRESENTATIVE DOOGAN asked if DOT&PF writes the STIP to the worst case scenario.

MR. OTTESEN said DOT&PF writes it to the most likely scenario and is prepared to make adjustments as time goes on.

[2:45:24 PM](#)

MR. OTTESEN continued his presentation:

We've talked about the Trust Fund balance at the bottom of 16. There really isn't - I think this one gets solved. This one they can solve and there's actually a bill in Congress that will solve this Trust Fund balance problem. I think the rescission is a

bigger fear. That's going to be harder to fix. But let me say this. They'll fix it for a year. The fix is not going to have any permanency to it. It's not like a new tax that raises new revenue year after year. They're going to move some money around between some accounts and fix it.

So we deal in a world where federal funding is very fluid, very dynamic with lots of unknowns to deal with. We also deal with a world where the cost of increases on projects has been pretty dramatic. You also have scope creep where we start with a project that is very simple and it ends up very complex for lots of reasons. All that makes writing the STIP incredibly difficult.

... So, on the bottom of 17 the major amendment that we're writing right now is focused on - it will come out here as soon as the 2030 plan is done. My STIP author is sitting behind me. It's his job to write that. He's not going to get much spare time on the weekends, I can tell you. We will then also, as soon as that's done, have to write a STIP for the 2009, 2012 cycle. That may be even harder to write because now we're writing about three years for which we'll have no knowledge until reauthorization is over. Reauthorization, as I'm about to show you, offers several more degrees of variables that we have to cope with. So we've got a STIP amendment coming that will cover 2008, 2009 and then our STIPs usually overlap so we have a new STIP, a complete rewrite of the STIP that will take place that covers 2009 to 2012.

Federal law has now changed the rule on how long the STIP covers. It used to be three years. SAFETEA-LU changed that to four years.

[2:47:40 PM](#)

MR. OTTESEN continued:

Slide 18 talks a little bit about earmarks and what earmarks have done to the STIP and to the whole process. At the time SAFETEA-LU passed, there was a billion dollars in earmarks to Alaska. They were authorized over all five years...you would not get the funding for any given earmark until the fifth year

typically so you had to wait for an increment of funding in each and every year, 2008, 2009, etcetera.

People tend to gravitate to the two bridges when we talk about earmarks but the two bridges only represent less than 40 percent of the total earmarks in the state. There were a great many other earmarks. One of the consequences of this is the deductive earmarks, and I believe you got a copy of the deductive part of the list; diverted funds to what were normally ineligible needs. Some of the earmarks did. Parking garages, port work, shipyard work are the kinds of categories that historically would not be using federal dollars out of the transportation programs. These are dollars that came from drivers across America to rebuild the road system and now they are going to these other modes. I'm not trying to cast any aspersions on the needs for those projects, I'm just trying to point out that when you have a fairly limited pot of money that's barely doing its job and you shrink it further, there's going to be a consequence. I think we're all feeling that consequence.

2:49:00 PM

MR. OTTESEN continued:

One of the other consequences of many of the earmarks is they were just a small down payment on a much bigger cost project. We've had earmarks that are less than 5 percent of the total cost of the project. So that begs the question where does the other 95 percent come from. Some people would say the STIP should deliver the other 95 percent. Some people will say well future earmarks will fill that out. Really there is no answer but it's very hard for us to just stop doing the core needs with the few STIP dollars that we have left to make those earmarks whole so that's a very difficult decision and I'm not sure that it would be in the best overall interest to - I can give you lots of examples of this. Chignik Road, for example, got a little bit of money to do a very expensive road project. It would take another \$40 or \$50 million of diversion and where do you divert from? What other project stands down to make that project whole? That would be just one way of looking at it. And so we're

torn. We have - not to say it isn't a good project, we just simply don't have enough money to go around the state.

[2:50:10 PM](#)

REPRESENTATIVE NEUMAN expressed concern that the state is liable for incomplete earmarked projects as that could cost the state a lot of money.

