

ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE

February 11, 2010

1:03 p.m.

MEMBERS PRESENT

Representative Peggy Wilson, Chair
Representative Craig Johnson, Vice Chair
Representative Kyle Johansen
Representative Cathy Engstrom Munoz
Representative Tammie Wilson
Representative Max Gruenberg
Representative Pete Petersen

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

PRESENTATION BY ADVISORY COMMITTEE FOR AVIATION

- HEARD

UPDATE ON AVIATION BY CHRISTINE KLEIN~ DEPUTY COMMISSIONER OF
DOT&PF AVIATION

- HEARD

HOUSE BILL NO. 329

"An Act relating to the transportation infrastructure fund, to local public transportation, to motor fuel taxes, and to the motor vehicle registration fee; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 329

SHORT TITLE: DEDICATED TRANSPORT FUND/PUB TRANSPORT

SPONSOR(s): TRANSPORTATION

02/05/10	(H)	READ THE FIRST TIME - REFERRALS
02/05/10	(H)	TRA, FIN

02/09/10 (H) TRA AT 1:00 PM CAPITOL 17
02/09/10 (H) Heard & Held
02/09/10 (H) MINUTE(TRA)
02/11/10 (H) TRA AT 1:00 PM CAPITOL 17

WITNESS REGISTER

LEE RYAN, Chair
Aviation Advisory Board
Anchorage, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of the Presentation by Aviation Advisory Board (AAB).

CHRISTINE KLEIN, Deputy Commissioner of Aviation
Office of the Commissioner
Department of Transportation & Public Facilities (DOT&PF)
Anchorage, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of the Aviation Advisory Board (AAB).

MARY SIROKY, Legislative Liaison
Office of the Commissioner
Department of Transportation & Public Facilities (DOT&PF)
Juneau, Alaska

POSITION STATEMENT: Answered questions during the discussion of the Aviation Advisory Board overview.

TOM GEORGE, Alaska Representative
Aircraft Owners & Pilots Association (AOPA)
Fairbanks, Alaska

POSITION STATEMENT: Testified during the discussion of HB 329.

REBECCA ROONEY, Staff
Representative Peggy Wilson
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions during the discussion of HB 329.

BRIAN KANE, Attorney
Legislative Legal Counsel, Legislative Legal and Research
Services, Legislative Affairs Agency
Juneau, Alaska

POSITION STATEMENT: Answered questions during the discussion of HB 329.

JEFF OTTESEN, Director

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

POSITION STATEMENT: Answered questions during the discussion of
HB 329.

JERRY BURNETT, Deputy Commissioner
Department of Revenue (DOR)
Juneau, Alaska

POSITION STATEMENT: Answered questions during the discussion of
HB 329.

ACTION NARRATIVE

[1:03:51 PM](#)

CHAIR PEGGY WILSON called the House Transportation Standing Committee meeting to order at 1:03 p.m.

Representatives Munoz, Petersen, T. Wilson, and P. Wilson were present at the call to order. Representatives Johnson, Gruenberg, and Johansen arrived as the meeting was in progress.

Presentation by Advisory Committee for Aviation

[1:04:33 PM](#)

CHAIR P. WILSON announced that the first order of business would be a presentation by Advisory Committee for Aviation.

[1:05:32 PM](#)

LEE RYAN, Chair, Aviation Advisory Board, explained his family has a history of aviation in Alaska. He explained that his grandfather started Ryan Air in the 40s, which became Unalukleet Air Taxi in 1953. His great-grandfather was a mail carrier between Unalukleet and Kaltag, driving a dog sled in the winter. He has accrued over 7,000 hours of flying time in Alaska and has used over 200 of the 252 state airports, he stated.

[1:06:45 PM](#)

MR. RYAN outlined his overview, including reviewing Alaska's transportation system, airport funding, deferred maintenance, and the Alaska Aviation System Plan [slide 1]. The Aviation Advisory Board (AAB) works on aviation as a system and policy

issues, and assists the DOT&PF in hiring an Executive Director for the Alaska International Airport System. He offered that a year ago a team, including the AAB and DOT&PF commissioner, and Deputy Commissioner of Aviation interviewed about six candidates, but did not find a qualified candidate. Thus, the current Deputy Commissioner, Christine Klein is serving in that capacity of System Executive Director, as well as performing her regular duties. He extended the AAB's appreciation for the committee's September visit to Bethel area villages, which provided a first-hand view of the infrastructure that rural residents rely on for their basic needs [slide 2].

1:08:00 PM

MR. RYAN outlined some issues include airport safety, and deferred maintenance, including airport resurfacing.

1:08:31 PM

CHAIR P. WILSON remarked that some of the mayors of those communities have met with her this legislative session.

MR. RYAN related he is from Unalukleet. He related that the community appreciates visitors and officials.

1:09:44 PM

REPRESENTATIVE PETERSEN asked for the number of paved or unimproved runways.

CHRISTINE KLEIN, Deputy Commissioner of Aviation, Office of the Commissioner, answered that 173 gravel runways are in Alaska of the 258 state owned airports.

MR. RYAN added that paved runways are the major runways but most of the others are gravel airstrips ranging from Barrow to Dillingham.

1:10:39 PM

MR. RYAN mentioned that the AAB recognizes that Alaska is supporting its transportation system through highways and roads, the Alaska Marine Highway (AMHS), and aviation and airports [slide 3]. He characterized Alaska's transportation system as a three-legged stool, noting that all three legs are important. The AAB also recognizes that to make decisions, that the state is considering all modes that serve Alaska. He recalled a high

school trip to Fairbanks to participate on a team by first flying to Fairbanks and then taking a bus. It made him realize the importance of airlines in rural Alaska since aviation provides their lifeline. All aspects of transportation are important to the board, even though its emphasis is on aviation.

