

ALASKA STATE LEGISLATURE
SENATE TRANSPORTATION STANDING COMMITTEE

February 14, 2012

1:08 p.m.

MEMBERS PRESENT

Senator Albert Kookesh, Chair
Senator Joe Thomas, Vice Chair
Senator Dennis Egan
Senator Linda Menard
Senator Charlie Huggins

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Donny Olson

COMMITTEE CALENDAR

SENATE BILL NO. 163

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

- MOVED CSSB 163(TRA) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: SB 163

SHORT TITLE: G.O. BONDS FOR PORTS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/17/12	(S)	READ THE FIRST TIME - REFERRALS
01/17/12	(S)	TRA, FIN
02/14/12	(S)	TRA AT 1:00 PM BUTROVICH 205

WITNESS REGISTER

KAREN REHFELD, Director
Office of Management and Budget
Office of the Governor
Juneau, AK

POSITION STATEMENT: Introduced and provided a sectional analysis for SB 163.

ANGELA RODELL, Deputy Commissioner
Division of Treasury
Department of Revenue (DOR)
Juneau, AK

POSITION STATEMENT: Provided information about G.O. bonding and the fiscal note for SB 163.

STEVE RIBUFFO, Interim Director
Port of Anchorage
Anchorage, AK

POSITION STATEMENT: Described the Anchorage Port project as it relates to SB 163.

JOE PERKINS, Executive Project Manager
Port MacKenzie Rail Extension
Matanuska-Susitna Borough
Palmer, AK

POSITION STATEMENT: Described the Port MacKenzie Rail Extension project as it relates to SB 163.

JIM HUNT, City Manager
City of Seward
Seward, AK

POSITION STATEMENT: Testified on SB 163 and discussed the Coastal Villages Home Porting project in Seward.

DANIEL J. O'HARA, Mayor
Bristol Bay Borough
Naknek, AK

POSITION STATEMENT: Testified on SB 163 and described how the borough would use the \$10 million grant.

DAVE KIFFER, Mayor
Ketchikan Gateway Borough
Ketchikan, AK

POSITION STATEMENT: Stated strong support for SB 163 and described how the borough would use the \$10 million grant.

MICHAEL NEUSSL, Deputy Commissioner
Marine Operations
Department of Transportation and Public Facilities (DOTPF)
POSITION STATEMENT: Provided information related to SB 163.

CHRISTINE KLEIN, Chief Operations Officer

Calista Corporation
Bethel, AK

POSITION STATEMENT: Testified on SB 163 and described the Marshall Port and access road and spoke in support of the Emmonak Port at the mouth of the Yukon River.

PAT BRANSON, Mayor
City of Kodiak
Kodiak, AK

POSITION STATEMENT: Testified in support of amending SB 163 to include Kodiak's top priority project to replace Pier 3.

SENATOR DONNY OLSON
Alaska State Legislature
Juneau, AK

POSITION STATEMENT: Spoke in support of CSSB 163, version M, and Amendment A.1.

DEREK MARTIN, City Manager
City of Kotzebue
Kotzebue, AK

POSITION STATEMENT: Testified on SB 163 that Kotzebue has been lobbying for the Cape Blossom Port project for 30 years.

ACTION NARRATIVE

[1:08:52 PM](#)

CHAIR ALBERT KOOKESH called the Senate Transportation Standing Committee meeting to order at 1:08 p.m. Present at the call to order were Senators Huggins, Menard and Chair Kookesh. Senators Thomas and Egan arrived during the course of the meeting.

SB 163-G.O. BONDS FOR PORTS

[1:09:20 PM](#)

CHAIR KOOKESH announced the consideration of SB 163, "An Act providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of municipal port projects; and providing for an effective date."