MR. OTTESEN agreed.

REPRESENTATIVE NEUMAN asked how much money would be involved right now if the earmarked projects could not be finished.

MR. OTTESEN said DOT&PF has adopted a draft earmark policy, which only handles 12 or more earmarks. That list could amount to one-half billion or more. He did not think the state is facing that risk because DOT&PF is not proceeding with those earmarks until the full funding path is evident.

[2:51:02 PM](#)

REPRESENTATIVE NEUMAN cautioned if the legislature is not careful with its appropriations, the earmarks could become problematic.

MR. OTTESEN said that is the risk DOT&PF is trying to avoid. He pointed out that under the new federal rules, projects cannot be put in the STIP unless full funding will be available when needed. The department cannot be that reckless under the federal rules.

[2:51:47 PM](#)

REPRESENTATIVE DOOGAN questioned whether a fully funded earmarked project would be done in increments over a five-year period.

MR. OTTESEN said that is correct.

REPRESENTATIVE DOOGAN asked if five years' worth of funding would be necessary for a project to be included in the STIP.

MR. OTTESEN said that is a separate issue. He furthered:

We can see that funding. We can say it's coming and, in fact, we have used that tool I talked about in a previous session, advanced construction, in some cases to build projects that we know have enough money and we'll just wait for the appropriations to come in and ensure that the state funds are reimbursed. But that's just one way that we've done that.

[2:52:32 PM](#)

REPRESENTATIVE DOOGAN asked how DOT&PF would be sure it will receive five years of funding for an earmark.

MR. OTTESEN explained that earmarks fall into two classes. Authorization earmarks are written into an authorization bill. Funding for those projects come automatically every year. Appropriation earmarks depend upon who has the best ability to write them.

REPRESENTATIVE DOOGAN asked if an authorization is more likely to get into the STIP.

MR. OTTESEN responded, "Exactly."

[2:53:16 PM](#)

REPRESENTATIVE JOHNSON asked, regarding the earmark for the bridge to Gravina Island, how the state could take that money and spend it on other projects. He continued:

... where other earmarks, you're saying if we don't finish or complete then we've already spent I think you said \$55 million on access roads and stuff for that bridge that we may be in jeopardy of losing. So how can we take - what's different in that earmark than what you've described that, you know, if we don't finish it we're on the hook for it? So what makes that any different? Why is that a different category of earmark or am I just totally missing something here?

MR. OTTESEN said three earmarks apply to the Gravina Bridge. One earmark was directed for roads only. The word "bridge" was not in the title. The other two earmarks addressed the crossing or the bridge. After Hurricane Katrina, Senator Ted Stevens changed the earmarks for both bridges from earmarks specific to the KNIK Arm and Gravina Island bridge projects to earmarks to

DOT&PF for any purpose eligible under the STP category of apportionment, which is the most flexible category available. Two of the three earmarks were given to DOT&PF. The third earmark remained specific to roadwork on Gravina Island, which is why that project went forward.

[2:56:11 PM](#)

REPRESENTATIVE JOHNSON asked how many requests to change all earmarks have been made to Alaska's congressional delegation.

MR. OTTESEN said DOT&PF has asked the congressional delegation to ensure that earmarks are additive and not deductive. He acknowledged a difference of opinion on the value of earmarks. The congressional delegation believes earmarking is a very important part of its job.

REPRESENTATIVE JOHNSON maintained that if DOT&PF has total flexibility with earmarks, it would be difficult to oppose them. He said if only 10 percent of a project is funded so that the money can't be used that is one thing, but if DOT&PF can be given total flexibility, he questioned why anyone would oppose them.

[2:57:17 PM](#)

MR. OTTESEN said slide 18 of his presentation will make the point. He continued his presentation:

You can see here the number of earmarks that have occurred in the federal transportation program since it was sort of authorized in 1956. The key point here is for 30 years we were building the interstate as a nation. That was the motive behind this program. In that 30 years, from '56 to '86, there were 12 earmarks total in 30 years time in all 50 states so it was a pretty rare event.

