

**ALASKA STATE LEGISLATURE  
HOUSE TRANSPORTATION STANDING COMMITTEE**

April 7, 2011

1:54 p.m.

**MEMBERS PRESENT**

Representative Peggy Wilson, Chair  
Representative Eric Feige  
Representative Max Gruenberg  
Representative Pete Petersen

**MEMBERS ABSENT**

Representative Lance Pruitt, Vice Chair  
Representative Craig Johnson  
Representative Cathy Engstrom Munoz

**COMMITTEE CALENDAR**

PRESENTATION ON STATE TRANSPORTATION IMPROVEMENT PROGRAM

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

MARK LUIKEN, Commissioner  
Department of Transportation & Public Facilities  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the overview of the State Transportation Improvement Program (STIP).

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

**POSITION STATEMENT:** Presented an overview and answered questions the discussion of the State Transportation Improvement Program (STIP).

PAT KEMP, Deputy Commissioner  
Department of Transportation & Public Facilities (DOT&PF)  
Juneau, Alaska

**POSITION STATEMENT:** Presented an update on the Roads to Resources Program.

**ACTION NARRATIVE**

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**CHAIR PEGGY WILSON** called the House Transportation Standing Committee meeting to order at 1:54 p.m. Representatives Wilson, Feige, Gruenberg and Petersen were present at the call to order.

**PRESENTATION ON THE STATE TRANSPORTATION IMPROVEMENT PROGRAM (STIP) BY THE DEPARTMENT OF TRANSPORTATION & PUBLIC FACILITIES**

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CHAIR P. WILSON announced that the only order of business would be a presentation on the State Transportation Improvement Program (STIP).

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MARK LUIKEN, Commissioner, Department of Transportation & Public Facilities, introduced his team and discussed the DOT&PF's mission. The State Transportation Improvement Program (STIP) will be presented by Mr. Ottesen, he said.

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JEFF OTTESEN, Director, Program Development, Department of Transportation & Public Facilities (DOT&PF), stated that he would briefly discuss the Long Range Transportation Plan 2030 and the 2011 State Transportation Improvement Program (STIP) [slide 1]. The Long Range Transportation Plan was last approved in 2008 and has a five-year life under federal law so the plan will need to be replaced by 2013. The Department of Transportation & Public Facilities (DOT&PF) has begun its efforts to update the plan [slide 2]. The consultant has performed a data refresh, reviewing the new demographic data, and how the highway and aviation and other systems are being used. He related that the DOT&PF's commissioner would like to integrate the new plan with the Strategic Plan this year [slide 3]. He reviewed the DOT&PF's overall planning structure. The Strategic Plan sets the vision and broad agenda for the other transportation planning documents while the Long Range Transportation Plan (2030) provides the details of the DOT&PF's policies. The federal government requires states to have a long

range transportation plan. Thus, the policy plan must be in place in the STIP, or the state would not be to receive federal funds. Since the state's transportation systems are so large and its systems are complicated, it is not realistic for the state to select projects at this level.

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MR. OTTESEN discussed the subordinate plans, which include regions, metropolitan areas, corridors, or subsystems, such as aviation and ferry. Lastly, the DOT&PF has subject matter plans for specific topic issues, major earthquake response plans. He emphasized the plans are organized to work together. The final piece of the planning process is performance measures, which identify progress or delays in fulfilling the planning process and is the starting point for the next planning cycle.

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CHAIR P. WILSON asked how long it has been since the DOT&PF's Strategic Plan was last prepared.

MR. OTTESEN explained Commissioner von Scheben prepared a small plan but it did not get integrated into the overall plan. The DOT&PF has worked to integrate the Strategic Plan that relates to all of the DOT&PF's transportation plans. He reported that the Strategic Plan will help guide the DOT&PF during the Long Range Transportation Plan's preparation.

CHAIR P. WILSON related her understanding that the process seems similar to the overall school planning process that school districts use.