MR. RYAN provided an overview on airport funding. Most of the airport construction costs are federally funded through the Federal Aviation Administration (FAA) Airport Improvement Program (AIP). The FAA provides approximately 95 percent of the funding and the state funds the remaining 5 percent. In exchange for the federal funding the DOT&PF must agree to maintain its airports. Thus, maintenance is a sponsor function [slide 4]. The emphasis of maintenance and operations is recognizing the necessity of deferred maintenance [slide 5]. Snow removal is typically a big component, although this year there has not been a lot of snow.

[1:13:35 PM](#)

REPRESENTATIVE MUNOZ asked for the percentage that applies to municipal airports.

MS. KLEIN answered that AIP funds for municipal airports are similar to funding for state-owned airports, and depending on the airport size ranges from 93 to 95 percent federal to state or municipal match.

CHAIR P. WILSON asked whether the Anchorage Metropolitan Transportation Solutions (AMATS) would apply to only road or if the AMATS is for airports, too.

MS. KLEIN responded that AMATS applies to other transportation modes, but not to airports. In further response to Chair Wilson, she replied that she did not have the amount for the state matching funds for the last ten years, but she offered to supply the information.

[1:15:14 PM](#)

MR. RYAN continued discussing deferred maintenance [slide 5]. He stated that the backlog of \$90 to \$95 million in airport maintenance needs means that Alaska is losing ground. In 2008, the backlog of \$98.9 million existed and this year is approximately \$94 million. Some projects may deteriorate so badly that it could affect the AIP process.

MS. KLEIN, in response to Chair Wilson, explained that the airport ARRA funds were about \$78.3 million, with most designated for runway reconstruction or fairly large repair efforts that would not necessarily be considered maintenance.

[1:16:38 PM](#)

MR. RYAN related the rate of deterioration increases exponentially with infrastructure age. The longer maintenance is delayed, the more it will cost to complete projects. He offered that HB 325 addresses deferred maintenance, with approximately \$3.5 million directed to aviation. He remarked that some federal funding is available for surface maintenance. More efforts and resources are required by DOT&PF for deferred maintenance, including brush and tree cutting, fencing, gates, buildings, facilities, water drainage, lighting, navigational aids, electrical equipment, wind cones, signage, and airport markings [slides 6 - 7].

[1:17:26 PM](#)

MR. RYAN referred to photographs that depict operational damage to a facility, a rural runway that needs brush maintenance. He stated that one extremely beneficial program is the dust palliatives project. He recalled growing up in rural Alaska and having his nose swabbed to determine the level of asbestos particles, which provided information to support paving the runway. In areas in which it is not feasible to pave, the dust palliatives is a positive way to reduce dust, and in areas such as Ambler could keep down the natural asbestos. The life cycle is about three years and it feels like landing on pavement, he said. The state has worked with non-profits to minimize costs to the state in some rural areas.

REPRESENTATIVE GRUENBERG recalled the legislature passed a law to make it easier to use Native Corporation funding in projects.

[1:20:10 PM](#)

MARY SIROKY, Legislative Liaison, Office of the Commissioner, Department of Transportation & Public Facilities (DOT&PF), explained that last year the legislature passed legislature with respect to potential liability issues associated with the Indian Reservation Roads. In further response to Representative Gruenberg, she said the bill was limited to Indian Reservation Roads, but she was unsure if similar provisions apply to federal government to aviation. She related that Indian Reservation

Roads are funds directly from the federal government to the Native Corporations or the owners of the road.

CHAIR P. WILSON recalled that the DOT&PF is still working on memorandums of understanding (MOUs) to implement the new law.

[1:21:29 PM](#)

REPRESENTATIVE PETERSEN asked what materials go into the dust palliatives.

MR. RYAN offered that the dust palliatives are fully natural.

[1:21:59 PM](#)

REPRESENTATIVE PETERSEN asked for specific ingredients used.

MS. KLEIN related that some dust palliatives are oil based, and some are tree sap compounds. She stated that the DOT&PF has been testing to see which ones work best, but it varies for each region of the state. She said she does not recall which ones are being used on the runway listed on the slide, but the outcome is a smooth surface.

MR. RYAN, in response to Chair Wilson, explained that the material is sprayed on the runway. He explained the process, including that the roller is very heavy to transport by air. However, once villagers used the commercial roller several times they were able to improvise by using a piece of the pipeline, filling it with water, pulling a trailer with a 4-wheeler to apply the dust palliative on the runway, and then rolling the pipe across the runway. The end result is a product that looks like pavement, he stated.

[1:23:32 PM](#)

MR. RYAN reviewed airport surfacing [slide 8]. In 2008, airport resurfacing costs were approximately \$70 million. He described the photographs, including one that showed erosion at the Kivalina air strip. Another photograph illustrates a rural airport, which was very dangerous to land on, and was recently replaced with AIP funds. The new runway extends the runway by about 400 feet and adds safety areas. Many runways are dangerous due to soft spots, he stated. He pointed out the Pt. Hope runway photographs that show the runway before and after painting. Although the runway is paved, it is difficult to tell

where the runway begins. Airport painting is very beneficial for safety reasons.