Since then, in the last 20 years, there have been over 9,000 earmarks. I would just sort of ask this one question. Could we have built the interstate system and achieve what that has done for mobility in the United States under an earmark environment?

REPRESENTATIVE JOHNSON said he believes that would have been possible if the number of required environmental impact statements was the same as it was in the 1950s and 1960s.

MR. OTTESEN agreed and said his point is the earlier system ensured projects in areas that were not politically powerful.

[2:58:52 PM](#)

REPRESENTATIVE DOOGAN asked what constitutes an earmark.

MR. OTTESEN replied, "An earmark is a sum of money assigned to a specific project by name."

[2:59:15 PM](#)

REPRESENTATIVE DOOGAN questioned whether an earmark could fund either a project in the STIP or a project not in the STIP.

MR. OTTESEN said that is correct.

REPRESENTATIVE DOOGAN asked if the problem is not the earmark itself but the type of earmark.

MR. OTTESEN said that is correct. He said a certain number of earmarks go directly to planned projects in the STIP. The earmarks that cause problems are those that go to communities for non-transportation related work. He continued:

The amount of work they involve is unbelievable. If it's not funded, we really have to use state funds to pay for that. It's been meeting after meeting and dealing with agencies and trying to get earmarks re-titled, and now we're at the point where we have earmarks that are actually going back and leaving the state because we couldn't use them. We never got the problems ironed out.

[3:00:42 PM](#)

REPRESENTATIVE DOOGAN said discretion is one problem with earmarks since DOT&PF may get an earmark for a project that no one has looked at. The second problem is that earmarks are often insufficient to complete a project.

MR. OTTESEN said that is correct.

[3:01:07 PM](#)

REPRESENTATIVE SALMON asked what happened to the federal funds for the road from Juneau to Haines and whether that money was an earmark.

MR. OTTESEN said a \$15 million [federal] earmark must stay with that project. In addition, a certain amount of state funds were appropriated to that specific project. The balance of the funds spent on that project would have to come from federal formula dollars annually. He pointed out that road will consist of several projects so that in each year one of the projects moves forward, federal dollars will go toward it.

[3:02:08 PM](#)

REPRESENTATIVE SALMON asked if the project is dormant, dead, or without funds.

MR. OTTESEN said it is dormant because its permits have not yet been issued.

[3:02:24 PM](#)

REPRESENTATIVE DOOGAN asked:

So one of the problems figuring out the STIP is that if you've got several large projects that are going to eat up - essentially going to be trying to spend the same money, you've got to determine which ones to advance and which ones not in the STIP. Is that an accurate ...

MR. OTTESEN said exactly. The department does a balancing act that starts with a list of resources.

[3:02:58 PM](#)

REPRESENTATIVE DOOGAN asked if DOT&PF was looking at two large-scale roads, how it would decide which one should go forward when developing the STIP.

MR. OTTESEN noted a lot of conversation goes on with management. The regional directors discuss their needs. Most often, the decision is made with compromise. He maintained that everyone at DOT&PF is frustrated because they would like to see more projects go forward.

[3:03:57 PM](#)

REPRESENTATIVE DOOGAN asked if DOT&PF tries to make sure that each region's priority projects are getting some attention in the STIP.

MR. OTTESEN said it does and, for example, a three-year timeline may be stretched to a five-year timeline.

[3:04:22 PM](#)

CHAIR JOHANSEN said his constituents are very frustrated because the earmarks for the Gravina Island Bridge were removed because of nationwide pressure after Hurricane Katrina. He has heard the money was sent to the state with the intention of spending it on that project. However, DOT&PF reprioritized those funds and halted the project internally. The Governor has since announced the project would be cancelled. He maintained that it is frustrating for the federal delegation to get earmarks and then have DOT&PF decide what to do with the funds.