[1:09:43 PM](#)

KAREN REHFELD, Director, Office of Management and Budget, said she would provide an overview of the bill, including a sectional analysis and the deputy commissioner would then discuss general fund (G.O.) bonding and the fiscal note. She read the following sponsor statement into the record:

Alaska's future rests on responsibly developing our natural resources, and creating jobs and economic opportunities for our families. The state of Alaska has more miles of coastline than any other state in the union. Combined with our remote location, Alaska's economy is reliant on waterborne commerce to receive the goods we use and to export the resources we develop.

SB 163 authorizes the State of Alaska to sell \$350 million in general obligation bonds to fund infrastructure improvements for six port projects. With our AAA bond rating, Alaska receives a favorable interest rate on bond sales. With the current low cost of borrowing, the state realizes a greater rate of return on the general fund than it would have to pay when borrowing funds through a general obligation bond package.

The funds would be used to rehabilitate and expand six projects throughout the state. These ports are located in upper Cook Inlet, Bristol Bay, Kenai Peninsula, the Yukon River Delta, and Ketchikan. Each of these projects has a pivotal role in Alaska's economy.

Alaska is unique in its economic dependence on ports. Very limited federal funding is available for port infrastructure. The use of general obligation bonds will help bring these projects to completion.

Governor Parnell is committed to working with the Legislature to develop Alaska's infrastructure. These projects will promote economic growth within their region, and to the economy of Alaska.

MS. REHFELD provided a sectional analysis for SB 163:

Section 1 describes the amount and the purpose of the general obligation bonds. The purpose is to provide funding to pay for the cost of design and construction of identified municipal port projects. The principal amount of the bonds to be sold is not to exceed \$350,000,000 and must be ratified by a majority of voters in the state. The bonds shall be issued under the provisions of AS 37.15.

Section 2 establishes the Port Project Fund. If the voters approve the bonds, a special fund for the state shall be established that will be known as the 2012 Port Project Fund. The fund shall include the proceeds from the sale of the bonds, but will not include the accrued interest and premiums.

Section 3 establishes how the funds will be awarded to the individually identified projects. The amount of \$350,000,000 will be appropriated from the 2012 Port Project Fund to the Department of Commerce Community and Economic Development to be awarded as grants under AS 37.05.315 (Grants to Municipalities).

Section 4 appropriates \$2,965,000 from the general fund to the state bond committee to pay expenses associated with the issuance of the bonds. The amount authorized and expended in this section will be reimbursed to the state general fund from the proceeds of the sale of the bonds. (Estimate \$900.00 in bond issuance cost in FY2013 - see fiscal note)

Section 5 establishes the lapse, redemption, and reimbursement of the appropriations in Section 3. Unexpended and unobligated balances of the appropriations are appropriated to the state bond committee to redeem bonds sold. Amounts expended from the state general fund related to pay redemption costs shall be reimbursed to the general fund to the extent the money is not needed to redeem the bonds.

Section 6 establishes the ballot question that will be asked of voters to approve the general obligation bonds for the specified purpose.

Section 7 establishes an immediate effective date.

MS. REHFELD stated that the Governor is committed to working with the Legislature to develop Alaska's infrastructure and promote economic growth statewide.

[1:12:59 PM](#)

SENATOR MENARD asked why just the \$400 million was listed in the ballot proposition and not the individual projects.

MS. REHFELD replied the individual projects are identified through both the capital appropriation bill and in the

supporting information in the voter information pamphlet. She confirmed that the individual projects were not enumerated in the question that goes before the voters.

SENATOR MENARD stated objection to that.

MS. REHFELD suggested that Legislative Legal may have recommendations about how to specifically enumerate the projects.

[1:14:32 PM](#)

ANGELA RODELL, Deputy Commissioner, Division of Treasury, Department of Revenue (DOR), stated:

Projects that have long lives and benefit multiple generations should be financed over the course of their respective lives. Port improvement projects such as those proposed in SB 163 have long lives and benefit multiple generations.

This bill would authorize the issuance of \$350 million in general obligation debt. General obligation debt is backed by the full faith, credit, and resources of the state. We currently have approximately \$628 million in general obligation bonds outstanding. The state has the resources and capacity to take on the proposed additional debt.