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MR. OTTESEN described the past three years in which the DOT&PF has had very large funding, including the "Stimulus Funding." The net effect of that funding has been to reduce the backlog of projects. The STIP has provided a list of alternative projects for the DOT&PF to use when a project encounters time delays due to right-of-way or other issues. Since many of the projects have moved forward, the department currently does not have enough "shovel-ready" projects to capture all the federal funding. He identified "shovel-ready" projects as those in which the design, permits, and right-of-way have been performed and the project is ready to receive federal funding for the construction phase of the project. In response to

Representative Petersen, he answered that the funds he was referring to are formula funds which will expire the end of September 2011. The DOT&PF must be finished with the process by September 10, 2011 in order to complete any wrap up required by the FHWA.

MR. OTTESEN related that the projects must be "shovel-ready" to qualify for funding, but does not mean that all of the design and construction has been done or even that the project has been awarded. Projects that are "shovel ready" are ones in which the federal government has committed federal funding. The term is the "obligation" of federal funds, when essentially the state signs a contract with the Federal Highway Administration (FHWA), he said. In further response to Chair P. Wilson, he clarified that the design, right-of-way, and permitting must be completed prior to federal obligation.

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MR. OTTESEN referred to a chart that demonstrates the DOT&PF's federal obligation process [slide 5]. He pointed out that numbers on the right of the slide vary by funding year, yet the DOT&PF obligated all of the federal funds for the five prior years, he said. He referred to February 2011 column, noting that \$50 million was obligated thus far. The star at the top of the chart indicates the 2011 target, he explained. The DOT&PF must obligate about \$350 million plus an additional \$60 million by the end of the federal fiscal year. He characterized this as a "big, tall order" to fulfill.

MR. OTTESEN related that the DOT&PF went from not having enough funding to not having enough projects to fund [slide 6]. He explained that the American Recovery and Reinvestment Act of 2009 (ARRA) added \$175 million in addition to the regular funding in 2009-2010. Last year, the Congress decided not to earmark projects so it restored the equivalent of five years of earmarks to lapsable funding. Lastly, what helped contribute to the issue was the anomaly in which bids came in under budget. When that happens, the DOT&PF must find other projects to fund with the cost savings or risk losing the funding. In further response to Chair P. Wilson, he agreed that the STIP is a mix of projects in different stages so all the design work or all the construction are not done in one year. He characterized the process as a factory with some projects taking from one to ten years to complete.

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MR. OTTESEN referred to the Federal Highway Funding [slide 7]. He pointed out that the chart demonstrates federal funding has steadily increased since 2008. He identified the increase in 2009 and 2010 was due to earmarks so the funding that previously had been earmarked projects is distributed to the state as "formula" funding, he said. The column for 2001 shown in green represents approximately \$60 million in unexpended funding. Three weeks ago the Congress considered stripping the state's funding and while it not happen it remains a threat so the DOT&PF is anxious to obligate those funds. In doing so, the overall target for projects will be raised, he said. In response to Chair P. Wilson, he agreed the state is receiving a little more money. Prior to Safe, Accountable, Flexible and Efficient Transportation Equity Act of 2004 (SAFTEA-LU) the state received formula funds. At the time SAFTEA-LU passed, some of the funds were "earmarked" so the formula funding was also reduced correspondingly. The Congress has eliminated earmarks so the formula has increased. Overall, this translates to more projects.

MR. OTTESEN advised that the DOT&PF must obligate almost \$400 million this year. Thus far, the regions have identified approximately \$259 million likely projects and another \$150 million of possible projects. However, the DOT&PF must still contend with third party permissions on projects, such as permits, right-of-way, or local government decisions, so final approval cannot be made. The DOT&PF has pared down the list to about \$272 million. This represents the department's best guess on the total projects that will be "shovel-ready." Last year, the DOT&PF's slippage was 50 percent and this year's estimate is 35 percent. While the amount of slippage sounds significant the FHWA's performance measure allows 50 percent slippage or less. However, the DOT&PF must still identify at least \$121 million of eligible projects to obligate [slide 8]. He referred members to a bar chart that identified the projects in the STIP and funding for the remainder of 2011 [slide 9].