MR. OTTESEN explained that is the tension between earmarks and the federal process in law. The federal process requires a long, involved planning process to identify priorities for the STIP. Earmarks say do it this way. He pointed out when the Gravina Island Bridge earmark was changed, it became subject to the planning process. So, from a legal standpoint, the state had no choice but to do what it did. He said an executive order issued yesterday says when the federal government looks at earmarks, it will look to what the law says, not to what congressional committees or members say. The thinking is that an earmark is an act of the congressional body, not of an individual member. He continued:

We've been getting that through other written guidance for several months now that the - and I'll give you this example. Earmarks are often fuzzy - who gets them, what they're for, what they really intended to do with them, and we would write back to the delegation and get an answer - well, I really wanted it to go here and be for this purpose. We would take that and show it to Federal Highways and [it would] say fine, do that. It worked pretty well and we paid attention to that guidance. Now we're being told it has no standing, it has no merit whatsoever under a new executive order signed this week. If anything, it's kind of the tilting back to the planning process is the dominant force as much as - earmarks are still

going to occur. I don't expect we'll see the end of earmarks.

[3:08:02 PM](#)

CHAIR JOHANSEN said the point is moot as he cannot imagine that Congress will approve an earmark with the name Gravina Island on it for several generations.

MR. OTTESEN pointed out the one earmark that remained named for Gravina Island was spent on Gravina Island.

[3:08:33 PM](#)

REPRESENTATIVE SALMON asked if DOT&PF will be back in the same boat if the executive order changes after the presidential election.

MR. OTTESEN said that is certainly possible, however executive orders tend to survive administrations.

[3:08:54 PM](#)

MR. OTTESEN continued his presentation:

So on [page] 19, let me just give you the two kinds. There are two kinds of amendments to the STIP. There is what is known as an administrative modification and then an amendment. An administrative modification is a very simple, quick, internal process, no public notice. We make a change. We write a letter to the feds and inform them of the change and we put that on our website to inform the public that that administrative modification has happened and there are some guidelines in the new regulations about what falls under the threshold and becomes an administrative modification and what has to go the amendment route. The amendment route is much more formal - advanced public notice. We go through a comment period and give people the notice. Our concern about this is that the guidance is not hard. We can't tell you exactly where the line lies and we have to negotiate that with the federal agencies. For example, if you have a cost increase of - 10 percent to 20 percent might be the range in the guidance - and we have to decide at some point we'll reach the threshold where we have to go to a formal amendment

but we're in an area where costs are increasing by 15 and 20 percent a year. So our ability to write a STIP that won't end up with an amendment takes time and slows the process down. It's very tedious - good for public notice but it certainly is difficult in terms of getting jobs out. We're in a state where the construction season lasts five or six months so if we slow down to do an amendment, that's going to take us two or three months. We can be costing the contractors some real dollars and that ultimately delays the benefits to the public.

So, I'm going to tell you that the STIP before this year was the good old days. As bad as it may have been, it's bound to get a little bit worse because we're going to be doing amendments, I'm afraid, that are overlapping. If an amendment takes four months to process, we may have to have three or four of these amendments that are underway simultaneously. One started in January and one started in February, one started in March and the public is going to ask well which one of these amendments is the one I pay attention to. Well the truth is you can either pay attention to all of those because they are all doing something. That's the new rules of the game that we're ...

[3:11:19 PM](#)

REPRESENTATIVE DOOGAN asked when DOT&PF does advanced funding projects using state funds, whether it is gambling with state money because getting reimbursed with federal funds involves some degree of risk.

MR. OTTESEN likened the concept to a revolving fund so that as federal dollars are reimbursed, they replenish the state fund, which would be used year after year. The [revolving fund] would need about one year's worth of money. He said he fears what will happen when the bill is reauthorized in less than two years.

[3:12:30 PM](#)

REPRESENTATIVE DOOGAN questioned whether the money would stop revolving.