Currently, interest rates are at historic lows. This has allowed us to take advantage of the market and reduce our debt-service obligations. In January of 2012, we sold \$175.56 million of general obligation refunding bonds with more than \$26 million of the 2012 bonds sold to Alaskan residents. And we used the proceeds to refund \$191.4 million of bonds that had been issued back in 2003. This transaction had an all-in true interest cost of 1.24 percent and saved the state an estimated \$27 million net present value.

This transaction demonstrates the attractiveness of Alaska's general obligation paper and also the current low cost of borrowing in the tax exempt market. Any new debt issued will have a debt service structured to provide a low cost of funds and a level burden on future state budgets. As we move forward with the proposed legislation, we will work closely with you to ensure all the projects meet the necessary tests for

tax exemption and can take advantage of these low rates.

In November 2010, Moody's Investor Service raised the state's general obligation rating to AAA. This was followed by S&P raising our rating to AAA this past December. A triple A rating is the highest investment grade rating achievable, and it expresses an opinion of the rating agency as to the ability of the state to honor its long-term, unsecured financial obligations and contracts.

In reviewing our rating, Fitch, Moody's, and S&P will be looking to the final dollar amount issued and the overall plan of finance in conjunction with other state issues, such as revenues, expenses, and other commitments such as the PERS and TRS unfunded liability.

We have provided a fiscal note which assumes the voters will approve \$350 million in general obligation bonds. We are required by federal tax law to track all funds to final expenditure, and to ensure that all funds are spent within the date of issuance. In order to comply with these requirements, we have assumed that the bonds would be issued in multiple tranches, giving an opportunity for funds to be spent before additional debt is incurred. We assumed the first issuance would come in February 2013 following the November 2012 election. Debt repayment would begin in fiscal year 2014.

The costs associated with issuing the bonds, including underwriting, ratings, legal counsel, financial advisors, marketing and disclosure services, administration and printing for a \$350 million bond program would total approximately \$2.965 million. The higher amount is needed to address the need for multiple bond issuances, to accommodate a wide array of what are anticipated to be long-life projects, the fact that there will be a combination of both AMT and non-AMT bonds sold and at current market costs for underwriting both AMT and non-AMT paper.

[1:19:02 PM](#)

STEVE RIBUFFO, Interim Director, Port of Anchorage, provided a summary of services offered at the port. The port provides about

90 percent of the merchandise for 85 percent of Alaska's populated areas, operates as a fuel hub, serves as a U.S. Department of Defense designated national strategic seaport, and as the gateway and economic engine for commerce in the state.

MR. RIBUFFO described some port expansion project facts. The port has been in operation for over 50 years and the facilities are in a deteriorated and vulnerable condition. The expansion will create two new barge berths, two new ship berths and larger spacing between berths. Additional benefits include improved seismic capacity and access to 65 acres of commercial/industrial land. Military deployments will also be better facilitated.

Last fall the Municipality of Anchorage (MOA) signed a new agreement with the Maritime Administration to hand over all contracting, design and construction activity to the MOA or its designee by May 31, 2012. The agreement formalized an oversight committee that meets weekly. The U.S. Army Corps of Engineers is providing a third-party review of the construction done to date and a review of the design to guide the project moving forward.

The piecemeal funding that the project has received in the past has allowed it to move forward, but has proved to be extremely inefficient. To successfully move forward controlling costs and exploiting economies of scale, the project needs total up-front funding. The MOA made an annual request to the Legislature for \$350 million to fund for this project, and while the money in SB 163 is generous and substantial, it will not complete the Port of Anchorage project.

MR. RIBUFFO concluded that Alaska is a maritime state, and while ports play an essential and critical role, they are often overlooked. SB 163 is encouraging in that it provides critical funding to improve Alaska's port infrastructure.

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CHAIR KOOKESH asked what was needed to complete the project and did he anticipate that the MOA would return to the Legislature to ask for more money.

