

HOUSE FINANCE COMMITTEE

May 4, 2011

10:05 a.m.

10:05:52 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 10:05 a.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair  
Representative Bill Thomas Jr., Co-Chair  
Representative Anna Fairclough, Vice-Chair  
Representative Mia Costello  
Representative Mike Doogan  
Representative Bryce Edgmon  
Representative Les Gara  
Representative David Guttenberg  
Representative Reggie Joule  
Representative Mark Neuman  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Representative Alan Austerman; Representative Cathy Munoz; Representative Peggy Wilson; Senator Cathy Giessel; Senator Linda Menard; Karen Rehfeld, Director, Office of Management and Budget, Office of the Governor; James Armstrong, Staff, Representative Bill Stoltze; Laura Baker, Director, Division of Administrative Services, Department of Transportation and Public Facilities; Mike Vigue, Chief of Surface Transportation Planning, Department of Transportation and Public Facilities; Sam Kito III, Manager, School Facilities Section, Department of Education and Early Development.

PRESENT VIA TELECONFERENCE

Mark A. Luiken, Commissioner, Department of Transportation and Public Facilities; Patrick Kemp, Deputy Commissioner, Highways and Public Facilities, Department of Transportation and Public Facilities; Larry Hartig, Commissioner, Department of Environmental Conservation; Bill Griffith, Facilities Programs Manager, Department of Environmental Conservation.

SUMMARY

HB 107 BUDGET: CAPITAL

HB 107 was HEARD in HELD in committee for further consideration.

#hb107

HOUSE BILL NO. 107

"An Act making and amending appropriations, including capital appropriations and other appropriations; making appropriations to capitalize funds; and providing for an effective date."

10:06:35 AM

Co-Chair Stoltze noted that the Senate had proposed that the capital budget be delayed.

Representative Gara asked whether the bill before the committee was the governor's original bill.

Co-Chair Stoltze answered in the affirmative.

KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, relayed that there had been amendments submitted to the original capital budget bill. She noted that there was a copy of the bill as it at been introduced at the beginning of the session, as well as two spreadsheets. "FY2011 Capital Supplemental Requests Not in SB76" (copy on file) contained items that the administration hoped would be considered. "Capital Amendments" (copy on file) consolidated the three groups of amendments submitted to the legislature.

Ms. Rehfeld stated her intent to provide the committee with a brief refresher on the items in the governor's capital budget, review the significant changes in the draft Senate

CS (Version T) that was not yet before the committee, and discuss concerns regarding delaying the passage of a capital budget. She noted that the commissioner and deputy commissioner of the Department of Transportation and Public Facilities (DOT/PF) was available to discuss the department's major federal programs, and that other officials were present to discuss other federal projects and school construction.

Ms. Rehfeld informed the committee that the amended governor's budget totaled \$1,966,300,000. She listed fund category totals:

- Unrestricted General Funds: \$764.1 million
- Designated General Funds: \$32.9 million
- Other Funds: \$91.8 million
- Federal Funds: \$1,770,600,000

Ms. Rehfeld explained that the numbers included a request for \$160 million for the Alaska Gasline Inducement Act (AGIA) Reimbursement Fund.

Ms. Rehfeld highlighted state general funds used to match or leverage federal and other funds. For example, there were about \$104 million state general funds in the budget that would leverage over \$719 million in federal and other funds, including DOT/PF highway and federal funds, Department of Environmental Conservation (DEC) village safe water funds and municipal grants matching local funds, and municipal harbor grant funds.

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Ms. Rehfeld continued that the governor's capital budget included an energy package, with \$65.7 million for the Susitna project, \$25 million in renewable energy grants, \$25 million for weatherization and home energy rebates under the Alaska Housing Finance Corporation (AHFC), and \$10 million for the Southeast energy grant fund.

Ms. Rehfeld noted that the power cost equalization and low-income heating assistant programs were fully funded in the budget. The Roads to Resources had been included under resource development and access and infrastructure in order to open up opportunities for oil and gas and other mineral extraction. She referred to port projects for Anchorage, Pt. Mackenzie, and Skagway. The second year of the

governor's proposed five-year deferred maintenance program had been included (at \$100 million), as well as \$5.5 million for the in-state gas project.

Ms. Rehfeld relayed that school construction costs had also been included for the first project on the Department of Education and Early Development (DEED) school construction list (\$28.5 million); there were also 14 projects under the department's major maintenance list (around \$20 million).

Ms. Rehfeld explained that many of the significant items that she had highlighted were included in the draft CS (Version T) that was currently in the Senate Finance Committee. She highlighted items in the draft CS, which proposed adding an additional \$48 million for two additional school construction projects. The CS proposed to add an additional \$53 million for major maintenance projects on the DEED list, or down to number 33 on the list. The draft CS included about \$219 million for specific energy projects, \$11.6 million for renewable energy (in addition to the \$25 million originally included; all of the round four projects would be included), and an additional \$25 million for weatherization and home energy rebates. There was a total of \$265.5 million for grants to municipalities, another \$121.7 million for grants to named recipients, and a smaller dollar amount (less than \$2 million) for unincorporated communities.

Ms. Rehfeld highlighted the significant deletions in the Senate draft CS, beginning with the AGIA reimbursement: \$160 million had been requested, but the draft CS reduced the amount to \$60 million, a reduction of \$100 million. The proposal was based on the reimbursements needed before the end of the calendar year. She believed significant pressure would be placed on the amount of funding available to reimburse allowable expenditures. She noted that supplemental funds would be needed the following year.

Ms. Rehfeld referred to earlier discussion about six items that the governor had included in the capital request that some felt would be more appropriate in the operating budget. She explained that the reason the particular items had been requested through the capital budget related to timing and the need for flexibility. In addition, there was question whether the items should continue to be in the operating budget.

Ms. Rehfeld highlighted the Department of Law (DOL) request for \$14 million for two projects. She noted that the department needed flexibility to be able to address major cases and on-going efforts related to oil and gas and mining for the BP corrosion litigation. She emphasized the difficulty of predicting when such cases would move and the amount of resources needed to conduct the work. She believed using the capital budget provided more flexibility. She acknowledged that the work could be accomplished through a multi-year operating budget item, but she thought those kinds of items made it difficult to make cost comparisons year-to-year.

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Ms. Rehfeld continued that \$5 million of the requested \$14 million related to oil and gas and mining would be targeted to outside counsel and experts associated with major oil and gas matters, including Pt. Thompson, some of the on-going Trans-Alaska Pipeline System (TAPS) tariff issues, and oil and gas royalty issues and tax matters. She referred to \$9 million requested as a capital item for experts and other litigation activities associated with the BP maintenance practices that had resulted in the oilfield shutdown and the resulting loss of production.

Co-Chair Stoltze noted that the attorney general had expressed concern about the items and the ability of DOL to address the issues.

