

SENATE FINANCE COMMITTEE  
February 27, 2008  
9:19 a.m.

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at [9:19:17 AM](#).

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Charlie Huggins, Vice-Chair  
Senator Kim Elton  
Senator Donny Olson  
Senator Joe Thomas  
Senator Fred Dyson

MEMBERS ABSENT

None

ALSO PRESENT

Frank Richards, Deputy Commissioner Of Highways & Public Facilities, Department Of Transportation And Public Facilities; Jeff Ottesen, Director, Division of Program Development, Department of Transportation & Public Facilities; Jerry Burnett, Director, Division of Administrative Services, Department of Revenue; Ian Fisk, Staff, Representative Thomas; Mary McDowell, Vice-President, Pacific Seafood Processors Association; Senator Johnny Ellis; Kurt Smith, State Traffic and Safety Engineer, Department of Transportation and Public Safety

PRESENT VIA TELECONFERENCE

John Duffy, Borough Manager, Mat-Su District; Ron Siebels, Military Order of the Purple Heart, Anchorage

SUMMARY

SB 236

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

SB 236 was heard and HELD in Committee for further consideration.

HB 321

"An Act relating to the salmon product development tax credit; providing for an effective date by

amending an effective date in sec. 7, ch. 57, SLA 2003, as amended by sec. 4, ch. 3, SLA 2006; and providing for an effective date."

CSHB 321 (FIN) MOVED to report out of Committee with the accompanying fiscal note

SB 216

"An Act designating the Alaska Highway and portion of the Richardson Highway as the Purple Heart Trail."

SB 216 MOVED to report out of Committee with the accompanying fiscal note

[9:19:24 AM](#)

SENATE BILL NO. 236

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

Co-Chair Stedman commented that the intent today was for the Administration to present the bill and to take public testimony.

FRANK RICHARDS, DEPUTY COMMISSIONER OF HIGHWAYS & PUBLIC FACILITIES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, presented an overview of SB 236 (Crossroads Ahead, Why a State Funded Transportation Program is Right for Alaska, copy of file). He explained his intention to describe the State of Alaska's Transportation System and how constrained Alaska is in addressing its aging assets. He planned to include Governor Palin's approach to meeting the transportation needs for the future with the creation of an Alaska Transportation Fund. Mr. Richards remarked that in looking at the existing infrastructure across Alaska, there are concerns about safety, congestion, and deterioration (p. 2). Mr. Richards described that portions of Alaska's Highway are in very poor condition. He estimated the backlog of pavement repairs, that have reached the end of its useful life, is 2100 miles of the National Highway System, including the Glen, Parks, Richardson, Sterling, Alaska and Dalton Highways. The pavement deterioration cost on these roads is growing at a rate of \$80 million a year. The Alaska Highway System and Community Transportation Program are in addition to this need. Mr. Richards pointed out the challenges with Alaska's bridges. He related that good progress has been made towards bridge repairs, but the job is not complete (p. 5). Mr. Richards related that work has been completed on the: Washington Creek Bridge, several Parks Highway bridges, Hicks Creek, Kenai River at Soldotna, and South Channel at Unalaska. The Tanana River Bridge on

the Alaska Highway and bridges at Hyder and Gustavus are scheduled for projects this year, if environmental permits can be obtained. Mr. Richards continued that ten percent of Alaska's bridges (86) need seismic retrofits. This work includes:

- Lengthening bearing seats
- Cabling girders together
- Anchoring bridges to their supports
- Strengthening columns and footings
- Replacing tall rocker bearings with shorter rubber bearing pads or isolators

Mr. Richards indicated that \$20 million has been spent to date on seismic retrofits, but the process is still not complete. The department has completed "Phase I" retrofit, but will need to start "Phase II" in the next few years, funding permitted. Mr. Richards reported that across the state transportation assets are being impacted by changing climatic conditions (p. 6). Those factors having a disastrous impact on the pavement are:

- Heavier precipitation events
- Greater frequency of Strong Storms
- Warmer summers
- Extended shoulder seasons both fall and spring with more freeze/thaw cycles

Mr. Richards described the extensive permafrost degradation associated with shifting ground that is impacting Alaska's highways and airports. Mr. Richards indicated that work is needed to protect the Copper River Highway, estimating \$50 million, to shore up and raise the grade as a direct consequence of the river changing course following a major 2006 storm event.

