

**ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE**

April 1, 2008

1:07 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

HOUSE BILL NO. 314

"An Act providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of state transportation projects; and providing for an effective date."

- MOVED CSHB 314 (TRA) OUT OF COMMITTEE

HOUSE BILL NO. 322

"An Act establishing the Alaska transportation fund and relating to the fund; and providing for an effective date."

- MOVED HB 322 OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 314

SHORT TITLE: G.O. BONDS FOR TRANSPORTATION PROJECTS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/16/08	(H)	READ THE FIRST TIME - REFERRALS
01/16/08	(H)	TRA, FIN
03/25/08	(H)	TRA AT 1:00 PM CAPITOL 17
03/25/08	(H)	Scheduled But Not Heard
03/27/08	(H)	TRA AT 1:00 PM CAPITOL 17
03/27/08	(H)	Heard & Held
03/27/08	(H)	MINUTE(TRA)

03/27/08 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/27/08 (H) <Bill Hearing Postponed>
04/01/08 (H) TRA AT 1:00 PM CAPITOL 17

BILL: HB 322

SHORT TITLE: TRANSPORTATION FUND

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/17/08 (H) READ THE FIRST TIME - REFERRALS
01/17/08 (H) TRA, FIN
03/25/08 (H) TRA AT 1:00 PM CAPITOL 17
03/25/08 (H) Heard & Held
03/25/08 (H) MINUTE(TRA)
03/27/08 (H) TRA AT 1:00 PM CAPITOL 17
03/27/08 (H) Heard & Held
03/27/08 (H) MINUTE(TRA)
04/01/08 (H) TRA AT 1:00 PM CAPITOL 17

WITNESS REGISTER

AVES THOMPSON, Executive Director
Alaska Trucking Association (ATA)
Anchorage, Alaska

POSITION STATEMENT: Offered testimony in support of HB 314.

JAMES KING, Director
Division of Parks & Outdoor Recreation
Central Office
Department of Natural Resources (DNR)
Anchorage, Alaska

POSITION STATEMENT: Offered testimony in support of HB 314.

STEVE RIBUFFO, Deputy Port Director
Port of Anchorage
Anchorage, Alaska

POSITION STATEMENT: Offered testimony in support of HB 314.

JERRY BURNETT, Director, Legislative Liaison
Administrative Services Division
Department of Revenue (DOR)
Juneau, Alaska

POSITION STATEMENT: Answered questions on HB 322.

AVES THOMPSON, Executive Director
Alaska Trucking Association (ATA)
Anchorage, Alaska

POSITION STATEMENT: Offered testimony in support of HB 322.

ACTION NARRATIVE

CHAIR KYLE JOHANSEN called the House Transportation Standing Committee meeting to order at [1:07:43 PM](#). Representatives Johansen, Salmon, Johnson, Keller, and Neuman were present at the call to order. Representatives Doogan and Fairclough arrived as the meeting was in progress.

HB 314-G.O. BONDS FOR TRANSPORTATION PROJECTS

CHAIR JOHANSEN announced that the first order of business would be HOUSE BILL NO. 314, "An Act providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of state transportation projects; and providing for an effective date."

REPRESENTATIVE NEUMAN moved to adopt CSHB 314, Version 25-GH2041\E, Cook, 4/1/08, as the working document. There being no objection, Version E was adopted.

[1:08:44 PM](#)

AVES THOMPSON, Executive Director, Alaska Trucking Association (ATA), said that the general obligation bond projects are important to the trucking industry and that ATA supports HB 314.

CHAIR JOHANSEN asked if the "Parks Highway: Weight Restriction Elimination" project, referred to in HB 314, was part of Mr. Thompson's February 14, 2008, Alaska Truckers Association overview to the committee.

[1:10:03 PM](#)

JAMES KING, Director, Division of Parks & Outdoor Recreation, Central Office, Department of Natural Resources (DNR), explained that the "South Denali Access Road" project consists of a road and visitor center that will allow visitors to share the Denali experience. He reported that the access road project will start from the Parks Highway, close to the South Denali view turnout at Mile 134. He described that this will be a 3.5 mile road to an alpine Visitors Center which improves access to the state park lands and provides year round interpretative and recreational opportunities for locals and visitors. He declared that this will present an area-wide economic boost. He explained that the \$8.9 million bond is the start-up money for

the road. The rest of the project funding will be from federal and private sources which have instructed that the state needs to start the project before they will commit any further funding.

[1:14:54 PM](#)

REPRESENTATIVE DOOGAN asked if this road is on state or federal land.

MR. KING replied that the road is on state land and is entirely within Denali State Park.