MR. OTTESEN said it might.

3:12:38 PM

MR. OTTESEN continued his presentation:

I'll close with the STIP on top of page 20. Our STIP is a searchable database accessible on line. There are many different search criteria, including election district and borough name, census district and road name, and etcetera. It's got a lot more information than the old presentation. It's been recognized and honored nationally. We have several improvements that we are going to, as soon as we can find the time and the money to make them. Now that it's an electronic database everything takes programming time. I talked a little bit about whether or not we should add state general funded projects to this document even though it wouldn't have the legal necessity of a federally funded project. It would give the public one place to see projects, to see what is planned and know what is coming and have the sense of schedule. I would actually enjoy input and see whether you thought that was a good idea but that's certainly one possibility. It wouldn't be that hard to do.

With that, Mr. Chairman, I've got a little bit of bonus material about what the future holds for SAFETEA-LU, the reauthorization. I think we've answered the question on the STIP. The next slide - in about two slides is about reauthorization - Key [indisc.], it's called. We're 21 months away from reauthorization, which is remarkably short. The three issues to watch will be the funding levels. ... The Highway Trust Fund has not had a gas tax increase since '93 so you really don't have any real increase in revenue other than more drivers but that barely keeps up with the fact that there are more roads those cars are on. The new committee that came out with a report a week before last is recommending that the gas tax jump from 18 cents to almost 60 cents, about a 40 cent gas tax increase. We can all guess just how quickly that will get adopted in the middle of an election cycle. When I flew back from the East Coast two weeks ago, my seat mate was a congressman and he basically told me don't hold your breath on this one.

3:14:53 PM

The other issue will be funding distribution. How will the money be allocated? For years and years it's been allocated by a complex set of formulas that have benefited Alaska very well. We are the net big winner in this formula game. We're getting, depending upon whether you measure it by one year or several years or 40 years, somewhere between 5, 6, 7 dollars to 1. It's a remarkable ratio. Hawaii is the next best state with about 3 to 1. A handful of other states are above 1 to 1. The vast majority of the big population states are at the 90 to 95 cents to 1 so we have a lot to lose if those formulas change and there is now talk about complete redo of the formulas.

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MR. OTTESEN continued:

The other change that worries me, just kind of looking into the crystal ball, is there's an awful lot of talk about a greenhouse gas reduction policy being tied to transportation. If you look to the past, Congress has used transportation funding as a way to, you know, change the behavior of states to get them to do certain things whether it's seat belts or drunken driving or the age of drinking or you name it. They have had the Clean Air Act, they have had a number of different ways where they attach - do this in your state laws or you don't get money. So they have the ability to use the highway bill as a way to change behavior on greenhouse gases - a lot of talk about that at the national level. The committees are already doing their work. There are already proposals before Congress as to how to write the bill and the nickname for it is already on the street - it's Green TEA. We've had ISTEA and TEA 21 and SAFETEA-LU and now we may get Green TEA.

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REPRESENTATIVE NEUMAN noted the federal government has held carrots before the Alaska Legislature, such as \$345 million in exchange for passing a seat belt law.

MR. OTTESEN said the amount was \$3 or \$4 million.

REPRESENTATIVE NEUMAN asked if the state is still getting that money.

MR. OTTESEN said that was a one-time only payment.

REPRESENTATIVE NEUMAN asked if Mr. Ottesen expects to see more "carrots."

MR. OTTESEN said some of the penalties take money away, for example, a soft penalty took money away from highways but gave it back for highway safety.

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MR. OTTESEN continued his presentation:

One other thing - I didn't bring you a copy but there is this report out by a national commission that was - and they are recommending the entire highway program - all the existing rules basically be thrown out and a new set of rules be put in place. There are 108 funding categories within U.S. DOT. They are proposing that all the DOT departments or divisions be changed and they no longer be highways or aviation but they now have complete new focus on these 10 categories and they would include urban areas over a million population. That would leave out Alaska. High speed inter-city rail - that would leave out Alaska. Out of those 10 categories there's only two or three that look like they might be useful to us. So it's just something to be aware of. Who knows how much traction it will get, whether it will become law, but it would completely rewrite the bill from top to bottom. This could happen in the foreseeable future.