MR. RIBUFFO replied the total need is \$350 million.

SENATOR HUGGINS pointed out that the cost estimate for the port was in excess of \$1 billion before it was pared back [to include just the north end.]

MR. RIBUFFO agreed.

[1:27:35 PM](#)

JOE PERKINS, Executive Project Manager, Port MacKenzie Rail Extension, Matanuska-Susitna Borough, said this extension would connect Port MacKenzie facilities with the existing railroad located in Houston. He reviewed the work done on the project last year. The Surface Transportation Board (STB) released the final environmental impact statement on March 25, 2011 and approved the 32 mile extension to Houston. The final record of decision (ROD) was released with an effective date of December 23, 2011, and a contract to build the embankment for the first five miles of the rail extension was awarded to Bristol Construction. Part of that \$17 million contract was to complete the one mile bimodal loop, and construct an access road to the University of Alaska property.

The total cost estimate for the rail extension is \$272.5 million, \$92.5 million of which was previously appropriated. With the \$110 million grant proposed in SB 163, there will still be need for \$70 million to complete the final seven or eight miles of rail. He emphasized that the schedule for completing the project would be totally dependent on additional funding.

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SENATOR MENARD asked if the loop would have a 100 car train.

MR. PERKINS said yes, and continued to explain that it will be the first bulk materials loading facility in Alaska. In addition, spur lines will come off the rail at the port to support activities such as fuel storage.

CHAIR KOOKESH asked the testifiers to limit their testimony to what is covered in the bill.

[1:38:58 PM](#)

JIM HUNT, City Manager, City of Seward, stated that he was testifying to highlight the Coastal Villages Home Porting Project. He related that for more than two decades the City of Seward has invested in the Seward Marine Industrial Center (SMIC). A little over a year ago the Coastal Villages Region Fund (CVRS) asked the city to partner in an effort to relocate the fleet's homeport from Seattle to Seward.

CHAIR KOOKESH asked if this fleet was one of the CDQ [Community Development Quota] fishing groups.

MR. HUNT said yes; the CVRS is the largest of the six CDQ fishing groups. It is currently homeported in Seattle and has a \$20 million annual economic impact in moorage, vender support, and maintenance. The fleet was looking for an ice-free port, an uplands base, and rail and air access. Seward had everything CVRS needed and a partnership was formed. This will have a positive impact on not just Seward but also Anchorage, the peninsula, and all of Southeast.

CHAIR KOOKESH asked how the \$10 million would be used.

MR. HUNT replied the funds will be used to provide a breakwater, docks and additional infrastructure to serve the CDQ fleet and other customers.

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DANIEL J. O'HARA, Mayor, Bristol Bay Borough, Naknek, AK, said the \$10 million grant will be used to refurbish an existing 30-year-old steel pile dock. This project will cost \$16 million of which the borough has \$6 million. He noted that phase 1 was completed in 2011. It was a \$10 million, 200-foot interlocking steel dock project of which the borough contributed \$2.5 million.

He referred to a handout that had photos and information about the Port of Bristol Bay and explained the process for accommodating large fleet activities. He highlighted that 85 percent of what happens in Bristol Bay moves across this dock. He stated that if the bond goes forward, the borough would probably be ready in 2013. It's an ice-free dock.

SENATOR HUGGINS said he wanted to pass along that whenever Bristol Bay residents mentioned Mr. O'Hara, the reference was always complimentary.

[1:53:15 PM](#)

DAVE KIFFER, Mayor, Ketchikan Gateway Borough, Ketchikan, AK, stated strong support for SB 163, particularly the provision that helps to fund the construction of the Alaska Marine Highway System (AMHS) Ward Cove Dock improvements. This facility will meet the requirements for AMHS vessel layup. There is also interest in this being a joint-use facility to accommodate continued home porting of the National Oceanic and Atmospheric Administration (NOAA) vessel Fairweather in Ketchikan. The project makes sense and the borough assembly last night reaffirmed support of the project.