REPRESENTATIVE DOOGAN asked if the facility will be on state land, as well.

MR. KING responded that this will be a Denali State Park facility. He explained that the project is a partnership with the Matanuska-Susitna Borough and the National Park Service (NPS) and that the NPS has been very supportive with finances, planners, and funding into the future.

REPRESENTATIVE DOOGAN asked if Denali National Park and Preserve will be accessible from this visitor facility.

MR. KING replied that this project does not touch the National Park. He reiterated that all of this project will be within Denali State Park.

[1:17:12 PM](#)

REPRESENTATIVE NEUMAN asked for an explanation of the federal matching funds.

MR. KING replied that a funding package has been put together and that the \$8.9 million will start the process. He explained that once this money is received, the project will qualify for NPS Centennial Initiative funds that are a dollar for dollar match. He pointed out that NPS has put a request in their capital budget to help build the facility. He reported that all three members of Alaska's congressional delegation have indicated that they will support the project if the state initially funds the project. He said that Division of Parks & Outdoor Recreation has approached grantors and private funders from the tourism industry, and several have responded that they will participate.

[1:19:07 PM](#)

REPRESENTATIVE NEUMAN asked to clarify that this is not the Stampede Road or the Petersville Road.

MR. KING agreed that this access road is neither of these.

REPRESENTATIVE DOOGAN asked how this project came to be included in the bond package.

MR. KING conveyed that the governor requested proposals for new roads, and that the division submitted this road project proposal.

[1:21:26 PM](#)

REPRESENTATIVE KELLER asked if the \$8.9 million is just for the road or is also for the facility.

MR. KING said that the state requests that the money be dedicated for a specific part of the project. He pointed out that there is a need for environmental assessment and planning as part of the road project. He noted that any left over money will go toward construction of the visitor center.

STEVE RIBUFFO, Deputy Port Director, Port of Anchorage, said that the Port of Anchorage is requesting \$20 million each year for the next five years as a state contribution to the port expansion project.

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CHAIR JOHANSEN closed public testimony.

CHAIR JOHANSEN outlined the proposed changes in the bill to be the removal of the \$15 million for "Southeast Alaska: Pavement Rehabilitation," and the addition of \$45 million for "Gravina Access." He allowed that this will reflect a net increase of \$30 million for the general obligation bonds requested.

[1:25:02 PM](#)

REPRESENTATIVE FAIRCLOUGH said that she appreciates the discussion of the Gravina Access, but she questions how a bond package will pass when more than 30 percent of the package goes to Southeast Alaska.

CHAIR JOHANSEN replied that Gravina Access is an important project, and he expressed his belief that the decisions of the state should not be made based on the number of people living within an area.

REPRESENTATIVE FAIRCLOUGH agreed that large infrastructure projects should go through a process to determine the priority level. She expressed concern that a project which is 30 percent of the bond package will jeopardize the other community projects in the bond package.

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CHAIR JOHANSEN offered his belief that this bill will be balanced with other state interests by the time it reaches the House Floor.

REPRESENTATIVE DOOGAN expressed his concern with the legislature passing a bond package when there is so much money available. He requested more discussion of the advisability for bonding.

REPRESENTATIVE NEUMAN agreed with Representative Doogan's concern for a bond package. He mentioned that his constituents feel that all the legislators are responsible for the budget. He said that it is good that this bill will go to a vote of the public.

[1:31:14 PM](#)

REPRESENTATIVE FAIRCLOUGH said that she wants her constituency to know that she will put a "no recommendation" on this bill. She noted that there are billions of dollars of transportation projects and that she supports the governor's resolve to move forward.

REPRESENTATIVE FAIRCLOUGH established that the "Gravina Access" project may raise federal concerns as Alaska has supported a "no build" alternative. She posed that this may initiate liabilities or ramifications from the federal government.

[1:34:26 PM](#)

REPRESENTATIVE JOHNSON allowed that he also has concerns about the legislation. He expressed his belief that this bill is a budget increase, even though it is not contained in the capital budget.

CHAIR JOHANSEN expressed his frustration with the administration's approach to the budget. He explained that he tries to separate operating and capital budgets. He offered his belief that the capital budget should be investments in projects that provide opportunities. He discussed the use of bonds, stating that Alaska's bond rating is improved, and that this bill is a wise use of money.

REPRESENTATIVE NEUMAN moved to report CSHB 314, Version 25-GH2041\E, Cook, 4/1/08, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 314(TRA) was moved from committee. The committee took an at-ease from 1:38 PM to 1:41 PM.