If you look at the top of page 21 you see that the bills have been getting progressively a little bit later. The last authorization bill took 22 months past the due date before it was turned into law. I'm hoping we get a couple of years of the old formula to carry us through before some new formula comes along. That's kind of the end of my slide, Mr. Chairman.

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REPRESENTATIVE JOHNSON said his questions are about the bonding board. He stated:

It appears to me that if we had two years before we really know what is going on that if we start issuing bonds now and spending them, we may be gambling on any federal money spent out of that unless the intention of that is not to use it for any type of federal match or any type of thing like that and just strictly use it for GF construction. So will the proposed \$150 million - I don't know how big the bond is.

MR. OTTESEN said it is \$121 million for transportation.

REPRESENTATIVE JOHNSON continued:

How will that affect the STIP plan because that's a defined revenue source that you are going to invest, place in the STIP that 2½ years from now it may be totally different, gone sideways, you know, nothing, only the two things that you're talking about. All these changes on the horizon - why would we want to bond for that now, go into debt now with such an uncertain future?

MR. OTTESEN said the uncertain future is really on the federal side and comes down to whether the status quo will be maintained. Alaska has become the state that is hard to love from a national perspective. Alaska has not paid its way for quite awhile and its citizens get a permanent fund dividend and pay an 8 cent gas tax. The state funded bonds would have no federal strings attached. The bond funds would have the advantage of being available late into 2009, which is likely to be a down year.

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REPRESENTATIVE JOHNSON asked if any of the bond money will be used in the STIP as matching funds.

MR. OTTESEN said it will not. The funds will go to named projects and, because they fall into the category of general funded projects, the projects can move faster.

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REPRESENTATIVE DOOGAN asked if DOT&PF doesn't anticipate using the STIP as a mechanism to get the bond money back and whether the same is true of the proposed transportation fund. He noted

the original amount for the transportation fund is supposed to be \$50 million and asked if that money will be used to forward fund projects that will be repaid by the federal government through the STIP.

MR. OTTESEN said both are entirely unrelated to the federal funds. One benefit is that they don't have federal strings. He clarified that two packages of bonds were issued in 2003; a GO bond issue and a Grant Anticipation Revenue Vehicles (GARVEE) bond package. The GARVEE bond package was repaid with federal funds. He explained:

So now when I write the STIP, just like paying off an installment plan when you buy a car at that dealer and you get an installment loan, we have to take a certain amount of federal funds to pay off that GARVEE bond. That one does rely upon federal funds being there.

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REPRESENTATIVE DOOGAN thanked Mr. Ottesen for his enlightening presentation. He stated, "I'm surprised that a person who is still walking around loose could actually understand it."

MR. OTTESEN replied, "I appreciate that - I think."

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CHAIR JOHANSEN also expressed appreciation to Mr. Ottesen for his presentation. He announced that the committee hearings would be scheduled from 1:00 to 3:00 pm in the future so that two members can attend the full hearings. He said the committee appreciates how hard DOT&PF employees work and is aware of the challenges the department faces with the federal changes. His goal is to shed light on the process because his constituents do not understand why projects are not done. He expressed hope that the presentation will educate people on the process.

MR. OTTESEN said he appreciates the attention given to the topic.

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CHAIR JOHANSEN said at the same time, he believes DOT&PF has a long way to go. He expressed concern for the need for more communication with the public. He suggested if projects slip or

administrative changes are made, DOT&PF publish a one paragraph explanation in the local newspaper.

MR. OTTESEN agreed with Representative Johnson's former comments about notifying project applicants and the public and said DOT&PF can start doing that this year.

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ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 3:27 p.m.