1:25:49 PM

MR. RYAN highlighted the funding history using a graph [slide 9]. The red shows the federal AIP Surface Maintenance Funding, the green the state Airport Life Safety and Deferred Maintenance Funding, and the blue the state Airport Facilities Deferred Maintenance and Critical Repairs Funding. He explained a gradual increase in federal funding in the past few years, as well as a spike in FY 09 of \$11 million in general fund for deferred maintenance at airports. Although state funding has been unpredictable, the funding is used for matching AIP funds and demonstrates the state's contribution. Once the state agrees to receive funding, the airport must be maintained for 20 years. The AAB would like state funding to remain constant or increase to be able to make its case at the federal level.

1:27:21 PM

CHAIR P. WILSON asked if the department receives any advance warning on matching funds.

MS. KLEIN, in response to Chair Wilson, related that the AIP program funding has been fairly steady, and the average funding ranges between \$250 to \$275 million each year. The AIP program funding has been gradually increasing, and the state match is about 5 percent for the 93 to 95 percent federal funding. She related that the projects change but the matching funds are fairly consistent.

MR. RYAN stated he recently received the Obama administration figures. He recalled the funding is similar to last year's funding. He outlined the Aviation System Plan [slide 10]. The federal government requires states update the Aviation System Plan every five years. The DOT&PF has received funding and has created a comprehensive plan to identify state issues. The Aviation Advisory Board uses federal dollars to identify projects such as deferred maintenance lists. The state has been able to graph and chart deferred maintenance needs. He briefed the committee on the four areas the AAB has been working on, including the Social and Economic Impact Study. The economic portion has been completed which identified that aviation brings in \$3.5 billion of the Gross State Product (GSP), or five percent of Alaska's Gross State product and encompassing 47,000 jobs [slide 10]. He related that aviation provides an economic

driver for the state. The board is currently working on the social study, in particular, with problems with federal funding and to help point out that Alaska is different from other states, including providing specific examples. He further related that Lime Village is a tiny community of six people, but has a 1,500 foot runway, that is too small to accommodate plane to bring in fuel or plywood. The village does not have any economic capabilities, and many rural airports are similar. This paints the social picture and helps demonstrate the importance of airports and federal dollars to sustain life.

[1:31:09 PM](#)

MR. RYAN identified the Board has created Aviation System Plan work groups, including groups to address Maintenance and Operations, and the U.S. Postal Hub Expansion.

MS. KLEIN, in response to Chair Wilson, stated that APEB stands for the Airport Project Evaluation Board (APEB). This board meets annually to prioritize airport projects and identify project funding and timelines. She described this process as a quantitative process.

MR. RYAN described another area that the AAB is working on is to continually update the maintenance and operations (M&O) deferred maintenance list.

[1:32:13 PM](#)

MS. KLEIN, in response to Representative T. Wilson, explained that the M&O deferred maintenance list consists of 100 to 120 projects, with most maintenance projects generally performed in house, and that the larger projects, the CIP projects, typically use federal funds and include longer phases of engineering and design work.

[1:33:12 PM](#)

MR. RYAN related another focal area for the AAB is Airport Requirements and Development Standards. He explained that the federal government requires ever increasing standards for runway projects. The AAB will review the social impacts and use the system plan to develop its projects. He reported that airport performance measures are currently underway to identify economic drivers in the communities in order to determine the specific type of runway needed for the community. He characterized the

Aviation System Plan as a great asset, not only to the DOT&PF, but also to the AAB.

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MR. RYAN highlighted a jet fuel production problem [slide 11]. In November, the air carriers using the Alaska International Aviation System (AIAS) ran out of jet fuel supply due to unexpected traffic increases during the holidays. This caused cargo planes to temporarily divert while fuel was being restocked. The DOT&PF and others responded and helped facilitate and bring in additional jet fuel to Alaska. The United Parcel Service (UPS) purchased \$30 million in fuel, and the DOT&PF worked with the Department of Natural Resources to arrange for a barge to come in to the Tesoro plant and pipe the fuel to the airport. This problem could become a long-term problem, which is tied to in state fuel production, he stated.

MR. RYAN illustrated that the jet fuel production problem is an example of how one mode can impact other modes of transportation. He explained that the Alaska Railroad (ARR) has been affected by Flint Hills Refinery producing one-third less jet fuel and the ARR transports that fuel to the airport. Fuel prices in some villages, like Kiana, typically cost from \$8 - \$12 per gallon, but when the barges cannot make it to the villages, the goods must be flown into the villages instead. Thus, the transportation costs also dramatically increase. He discussed the importance of aviation in Alaska [slide 12]. Aviation brings \$3.5 billion into Alaska's Gross State Product (GSP), and provides 47,000 jobs statewide, which is the fifth largest industry in Alaska. He pointed out the significant improvements to airports. He stated safety, sustainability, and customer service were Ms. Klein's goals and she has done an excellent job. The Aviation Advisory Board urges the state to fill the void that will be left when Ms. Klein leaves her deputy commissioner position on March 1.

1:38:27 PM

REPRESENTATIVE JOHANSEN agreed Ms. Klein has done a great job. He asked for the value of the deputy position for the industry.

MR. RYAN stated that he is informally involved in the Air Carriers Association and reported the significant increase in customer service to the industry with the creation of the Deputy Commissioner of Aviation. He stated that funds are controlled through the Federal Highway Administration (FHWA). It has been

helpful to have someone in DOT&PF that industry can contact with respect to aviation issues. Previously, the communication between the DOT&PF and industry was lacking, he stated. Many aviation issues are important for life-safety so the DOT&PF deputy commissioner's role is an important one and is needed by the aviation industry.

[1:40:59 PM](#)

MS. SIROKY, in response to Chair Wilson, answered that the DOT&PF Commissioner is actively searching for a replacement and will take an active role in hiring a new deputy commissioner. While the position is not posted, the vacancy is known in the industry.