HB 322-TRANSPORTATION FUND

[1:41:13 PM](#)

CHAIR JOHANSEN announced that the final order of business would be HOUSE BILL NO. 322, "An Act establishing the Alaska transportation fund and relating to the fund; and providing for an effective date."

[1:41:42 PM](#)

REPRESENTATIVE FAIRCLOUGH commented that the state transportation infrastructure is critical for maintaining public safety and economic opportunities. She agreed with the administration that long term planning for the aging transportation infrastructure is necessary. She compared the endowment concept to the permanent fund. She declared her concern that the transportation infrastructure requires more than an annual \$50 million appropriation. She presented an annuity approach that provides increased annual funding for the transportation projects.

REPRESENTATIVE FAIRCLOUGH stated that a \$1 billion endowment fund, paying 5 percent annually, will take 21 years to finance \$1.48 billion worth of transportation construction projects, compared to an annuity fund that will spend \$1.49 billion on transportation projects over 10 years.

REPRESENTATIVE FAIRCLOUGH offered her belief that the state will suffer a revenue shortfall within the next eight years, and that could cause the transportation endowment fund to be usurped for other funding. She noted that during this same time period an annuity will have spent more than \$1 billion on transportation

projects, and the state will have better prepared for the economic viability of the gas pipeline. She noted that construction costs have increased 30 percent over the last 4 years, and that the assets of an endowment fund will erode much more quickly than an annuity. She asked that the committee consider the purchasing power of \$1 billion when determining the merits of an endowment savings account compared to an annuity.

[1:50:17 PM](#)

REPRESENTATIVE NEUMAN asked if an annuity would be zeroed out in 21 years.

REPRESENTATIVE FAIRCLOUGH clarified that at the end of 21 years, \$1 billion will remain in the endowment fund; but at the end of 10 years, the annuity will have spent \$1.49 billion, all of its money, on transportation projects. She called attention to the rising cost of construction, explaining that the value of the money still left in the endowment fund will lose its purchasing power for transportation projects.

[1:52:07 PM](#)

JERRY BURNETT, Legislative Liaison, Director, Administrative Services Division, Department of Revenue (DOR), stated that DOR has a different estimate for an annuity payout. He reported that an annuity has to guarantee payments; therefore, a 10 year, risk-free annuity invested in treasury bills will generate a return rate under 3 percent, for a total payout of \$115 billion. He identified the difficulty of expecting an 8 percent return when the payout must be within 10 years. He pointed out that a poor return in the first year of an annuity will not generate the money necessary for a payout. He explained that an endowment account allows payments during good years and bad years.

REPRESENTATIVE DOOGAN asked if the endowment plan is predicated on earnings of 8 percent.

MR. BURNETT explained that the endowment plan is predicated on average earnings of 8 percent over a 25-30 year time frame, not average earnings in a 10 year period. He said that an annuity needs to be concerned about earnings in each year.

REPRESENTATIVE DOOGAN asked to clarify the risk difference between an annuity and an endowment, as the payout is guaranteed, and the predicated interest is the same.

MR. BURNETT explained that the endowment plan is predicated on paying a percentage of the average market value for the prior five years, so the average over time only needs to be 8 percent. With an annuity, there needs to be earnings in each year, in order for it to pay out correctly.

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REPRESENTATIVE DOOGAN asked again that if there is a \$1 billion investment with assumed earnings for either an endowment or an annuity, then there needs to be the same set of assumptions. He posed that DOR is making a favorable set of assumptions for the endowment and an unfavorable set of assumptions for the annuity.

MR. BURNETT reiterated that an endowment investment allocation is based on the return over a longer period of time, which allows for a greater variation of annual earnings. He explained that an annuity investment is for a shorter time period and that does not allow for the same earnings variation if there is to be a guaranteed annual payout.

REPRESENTATIVE FAIRCLOUGH commented that she is happy that DOR is working to meet the needs of DOT&PF. She asked for an explanation of the real rate of return and a suggestion to maintain the purchasing power of the investment.

MR. BURNETT explained that the endowment approach is based on a 5 percent real rate of return. He agreed that this return will not maintain the purchasing power given the rate of inflation for construction projects.

REPRESENTATIVE FAIRCLOUGH furnished an example that the dramatic increase of oil industry construction costs is eroding the purchasing power of the dollar, and pointed out that this demonstrates the need for transportation projects to be built immediately. She offered her belief that the ten year annuity payout program, using the full \$1 billion transportation fund, will bring more construction work and safer travel for Alaskans. She expressed her belief that an 8 percent return for the ten year program is attainable.