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MR. OTTESEN identified the four major reasons projects must be delayed [slide 10]. First, delays happen when permits are not issued timely. Secondly, projects are delayed when the DOT&PF encounters right-of-way difficulties such as when a significant number of parcels must be purchased or ownership interests become complicated. Third, the department may need to relocate utilities, which may include negotiating with the utilities. In

response to Chair P. Wilson, he explained that when the state relocates the utility, the state must pay for it. Lastly, delays occur due to third-party issues such as obtaining permission from local government or when documents must be reviewed by multiple agencies. He commented that funding shortfalls have previously been the source of delays but that is not currently true.

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CHAIR P. WILSON related her understanding that the federal funding may decrease.

MR. OTTESEN agreed one proposal is to reduce funding by an overall 10 percent cut. In further response to Chair P. Wilson, he acknowledged that the bill under consideration was not friendly to Alaska. However, that bill is gone, he said. The Congress is currently working on another bill that is more favorable to the state. However, the state should be concerned about the formula changes since the pie may shrink, he said.

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MR. OTTESEN cautioned committee members that in the event DOT&PF cannot obligate its funds, that the federal aid would be cut and returned to the U.S. Department of Transportation for reallocation to other states [slide 11]. He pointed out that Alaska has always been the recipient of this "end of year reallocation of funds." He commended the DOT&PF for its ability to obligate funds and obtain funding originally designated to another state. However, any substituted projects must be "shovel-ready," and that process takes time. It takes one to two years for a simple project and much longer for more complicated projects, he said. The DOT&PF can select substitute any projects from the STIP with legislative budget authority. In response to Chair P. Wilson, he affirmed the substitute projects must already be in the STIP. He reported the DOT&PF will evaluate the process in June and request any STIP adjustment via the legislature.

CHAIR P. WILSON asked whether the DOT&PF could make the STIP adjustment on its own.

MR. OTTESEN answered yes. He related that the DOT&PF must get FHWA and Federal Transit Authority permission. Thus far this year, the DOT&PF has made two STIP amendments. He anticipated another request would be made in June 2011.

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MR. OTTESEN identified actions the DOT&PF has taken to ensure the state can obligate FHWA funds [slide 12]. The DOT&PF has identified all feasible alternative projects. The state's Office of Management and Budget Committees has been informed. The DOT&PF currently has been working to manage the project list, including tracking primary and alternate projects. In response to Chair P. Wilson, he agreed the projects must be included in the Capital Budget. He recalled that costs for re-powering the M/V Columbia would need to be added to the additional authorization.

MR. OTTESEN reviewed the lessons the DOT&PF has learned for the future [slide 13]. The DOT&PF must prepare significantly more projects each year to ensure ready alternates. The DOT&PF must also obtain any necessary permissions including legislative permission to make the substitutions. While the 2012 federal funding is still uncertain, the state has enjoyed three years of high funding. He characterized this as a trend that the state should not overlook. The DOT&PF must anticipate the possibility that funding may remain high.

MR. OTTESEN discussed other observations [slide 14]. He remarked that the federal aid program workload has doubled in just four years without any increase in DOT&PF design staff. He expressed concern over the high pace and the lack of ready project alternatives. "It's almost like a horse race. How long can you keep asking the horse to go fast?" he asked. He answered that the DOT&PF is no longer in a short sprint but is now in a marathon.

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PAT KEMP, Deputy Commissioner, Department of Transportation & Public Facilities (DOT&PF), discussed the Roads to Resources program [slide 1]. The Roads to Resources program began in 2003 as "short quick shots in the arm" on smaller economic development projects. Currently, the DOT&PF has been focusing on larger projects, which are larger projects, particularly ones that would "fill the pipeline," create jobs, and increase commerce. These projects are ones that are significant enough that they would likely require an Environmental Impact Statement (EIS) and a U.S. Corps of Engineers permit, he said.