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Mr. Richards pointed out that the Alaska Marine Highway has identified a list of deferred maintenance that amounts to \$18 million in immediate needs (p. 7). This information suggests the real number is much larger, but often, without access to hidden spaces, the actual degree of need can not be known. He explained that problems are often only discovered when a vessel goes into the yard, and hidden areas are opened as part of planned work, at which time bigger problems are discovered. Mr. Richards noted that the state owned and community owned harbors are deteriorating primarily due to long standing budget declines. The needs of our remaining assets and those of the community owned facilities continue to be an issue. The state owns forty nine harbors in twenty two communities (Chenega, Cordova, Craig, Homer, Juneau, Ketchikan, King Cove, Kodiak, Old Harbor, Pelican, Petersburg, Sand Point, Seldovia, Seward,

Sitka, Skagway, Tatitlek, Valdez, Wrangell, Whittier, and Yakutat). The Association of Harbor Masters and Port Administrators (AAHPA) have identified approximately \$100 million in needed harbor repairs. This incorporates approximately four hundred seventy six (public and private) port and harbor facilities in the state (as of 2004), with two hundred forty in southeast Alaska and two hundred thirty six in southwest and western Alaska. Mr. Richards indicated that Alaska is the largest airport operator in the United States with two hundred fifty six airports statewide (p. 9). He mentioned that Alaska airports continue to receive healthy investments from the FAA, but many airport needs are unmet. Mr. Richards mentioned the need to deal with safety items, such as rutting on soft runway embankments and crowding of the runway/airports by homes and businesses. Additionally, the airport assets are deteriorating with cracked asphalt surfaces, loss of gravel surfacing materials, and aging lighting systems that are very difficult to maintain.

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Mr. Richards illustrated how challenged Alaska is to fund major priority National Highway System projects with the current federal program (p. 10). The current annual National Highway System allocation is approximately \$80 million a year. Mr. Richards showed on the chart how long it would take to fund the priority projects if it was only funded with the annual allocation of National Highway System funds (p. 10). Mr. Richards elaborated that if the department wanted to upgrade the Parks Highway, it would require allocating all the National Highway System funds for two years. The list of funding needs could include dozens of other equally worthy projects, such as the Haines or Seward Highways. He mentioned that the Fairbanks list included the three main routes leading to Fairbanks; the Parks Highway, the Richardson Highway and the Elliott Highway. Mr. Richards also reminded the committee that these costs are in 2008 dollars which do not include the impact of future construction cost increases. He also mentioned that trends in federal program may result in smaller funding levels, so it is likely even a longer timeline is needed to address these selected set of needs.

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Mr. Richards stressed that the use of federal funds is even more challenging with the latest Highway Reauthorization bill, named the Safe, Accountable, Flexible, Efficient Transportation Equity Act (SAFETEA-LU), due to the:

- Impact of deductive earmarks
- More set aside programs such as safe routes to school, recreational trails, and others

More Restrictive regulations  
Loss of flexibility within the various funding  
categories

General purpose funds within SAFETEA-LU, available for project accomplishment, were actually much lower than in its predecessor bill TEA-21 (p. 11). Mr. Richards explained that the next chart represents the best estimate on what the Federal Highway Administration (FHWA) receipts will be over the next couple of years based on current information, with plenty of uncertainty thrown in (p. 12). The formula funds are inclusive of both the flexible and inflexible types of apportionment. This chart does not include earmark funds anticipated in the 2008 and 2009 years, from the SAFETEA-LU earmarks. Mr. Richards showed that the trust fund shortfall has been updated with the latest information from the Federal Highway Administration. The \$50 million rescission, shown in 2009, is as written into SAFETEA-LU legislation; only an act of Congress can change this. Mr. Richards indicated that it is a guess as to what the program will change to and in what year it will change. The next reauthorization is scheduled for 2010. Mr. Richard assumed that the 2010 levels will be a continuation of the 2009 levels, and showed the funds will grow very modestly before accounting for trust fund difficulties. The shortfall is about equal to the initial funding from the Alaska Transportation Fund (ATF), of approximately \$50 million each year.

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Mr. Richards related the huge impact of construction costs over recent years, causing great consternation among the owners of facilities. Asphalt pavement costs are up approximately 80 percent and earthwork costs are up 60 percent. The values shown in the chart are from a review of all of the bid tabs over last seven years (2000 to 2006), providing a good representation of actual inflationary impacts (p. 13). Mr. Richards admitted that he had no clear explanation why Alaska costs are nearly doubled that of the national average, except anecdotal evidence; fewer bidders, the high cost of freight to rural Alaska, and known high workload in other construction sectors such as military, and other federal programs. Mr. Richards commented that cost increases also follow the price of oil. He explained that highway and airport construction is very energy intensive, due to moving heavy materials, using big equipment, and items such as asphalt pavement which are big users of oil and fuel to produce.