[1:42:11 PM](#)

REPRESENTATIVE MUNOZ understood that the federal funding will be ending for the Medallion Safety Program.

MR. RYAN responded that as an operator the Medallion Foundation provides a valuable program since it forces airlines to become part of a program that increases airport safety. The Medallion Foundation is focused on changing the culture and attitude of operators and pilots flying in Alaska. The Medallion Foundation provides training on system safety and human behavior in an effort to reduced aviation accidents. The program helps smaller carriers create a safety program and answers to safety concerns outside the FAA and airports. He related the program includes the tap root analysis and maintenance programs.

MR. RYAN explained that the Medallion Foundation provides a shield program, which is a 5-Star program. Once an organization has received all five stars, it is eligible to be evaluated for the Medallion Shield. This evaluation focuses on company management, corporate safety culture, and front-line employees to determine if the concepts associated with the stars are successfully incorporated into day-to-day company operations. Some AAB board members are shield carriers, he said. Since federal funding is disappearing, he suggested the state consider funding this program as it is beneficial to small carriers, in particular.

MS. KLEIN added that she works very closely with the Medallion Foundation, mentioning that the foundation brought in flight simulators last year to Southeast Alaska and Fort Hood. The DOT&PF also works with the Medallion Foundation on the mapping

for the computer visualization of the topography. She advised members that U.S. Senator Lisa Murkowski recently introduced a bill in the Congress to continue the funding for the program.

[1:45:34 PM](#)

REPRESENTATIVE PETERSEN remarked that he observed the simulator at Lake Hood and he could see the benefits to pilots, especially for operators who are not flying often.

[1:46:20 PM](#)

**Update on Aviation by Christine Klein, Deputy Commissioner of
DOT&PF Aviation**

CHAIR P. WILSON announced that the next order of business would be an Update on Aviation by Christine Klein, Deputy Commissioner of DOT&PF Aviation.

[1:46:49 PM](#)

MS. KLEIN acknowledged the Aviation Advisory Board (AAB) has been very helpful and advises the DOT&PF on technical issues, provides support, and constructive criticism on their programs. She pointed out several board members present today, including Mr. Ryan and Mr. Jacobsen. She explained the board has met 12 times during the past 26 months.

MS. KLEIN provided some information previously requested by members. Of the 258 airports, only 173 airports have gravel runways. The state also has 22 certificated airports, which are the airports that typically offer jet service. The AAB has been very active with respect to the interrelatedness of the transportation system. She said she appreciates their "broad brush." She expanded on comments in areas covered by Mr. Ryan. She related that the DOT&PF Division of Aviation's focus has been on "safety first." She grew up in rural Alaska and recognizes the rural issues. Alaska has the largest aviation system in the world, and sustainability of the system is important. She emphasized customer service as the division's focus. Mr. Ryan previously mentioned that a majority of funding, or 95 percent of the funding is federal funding, which is an unusually higher level of funding than for most states. However, the high level of federal funding assists the department to complete projects and maintain and operate its airports.

1:49:47 PM

CHAIR P. WILSON asked whether the airport maintenance projects in villages are agreed to by the community and to describe the process the DOT&PF uses.

MS. KLEIN answered that is not typically the division's practice. Projects are scored, but the needs are always greater than the funding for projects. Certain criteria must be met when using federal funds, but some things are trigger points which elevate the priority of a project. Trigger points may include safety issues or to identify those communities without any other type of transportation access. For example, a community without a marine link or one without road access will have a higher priority. She related that some communities have offered to perform the maintenance to demonstrate their commitment to the project or they may offer to provide the aggregate for their runway. For example, Kvivak recently wanted its runway extended so the communities affected offered to provide some maintenance and gravel for the site. This type of participation represents a new trend. Mr. Ryan previously mentioned that the dust palliatives are helpful. She related that the DOT&PF has been reviewing the methods or application process for dust palliatives. She pointed out that dust palliatives extend the life of the gravel runways and help stretch the DOT&PF funds.

1:52:53 PM

MS. KLEIN highlighted that the AAB was instrumental in seeing this project completed. The federal funds have been increasing for some time, with the aviation capital funds ranging from \$230 to \$270 million for airports. Alaska has been extremely successful in obtaining 7 percent of the federal AIP funds, noting ever increasing competition for funds.

1:53:51 PM

MS. KLEIN related that the Aviation System Plan is a comprehensive plan, which is required by the FAA to qualify for federal funding. The plan is prepared about every five years and focuses on inventories of the state's airports. The board recognizes that a comprehensive plan should consist of more than an inventory and should truly be a comprehensive plan. Part of the process requires the department to compile and review quantitative data. The DOT&PF has conducted its first Economic Impact Assessment ever. She reported that the findings were

quite surprising. Although the DOT&PF knew that aviation is important, it discovered that aviation provides 8 percent of the GSP, consisting of 47,000 jobs in aviation. The assessment should help the DOT&PF make better decisions in the future.

[1:55:26 PM](#)

MS. KLEIN stated the division has reviewed some maintenance and operation needs, the U.S. postal hub exemptions in Alaska, and other technical issues that will help prioritize funds. She explained that the jet fuel shortage that occurred was limited to the international airports, but jet fuel shortages could impact other areas of the state. The Anchorage International Airport ranks as the third largest cargo airport in the U.S. and ranks as the fifth largest in the world. The air cargo fuel uplift peak was in 2006, at 954 million gallons of fuel, and this year reached a low point at 627 million gallons. She related the decrease was largely due to the high cost of fuel, the global economic recession, and the stress on the aviation industry, with a 23 percent declines in air traffic. At the same time the fuel refinery capabilities in Alaska declined. About 78 percent of the aviation fuel is produced in Alaska and the rest is imported. Alaska does have higher fuel costs and the DOT&PF is working to find ways to assist the air carriers, although the department does not get involved in jet fuel procurement. The DOT&PF does help facilitate communication between the carriers, fuel suppliers, and refineries.