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MR. KEMP reviewed the guidelines for funding and design standards [slide 2]. He pointed out that road construction is costly, especially in rural Alaska, where most of the resources are located. The DOT&PF has been considering building acceptable, low-standard roads for its Roads to Resources (R2R) program, which would cost about \$750,000 per mile for construction costs. These roads would consist of 16-foot wide "pioneer roads," which would be strong enough to support construction equipment. The DOT&PF would also consider other features such as turnouts and may impose travel limits, such as east bound traffic traveling in the morning alternated by west bound traffic in the afternoon. He recapped the R2R projects as ones that would provide basic road access to support the resources ventures. The DOT&PF characterizes these as "long and skinny" projects that use state funding and are constructed to minimum designs.

CHAIR P. WILSON asked whether permits will be issued for a wider road or only for the narrow access road.

MR. KEMP answered that each project would vary. He suggested that the road to Umiat would likely be for a "wider footprint" since it may be necessary to bring the road up to standard more quickly than another project, such as the road to Ambler. He explained the road standard would be a function of the private/public partnership (PPP) with the developer, and each project would be considered separately. He characterized the process as similar to the one used for the Alaska Highway, which was constructed in eight months and finished over fifty years. The goal would be to build the R2R projects as quickly as possible to facilitate the developer's needs to explore. He envisioned that the original road would be a "pioneer road" used to extract the ore or product and any upgrades would take place over time. The roadway would be designated as an "Industrial Use Highway (IUH)" a term used for 20 years, he said [slide 3]. The IUH would have stronger embankments to accommodate overweight and oversize vehicles. The DOT&PF would charge developers a toll to use the IUH highways. The Klondike Highway in Skagway is an example of an IUH, which was developed when mines opened up in Canada. The DOT&PF has received toll revenue for the Klondike Highway for nearly 20 years. The DOT&PF has anticipated \$5 million in revenue per year will be generated from the proposed road to Umiat. The Umiat road project would be a long-term project developed under a PPP agreement. He suggested that the project could initially be funded through Alaska Industrial Development & Export Authority (AIDEA) bonds.

In response to Chair P. Wilson, he responded that the Klondike Highway is the only toll road the state operates. When mines opened up in Canada, the ore shipper participated in the funding to reinforce the roadway embankment. The ore shipper paid costs up front, while others paid tolls. Currently, the DOT&PF is working to revisit the 20-year-old regulations and probably will increase the toll rate on the Klondike Highway, he said.

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MR. KEMP stated the annual maintenance and operation costs (M&O) could be funded with IUH fees. He offered the DOT&PF anticipates general fund revenues from tolls would exceed the cost to maintain the toll road, he said. Since funds are deposited to the general fund the department does not specifically use toll revenue to perform work. In response to Chair P. Wilson, he agreed that the potential exists to start an infrastructure bank at some point to fund future resource roads. However, he did not think the state is ready to do so at this time. He pointed out the Klondike Highway will need additional work, noting that the bridge is currently the "choke point," since it is not strong enough to accommodate the larger loads.

MR. KEMP reviewed the current Roads to Resources program. The DOT&PF has three projects under consideration, including the Umiat Oil and Gas fields known as the Foothills West project, the Ambler Mining District, and the Western Alaska project also known as the Road to Nome [slide 4]. He reported these three projects are included in the Capital Budget this year.

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MR. KEMP discussed the R2R projects, noting Umiat is located on the Colville River about 100 miles west of the Dalton Highway [slide 5]. The DOT&PF studied three potential corridor routes for the Umiat Road project, including two routes perpendicular to the highway, and one at an angle near Galbraith Lake. He related that the preferred corridor for the Umiat project is the angled corridor. The geologists and geophysicists have indicated by approaching at an angle could provide a better accounting of resources, would avoid two major river crossings, and would reduce capital costs.