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Mr. Richards maintained that there are many federal laws, permits, and federal reviews to be complied with when using

federal funding. Each dot shown on the chart results in more process, permits, and reviews which can add years and great costs to the projects (p. 14).

Mr. Richards remarked that after twenty years of nearly flat line maintenance and operations budgets, the department has received increased funding over the last few years. The department greatly appreciates the support (p. 15). Mr. Richards stressed though that the department has experienced a significant loss of buying power over the last twenty five years of approximately \$50 million. During this interval, more responsibilities have been added to the department, such as, increasing lane miles, larger airports, lighting systems, and new traffic lights which increase the challenge of getting the job done well. The current General Fund operating budget covers basic needs to perform snow and ice control and general routine maintenance, but does not provide resources to perform preservation activities.

[9:34:02 AM](#)

Mr. Richards stressed that Alaska's Transportation System is truly unique and very diverse; the largest airport operator in the nation, a ferry system that traverses 3,500 miles of routes along the coasts of Alaska and Canadian Peninsula and a huge coastline with the need for safe ports and harbors. He indicated that Alaskans support these systems with a much higher amount of ownership costs than citizens in the rest of the United States. This is a reflection of Alaska's large geography, coupled with low population (p. 16).

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Mr. Richards acknowledged that Alaska has been extremely fortunate to receive approximately \$6.44 of federal highway funds (FHWA) for every \$1.00 paid in federal taxes at the fuel pump. He mentioned that the Reauthorization of Highway bill will occur in 2010, which is expected to be very different from previous bills, emphasizing greenhouse gas reductions. A new national Commission Report, just released, proposes a complete makeover of the federal transportation programs, replacing the formula approach with a performance measure approach, and oversight by a national commission (p. 17).

[9:35:22 AM](#)

Mr. Richards remarked that other states have long had state and/or local funding mechanisms to supplement the use of federal funds. The Departments of Transportation, in other states, also have the largest roads and highways, representing on average about 20 percent of their state's road network. Alaska owns and maintains, for the state, approximately 40 percent of the road network, so this too

subtracts from what can be done on really crucial highway and ferry links (p. 18).

Mr. Richards continued that in addition to their existing fund sources, many states also see the need for more and different ways to fund construction using such things as tolls, public/private partnerships, and user fees for vehicle miles driven. This alternate type of funding would be very difficult to institute in Alaska with its small population base (p. 19).

[9:36:18 AM](#)

Mr. Richards remarked that there are strategic advantages to having a state funded program; projects can be completed much faster often making them less costly. Alaska would have relief from federal oversight and would not have to follow many of the federal laws. The National Environmental Policy Act (NEPA) would be avoided if there are no federal actions involved, such as wetlands permits, which would benefit preventative maintenance and major maintenance type projects. Mr. Richards specifically mentioned Section 4(f) of the 1966 Transportation Law that prohibits federally funded roads through parks that can be very demanding in Alaska (p. 20). Mr. Richards explained that the next chart represents two different project timelines (p. 21). The top line shows a federal project and the process that must be followed. He indicated that in a federal project one phase must be completed before the next phase can begin, adding approximately seven years to complete a project. The lower portion of the chart shows state funded projects time line. Mr. Richards pointed out that work on state funded projects can be completed in parallel, saving about two to three years and the associated higher costs of construction.

[9:38:03 AM](#)

Mr. Richards indicated in the next chart some of the successes in completing several projects with time savings including (p. 22):

- Boniface Parkway Extension
- Dowling Road East
- Washington Creek Bridge on Elliott Highway
- Ketchikan Tongass Avenue
- Pile Bay - Williamsport (Cook Inlet to Lake Iliamna)
- Work on Glenn Highway at Merrill Field

Mr. Richards presented that the next chart was prepared from all funds appropriated to transportation, including (p. 23):

- Annual capital budget
- Supplemental capital budgets
- GO bond funds in 2003

State and local projects and  
Deferred maintenance and maintenance station  
construction

Mr. Richards indicated that it does not include:

Match funds to aviation, highways, National Highway  
Safety administration (NHTSA) and Federal Motor Carrier  
Safety Administration (FMCSA)  
Grant Anticipation Revenue Vehicle (GARVEE) bonds  
(since they are repaid with federal funds)

Two key points to chart are:

General funding has been very erratic. This is not  
ideal to department workload, consultants or  
contractors.

The proposed Alaska Transportation Fund (at the  
beginning amount of \$50 million per year) would have  
been quite meaningful in five of the past nine years.