[1:58:03 PM](#)

MS. KLEIN said she is very proud of the DOT&PF and Division of Aviation's efforts to improve customer service, safety, and sustainability. The DOT&PF recently hired its first airport manager in Bethel, which is the third busiest airport in Alaska. The Division of Aviation has worked to improve customer service and return calls promptly. She noted that the division has a website so people can log in and apply to receive specific information of interest to them. She appreciated the support from the legislature, the AAB, and the DOT&PF.

[1:59:51 PM](#)

REPRESENTATIVE T. WILSON asked for the matrix the DOT&PF uses to evaluate aviation projects.

MS. KLEIN offered to provide the matrix and mentioned it is also available on their website.

[2:00:08 PM](#)

MS. KLEIN, in response to Representative Petersen, restated that in 2006, 954 million gallons was the amount of jet fuel tracked through the carriers self reporting, and last year's self reporting was 627 million gallons.

[2:00:48 PM](#)

HB 329-DEDICATED TRANSPORT FUND/PUB TRANSPORT

[2:01:09 PM](#)

CHAIR P. WILSON announced that the final order of business would be HOUSE BILL NO. 329, "An Act relating to the transportation infrastructure fund, to local public transportation, to motor fuel taxes, and to the motor vehicle registration fee; and providing for an effective date."

[2:03:09 PM](#)

CHAIR P. WILSON explained that HB 329 is up for a second hearing. She provided some answers to questions raised. She stated that meetings are subject to the Open Meetings Act, and Brian Kane suggested submitting the report to the council, the governor, and the legislature. She further stated all of DOT&PF's meetings are subject to the Open Meetings Act. Another question was how many states have dedicated funds, and how other states are addressing transportation funding. She offered that she has made a formal request to National Conference of State Legislatures (NCSL), but also provided members with handout, containing research from Illinois that indicates at least 15 states have dedicated funds for transit.

[2:04:25 PM](#)

CHAIR P. WILSON advised members that she is working to define the terms "rural" and "urban". She recalled that a variety of definitions currently exist for the terms in various programs.

REPRESENTATIVE GRUENBERG recalled a debate in the 1980s. He recalled that a former representative included a bridge as being listed as urban.

[2:07:25 PM](#)

TOM GEORGE, Alaska Representative, Aircraft Owners & Pilots Association (AOPA), stated that the AOPA represents the private pilots rather than the commercial pilots. Nationally, the AOPA has 415,000 members, of which 4,300 private pilots belong to the AOPA in Alaska. While he is a member of the Governor's Aviation Advisory Board, he is only speaking today on behalf of the AOPA. He offered to strongly support the concept of state funding for transportation infrastructure, particularly due to reductions in federal funding. His organization is just starting to study the bill so he offered to make initial comments. He recalled other states have dedicated transportation funds, and some are multimodal, such as in Maryland, which have been successful. He suggested flexibility in the percentages of funding for each mode, that in some instances it might not be prudent to limit roads to only 60 percent. He acknowledged frustrations with the current DOT&PF process to prioritize and allocate federal funds, and would like to explore a less contentious way to allocate funds. He expressed interest in working with the committee and commended it for its leadership. In closing, he thanked Ms. Klein for her service, and stressed the importance of keeping the aviation presence in the DOT&PF.

[2:10:07 PM](#)

REPRESENTATIVE GRUENBERG expressed his concern that HB 329 is contingent on passage of a constitutional amendment. He referred to page 9, lines 14-16, of Section 14. He offered his belief that the language could remain as is, but if the constitutional amendment does not pass, the committee's work would be fruitless, or the committee could develop an alternate plan to proceed in the event that the constitutional amendment does not pass. He inquired as to whether the sponsor would like to consider placing an alternate plan in this bill or create a second bill. He stated that he introduced a bill that is available, HB 330, and has no pride of authorship. He recommended that an alternate plan be developed.

[2:12:13 PM](#)

REPRESENTATIVE T. WILSON offered her belief that the discussion of a dedicated transportation fund is worthwhile, whether it passes or not. The public needs to know that funding transportation projects is important.

CHAIR P. WILSON expressed concern that to present two approaches to establish a dedicated transportation fund might confuse the

public on the ballot proposition. She agreed that the discussion is important.

REPRESENTATIVE PETERSEN recommended not mentioning the term "permanent fund" when referring to the dedicated transportation fund and to use the term "dedicated" or "long-term" transportation fund so as not to confuse the public.

REPRESENTATIVE MUNOZ related that the bill contains a contingency that states the bill has no effect if the constitutional amendment to establish a dedicated transportation fund is not approved by the voters.

[2:15:14 PM](#)

REPRESENTATIVE GRUENBERG stated that Section 14 indicates that except for Section 10 of the bill the rest of the bill would not take effect unless the constitutional amendment passes. He suggested that a constitutional amendment must pass the legislature with a two-thirds vote of each body and a majority of voters must vote to pass the constitutional amendment this year during the November election. Thus, the constitutional amendment must pass these two hurdles. In terms of timing, he thought it would be helpful for the committee to develop an alternate plan. Otherwise, it would take time for the next legislature to pass another bill to create a transportation fund.

[2:17:58 PM](#)

CHAIR P. WILSON recalled the legislature established an education fund and responded that the process is a simple one.