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MICHAEL NEUSSL, Deputy Commissioner for Marine Operations, Department of Transportation and Public Facilities (DOTPF), said he oversees the Alaska Marine Highway System. He confirmed that DOTPF supports the Ward Cove Dock improvement, and provided a brief history of the project. He explained that the \$10 million will help fund the marine facility in the Ward Cove area.

[1:58:29 PM](#)

CHRISTINE KLEIN, Chief Operations Officer, Calista Corporation, Anchorage, AK, stated that she was speaking on behalf of the Marshall Port and access road and in support of the Emmonak Port at the mouth of the Yukon River.

She said the Marshall Port and access road project has been entered in the Capital Project Submission and Information System (CAPSIS) and could be placed in either the capital or bond program, but the preference is for it to be in the capital program, because the rock aggregate is needed for a number of projects in the Yukon Delta. The current cost of the project is \$11.6 million. It would be located three miles downstream of Marshall and would have a port facility, dock, two-acre staging area, and a five-mile road to the quarry at Pilcher Mountain. She said the community of Marshall has committed to maintain and operate both the road and port facilities. A separate road linking the village to the port would be paid for with Indian Reservation Roads funds.

MS. KLEIN related that quality materials are needed for this and other projects and are scarce in this region. Aggregate is currently barged from Nome, which adds 20 percent to all projects. A middle Yukon port is also needed for fuel deliveries and materials staging and transfer. She continued to detail various projects in the region that would make use on the in-region quarry.

[2:05:07 PM](#)

CHAIR KOOKESH said the project will remain in the CAPSIS program with the understanding that the finance committee will consider it further when it considers SB 163.

[2:05:33 PM](#)

PAT BRANSON, Mayor, City of Kodiak, asked the committee to amend SB 163 to include the city's top priority project to replace Pier 3. This is a critical piece of infrastructure that sustains the greater local economy. It is a main cargo pier and the only facility that has the capacity to accommodate deep-draft vessels

and containerized cargo. The existing pier will be at the end of its design life in 4-5 years. The replacement costs are estimated to be \$33 million, but are dependent on the type of structure selected. This year the city will complete geotechnical work and a wave motion study to determine the appropriate structure type.

2:07:50 PM

At ease.

2:11:51 PM

CHAIR KOOKESH reconvened the meeting and explained that there was a committee substitute (CS) and one amendment for the committee to consider. It would also hear from the City of Kotzebue. He stated his intention was to move the bill after the committee took these two actions. He said that a good many communities had contacted his office asking to be included in the bond package, and it was his belief that the finance committee should make those determinations.

2:12:35 PM

SENATOR HUGGINS asked if any of the grant recipients knew whether or not the existence of a coastal zone management program was vital to their particular project.

2:13:01 PM

KAREN REHFELD said all the projects listed in the bill are existing projects so it was unlikely that there would be issues with or without coastal zone management.

2:13:25 PM

CHAIR KOOKESH asked for a motion to adopt the \M committee substitute (CS).

SENATOR THOMAS moved to adopt CS for SB 163, labeled 27-GS2769\M, as the working document.

CHAIR KOOKESH announced that without objection, version M was before the committee. It adds the City of Kotzebue to the list of grant recipients. He asked Senator Olson and Mr. Martin for their statements.

2:14:11 PM

SENATOR DONNY OLSON stated that ports are important to rural Alaska. He deferred to Mr. Martin to explain the specific request in version M.

DEREK MARTIN, Manager, City of Kotzebue, Kotzebue, AK, said the city had been lobbying for the Cape Blossom deep-water port for more than 40 years. The U.S. Army Corps of Engineers completed the first study on this project in 1973 and since then there have been additional studies to include road, airport relocation and Roads to Resources from Kotzebue to Chicago Creek, Kiana, Noorvik and Selawik. Most recently, Cape Blossom has been identified as a possible terminal for the Ambler mining district.