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Mr. Richards proposed that the department can not  
realistically continue to rely solely on Federal programs to  
meet Alaska's Transportation needs. The department will  
continue to utilize the federal funds made available for  
specific modes but there are still assets like ports and  
harbors that do not have a dedicated federal program to fund  
their needs. Federal aviation funding is somewhat more  
robust than Alaska's highway funding but it still not enough  
to get the job completed. While the 3,300' runway standard  
is still being implemented, with many communities needing  
this improvement, the desire for much longer 4,500' runways  
is growing due to costs of moving fuel by air. The loss of  
barge service due to water levels in some river systems is  
behind this need for larger airstrips. Mr. Richards remarked  
that based on the analysis of needs and projected funding,  
it is time to institute a funding stream that will provide  
for Alaska's existing and future Transportation needs. Mr.  
Richards elaborated that an Alaska Transportation Fund would  
allow for a fund stream that could provide resources for all  
state and local modal needs and develop a program approach  
to meet these needs. Mr. Richards indicated that the  
department would follow, AS 44.42.050, on the project  
selection process. There are currently individual modal  
selection processes in place but there is the need to create  
a multi-modal process using performance measures to guide  
project selections. Alaska's project scoring process has  
been identified as among the best in the nation. The Denali  
Commission looked at several approaches throughout the  
nation and opted to follow one nearly identical to the  
Department of Transportation's Project Evaluation scoring  
process.

[9:41:32 AM](#)

Mr. Richards observed that individual project appropriations did not allow the department to develop a programmatic approach. The Alaska Transportation Fund will provide a consistent fund source. Mr. Richards estimated that the initial Alaska Transportation Funding appropriation of one billion dollar would generate approximately \$50 million per year. The alternative to raise this level of funding would be to raise the gas tax from 8 cents to 20 cents (p. 26).

[9:42:31 AM](#)

Mr. Richards continued that state law already defines how transportation projects should be identified through a planning process, and how they should be selected for funding by the Executive branch, with approval and appropriation by the Legislative branch. This core process will continue, with the Alaska Transportation Fund as a new funding source (p. 27). Mr. Richards remarked that there is currently a programmatic approach funded by the federal highway and federal aviation funds. This means that there is an annual allocation of funds that can be used to fund various phases of multiple projects. This approach allows the department to use the pool of funding to shift between projects if delays or cost increases require funds to be reallocated. Mr. Richards emphasized that this is more efficient as funds are not parked for total project consumption, which happens when there is an individual appropriation. Over the last few years there has been severe erosion in the purchasing power due to high costs of fuel and construction. This has meant that individual project appropriations have required coming back to the legislature to seek more funding or reduce the scope of the project. The Alaska Transportation Fund would allow the department to shift funds to cover these impacts and proceed on a timelier basis.

[9:44:22 AM](#)

Mr. Richards stated that once the Alaska Transportation Fund is established, the funding for the first few years will be used to (p. 30):

- Target know priority safety needs
- Let contracts for existing bid ready projects
- Target preservation activities
- Address economic development and congestion needs

Mr. Richards believed it was truly a tragedy that seventy-five to eighty people per year were losing their lives from accidents on Alaska's highway and road systems. Transportation needs to address the problems in order to

save lives, injuries, and the large monetary impact that accidents cost society. Mr. Richards commented that the safety numbers shown are from the Strategic Highway Safety Plan, just completed in Sept. 2007. He said a goal has been set to reduce fatal accidents statewide by one third over the next ten years, but this will take investment and a new funding mechanism to accomplish.

Mr. Richards remarked that preservation is the smart thing to do. Preservation activities generate \$4 of saving for every \$1 spent, i.e., delayed costs of reconstruction, prolonged life of the assets. Approximately \$13 million in Federal Highway Funds and \$4 million in Federal Aviation Funds are being used for preservation activities. This is addressing some of the needs and helping with the operating budget (p. 32).

[9:45:55 AM](#)

Mr. Richards stressed that congestion relief impacts everyone from the economic costs associated with time delays. It is estimated that savings are promoted by addressing congestion in the form of providing additional lanes or alternate routes (p. 33).

[9:46:33 AM](#)

Mr. Richards emphasized that transportation is vital to the viability of our country and is especially important in Alaska with its huge landmass and spread out population. He saw transportation as key to promoting opportunities for all Alaskan's in line with our Constitutional mandate (p. 34).