Ms. Rehfeld discussed the importance of tourism funding. The governor had requested a total of \$16 million for tourism marketing. She was aware that the committee had spent a significant amount of time on legislation designed to address the issue, which had not passed. She believed there would be a significant funding gap with the current structure related to visitor marketing efforts. She hoped for additional funding through the capital budget process in order to address the industry marketing funding gap, while a longer-term solution was worked out.

Ms. Rehfeld pointed out that the Aerospace Corporation funding was important; the state had made a significant investment in the Kodiak launch facility. The governor had introduced Executive Order 115 (which had been approved by the legislature) to transfer the Aerospace Corporation from the Department of Commerce, Community, and Economic

Development (DCCED) to the Department of Military and Veterans Affairs (DMVA). She believed the proposal represented a better alignment with the mission and capabilities of both the launch facility and DMVA. She noted that \$4 million had been included in the capital request; however, the agency had indicated that it was in need of \$8 million in order to sustain the operations into the next year.

Ms. Rehfeld stressed that the item was not included in the operating budget because she believed there needed to be a discussion with the legislature about the state's on-going commitment to the Aerospace Corporation and the level of state funding that should be included on an annual basis, either in the operating budget or through a capital appropriation.

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Co-Chair Stoltze recognized other members present in the room.

Ms. Rehfeld listed three smaller capital budget items that the administration had requested:

- \$600,000, DCCED, Export Potatoes
- \$400,000, DEC, Shellfish Beach Monitoring
- \$100,000, Department of Revenue, Software Training

Ms. Rehfeld added that the three items would be more like pilot programs than on-going operating items, but they could go into the operating budget if the committee so willed. She asked that there be opportunity to discuss the items before the budget passed.

Co-Chair Thomas asked whether the described items were part of the capital amendments to the Senate bill. He wondered why the requests were not placed in the budget earlier.

Ms. Rehfeld responded that the administration had not submitted any formal amendments to the draft capital CS pending before the Senate Finance Committee. The items were in the governor's original request; they were hoping that the funding would be retained.

Co-Chair Thomas believed that the requests should have been made at the same time that the amendments had been made.

Ms. Rehfeld responded that the administration did not formally submit amendments for items that were already in the governor's budget.

Vice-chair Fairclough queried the amount the state would have to access or match federal dollars. She believed the purpose of the committee meeting was to understand what was at risk for the state if the capital budget was not passed.

Ms. Rehfeld replied that the amount was \$104 million in general funds that would match over \$719 million in federal and other funds. She continued that the large items were included in DOT/PF and DEC. She noted that the two departments would address the committee related to specific questions.

Representative Gara believed that it was important to have funding available for projects that were scheduled to take place during the coming summer. He queried money that could not be used in past years because of backlogs.

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Ms. Rehfeld thought part of the question referred to information about the status of previously authorized capital projects. She pointed out that at any point in time, there were a number of projects that were previously authorized by the legislature but were not moving forward for one reason or another. Many of the projects were DOT/PF projects and some of the federal authorization was provided through legislative appropriations. The funds were used as they were received, but the department would not have the flexibility to move excess authorization to another project without legislative approval.

Ms. Rehfeld continued that the items before the committee included, for example, capital supplemental items that the department was bringing forward in order to bid out for the summer construction season. The projects requested for FY 12 that would take effect July 1 were those that could be under development for the following summer (2013). There always needed to be projects in the queue that were going through various stages of development. Capital projects typically had a life of five years, although many took much longer than that because of the environmental and permitting work needed.

Ms. Rehfeld mentioned that she had wrap-up items related to the overall impacts of delays before the individual agencies spoke.

Representative Gara asked about the renewable energy fund. He noted that when the statute was originally passed, the goal had been to put \$50 million each year into the fund. The year before, the governor had vetoed half the amount, and was proposing only \$25 million for the current year. He viewed Alaska as resource-rich but energy-poor, and queried the governor's intent related to the item.

Ms. Rehfeld did not know whether the governor had ever been opposed to the original intent of HB 152. She thought the administration had attempted to make sure the appropriations made were to projects that could move forward. She noted that Alaska Energy Authority (AEA) initially had challenges getting the process underway and managing the grants. She believed there was a process in place that that legislature and administration believed was good for vetting projects. The round-four list contained \$36 million in projects that had gone through the process, and not \$50 million. She thought the most important thing was a good list of projects that were ready to go, and not the specific number. She knew that the process set up in HB 152 was slated to sunset in the following year; she thought there would be discussion about possible improvements to the process.

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Ms. Rehfeld addressed the possible impacts of delaying or not passing the capital budget. She stressed that the capital budget was very important to people and communities across the state. She stated that there would be serious implications if a capital budget did not pass, or if passage was significantly delayed until the fall or the following legislative session. She detailed that the biggest concern was related to state-matched dollars that leveraged federal highway, aviation, and water and sewer project funding. She referred to municipal matching grants for water and sewer projects and municipal harbor grants.

Ms. Rehfeld maintained that Alaska could lose federal dollars if it was not able to obligate the funds in a timely manner or secure the matching funds and that other

states could get the funds that Alaska lost. She referred to times in the past when there had been a very small match-only capital budget; there were also times when the capital budget did not pass during a regular session, and the budget work was done during a special session.

Ms. Rehfeld emphasized that capital budgets were particularly important for infrastructure development, maintenance, and jobs. Capital projects took several years to be completed (with design, permitting, and phasing) and the projects moved forward at different times. She underlined the importance of having projects in the queue to keep the economy moving forward. She argued that small private-sector contractors needed to be able to bid on jobs and relied on capital projects to plan for their construction season and hiring. She believed that waiting until later in the year could present further complications in getting a supplemental capital budget passed. She added that it was rare to get a supplemental budget passed early in a legislative session.

Ms. Rehfeld believed rural communities in particular would be impacted by a delay. She noted that delays typically increased project costs. She stated that the administration was hopeful about getting a capital budget passed during the special session and moving the projects forward.

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Co-Chair Stoltze queried the impact on smaller communities with smaller budget items.

Ms. Rehfeld responded that many of the smaller projects that went through as grants to the municipalities and named recipients were very important to small communities. She pointed out that the smaller projects could be expeditiously awarded through DCCED.

Co-Chair Stoltze did not want to miss the smaller projects.

Representative Doogan wondered whether there was a date after which appropriations would not achieve their stated purpose.

Ms. Rehfeld did not know what the "drop dead" date would be. She discussed timing issues for specific federal programs. She noted that a project that had been authorized

but was delayed for environmental reasons, for example, would not necessarily lose access to funds.

Representative Doogan pointed out that Ms. Rehfeld had testified about her preference for passing a capital budget before the special session was over. He wondered whether the end of the special session would be the "drop dead" date, or whether there was a date after which it was not recoverable.

Ms. Rehfeld responded that she did not know whether she could answer the question. She could say that the administration's goal was to have a capital budget that would take effect July 1, 2011.

Co-Chair Stoltze asked whether September would be a little late.

Ms. Rehfeld responded that September would be after July 1.