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MR. KEMP related that the U.S. Navy first explored Umiat in 1946 in search of oil for the World War II war effort. It drilled 11

oil wells and one well produced 400 barrels for 93 days. In the past year the state discovered 85,000 abandoned barrels of oil, which represents a major cleanup for the U.S. Corps of Engineers (Corps). As a result, the DOT&PF has initiated discussions with the Corps to consider whether it would participate in road construction to aid in the cleanup efforts. The estimated clean up costs range from \$135 million to \$800 million. The DOT&PF hopes for participation since the road could reduce the cleanup costs by half. Currently, the Umiat project is in the environmental impact statement (EIS) stage and the consultant is gearing up for this season's field work. He reported that if the funding is not approved this year the DOT&PF would need to stop work sometime soon when the existing funding runs out. The developer estimates the oil fields contain 250 million barrels of oil and 7 trillion cubic feet of gas. The state's Department of Natural Resources (DNR) also estimated the reserves between 100 million and 300 million barrels of oil. He stated that the oil is unique since the oil is about 37 degrees. The developer would like to transport the oil as is to the Trans-Alaska Pipeline System (TAPS) via an underground conduit to keep it cold. It would subsequently be heated at TAPS and transported via a gas line. Thus, this project could potentially be brought to a higher standard earlier in order to bury the pipeline.

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CHAIR P. WILSON asked whether the pipeline work would be done at the same time as the road to save money.

MR. KEMP answered probably not since road access is important to provide access to do more drilling. He emphasized that road access is of the utmost importance. The Alaska Gasline Development Corporation is overseeing the 24-inch bullet line from Prudhoe Bay to Point MacKenzie, he said. He recalled the estimated cost of the pipeline would be \$8 billion, although the projections include an estimated \$4 billion for a conditioning plant at Prudhoe Bay on a 70-acre parcel. The plant would remove impurities from the natural gas. However, if the gas were brought from the Gubik oil fields, which contains cleaner natural gas, the conditioning plant would not likely be required. Eliminating the conditioning project could save \$4 billion. He stressed the importance of studying and reviewing the project since new information can surface during the EIS project. In response to Chair P. Wilson, he explained the U.S. Navy initially discovered oil seepage. He recalled reviewing the seismic information with Commissioner Luiken. He characterized DNR as a really good partner. The DOT&PF just

received analysis from the DOR on the Umiat Oil and Gas fields, noting the known oil reserves alone could represent approximately \$6 billion in revenue to state the over the life of the project. The net present value of the oil is approximately \$2 billion, he said.

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REPRESENTATIVE FEIGE asked whether the DOT&PF has talked to Anadarko Petroleum Corporation (Anadarko) as the leaseholders for the area from Chandler River to Anaktuvuk River.

MR. KEMP answered yes. He acknowledged multiple leaseholders exist. He pointed out that having multiple owners adds to the complexity of the funding and raises issues of how to bring another party on mid-stream or after the project is built. He was unsure of how to accomplish that but acknowledged the process is still in the early stages.

MR. KEMP discussed some of the attributes of the Umiat Oil and Gas fields [slide 6]. This project would provide an access portal into the National Petroleum Reserve-Alaska (NPR-A). The DOT&PF would like to start construction in 2013, provided the EIS and permitting process have been completed.

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MR. KEMP discussed the Ambler Mining District [slide 7]. He pointed out the stars represent resource areas. The EIS initially considered alternatives to tidewater and the Dalton Highway. He related that the developer prefers highway access rather than port access. The proposed plan would transport the product via the Dalton Highway and the Parks Highway to Port MacKenzie. The highway option offers facility and development support, including other attributes of surface transportation. He referred to a letter from Nova Gold the DOT&PF just received containing mineral resource projections. He also referenced DNR projections on mineral resources in the Ambler Mining District. The Ambler area could support several massive sulfide mineral deposits, each similar in size to Greens Creek mine in Juneau. The Greens Creek mine has operated in Juneau for 25 years and employs about 325 people. He suggested the Ambler Mining District is so large it could support six Greens Creek mines. The mineral belt area stretches 15 miles wide and 68 miles long. A "pioneer road" would help facilitate additional exploration, site development, and ore haul. He pointed out the importance of caribou to the region and related the \$1.25 million included

in this year's Capital Budget would be used for subsistence studies. He related that the developer must also perform an economic analysis, which is detailed in the letter he previously mentioned.