Mr. Richards reported that picking projects will require two levels of decision; how much to give each type of system (mode) and how to select projects within each mode and the criteria to be used. The department will use statewide assessments of needs to answer the first question. For example, if highways backlog is ten times greater than ports and harbors backlog, then dollars would be apportioned accordingly. Mr. Richards remarked that a well established and nationally recognized modal is in place for scoring criteria. There is also a plan to evaluate whether there is a need to update criteria and include new items for such things as preventative maintenance projects. There will be a public process in developing new regulations (p. 35).

[9:47:44 AM](#)

Mr. Richards stated that the department is completing the 2030 Plan. It provides a detailed examination of how much funding is needed to address transportation needs across the state. It considered all the modes and provides good baseline data. Mr. Richards noted there is a recognition

that more needed to be done on Ports and Harbors statewide and the department is working with the Corps of Engineers and the Denali Commission to fund a comprehensive study statewide. All updated information will be used to allocate funding across the modal needs, if provided with additional funding (p. 36).

[9:48:26 AM](#)

Mr. Richards reiterated that Alaska is at a "Fork" in the road. He believed that one way leads to likely economic impacts from congestion, deteriorating assets and continued safety challenges. The other way leads to a brighter future with more self reliance and determination. He emphasized that the needs for the future are great when considering (p. 37):

The potential for significantly less federal transportation funds  
The anticipated decline in the amount of oil revenues and the need to live within our means  
The urgent need to address our needs now so we do not get farther behind the power curve  
The growth of our great state and the need to develop our natural resources such as the Gas Pipeline

[9:49:08 AM](#)

Co-Chair Stedman referred to page 23, and requested the addition of a few more bars on the graph to see full state and federal spending on Department of Transportation projects from FY 00 to FY 08. Mr. Richards questioned if Co-Chair Stedman wanted to see, by fiscal year, the total transportation funds broken down by fund source. Co-Chair Stedman remarked that there were no federal funds included in this chart to determine the federal capital match to maximize the federal revenue coming into the state. Mr. Richards indicated he would do this. Co-Chair Hoffman questioned the benefits to rural Alaska in improved transportation if this program were implemented.

[9:51:02 AM](#)

Mr. Richards remarked that the Fund would be available for the legislators to appropriate for projects across the modal needs, including harbor, ports, airports, roads, local roads. It would not be specific to one particular mode. Co-Chair Hoffman wondered if there would be any construction of new roads in Alaska. Mr. Richard acknowledged that toward the economic development of Alaska, if there are funds available, the Department of Transportation would be supportive of building new roads. The last new road in Alaska was the Red Dog Road in the 1980s. Co-Chair Hoffman commented that in looking at the outline presentation of

existing problems that the amount generated from the Fund would barely scratch surface.

[9:53:09 AM](#)

Mr. Richards observed that the initial appropriation of \$1 billion will generate approximately \$50 million that is not currently available. It is a start to begin replacing lost federal dollars and allowing for inflation.

[9:54:06 AM](#)

Co-Chair Hoffman questioned how aggressively the funds will be managed. Mr. Richards deferred to the Department of Revenue. Senator Elton referred to page 10, in the middle column, titled "Cost to Build." He assumed that the dollar figures in the middle column are not actually the cost to build but costs to get to the deferred maintenance and some repairs to highway projects. Mr. Richard responded that the middle column, "Cost to Build" is the actual cost to construct the project, not the deferred maintenance needs for that section.

[9:55:50 AM](#)

Senator Elton commented that he understood the figure is not the original construction cost but the cost of enhancements to facilities. Mr. Richard agreed that this is the cost of enhancement. Senator Elton wondered if he understood correctly that in earlier testimony to suggest that Alaska is falling behind about \$80 million a year on the pavement component of the transportation system. Mr. Richards answered that he was referring to the National Highway System and the deteriorating pavement that is currently on the books and combined with the rate of growth equals \$80 million a year.

[9:56:55 AM](#)

Co-Chair Hoffman referred to figures on page 10, and commented that, with the \$50 million generated each year, it would still take 50 years to complete just those projects. Mr. Richards remarked that the loss of the federal highway funds presents a great challenge, therefore the \$50 million generated in this fund would be a great help. Co-Chair Stedman maintained that it would be better to try and get more federal money than less federal money. Mr. Richard explained that federal dollars are more difficult to obtain with the rescissions that Congress is enacting. The next reauthorization will probably be to shift the fund source, from a gas tax, to something different. There will also be an emphasis on greenhouse gas reductions and performance measures. Mr. Richards has been indicated that much of the funds will be divided for specific congestion relief across

the country which goes to the top one hundred municipalities, where Alaska will not be included.