REPRESENTATIVE GRUENBERG recalled that the education fund has become somewhat of a "slush fund". He suggested that if the legislature developed a transportation fund statutorily, that it would be important to encourage the funds be used to address transportation needs.

[2:18:57 PM](#)

REPRESENTATIVE GRUENBERG, in response to Chair Wilson, suggested the committee may need legal advice and might want a legal opinion to identify the constitutional limitations for the committee if it decided to create a transportation fund in statute.

[2:19:56 PM](#)

CHAIR P. WILSON, in response to Representative Johansen, related that she previously mentioned the education fund.

REPRESENTATIVE GRUENBERG recalled a fund exists that is not a constitutional dedicated fund but is a separate account in the general fund to be used for education. He characterized it as a sub-account in the general fund, but nothing requires it to be used for education. No penalty exists and the funds do not lapse. He suggested a value to exploring the legal limits.

[2:21:19 PM](#)

REPRESENTATIVE JOHANSEN said he was disturbed by the term "slush fund," which has negative implications, but he understood the mechanics. He referred to page 1, lines 7-8, to the legislative intent. He asked for ramifications if the legislature did not appropriate the \$1 billion.

CHAIR P. WILSON explained another bill, an appropriation bill, would provide the vehicle for the funding.

[2:22:29 PM](#)

REPRESENTATIVE JOHANSEN referred to Section 3, on page 2, lines 11-12. He inquired as to whether the Municipal Harbor Facility Grant Fund would be capitalized as specified using the Fisheries Business Tax.

[2:23:10 PM](#)

REBECCA ROONEY, Staff, stated the intent was not to leave small funds that had potential funding from the collection of the motor fuel tax unfunded. The intent is to move the Municipal Harbor Facility Grant Fund to another section. She referred to page 3, lines 25-26, which read, "(4) eight percent of the appropriations from the fund may be used for projects related to harbor facilities and state-owned marine facilities and for deposit into the Municipal Harbor Facility Grant Fund (AS 29.60.800)." She stated the Fisheries Business Tax was left alone.

[2:24:33 PM](#)

REPRESENTATIVE JOHANSEN related that the Fisheries Business Tax specifically is a tax on commercial activities fishermen. He

expressed concern that the commercial fishermen may be singled out as a possible source of funding.

MS. ROONEY stated that the Fisheries Business Tax language is not new language in the statute, but is probably referenced in this section since commercial fishermen use the harbor facilities.

REPRESENTATIVE JOHANSEN referred to page 2, line 7, and suggested he might offer an amendment to remove the language. It would then read, "There is established the Municipal Harbor Facility Grant Fund consisting of money appropriated to the fund." He offered to discuss this further with the sponsor.

[2:25:56 PM](#)

REPRESENTATIVE GRUENBERG related his understanding that currently, funds from the watercraft fuel tax can be deposited to the Municipal Harbor Facility Grant Fund. Under HB 329, the funding would be deposited to the dedicated transportation fund, and then be disbursed to the Municipal Harbor Facility Grant Fund. He cautioned that the possible amendment would prohibit money from the Fisheries Business Tax from being deposited into the Municipal Harbor Facility Grant Fund. He suggested that may be a step back.

CHAIR P. WILSON recalled the Municipal Harbor Facility Grant Fund was established by Senator Bill Thomas several years ago.

[2:27:16 PM](#)

BRIAN KANE, Attorney, Legislative Legal Counsel, Legislative Legal and Research Services, Legislative Affairs Agency, explained that basically Section 3, the Watercraft Fuel Tax Account will not be in existence if this bill passes. Thus, in Section 3, the money that would be separately accounted for is the Fisheries Business Tax. This is accounted for separately so to identify the balance that could be appropriated to the Municipal Harbor Facility Grant Fund.

[2:28:21 PM](#)

CHAIR P. WILSON recalled that the Watercraft Fuel Tax would be deposited to the dedicated transportation fund due to the Alaska Marine Highway System.

[2:28:51 PM](#)

REPRESENTATIVE JOHANSEN asked if this bill is enacted and the constitutional amendment passes, if anything precludes the legislature from appropriating money to the dedicated transportation fund.

MR. KANE responded that if HB 329 passes, that provisions in the resolution provide an option for fees and taxes to be deposited into the fund, as well as an option for additional funds to be appropriated to the dedicated transportation fund.

[2:29:40 PM](#)

REPRESENTATIVE MUNOZ understood that in Section 3 of HB 329, the Municipal Harbor Facility Grant Fund would remain in place while the Watercraft Fuel Tax Account would be removed.

MR. KANE answered yes. In further response to Representative Munoz, he responded that the option to have the Municipal Harbor Facility Grant Fund receive funds from the Fisheries Business Tax is not mandatory. The funds will be separately accounted for with an option for the legislature to appropriate funds to the Municipal Harbor Facility Grant Fund.

MR. KANE, in response to Chair Wilson, related that the Fisheries Business Tax Fund will be deposited to the general fund, except for monies directed to dedicated transportation fund. In further response to Chair Wilson, he explained that under the bill the only change is that less money will be separately accounted for since the Watercraft Fuel Tax Account (WFTA) will be deleted and the funds that normally would be deposited to the WFTA will be directed to the dedicated transportation fund. He was unsure if the WFTA is referenced in other statutes. He offered to research the matter.

CHAIR P. WILSON indicated that it was not her intention to divert funds from commercial fishermen, but wanted to insure that the harbors can be maintained for the Alaska Marine Highway System, barges, or other businesses.

[2:32:30 PM](#)

REPRESENTATIVE JOHANSEN referred to page 4, line 29, and asked for the timing on the capital projects. He recalled that the capital projects are submitted in late summer or fall and this subsection would require the advisory council to provide a report on December 31 of each year.