Representative Wilson requested a copy of Ms. Rehfeld's notes. She queried the weatherization program and other programs that would no longer have funds. She asked how much funding was remaining in the weatherization program. She did not want to wait until the weather got cold.

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Ms. Rehfeld deferred to the Alaska Housing Finance Corporation.

Representative Guttenberg referred to supplementals, which were usually used for on-going programs. He asked how many of the supplemental requests (such as the Cold Bay Airport improvements) were ongoing and required funding in order to be finished. He wanted an accounting of how many jobs would be lost.

MARK A. LUIKEN, COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), reported that he was currently meeting with the commissioners from the other 49 states to discuss the future of the federal surface transportation bill being debated in Congress and the potential impact to future federal highways programs. He added that the current House version of the bill proposed to cut the annual appropriation by 33 percent, or nearly \$14 billion. Each state's federal authorization

would be impacted by an equivalent amount, or as much as \$150 million for Alaska (based on the current formula fund calculations).

Commissioner Luiken pointed out that the capital budget defined through legislative authority the projects that DOT/PF would be allowed to develop each year. He stated that the capital budget was imminently important to Alaska's communities and small and large businesses. He maintained that a gap in funding would create significant timing issues and loss of federal funding for the state.

Commissioner Luiken added that the state had never been in the position before; given the financial struggles of other states, and the federal situation, he thought there would be very little sympathy for Alaska if the money went unobligated. He stated that the money would quickly be redistributed to other states which were able to obligate the funds within the federal timelines. He added that the federal Department of Transportation could look at Alaska's federal FY 11 obligation and potentially cut the following year's federal program by the unobligated amount as well.

Commissioner Luiken continued that the FY 12 capital budget listed the projects that were scheduled to be obligated during federal FY 11. In order to get the federal agreements to the Federal Highway Administration (FHWA) by the beginning of September (Alaska's cutoff for submittal to obligate federal fiscal year funds), the budget authority would be needed no later than mid-July 2011. However, getting the authority that late in the year would leave the regions and headquarters with only a few weeks to work up the projects for submittal to Alaska's headquarters, allowing only a week or two to move the submittal to FHWA for obligation. He stressed that the later the authority was obtained, the greater the risk.

Vice-chair Fairclough asked for more information about the dates.

Commissioner Luiken replied that FHWA had said that the state needed to have the funds obligated by the first week of September, as it took them at least three weeks to process the information and get it to the federal level.

Commissioner Luiken continued that DOT/PF was at risk of losing about \$190 million in federal FY 11 funds if the

capital appropriations were delayed. The governor's FY 12 capital budget included \$190 million in federal funding requests for surface transportation. In addition, there were another \$100 million in airport improvement funds that were planned for obligation using federal FY 11 funds. He underlined that Alaska was at risk of missing its FHWA obligation deadlines and losing the funds forever if the legislative authority was not available for the projects by July 1.

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Commissioner Luiken continued that many of the federal FY 11 project requests provided appropriate level of funding authority for larger projects. For example, the Glenn Highway Milepost 172 to 189 rehabilitation for \$10 million in the FY 12 request was part of an overall project cost of \$24.5 million; it was anticipated to start in August. Projects would be delayed until the following year unless there was full project authority. He noted that not all projects could be done in phases; those that could not might cost more in future years due to demobilization, remobilization, and overall changes to construction costs.

Commissioner Luiken explained that the FY 12 capital budget also included \$123 million in airport improvement program federal FY 11 funds. A delay in the construction season would continue to impact the state. For example, the runway safety area in Kotzebue was a \$28 million project; \$17 million had been used, and an addition \$20 million was needed, so the state needed about \$9 million in authority for FY 12 capital requests (expected to go out in August). He emphasized that the runway safety area was only one of approximately ten projects that needed to be completed before 2015, by federal mandate. He underlined that pushing the one project back could potentially push the entire program back.

Commissioner Luiken further discussed the Cold Bay project. The pavement rehabilitation project had been slated for advertising during the current week; however, the schedule would be delayed until supplemental appropriations passed. He emphasized that continued delays would push the project schedule out, and construction could get delayed until the following year again. In addition, delays in the capital project funding authority jeopardized project schedules in rural Alaska even more, because of the shorter construction

season and challenges shipping to areas dependent upon barge service.

Commissioner Luiken turned to the Alaska Marine Highway System, the Bethel overhaul program; about \$50 million in both federal funds and general funds was at risk. The annual requirement needed to be addressed, and a delay or lack of funding could result in extending the annual maintenance schedule due to lack of haul-out facility availability. In addition, there could be delays in scheduled sailings due to changes in the vessel overhaul schedule; delays could mean less revenue and/or increased vessel operations costs. There was also increased risk of vessel operation failure due to delayed annual overhaul.

Commissioner Luiken argued that all the department's deferred maintenance programs were at risk. Besides pushing deferred maintenance repairs further out into the future for the portion of deferred maintenance that went to contractors, there would be economic hardship from the loss of projects. Rural areas would not receive deferred maintenance on highways or rural aviation sites until the following season due to seasonality changes.

Commissioner Luiken pointed out that the governor's budget included \$10.5 million to continue environmental work for Roads to Resources projects in the Northern Region. The road to Umiat would be suspended, and caribou studies would be delayed for the Ambler mining district road.

Commissioner Luiken concluded that the proposed delay could impact the department's federal FY 12 federal aid program for highways. Assuming a potential loss of \$150 million, plus the fact that the state could potentially not obligate \$190 million, \$340 million could be at risk for the highway program and \$100 million for the Airport Improvement Program (AIP). The calendar year 2012 construction program could also be affected.

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Co-Chair Stoltze referred to the late 1990s when about \$18 million in unobligated funds from another state were used to do the Minnesota International Airport Road bypass.

Commissioner Luiken replied that Alaska had generally been on the receiving end because it had been ready with other

projects to obligate. However, he stated that the situation was currently particularly acute because most of the projects on the shelf were funded through the American Recovery and Reinvestment Act (ARRA) funding. He stressed that there was significant funding at risk.

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Vice-chair Fairclough wondered how well Alaska was positioned with projects that were ready to go. She also wondered how projects were different in terms of timing.

Commissioner Luiken responded that Alaska was very prepared and was able to obligate all of the ARRA funds provided to the state (about \$178 million). He noted that every one of the projects was currently underway.

PATRICK KEMP, DEPUTY COMMISSIONER, HIGHWAYS AND PUBLIC FACILITIES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), believed Vice-chair Fairclough's question referenced the phases a project went through. He stated that Phase 2 was a pre-construction phase; there was a separate pot of money in the capital bill for the amount, which allowed the department to do design starts. Without the capital bill, the department would not be able to start new designs in the current year to fulfill the FY 12 project list. He stressed that a large Phase 3 (right-of-way acquisition phase) could not be funded. Phase 4 was the construction phase; none of the projects without authority could be put forward for advertisement in the current year.

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Vice-chair Fairclough asked whether Alaska had received second-round funding from other states that were unable to obligate under ARRA.