[9:59:04 AM](#)

Senator Elton referred to page 13, and questioned if, in the seven years from 2200-2006, the cost of inflation has doubled the costs of maintenance to the Department of Transportation. Mr. Richards stated that this graph represented the cost of construction for new pavement and earthwork associated with highway and aviation. Pavement has risen approximately 80 percent and earthwork has risen over 60 percent over those six years.

[10:00:39 AM](#)

Senator Huggins asked if the 20/30 study included the pipeline infrastructure.

[10:0](#)

[1:09 AM](#)

JEFF OTTESEN, DIRECTOR, DIVISION OF PROGRAM DEVELOPMENT, DEPARTMENT OF TRANSPORTATION & PUBLIC SAFETY, commented that there is a section in the plan that talks about necessary highway improvements once the pipeline moves forward but it is waiting for more information on the route and other logistics of the pipeline construction. The pipeline will be placed somewhere between Prudhoe Bay and Fairbanks, so there has work on this segment, but the department is waiting for more information regarding other routes. Senator Huggins questioned if the plan has any minimum or maximum numbers for meeting the construction demands. Mr. Ottesen responded that it does not directly, but there is a new full time staff person and a consultant in Fairbanks working on refreshing the numbers. Senator Huggins asked if the Fairbanks employee's name was Mr. Reeves. Mr. Ottesen replied in the affirmative. Senator Huggins suggested that Mr. Reeves be given more visibility and that information be distributed concerning his function.

[10:03:39 AM](#)

Co-Chair Stedman requested that Mr. Ottesen explain how this endowment concept will integrate with the Statewide Transportation Improvement Program (STIP) process. Mr. Ottesen replied that the STIP process is required for federally funded projects. State funded projects have not been added to the STIP process as a portrayal of intentions. The positive aspect is avoiding extra steps, time, and cost to prepare the STIP for those projects. The downside is that the public does not see the whole picture; the public is only seeing federally funded, not state funded, projects. Mr. Richards believed that there has been the fear that

adding state projects to the STIP would federalize them, adding federal rules and processes. Co-Chair Stedman asked if the endowment would only then go to stateside projects, not to match federal funds. Mr. Ottesen replied in the affirmative. Mr. Ottesen believed there would be a published list, apart from the STIP, that would be equally visible. Co-Chair Stedman commented on a concern that the legislature select and appropriate funding that the Department of Transportation ignores. Mr. Ottesen related that in the 20/30 plan the department tried to communicate the magnitude of the gap between expectations concerning transportation and the current ability is to deliver on those expectations. He believed that this plan looks honestly at the achievable goals in a wide variety of transportation modes throughout Alaska. It is a restrained list but only achievable with this additional funding.

[10:07:38 AM](#)

Co-Chair Stedman remarked that legislators, as elected officials, conduct numerous meetings with local municipalities to deal with local capital improvement issues and concerns. During session, the legislature allocates money as fairly as possible. He questioned if there would be a process by the Department of Transportation to gather public input. He also requested information on the ranking procedure that would be used to fund the projects.

[10:08:57 AM](#)

Mr. Ottesen replied that are two decisions to make; how much money to each mode of transportation and how that money is allocated. He acknowledged there is a ranking method in place using the STIP scoring method. The frustration in recent years is how little is actually getting completed in the list of projects because the dollars are not stretching as far as they once did. Co-Chair Stedman asked about the \$20 million in bonds proposed to be voted on by the people then list of projects generated. Co-Chair Stedman indicated that he is waiting to see the list from the Department of Transportation on projects ranking. He also pointed out that he did not see any indication of a public process. Mr. Richards answered the question of public involvement, by relating that in Alaska Statute 44.442.050, it defines that the Department of Transportation must follow processes and put forward a project list of needs. Even with the endowment, the Department of Transportation will continue to seek public, legislative, community and municipality input.

[10:12:32 AM](#)

Senator Elton referred to page 25, where it states that the Department of Transportation will follow AS 44.442.050. Senator Elton remarked that he sees nothing in the bill that

constrains the department to follow this statute or constrains the legislature to follow it as an appropriator. He wondered why it was not reference in the bill.

[10:13:41 AM](#)

Senator Elton read from the statute AS 44.442.050 that states that,

a cost effective analysis is not required for a project that involves the rehabilitation and maintenance of an existing transportation system or that primarily serves local transportation needs.

Senator Elton mentioned that in the presentation there were many examples that the need for this fund were for local transportation or rehabilitation and maintenance. He asked for assurance that the core concept is mandated in law. Mr. Richards responded that the projects that will be developed through the selection process will be worked within the communities. When going through the ranking process, the department will come to the legislative body with the capital bill identifying the project and its fund source. The legislature will determine if the is the appropriate fund source or not.