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REPRESENTATIVE PETERSEN asked whether the DOT&PF has considered a railroad rather than a road. He recalled that some federal funds target railroad development.

MR. KEMP answered that a rail line requires a more detailed alignment as well as permafrost considerations. He stated he is not a mining expert so he preferred not to broach the amount of ore.

REPRESENTATIVE PETERSEN asked whether basic processing of ores would be conducted onsite.

MR. KEMP answered he was unsure. He stated that he is civil engineer and not a mining engineer. He offered to check and report back to the committee.

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MR. KEMP discussed the Western Alaska Access project [slide 9]. He stated that this project is different since this highway would not only access resources but would connect communities. He offered his belief that the project could be built in stages with immediate benefits. He said that the DOT&PF could build a 78-mile extension to Tanana. This would provide access to resources and Tanana would have a connection by road, which would lower its cost of living and promotes commerce. He said he was unsure whether Tanana would want a road connection, but used it as an example of how this project is unique. The preferred alternative would be almost the lowest route and would begin at Manley Hot Springs. He referred to the resources indicated on the map by stars, noting some resources exist all along the way. This project is not as far along as the other two projects. This is more of a long-term project, he said.

MR. KEMP discussed project details for the Western Alaska Access [slide 10]. The DOT&PF would develop this project in phases because of its independent utility. The FY 12 requested funding of \$1.25 million would be used for survey, mapping and refined cost estimates, he said.

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MR. KEMP pointed out other potential projects [slide 11]. The DOT&PF has been working with DNR on future R2R projects, including the rare earth element deposit access on the Prince of Wales Island. The Niblack Mineral Development, Inc.'s copper sulfide deposit has the potential to become another mine the size of Greens Creek mine. He acknowledged that some developers may not wish to have the DOT&PF involved in R2R projects, whereas others may welcome partnerships. The DOT&PF's goal is to create jobs and help promote commerce in the state. In response to Representative Feige, he responded he was unsure of the location of the location of the Deadfall Snycline coal project.

CHAIR P. WILSON asked for clarification on the term "PGE."

REPRESENTATIVE FEIGE stated that the acronym stands for Platinum Group Elements (PGEs).

MR. KEMP related his understanding that legislators may have lots of questions, although some cannot be answered at this time. He offered his belief that the EIS documentation will answer many of the questions. He explained that the EIS will cover the socio-economic, caribou studies, subsistence, and natural environmental aspects. He stressed the importance of maintaining a steady stream of funding to support the permitting.

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CHAIR P. WILSON offered her belief that the R2R projects are important. She referred back to the three R2R projects discussed today and asked him to prioritize the projects.

MR. KEMP offered to rank the projects according to importance, with the Umiat Foothills West Transportation project, Ambler Mining District, and Western Alaska Access study project.

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REPRESENTATIVE PETERSEN suggested the need to communicate with public so they feel like they are part of the process.

MR. KEMP agreed. He related that the department has held a substantial number of informal public meetings. The Anaktuvuk Pass has had three meetings to date. He stated that the formal

meetings will start during the EIS process. He stated that the DOT&PF has selected a consultant and have signed a contract. He contractor will conduct filed studies this year, including two seasons of field studies to complete the caribou studies for the Foothills West Transportation project. The DOT&PF is performing work and hopes to have the EIS completed, including permits in late 2012 on the Foothills project. He anticipated permits being issued late in 2012.

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**ADJOURNMENT**

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 2:56 p.m.