Mr. Kemp replied that Alaska had received some additional funding for the ARRA projects. He noted that the current President's bill to Congress had a proposed \$50 billion for ARRA; DOT/PF was trying to prepare for that as well as what had been requested in the capital bill. He believed the ARRA funding was fully used, and addressed all the projects the state had on the shelf.

Vice-chair Fairclough thanked DOT/PF for being ready. She noted that there were no longer available projects if other funds became available quickly. She commented that without a capital budget, the state would not be able to design and prepare for possible new projects, with a ripple effect in the construction industry.

Co-Chair Stoltze asked Mr. James Armstrong to testify as a former Anchorage Metropolitan Area Transportation Study (AMATS) director.

JAMES ARMSTRONG, STAFF, REPRESENTATIVE BILL STOLTZE, explained that one year, the state had gotten around \$800,000 or \$900,000; he was allowed as the coordinator (through approval from the policy committee) to take some construction funding and move two projects forward that had been in the design phase. He thought there were other similar organizations around the country that would gladly take any cash the state turned back.

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Representative Neuman believed that when a DOT/PF project went out to bid, the department had to have the funds in hand in order to put it out to bid. He wondered whether the requests for the appropriations came in phases.

Representative Neuman noted that the construction projects had been coming in at about 30 percent under bid. He asked whether there was money left over. He queried the impact of not receiving some of the funds.

Co-Chair Stoltze stated that some projects were reallocated in the middle of the construction season.

Mr. Kemp explained that prior to going to bid with a federal aid project, the department was given authority to advertise and was allowed by FHWA to go to Phase 4; this was the case 99 percent of the time. Occasionally, when DOT/PF knew that a permit or right-of-way transaction was imminent, the department advertised with state funds and obligated the money during the advertising period, although it would not open bids until the money from FHWA was obligated.

Mr. Kemp assured the committee that the department was very careful with the procurement process, which involved tens

of millions of dollars; however, occasionally it did use general funds.

Mr. Kemp continued that bids running under 30 percent were a great concern to DOT/PF. He said there had been a number of items in the current year that had conglomerated, and the department was nervous about meeting its obligation authority for federal FY 11. The state was underrunning projects, which meant that more projects had to be put out. In addition, the project contingencies had been wiped out with the ARRA funding; there was very little to offer just months before. There had been meetings with OMB to discuss options for a failsafe mechanism. He stressed that things were looking better and he believed the state would meet its regular federal aid obligations; some projects would have to be brought forward from federal FY 12.

Mr. Kemp reminded the committee that the department had gone through a similar scenario the year prior. During federal FY 10, the department had had to reach forward into federal FY 11 and obligate 75 percent of its Statewide Transportation Improvement Program (STIP) projects that came under obligation. He acknowledged that the federal fiscal year got a little confusing, but pointed out that the state had to work with the STIP.

Mr. Kemp pointed out that the department needed flexibility to manage its projects through the STIP. The department also needed additional authority. He assured the committee that DOT/PF knew that it had a lot of authority on the books and was trying the clean that up.

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Mr. Kemp stated that the department's main focus was getting projects back on the shelf in order to be ready for another possible jobs bill from Congress. He noted that there could be \$50 billion of competitive projects for ARRA funding if Congress passed a highways bill in the current year, but the state would not have anything ready.

LAURA BAKER, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, added that it was necessary to consider procurement rules. She pointed out that the state of Alaska could not go out to advertise a project without having the funding and/or the funding authority to back that. In terms of the federal

funding, the department billed the federal government. She emphasized that legislative authority was necessary for each of the projects to go forward.

Representative Neuman wondered how prepared the state was to move into the coming construction season in terms of funds that could be available. He asked whether there had been some overfunding to the states and whether Alaska had to pay some money (\$54 million) back for transportation projects.

Mr. Kemp did not believe that the department had had to return federal aid obligation funds.

MIKE VIGUE, CHIEF OF SURFACE TRANSPORTATION PLANNING, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, replied that Congress had been using an appropriation bill procedure in recent years that included a rescission; an unobligated balance would be resent. He noted that Congress had been using the procedure for the past ten years. The large number referred to by Representative Neuman was at the end of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: a Legacy for Users (SAFETEA-LU) at the end of 2009.

Mr. Armstrong believed that the state was operating under the Transportation Equity Act: a Legacy for Users (TEA-LU).

Mr. Vigue replied that SAFETEA-LU had expired in 2009; currently the state was operating under an extension of SAFETEA-LU.

Ms. Baker pointed out that the rescission was an example of the kind of dynamics that the state had to deal with related to federal program funding. In addition, the previous year, late in the session, the department had come forward with about \$140 million in projects because there were additional formula funds to distribute to states. A state might lose funds, but could also gain some. She agreed with Mr. Kemp that authorization flexibility was needed in order to move projects between federal fiscal years and adapt to changes from the federal side.

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Vice-chair Fairclough believed the word "rescission" meant that the federal government had promised a certain amount

of money, but when the state had not spent it, the federal government notified the state that the money was no longer available.

Mr. Vigue responded that her statement was correct. He added that usually, when the federal government passed an appropriations bill at the beginning of the year, it included a rescission, and it also looked at the previous year's unobligated balance. He explained that the federal program gave an apportionment and separately gave authority to spend it. Usually, less authority than apportionment was given; the rescission would come back and take the unobligated apportionment.

Vice-chair Fairclough commented that she preferred her own definition.

Representative Joule referred to an environmental impact statement (EIS) related to the Foothills West Transportation Access project (the road to Umiat) under the Roads to Resources program. He noted that both the Anaktuvuk Pass tribal council and city council had come up with resolutions in opposition to the project. He wondered whether there were plans to hear from the community of Anaktuvuk Pass under the EIS process. He asked how long the process would go on and how much it would cost.

Ms. Baker replied that there had been an informal public hearing process, but there had not been an official EIS process.

Mr. Kemp added that the funds expected for the current year would begin the EIS work. He said there would be a scoping effort, which would entail going to all the affected communities and stakeholders to bring information and take public comment. The results would be studied in the EIS. He added that the department knew about 90 percent of what had to be studied through the agencies, but community input would be taken. He acknowledged that there were a lot of fears about what a road would mean to the area and to subsistence.

Mr. Kemp informed the committee that the department had been through the EIS process many times; often groups had tried to thwart even beginning the process. He believed that stopping the process interrupted the very tool that would be used to evaluate the social, natural science, and

other impacts of the project. He was sure that others on the panel knew of projects that were being stopped before the formal permitting and National Environmental Policy Act (NEPA) work began. He stated that the department was proposing the funds in order to ensure that the work proceeded.

Representative Joule asked for a definition of "affected community." He wondered who the department planned to get input from.

Mr. Kemp responded that the department planned to get input from communities in the immediate area. He added that the process was a massive undertaking for Alaska, and not just the communities nearby. The department had had a number of informal hearings, including in Anaktuvuk Pass. He believed the communities in a certain radius from the roadway and development would be considered the most affected communities.