[10:15:31 AM](#)

Senator Elton appreciated Mr. Richards response but he was not sure this fund process is the same used in selecting the \$125 million projects in the GO Bond proposal. Senator Huggins responded that if this is creating a fund, he believes the confidence level of public on how this fund will be appropriated is not high. He would feel more comfortable if the approach to using this fund was based on a more open system.

[10:17:06 AM](#)

JOHN DUFFY, BOROUGH MANAGER, MAT-SU DISTRICT (TESTIFIED VIA TELECONFERENCE), supported a long term solution for coming up with funding for the transportation system. He believed this funding is an initial step, he did not believe this funding was sufficient to meet the need of this state, especially the Mat-Su Borough. Mr. Duffy indicated the fund for the 5 percent annual allocation for capital projects is equivalent to funding one major road project per year. Mr. Duffy believed that the funding for transportation projects should be \$250 to \$300 million per year. He indicated that a description on the how the projects are selected is also necessary. He listed serious problems, in Alaska and the Mat-Su area, related to inadequate transportation funding for building and repairs. He pointed out that many local communities and boroughs in Alaska tax themselves for

additional funds for these needs. He suggested a "matching fund" process for the state to match the funds collected locally.

[10:21:24 AM](#)

JERRY BURNETT, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF REVENUE, responded to the question on how the money would be invested. He indicated that it would be invested with an asset allocation similar to the pension funds which have historically returned over nine percent. Over a period the annual payout would grow approximately three to four percent a year on average.

[10:22:47 AM](#)

Co-Chair Stedman remarked that taking the previous bill for \$120 million, adding that to the Governors Capital budget, for FY 09, and looking at the supplemental for FY 08, there is \$2,048,000,000 in capital and he wondered how much of this money would fit into this bill.

[10:23:52 AM](#)

Mr. Richards questioned if Co-Chair Stedman was asking what portion of the funding of the current FY 08 and FY 09 capital budgets needs would be funded by the Alaska Transportation Fund. Co-Chair Stedman responded that, of the \$2 billion on table, adding the FY 09 capital budget, throwing in the \$120 million of bonds, this comes to over \$2 billion. He wondered how much of this \$2 billion would fall into this endowment process. Mr. Richards responded that the intent of legislation would provide funding that would cover a portion of that \$2 billion need presently out there, if this bill was in play. This fund source could be used to draw on for specific needs in lieu of just the General Fund. Co-Chair Stedman requested that the department return with a more specific answer to this question. Mr. Richards responded that he would.

SB 236 was heard and HELD in Committee for further consideration.

[10:26:47 AM](#)

HOUSE BILL NO. 321

"An Act relating to the salmon product development tax credit; providing for an effective date by amending an effective date in sec. 7, ch. 57, SLA 2003, as amended by sec. 4, ch. 3, SLA 2006; and providing for an effective date."

IAN FISK, STAFF, REPRESENTATIVE THOMAS, presented an overview of HB 321 for a Salmon Development Tax Credit as an incentive to add value to Alaska salmon. This program originated with the Joint Legislative Salmon Industry Task Force through the Legislature in 2003. It allows a credit to be claimed on up to 50 percent of qualified equipment investments. The credit is applied to the fisheries business tax which uses the tax at the first point of landing when delivering fish for processing. Mr. Fisk noted that the allowable equipment for the tax credit is filet machines, pin-bone removal machines, lasers, and smoking equipment. The equipment must be new and used predominately for salmon products. Mr. Fisk remarked that products are changing from "old-school" salmon products, such as tall cans, to filets, portions of filets, vacuum packed, and smoked. The existing program sunsets on December 31, 2008; HB 321 would extend it to 2011. Mr. Fisk outlined changes in the bill relative to the existing statute. The bill includes a new section that allows processors to get a predetermination from the Department of Revenue of eligibility for credit. There is also a change on page 2, line 11-12, which allows certain types of conveyors to qualify for the credit. The bill will not be retroactive and the equipment must be used specifically for adding value to the fish. Mr. Fisk reiterated that the sponsor strongly supports renewing the program to help the industry.

[10:31:03 AM](#)

Senator Olson wondered what benefit this bill would have to the Community Development Quota (CDQ) processors in rural Alaska. Mr. Fisk responded that Ocean Duties Seafood has testified in strong support for this bill. This bill will benefit all salmon processors.

Co-Chair Stedman remarked that there have been discussions about the conveyor belts issue for some of the higher end value-added products. He explained that conveyor belts for these products have to be improved and are more expensive therefore there has been a rewrite on the credit bill. The clear intent of the bill is not to have the standard conveyor mechanisms within all the fish processing plants available for credit.