[2:33:04 PM](#)

JEFF OTTESEN, Director, Division of Program Development, Department of Transportation & Public Facilities (DOT&PF), answered that was correct, that the Capital Improvement Budget (CIB) process begins in late summer to identify projects to request general fund authority or federal funds, federal aviation or highways. The CIB process includes preparing the project lists, working with the Office of Management and Budget (OMB). The general fund projects are scrutinized and cut. The revised list is submitted to the Governor and is included in the Governor's Budget request to the legislature. This list would be developed by the decision-making body, the Transportation Infrastructure Fund Advisory Council (TIFAC), which uses a different source of funding. He was unsure whether any conflict exists, but the timeframe differs from the CIB process. In response to Chair Wilson, he agreed it would be better if the timeframes were the same. He offered to provide the date that the DOT&PF submits requests to OMB.

[2:36:12 PM](#)

REPRESENTATIVE JOHANSEN referred to page 4, lines 11-28, and asked about the process to select the composition of the TIFAC. He recalled that usually the presiding officers of the legislature make appointments. He also asked whether the specific cite listed in subsection (c) is correct for travel and per diem expenses for legislative members.

[2:37:23 PM](#)

CHAIR P. WILSON agreed that usually the appointments are made by the presiding officers of the legislature, that it could be changed, as she is open to what makes sense to the committee.

[2:38:16 PM](#)

REPRESENTATIVE MUNOZ expressed concern that including legislators as members of the TIFAC as a part of the decision-making process for projects is risky, since they represent their districts and may lose sight of the statewide perspective. She suggested substituting the director of the AMHS, Aviation, or their designees since they would represent the modes.

[2:39:05 PM](#)

CHAIR P. WILSON expressed her neutrality in the matter, stating that that impartiality would probably depend on the person.

REPRESENTATIVE MUNOZ expressed a preference for the regional representation, but thought that including a director from each of the major transportation sectors would be preferable to including elected officials.

[2:40:21 PM](#)

REPRESENTATIVE JOHANSEN pointed out that the proposed TIFAC would only function as an advisory board, but that the decision making process would remain with the department and the legislature.

[2:41:00 PM](#)

REPRESENTATIVE GRUENBERG recalled that the committee should consider the current tax on cruise ship passengers, which should be reviewed. He recalled that a recent U.S. Court of Appeals decision questioned the constitutionality on whether a ferry system could charge a small fee to its commuters. He further recalled that the court considered and judged the appropriateness of the ferry expenditures. He suggested this may be a good way to enshrine this in state law. He offered his belief that the funds could be not be used for dredging since dredging was not specifically required for the ferries to operate.

[2:45:01 PM](#)

REPRESENTATIVE GRUENBERG recalled another court case in Louisiana in which the U.S. Court of Appeals upheld that taxes collected from ships using the Mississippi River that could be used to provide fire-fighting services for ships. He suggested using a similar concept on the Alaska Marine Highway System (AMHS) could also benefit fishing industry.

[2:46:06 PM](#)

CHAIR P. WILSON, in response to Representative Gruenberg, related her understanding the suggestion is to put similar concepts in statute to prevent a lawsuit.

REPRESENTATIVE GRUENBERG agreed, stating that setting provisions in statute on specific uses of taxes collected could inoculate the state, and allow revenues to benefit coastal communities.

CHAIR P. WILSON offered to check into this with the attorney general.

[2:47:10 PM](#)

REPRESENTATIVE JOHANSEN expressed concern over any hearings on the constitutionality of the "head tax" since the state is currently in litigation on the taxes collected on cruise ship passengers.

REPRESENTATIVE GRUENBERG agreed it would need to be confidential.

REPRESENTATIVE JOHANSEN maintained that he would not take part in any discussion of the legality or constitutionality of the cruise ship "head tax."

[2:47:54 PM](#)

REPRESENTATIVE T. WILSON asked how the allocation was arrived at for each mode.

CHAIR P. WILSON responded that the allocation approximated the current expenditure. She stated she is open to suggestions. The allocation process should provide flexibility.

[2:48:43 PM](#)

REPRESENTATIVE T. WILSON suggested using a matrix similar to one currently used by the DOT&PF for its other projects. In some years the state might spend more on airports, and she wanted to insure that the state maintains its flexibility. She referred to page 3, lines 9-10, to subsection (b), and asked if capital projects for transportation also included deferred maintenance costs.

MS. ROONEY recalled discussions with the DOT&PF, that the major deferred maintenance is provided from the CIB, but the CIB funding would not be used for snow plowing or day-to-day maintenance.

[2:50:55 PM](#)

REPRESENTATIVE T. WILSON asked whether a dollar amount defines the difference between a maintenance and capital project.

MR. OTTESEN answered technically no. However, a maintenance project is typically performed to keep the asset or facility operational. Capital projects are generally large scale maintenance projects, such as the systematic repairs to guardrail on a large stretch of highway.

[2:52:13 PM](#)

MR. OTTESEN, in response to Chair Wilson, clarified that deferred maintenance is just maintenance that has not been performed over time. He characterized the difference between maintenance and deferred maintenance as gray area, even for our federal partners to determine.

CHAIR P. WILSON offered that she would not envision the proposed dedicated transportation fund being used for routine maintenance.

REPRESENTATIVE T. WILSON pointed out that it is important not to put off maintenance projects, since what is maintenance today could become a capital project later on.

[2:53:27 PM](#)

MR. OTTESEN clarified that routinely the CIB contains projects that might be considered maintenance by the federal government, but is funded in the CIB using general fund dollars.