Representative Joule relayed that the caribou had a migration pattern and did not care about which communities were close. He wondered whether the Upper Kobuk area and other areas covered by the movement of the Western Arctic Caribou Herd would also be included in the definition of "affected communities."

Mr. Kemp replied that the caribou would be studied as well; not only primary impacts but secondary and cumulative impacts would be considered. He emphasized the importance of going through the scoping process (the first stage of the NEPA process) in order to formulate the questions and the types of things that would be studied.

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Representative Joule pointed out that there were community concerns about the road but also potential offshoots of the road to other developments (such as coal) that might impact the area.

Mr. Kemp responded that he was not aware of any coal development issues. He reported that he had asked staff in the Northern Region (including the Roads to Resources manager) to look into the coal development; he expected to have the information by mid-May.

Representative Gara believed the goal of the proposed budget was to utilize all available federal transportation funds. He wondered whether all the projects on the transportation list had been ranked through the STIP process. He asked what room there was for projects on the AMATS list. He asked how the projects were decided upon, and queried the relationship between the STIP and AMATS processes.

Mr. Kemp answered that the AMATS organization would decide the project priorities. He added that there had been some discussion about indemnification issues, but the projects would be out during the current fiscal year. He did not know the answer to the second part of the question.

Representative Gara believed the AMATS process only helped projects in the Anchorage and Mat-Su areas. There were projects on the list that were obviously statewide, which he assumed were covered by the STIP. He asked how the department decided where to put the federal funds available.

Co-Chair Stoltze pointed out that the metropolitan planning process, whether it was the Anchorage, Fairbanks Metropolitan Area Transportation Study (FMATS), or the Mat-Su version, represented a significant portion of the funds.

[11:18:44 AM](#)

Mr. Kemp answered that AMATS had approximately \$40 million within the DOT/PF program, and FMATS had \$5 million to \$7 million in the STIP program. He noted that there were several categories within the STIP, including the track projects, the Community Transportation Program (CTP), and the Alaska Highway System (AHS) program; the programs were ranked and graded and went through a project evaluation process. He added that the National Highway System (NHS) portion for the main corridors went through an internal departmental process, and included the Glenn Highway, the Parks Highway, and projects that had a high volume of traffic and were critical to the state.

Mr. Kemp continued that the state's STIP encompassed everything that the federal gas tax receipts allowed the state to recover. He added that there were restraints and that the STIP could not be overfunded in any given year, which was why other projects had to be available. For

example, a project could "slip" because a permit did not go through or a piece of right-of-way could not be purchased, and the Phase 4 construction funds could not be obligated in a fiscal year. The department had to then quickly drop the project and pull another project from the next fiscal year or even two fiscal years ahead. He provided an example related to a \$30 million project that the state could not advance because of NEPA issues; the state came very close to losing the \$30 million. He emphasized that the money was gone forever once it was lost. The department fortunately had contingency authority and was able to use the money for the Rich Highway, which was in the STIP and could be substituted so that the federal aid could be used.

Mr. Armstrong offered to review the Transportation Improvement Process (TIP).

Representative Gara wanted to make sure that the projects in the budget were ranked.

Mr. Armstrong replied that the items were ranked. He explained that AMATS went out to a selection process to all the community councils and all interested members through federal guidelines. He noted that the process was a painstaking one, with staff bringing recommendations to the technical advisory committee and eventually to the policy committee and through the assembly process and the planning and zoning process. He assured the committee that the projects were thoroughly vetted. He noted that the TIP was a smaller version of the STIP.

Representative Gara wondered what was left over for rural communities in the ranking process.

Mr. Armstrong replied that community transportation roads projects in communities like Dillingham or Kotzebue competed against roads projects in Juneau or Ketchikan; DOT/PF had its own elaborate STIP process with amendments.

[11:23:35 AM](#)

Co-Chair Thomas queried rumors that DOT/PF was sitting on \$1.5 billion.

Ms. Baker responded that legislative authority, federal approval, and a STIP project were all required for a federal highways program. She added that the legislative

authority was for the federal funds as well as the state matching funds. She explained that when projects came in under bid, currently the excess funding was listed in the accounting system with the specific project. The department went through a process of looking at the excess federal authority and dropped the federal authority off the books.

Ms. Baker added that there could be large or "mega" projects, or projects that were tied up in court (such as the Juneau Access Road); there was authority on the books for part of the project. She emphasized that most capital projects in departments were slated for about five years; however, if the federal process was involved, the process could average seven to ten years or more, when right-of-way or environmental issues were involved. She stated that going back and taking the authority off the books would affect how the state would proceed with the project. The state could owe money to the federal government for what had already been done on the project.

Ms. Baker continued that the state had a lot of unobligated funding (money that was unencumbered or unspent) in the accounting system; that was the appropriation view. There was also the program project view. There were different phases of a project, work was being done, and things were being coded. The department had found through analysis (using the additional capital budget coordinating position added by the legislature the year prior) that there were various relationships: a single appropriation to a single project, multiple appropriations to a single project, and multiple appropriations to multiple projects. The view was very complex, and not all of the data was in one database. The department was working towards a database that would include all projects.

Ms. Baker acknowledged that there was excess federal authority and she said there were ways to clean that up.

[11:27:16 AM](#)

Ms. Baker continued that technically speaking, there was over \$2 billion in excess federal authority. There was only \$240 million in general funds. Out of the total appropriations for the timeframe, the unobligated balance was about 2 percent of the overall appropriations that the legislature had funded. There were projects that went back to 1980. She assured the committee that the department was

in the process of cleaning the books up; in the future, there would be one internal process.

Ms. Baker turned to another issue that had come up. Some previous person had put a project in so that the federal allocation to the state would not be lost; that federal authority could still be sitting on the books for a project that was not moving forward for various reasons. Taking the project off the books might make someone think a project was taken from their district. The department needed to organize and coordinate the effort.

Co-Chair Thomas stated that there were hundreds of millions of dollars that were obligated to the Ketchikan access bridge and other projects. The legislature had the impression that there was \$1.5 billion that could be "thrown out the door" to projects; however, that was not the case, and some of the funds were obligated to specific projects. He pointed out that road projects in his district had been purged and put back in under the STIP. He opined that the department gave preferential treatment to some projects. He referred to projects in Haines. He wanted to make it clear that the \$1.5 billion was obligated and not available for the capital budget.

Co-Chair Stoltze believed that it was important to stay away from politics and to focus on the impacts to the state's economy.

Vice-chair Fairclough pointed out that Ms. Baker had taken some time to describe the complexity of the issue before policy makers. She believed a shorter way was needed to explain the complexity of the dilemma to Alaskan citizens in the face of media statements about the so-called extra money.

[11:31:15 AM](#)

Co-Chair Stoltze commented that there had been enough sound bites and that it was important to be clear about what was needed. He believed it was important to give the public real information.

Vice-chair Fairclough remarked that there had been talk of a scenario in which projects were waiting and bids were coming in lower. She referred to times when projects were coming in over and projects had to be repositioned. She

wondered what happened when the projects were more expensive than anticipated.