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Co-Chair Hoffman questioned if it was known what type of exposure would be made if the conveyor belts were included. Mr. Fisk responded that the average cost to these units is \$20,000; the credit plan would make it \$10,000. In 2005, the Department of Revenue, which oversees this program, denied applications for eleven conveyors that did not qualify under the original bill.

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MARY MCDOWELL, VICE-PRESIDENT, PACIFIC SEAFOOD PROCESSORS ASSOCIATION, explained that the Pacific Processors is a trade association of seafood processors operating in Alaska. Three Pacific Seafood Processors Association (PSPA) members with locations in Valdez, King Cove, Port Moller, Dillingham, Ketchikan, Naknek, Sitka, Kodiak, and Togiak have been using this product development tax credit to expand the goals of the program. This includes developing and expanding new and value-added salmon products. This program has helped Alaska's salmon products keep pace with evolving consumer demands and competitiveness in the world market. Ms. McDowell referenced letters from companies on how they have used this tax credit (copies on file). She remarked that the legislature structured this program tightly which has helped its success, but there is more to be done to remain competitive. One large impediment facing seafood processors is the high cost of energy. Ms. McDowell noted that most operators work in rural Alaska where the energy costs are the highest. The tax credit program provides the incentive to encourage the companies to move ahead with new plans that might otherwise be postponed. The fishermen, communities, and the state benefit from these incentives. Ms. McDowell believed this would assure that Alaska products stay competitive in the world market.

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Co-Chair Stedman mentioned HB 321 has been refined and reworked previously in committee. Senator Elton commented that he was a member of the Salmon Industry Legislative Task Force five years ago which included harvesters, community members, processors, and legislators. This Task Force moved the process throughout Alaska to help craft the proposal for this extension. Senator Elton remarked that he could not remember a single person who opposed the tax credit. Co-Chair Stedman referred to one fiscal note for \$7,000.

Senator Elton MOVED to report out of committee with attached fiscal note and individual recommendations.

HB 321 MOVED to report out of Committee with the accompanying fiscal note and individual recommendations.

[10:39:29 AM](#)

SENATE BILL NO. 216

"An Act designating the Alaska Highway and portion of the Richardson Highway as the Purple Heart Trail."

SENATOR JOHNNY ELLIS, bill sponsor, spoke in support of SB 216. This legislation, to establish the Purple Heart Trail,

honors Alaska veterans. He indicated that the idea was brought to him by a veterans advocate, Ron Siebels. Senator Ellis pointed out that there are 100,000 active duty military personnel who consider themselves Alaskans. He reported that forty two states have designated all or parts of their interstate highway system as part of the Purple Heart Trail. The proposal is to designate part of the Alaska Highway which was built by the U. S. Army during World War II. Senator Ellis mentioned that large signs would be placed at Delta Junction, Fairbanks, Tok, and the Canadian Border, with smaller signs at mid-points between. There would also be three pullouts with informational displays to educate the public and visitors. Senator Ellis emphasized that there is no known objection to this proposal. Co-Chair Stedman mentioned one fiscal note for \$150,000 for the installation of the signs. Senator Ellis continued that there are letters of support from other veteran's organizations on file.

KURT SMITH, STATE TRAFFIC AND SAFETY ENGINEER, DEPARTMENT OF TRANSPORTATION AND PUBLIC SAFETY, supported the bill and intends to install signs that appropriately honor Purple Heart recipients.

RON SIEBELS, MILITARY ORDER OF THE PURPLE HEART, ANCHORAGE (TESTIFIED VIA TELECONFERENCE), supported the SB 216. He mentioned the widespread support for the Purple Heart Trail throughout the State of Alaska including the Governor, local officials, the cities along the route, and Alaska citizens. He believed it was important for Alaska to visibly show to the world that it cares about its veterans. Mr. Siebels reiterated that the Purple Heart Trail already exists in forty two states plus Guam and he hopes Alaska will not be the last state to participate. Mr. Siebels believed the Purple Heart Trail would honor Alaska's veterans and promote a warm welcome to the visitors to the state who have been Purple Heart recipients. He emphasized that this is just a word designation; it will not change any road numbers or any road names.

[10:45:37 AM](#)

Co-Chair Hoffman MOVED to report SB 216 out of Committee with the individual recommendations and accompanying fiscal note.

SB 216 MOVED to report out of Committee with the individual recommendations and accompanying fiscal note.

#### ADJOURNMENT

The meeting was adjourned at 10:47 AM