REPRESENTATIVE T. WILSON asked what types of projects could be funded in the proposed dedicated transportation fund.

MR. OTTESEN offered one example as the Dalton Highway. The DOT&PF may initially resurface the Dalton Highway and it later need more gravel for resurfacing. The federal partners would allow federal funding for the initial project, but does not allow the state to stockpile gravel for resurfacing. The state typically would use general funds for stockpiling gravel, but this provides a perfect example of how the proposed dedicated transportation fund could be used.

[2:55:08 PM](#)

REPRESENTATIVE GRUENBERG expressed concern regarding the Anchorage transit funding. He referred to page 3, to lines 27-29, to paragraph (5), which allocates five percent of appropriations from the proposed dedicated transportation fund for projects related to local community transportation and

transit. He assumed that paragraph refers to public transit projects.

MR. OTTESEN said he believed it refers to public transit projects.

REPRESENTATIVE GRUENBERG suggested a larger percentage for transit, and asked Chair Wilson to flag the item for consideration.

CHAIR P. WILSON related that the AMATS will receive funding for transit. She stated she would flag the item but will work for an equitable allocation, noting a matrix may provide a better methodology.

REPRESENTATIVE P. WILSON, in response to Representative Gruenberg, responded that a matrix would be a scoring method for projects.

[2:56:54 PM](#)

REPRESENTATIVE PETERSEN referred to page 4, lines 29-31, to language previously discussed. He inquired as to whether the report would be submitted early enough to allow the Governor to include projects in the CIB.

CHAIR P. WILSON answered that she did not envision the Governor's participation. She explained that the Governor considers general fund projects. The proposed dedicated transportation fund would be a separate matter, she stated.

[2:58:11 PM](#)

REPRESENTATIVE JOHANSEN suggested that the process should track or be synchronized to achieve a smooth process. Since millions of dollars are involved, the TIFAC could also inform the governor of the proposed dedicated transportation fund priorities instead of keeping the two project lists completely separate.

CHAIR P. WILSON answered she has noted the request.

[2:58:57 PM](#)

REPRESENTATIVE MUNOZ referred to the revenue sources. She related that 60 percent of the aviation proceeds are refunded to

municipalities. She asked for the total aviation revenues collected.

JERRY BURNETT, Deputy Commissioner, Department of Revenue (DOR), stated that the tax on 60 percent of the fuel sold at municipal airports is shared back to municipalities. Currently, approximately \$125,000 is the total amount shared back, although he was unsure of the total sales. The majority of the \$125,000 is shared back to the Juneau International Airport (JNU).

MR. BURNETT, in response to Representative Munoz, agreed that the structure would not change under the proposed bill. In further response to Representative Munoz, Mr. Burnett answered that the Juneau International Airport is not a state-owned airport and that the airport receives its funding from planning fees and direct federal grants.

REPRESENTATIVE MUNOZ understood that the state participates in a share of the projects for municipal airports. She recalled it might be 3 to 5 percent

MS. KLEIN answered that the municipal airports do not participate through the state but can apply directly to the FAA. Additionally, their sponsor, typically the municipality or the DOT&PF, would also apply for the AIP grants on their behalf.

REPRESENTATIVE MUNOZ inquired as to whether the 96 percent could be shared.

[3:02:01 PM](#)

MS. KLEIN clarified that the share depends on the type of project. Terminal projects are treated differently than runway projects. The sponsor would still need to provide matching funds, she stated. For example, the Juneau International Airport would need to provide its own matching funds whereas the state airport would not.

REPRESENTATIVE MUNOZ asked whether municipalities have any opportunities to receive state support.

MS. KLEIN answered that the state will participate in some terminal projects to provide the matching funds since other funds for certificated airports do not exist and municipal airports do not have sufficient passengers to raise the revenues. In some rare instances the state will participate by

providing matching funds for municipal airport terminal projects.

[3:03:22 PM](#)

REPRESENTATIVE GRUENBERG referred to page 3, lines 1-4. He understood that the funding for the proposed dedicated transportation fund will be removed by appropriation. He pointed out that the Governor would participate in the process since he/she would need to sign the bill. He asked whether the appropriations will be segregated and would be a separate appropriation from the general fund. He asked if that was the sponsor's intent.

CHAIR P. WILSON agreed that was her intent. She referred to page 4, lines 1-4, which requires the DOR to determine the market value of the fund and invest the fund. She asked Mr. Burnett whether the DOR performs this function with other funds.

MR. BURNETT answered yes, and listed some examples, including the Children's Trust Fund and the Public School Trust Fund. He offered that the DOR manages about 100 funds with various payout rules.

[3:05:10 PM](#)

CHAIR P. WILSON related that the fiscal note has not yet been prepared.

MR. BURNETT responded that the fiscal note was prepared today. He explained that the DOR would attempt to achieve a real rate of return of 5 percent, which would require a mix of equities and fixed income securities, perhaps a ratio of 55 to 45. The DOR would charge contractual fees against that since external management would manage the equities. He estimated the fees based on \$1 billion in appropriations would equal \$424 thousand per year, and based on today's market conditions would expect to produce a spendable income of \$50 million the first year. He also estimated, based on the permanent fund and constitutional budget reserve, that a similar asset like the dedicated transportation fund over 20 years would probably incur losses in 15 to 20 percent of the time, but the probability that the earnings would be double the anticipated projections would be about the same percentage.. He related that he has not had an opportunity to assess the exact probabilities for the dedicated transportation fund.

3:07:29 PM

[HB 329 was held over.]

3:08:25 PM

ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 3:08 p.m.