Ms. Baker replied that in the past, the department would come back to the legislature and ask for increased authority. She said that part of the issue was that on one hand, the legislature wanted to understand what DOT/PF was doing with the projects; on the other hand, the department had been criticized in the past for moving money around. She noted that election districts could change between project allocations.

Ms. Baker explained to Co-Chair Thomas that a road project that was not moving along might have gone back into the queue, but the funds had to go into another road project. Funds for a bridge project had to be moved to a bridge project that had gone through the prioritization process.

Ms. Baker addressed the issue of increased authorization. She noted that there was a budget amendment that was part of the governor's budget; the department had asked for \$10 million of a wait-restriction type allocation, so that there would be the ability to go to the Legislative Budget and Audit Committee to get increased authorization (the committee could not add new projects but could increase existing projects). Another avenue was through the supplemental process; the department would come to the legislature during the legislative process and ask for increased funding. She referred to discussion about the Richardson Highway that had taken place earlier in the session. The project was slated for the following year, but the federal authorization of \$30 million was necessary to refill the contingency pot so that on-going projects that needed a few million dollars here and there would not be limited.

Ms. Baker noted that other states had a little more flexibility with their money, as far as making adjustments. She reiterated that the process was complex.

[11:35:54 AM](#)

Representative Edgmon queried commodity prices. He knew that a lot of DOT/PF projects were tied to petroleum products and prices. He thought there were risk factors related to putting the capital budget off until later in the year, as commodity prices could surge upwards. He

pointed out how everything in rural Alaska was tied to the cost of fuel, such as barge service and asphalt.

Ms. Baker added that bids coming in lower were not so much the result of reduced costs but the result of more competition. She noted that the department would sometimes ask for increased authority for projects that did not have full funding. There was a lot of impact from projects being delayed for over the period of years; the original estimates could change significantly and require more authority and more matching funds.

Representative Joule asked whether there were more out-of-state contractors bidding on Alaska projects and how that impacted local-hire.

Mr. Kemp replied that the department had not seen a lot of major contractors successfully submitting a low bid on projects, but it had noticed increased competition between smaller contractors and sub-contractors.

[11:39:35 AM](#)

Mr. Armstrong noted that someone had been calling him every three days since November related to the re-appropriation section of the bill.

Ms. Rehfeld agreed that the process was not a simple one.

Commissioner Luiken summarized that the department was focused on the current federal fiscal year. He emphasized that the capital budget situation would have impacts for the state in both the current and future federal fiscal years.

Ms. Baker added that not meeting the obligations in the current year or in FY 12 would establish the baseline for reductions.

[11:42:55 AM](#)

RECESSED

[2:05:59 PM](#)

RECONVENED

Ms. Rehfeld stated that the Department of Environmental Conservation projects would be discussed.

LARRY HARTIG, COMMISSIONER, DEPARTMENT OF ENVIRONMENTAL CONSERVATION (via teleconference), informed the committee that the main component of DEC's proposed capital budget related to facilities programs that were largely water and wastewater projects throughout Alaska, including both rural and large communities. There were three facilities programs: the Village Safe Water Program for small rural communities, the Municipal Matching Grants for larger communities (funded with state general fund money matched with local funds), and the Revolving Loan Fund. He underlined that all of the programs would be impacted by a capital budget delay.

Commissioner Hartig pointed out that in FY 12, the three programs would leverage about \$62 million in federal funds, assuming approval of the governor's request in state funding. He stated that the funds would create a number of projects and jobs throughout the state, including in rural Alaska. Communities were not just dependent on the services from the Village Safe Water Program, but on the jobs created. He stressed that the projects would provide safe drinking water and sanitation throughout the state, including many rural communities that had not had the services before.

Commissioner Hartig emphasized the risk in delaying funding. He stated that slowing down the projects in anticipation of money coming in later was a better alternative than going full ahead and running out of money, which would stop the projects. He warned that there might not be time or funds to remobilize the projects during the construction season. He emphasized that there was no certain "drop dead" date on any of the projects.

[2:11:59 PM](#)

Commissioner Hartig began with a review of the Village Safe Water Project. He explained that the program had a federal component and a state component. The federal money was for 75 percent of the project and the matching state/local grant was for the other 25 percent. The FY 11 amount was \$30 million in federal receipt authority that would be matched with \$10 million general funds. He explained that the federal FY 11 authority had been delayed, but DEC expected to hear soon from the U.S. Department of Agriculture and the Environmental Protection Agency (EPA),

the two federal agencies that funded the program, that they were ready to receive applications for the safe water grants. He stressed that a delay in getting state capital funds would mean a delay in applying for federal money. Neither the state nor federal funds could be used until the start of the state fiscal year July 1; the question was how early the department could apply for the federal funds for the present construction season.

Commissioner Hartig noted that DEC had had discussions with the federal agencies, which needed at least two weeks to turn a state grant request into federal dollars. The department had gone through the larger on-going projects for the summer that could be impacted by a delay in the capital budget until September. He estimated that construction scheduled for the summer could move ahead if the department was able to get \$10 million during the special session for the safe water project (\$7.5 million in federal receipt authorization and \$2.5 million general fund match), because the projects could be phased. However, DEC needed assurance that the remainder of the requested funds (\$30 million federal funds and state match) would be available.

[2:15:30 PM](#)

Co-Chair Stoltze stressed that there was no guarantee that the legislature would convene to consider a capital budget in September.

Commissioner Hartig stated that DEC had not considered the consequences of a later date. He pointed out that at the end of the federal fiscal year, the federal agencies were more pressed and the turn-around time would be longer. He believed that not getting the state matching funds until October would make it difficult to deal with the lead time for the 2012 construction season, including getting contracts and scheduling barges. He agreed to provide more information.

[2:17:27 PM](#)

Commissioner Hartig turned to the Municipal Grants Program, explaining that no federal money was associated with the program, but state general fund money with a local community match. The governor's proposed budget had a request for \$20 million for the program.

Commissioner Hartig detailed that each year, DEC solicited larger communities that would not qualify for the Village Safe Water grants, and asked which projects they wanted to apply for through the Municipal Grants Program. Criteria was used to rank the projects applied for; about \$20 million in selected projects had been put in the proposed budget.

Commissioner Hartig explained that eight communities were slotted to receive the grants for nine different projects for FY 11 (one community had two projects). When communities were ranked high on the list and likely to get funding, they often use their own money to start the projects and then come back for reimbursement. He maintained that it was difficult to evaluate the stress that might occur in the communities if there was a delay in the capital budget, or no capital budget. At least one of the communities on the current list did not have the ability to forward-fund a project, and the project would be moved back one year.

Co-Chair Stoltze asked the names of the communities on the list.