MR. BURNETT expressed his belief that an 8 percent return for a ten year investment is not a reasonable expectation. He explained that annuity funds are generally risk free investments. He allowed that should a higher acceptable level

of risk be determined, the annuity could be invested for a larger return than the risk free investment option.

REPRESENTATIVE FAIRCLOUGH expressed her "great faith in the investment strategies of our permanent fund board." She suggested that the transportation fund be invested in sub accounts to allow a wider range of risk so that the potential for a larger return is tempered with lower risk investments. She restated the importance of promptly investing more money into transportation projects.

[2:02:31 PM](#)

REPRESENTATIVE NEUMAN asked if the permanent fund has had an annual rate of return greater than 8 percent over any 10 year period.

MR. BURNETT offered his belief that there have been periods of return both higher and lower than 8 percent. He referred to the prior 8 years, and reported that the first 3 years lost money. He noted that if annuity funds had been invested at that time, the investment payoff would have been down.

[2:03:45 PM](#)

AVES THOMPSON, Executive Director, Alaska Trucking Association (ATA), stated that an ATA legislative priority is to expand the DOT&PF capital projects program. He expressed support of the endowment concept as it will create a sustainable and predictable revenue source for DOT&PF. He reported that there are many multi year projects that require a lot of time and planning. He allowed that federal funding will probably not meet the needs. He encouraged state funding and he supported Representative Fairclough's ten year plan that will put money more quickly into the programs. He offered his belief that the highway system supports the largest part of the population and deserves the largest portion of any transportation fund appropriations.

[2:06:15 PM](#)

CHAIR JOHANSEN closed public testimony.

REPRESENTATIVE NEUMAN offered his belief that this bill is not the best use of the state funds. He said that he did not know what the state needs might be in five years, citing education and public safety as two possibilities. He expressed concern

that a transportation fund is "locking it [the money] up," whereas if the money is in the Constitutional Budget Reserve the legislature will be able to appropriate the money.

2:10:50 PM

REPRESENTATIVE FAIRCLOUGH said that the people of Alaska support the governor's proposal to create separate funds for alternative energy sources and transportation. She stated that the transportation infrastructure plan needs to include long term maintenance goals. She noted that maintenance is less expensive than replacement, but that there is no incentive for maintenance.

REPRESENTATIVE FAIRCLOUGH expressed her belief that the transportation divisions are at a disadvantage when they submit their recommendations as each legislator advocates for a specific region and re-prioritizes the transportation goals. She stressed that a transportation fund is critical to the infrastructure, and she agreed with DOR and the administration that long term planning is needed.

REPRESENTATIVE DOOGAN said that he is going to oppose the bill. He agreed that \$1 billion could be spent on transportation projects. He stated his belief that his job is to decide on appropriations. He noted that this bill takes \$1 billion, dedicates it to a specific range of projects, and gives DOT&PF a \$50 million a year capital budget. He expressed that his preference is to vote annually for sensible spending on transportation projects. He expressed his belief that he is not doing his job if he gives money to a department to spend as they determine.

2:16:38 PM

REPRESENTATIVE KELLER reported his understanding that the Alaska State Constitution requires that [capital] spending is to go toward infrastructure, and he expressed his belief that this is not upheld. He declared that a long term transportation account is an investment which provides huge returns by building roads that allow for development. He stated his support for the bill.

REPRESENTATIVE JOHNSON expressed his belief that relegating funding responsibilities to the departments is a bad idea. He stated that he would rather appropriate money for projects every year, instead of setting up funds for each department.

REPRESENTATIVE SALMON remarked that the legislature is here to annually appropriate money.

[2:20:36 PM](#)

REPRESENTATIVE FAIRCLOUGH expressed her belief that roads require long permitting processes, so there is a need for a fiscal strategy that keeps the projects moving and allows for increased costs. She offered her belief that an annuity and an endowment are examples of transportation accounts. She stated that the projects will still be brought to the legislature for approval, and that this will ensure that the projects maintain the state transportation infrastructure.

REPRESENTATIVE JOHNSON reported his belief that money will be tight in the next five to seven years. He said that he could not reconcile that money will have already been appropriated for transportation when the most pressing future needs might be for education, senior care, or children. He stated that he could not support the bill.

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REPRESENTATIVE NEUMAN moved to report HB 322 out of committee with individual recommendations and the accompanying fiscal notes.

REPRESENTATIVE DOOGAN objected.

A roll call vote was taken. Representatives Fairclough, Keller, Neuman, and Johansen voted in favor of HB 322. Representatives Johnson, Salmon, and Doogan voted against it. Therefore, HB 322 was reported out of the House Transportation Standing Committee by a vote of 4:3.

ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at [2:27:57 PM](#).