Commissioner Hartig listed the communities and their projects:

- Kodiak: \$3.5 million, Ultraviolet secondary water treatment facility
- Palmer: \$2.5 million, Utility extension
- Soldotna: \$693,000, Well house construction
- Sitka: \$3.5 million, Disinfection facility
- Haines: \$0.5 million, Pipe replacement
- Unalaska: \$3 million, Water treatment plant
- Ketchikan (two projects): \$2.5 million, Water and sewer main replacement; \$1.6 million, Water and sewer improvement project
- Kenai: \$1.5 million, Water transmission main

[2:20:36 PM](#)

Commissioner Hartig continued to discuss the Municipal Grants Matching program. He explained that some communities would be able to start projects and some would not if the capital budget were delayed. There was risk for communities

that started the projects; also if part of a capital budget were formed in the special session for communities that could not start their own projects, there would be new criteria for the list and the priority order would be changed. The department believed that a delay into the fall could mean substantial delays in projects, possibly until the next construction season. He stressed that funding the projects right away was the only way to avoid the delay.

Co-Chair Thomas believed the communities that did not want the capital budget moved forward were on the list; he wondered why they were kept at the top and not rolled down to allow communities that wanted the capital budget to be at the top.

Commissioner Hartig replied that the department used set criteria to rank the projects and had not looked at other factors.

Co-Chair Stoltze believed the question was rhetorical.

[2:22:57 PM](#)

Commissioner Hartig turned to the third program, the Revolving Loan Fund, which had two components; there were different funds used for drinking water and clean water projects. The revolving fund was a federal program. Funds were provided each year to the states, which used the funds to give loans to communities at favorable interest rates and terms for drinking water and clean water projects.

Commissioner Hartig noted that more recently, the federal government had instructed the states to use a portion of the loan funds for a loan forgiveness program (essentially grants). The proposed capital budget for FY 12 had an item called "drinking water capitalization grant subsidy funding" for about \$4 million for the Alaska drinking water fund, and another request called "clean water capitalization grant subsidy funding" for \$1.8 million for the Alaska clean water fund. He detailed that the items were in the capital budget because they were loan forgiveness portions of the revolving loan fund programs. Since the monies would not be paid back as loans, the items had to be in the capital budget.

Commissioner Hartig emphasized that without the capital budget funds, the state would not get the rest of the money

for the loan program. For example, the \$4 million for the Alaska drinking water fund in the capital budget would allow the state to get an additional \$13.6 million in federal funds to be used for the revolving loan program for drinking water; that money appeared in the operating budget. Similarly, the \$1.8 million in the clean water fund in the capital budget was necessary to attract the \$12.2 million federal funds to make loans that appeared in the operating budget.

[2:25:05 PM](#)

Commissioner Hartig stressed that each community's projects had to be considered individually when looking at the effects of a delayed capital budget on the revolving loan funds program. He said that all the federal funds would be delayed, and that the numbers would be significant.

Commissioner Hartig stated that the department was not as concerned about losing any of the federal funds connected with the three programs to another state, although there was some risk of that. Historically, DEC had been able to get funds when going after them late. The main concern was connected with the village safe water program, because the program was unique to Alaska. Over the past six to eight years, there had been a precipitous drop in federal funding for the program; federal funds had gone down 40 percent in the past six years and continued to go down. He explained that the program was seen as an earmark rather than a mainstream, base federal program; opponents could use the excuse to cut funds to Alaska if funds started accumulating and were not appropriated and used. The department had been working hard to make sure the funds were used effectively and efficiently. He did not want to put the program at risk.

[2:27:40 PM](#)

Representative Edgmon referenced a project in Dillingham, a sewer line that was in great need of repair as soon as possible. Part of the sewer line had been exposed and was near the beachfront. He believed the cost of the project would be in the range of \$4 million and that there were some funds in the Senate capital budget; if the budget were delayed, the City of Dillingham would have to come up with funds from elsewhere in order to access the loan. He thought the project highlighted how important a timely

capital budget could be for the community in his district, which was struggling because of rising costs in energy and health insurance. He asked for more information about the Dillingham project and wondered whether the \$4 million was tied to the revolving loans fund.

Commissioner Hartig replied that Dillingham was faced with a relatively dire situation with a sewer line that had been exposed through erosion and could fail. He stated that the project was not in the DEC's capital budget.

BILL GRIFFITH, FACILITIES PROGRAMS MANAGER, DEPARTMENT OF ENVIRONMENTAL CONSERVATION (via teleconference), responded that the Dillingham project would be a combination of a capital project grant, along with a loan that DEC was trying to put together with the city. He believed the loan would be funded in the upcoming years using the state revolving loan fund. Potentially, both the grant and the loan could be impacted if the capital budget was not approved in time for the summer's construction season.

Representative Edgmon reiterated concerns about the timing of the capital budget.

Co-Chair Stoltze asked whether the project in Unalaska was of concern as well.

Representative Edgmon agreed that the project was also important, although he did not know whether the timing was as sensitive as the Dillingham project.

Representative Wilson asked whether health and safety issues were of concern when scoring the projects.

Commissioner Hartig answered in the affirmative.

Representative Wilson wondered whether the communities would be able to afford the 25 percent matching funds based on their income if there was a delay in the funding.

Commissioner Hartig replied that the 25 percent match related to the village safe water program was provided by the state. He noted that once the project was built, the communities had to have the capacity to fund it on-going. Before the project was done, DEC evaluated what was affordable in the community, and that affected the size of the project.

Representative Wilson wondered whether the municipal grant program had a match requirement.

Commissioner Hartig answered in the affirmative. He explained that the amount of the match was on a sliding scale; larger communities were required to come up with a larger match. The match amounts were set by the Alaska legislature and had been adjusted recently.

Co-Chair Stoltze noted that the adjustment had been made in 2008.

Commissioner Hartig added that the matches ranged from 15 percent to 40 percent.

[2:34:20 PM](#)

Representative Wilson stressed that there were significant safety and health issues related to the capital funding. She stated concerns. She requested information about costs for the following year.

Commissioner Hartig stated that there was a tie-in, as a number of communities used the municipal loan program to come up with the required state match.

Representative Joule pointed out that the price of oil was around \$110 a barrel; he did look forward to delivery and purchasing time. He thought about the cost of heating and fuel for remote rural areas and the water and sewer projects, which also provided employment. He queried the potential loss of employment for the season related to delayed capital requests.

Commissioner Hartig replied that the Village Safe Water Act passed by the legislature had the goal of providing local employment and training. He stated that DEC took that aspect of the program very seriously and was proud of its record of creating jobs in rural Alaska. He agreed that a capital budget delay would impact job opportunities in rural Alaska. Delays could mean a slow-down, which meant a smaller workforce.

Mr. Griffith stated that any delay on some projects would mean that DEC had to slow them down so that it could avoid stopping and demobilizing projects, which would mean laying

workers off. He explained that there would be some layoffs, with the hope that the employees would stay around until the project could be funded. A long enough delay would mean stopping work for the season. He added that costs tended to go up every year and a delay could mean increased costs.

[2:38:59 PM](#)

Co-Chair Stoltze referred to concerns about dates.

Vice-chair Fairclough queried capitalizing federal funds.

Commissioner Hartig replied that the inability to pay back loans resulted in the capital expense (related to the revolving loan fund programs).

Vice-chair Fairclough asked who was not able to pay back the loans.

Commissioner Hartig clarified that there was no question of a default on a loan; the federal agency (EPA) was providing the funds for drinking and clean water programs for loan forgiveness, which was similar to a mini-grant. The department received the money through the loan-fund program and would not loan it out but give it out in grants. Therefore, the money would not be paid back and the program would be more like a capital project.

Vice-chair Fairclough believed the situation was the opposite of what DOT/PF had described.

Commissioner Hartig answered in the affirmative.

[2:42:32 PM](#)

Representative Wilson raised the issue of air quality in the North Pole and Fairbanks areas. She referred to money in the capital budget that would be used to study air-quality issues, and \$3 million for a wood program. She wondered how a delay in the capital budget would affect the state's relationship with the EPA.

Commissioner Hartig replied that Fairbanks had a "nonattainment" issue (small particulate matter that resulted in the combustion of hydrocarbons) related to the federal Clean Air Act. He thought the community was working well with the state and EPA to address the issue. One of

the ways the issue could be addressed was through a change-out program to efficient wood stoves and wood boilers. However, there was a federal deadline for coming up with an attainment plan and reasonable progress towards completing the plan had to be demonstrated. He agreed that it was critical to take major steps towards addressing the issue within the next year or so. He added that the programs described were not in DEC's budget or the governor's budget, but were time-sensitive. He pointed out that there were other monies coming in to address air-quality issues in Fairbanks and other areas in the state; those funds would come through federal highway dollars and the DOT/PF budget. He emphasized that a delay would affect not only DOT/PF projects, but other air-quality projects in the state, including in the Fairbanks area.

Representative Wilson wondered whether more money would be lost if attainment was not achieved.

Commissioner Hartig replied that the punitive aspect of the Clean Air Act was that federal highway funds could be restricted if there was no attainment plan and no progress towards meeting it. He added that the result was a long ways in the future, and would not happen because of a delay in the current capital budget.

Representative Wilson commented that people in the Fairbanks area would preferred to change stoves out in July or August because of the weather. She emphasized that ultimately, transportation funds for the whole state could be impacted.

[2:46:19 PM](#)

Co-Chair Stoltze clarified that the issue was nonattainment and not a lack of available matching federal funds.

Commissioner Hartig agreed. He did not mean to minimize the possible result, but did not think that several months of delay in the state capital budget would mean losing the money to other states. The risk was more long-term (five to ten years).

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RECONVENED

SAM KITO III, MANAGER, SCHOOL FACILITIES SECTION, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, reviewed the programs and the impact of a delayed capital budget. He explained that the facility program of the Department of Education and Early Development (DEED) annually developed a prioritized list of school construction and major maintenance projects. He noted that the priority lists were the driving factors in development of the governor's capital budget. The projects were in HB 107 and included 14 items on the major maintenance list and one school construction project.

Mr. Kito stated that the major maintenance list projects were in good shape; several projects were ready to go as soon as money became available July 1. Some project starts would be impacted if the money was not available July 1; the projects would be delayed a full year if the budget was delayed until fall. He anticipated a 2 percent to 5 percent increase in costs for school construction projects delayed one year (based on cost estimates by HMS, Inc., which works for the school districts). The difference in cost would not incorporate any changes in cost that could occur as a result of reconstruction activities taking place in Japan after the tsunami.

Co-Chair Stoltze wondered whether commodity prices had been taken into consideration.

Mr. Kito replied in the affirmative; HMS, Inc. factored in expected increases in fuel costs and commodity costs.

Mr. Kito continued that 14 major maintenance projects would be impacted. The school construction project was a little further out, but a delayed passage of the capital budget could possibly impact the start date of construction. The design process would take a certain amount of time and the project could be delayed a full season.

Mr. Kito pointed out that the department had two other projects in the capital budget for the Mt. Edgecumbe High School (state-run boarding school in Sitka) deferred maintenance and for the Stratton Library (on the Sheldon Jackson campus in Sitka and currently owned by DEED) roof and siding replacement.

3:00:30 PM

Mr. Kito detailed that the Stratton Library building had been used mainly as storage; a delay in the project could affect the department's ability to complete roofing and siding because of escalating costs. He added that Mt. Edgecombe was in the middle of a heating plant project, and the construction would be delayed a full year, which could be impacted by cost escalations as well.

Mr. Kito highlighted two projects on the major maintenance list. First was a soil and remediation project in Arctic Village, which was a follow-up to an existing school replacement project. When the new school was constructed, the old school was demolished and petroleum product was found that had to be cleaned up. He stressed that there was a concern that the petroleum product was moving towards the school facility.

Mr. Kito turned to the second project in Scammon Bay in the Lower Yukon School District; a fuel tank placed in an area behind the school was subject to drifting snow, and the foundation to nearby facilities had been compromised. The project would relocate the tank and generator to the other side of the school building.

3:04:27 PM

Vice-chair Fairclough pointed to Alaska Housing Finance Corporation (AHFC) teacher health and public safety professional housing upgrades and asked whether the item affected anything DEED was doing. She wondered whether teacher housing affected education in the state.

Mr. Kito stated that the item was not a part of DEED's program. He added that the capital component of DEED was for construction of school facilities; the teacher housing program was managed independently through AHFC, which had varying levels of funding each year. He did not know the impact of the item, but he knew there was a backlog of requests for teacher housing.

Co-Chair Stoltze pointed out that teacher housing was in the same funding category as housing for nurses.

Vice-chair Fairclough pointed out that \$5 million in the capital budget was at risk for teacher housing, health and public safety.

Representative Wilson queried the Arctic Village project.

Mr. Kito replied that the new school had been constructed and the old school was demolished. The item was to clean up the spill that was the result of activities that had taken place at the old school. There was a concern that petroleum product was migrating towards the new school.

Representative Wilson asked how quickly the petroleum was moving and the possible impact of a delay.

Mr. Kito replied that the district was very interested in trying to move the project forward in the current year; the district had started advertising for a contractor, pending availability of funding.

Representative Gara asked whether the problems with the described projects would exist if the capital budget was passed by the end of the special session.

Mr. Kito replied that July 1 was the standard starting date for all of the projects. The districts were aware that the money would be available July 1; schedules would be impacted if there was a delay.

[3:08:02 PM](#)

Representative Edgmon wondered whether there was anything in the capital budget related to energy needs of the schools.

Mr. Kito replied that there was not a specific appropriation for school energy needs, but there were a couple of projects in the capital budget because of a change made by the legislature the year prior. One project was a lighting project for the Kake City School District.

Ms. Rehfeld concluded that the capital budget was important to Alaska, and that she was optimistic about passing the capital budget.

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Co-Chair Stoltze felt optimistic that there would be a capital budget passed before the end of the special session.

#

ADJOURNMENT

The meeting was adjourned at 3:10 PM.