Large ocean-going vessels currently must anchor 15 miles offshore in Kotzebue Sound and lighterage vessels carry fuel and cargo through a shallow channel to shore. This adds between 20 percent and 30 percent to the overall costs. The city works closely with all entities in Kotzebue and they have all submitted letters of support, recognizing the need to lower the cost of living and increase economic development opportunities. Shell Oil and ConocoPhillips have also indicated a desire to use the Cape Blossom Port if and when it is built. He detailed further efforts to promote and get ready for this project. He concluded that this deep-water port will have many advantages for the entire region. The estimated cost is \$60 million and with other monies, the \$50 million in the proposed amendment might be sufficient.

SENATOR THOMAS commented that the Russian tanker Renda that delivered fuel to Nome recently must be relatively small compared to the vessels that have to anchor 15 miles offshore in Kotzebue Sound. He asked if more of the larger ships are to be anticipated if the Ambler mining district is developed.

MR. MARTIN replied they believe that Cape Blossom will be able to accommodate vessels that draw 35 feet.

SENATOR THOMAS asked which vessels currently anchor offshore and require lighterage barges.

MR. MARTIN said the Northland and Crowley barges all require lighterage services to deliver general cargo, including fuel, freight, vehicles, and building materials.

SENATOR EGAN asked if periodic dredging is anticipated.

MR. MARTIN replied not at this point; the most recent NOAA study indicated that dredging was not necessary.

[2:22:32 PM](#)

SENATOR THOMAS asked if another channel had been identified that did not anticipate dredging, and if that was the case, he questioned why it took so many years to find it.

MR. MARTIN said the Bathymetric map that NOAA presented most recently indicates there is a channel that runs from out in Kotzebue Sound to the deep water port [at Cape Blossom]. He referred to a handout and directed attention to the last page on maps and figures.

[2:23:17 PM](#)

SENATOR OLSON added that Kotzebue is a number of miles from Cape Blossom and the deep channel runs from there straight out to where large vessels currently anchor. The idea is to construct an eight mile road between Kotzebue and Cape Blossom.

[2:24:17 PM](#)

CHAIR KOOKESH clarified that Senator Thomas's motion was to adopt version M and asked for a motion to adopt the proposed amendment to include on page 2, following line 22: "City of Kotzebue - Cape Blossom Deep Water Port \$50 million."

[2:24:45 PM](#)

CHAIR KOOKESH observed that there was a motion to adopt the amendment, and asked if there was objection. Seeing no objection, he asked Senator Olson to proceed.

SENATOR OLSON stated that and in the last several weeks the Coast Guard Cutter Healy and the Russian tanker Renda delivered fuel to ice-bound Nome. He deferred to Mayor Michels to provide further explanation for the \$50 million Port of Nome improvements.

[2:25:55 PM](#)

DENISE MICHELS, Mayor, City of Nome, stated support for SB 163 and [the amendment] to add \$50 million to extend the causeway at Nome 800-1,000 feet to reach deep water. She emphasized the need to develop the infrastructure to help meet the demands of opening the Arctic and to extend the existing facilities in Nome. While air is the most reliable year-around transportation, Nome is the hub for ocean shipping during the summer months. It also serves as the short-term solution for a deep draft port to supplement development activities that are occurring now and in the future. She detailed recent activities in and around the port. She said the peak time of activity is when vessels are journeying through to explore the Outer Continental Shelf (OCS), and traffic is increasing.

She said the city also supports the Governor's western access transportation corridor from the Interior to Western Alaska. This route would tie in needed infrastructure to allow resources to be stored in Nome and barged out. The city also continues to lobby the Coast Guard to consider Nome as a seasonal port operating location. She concluded by voicing support for all port requests from Ketchikan to Barrow.

[2:32:16 PM](#)

CHAIR KOOKESH stated for the record that the amendment was 27-GS2769\A.1. Seeing no objection, he announced that [Amendment 1] was adopted.

SENATOR OLSON thanked the committee for recognizing the need to include port improvements at both Nome and Kotzebue.

SENATOR KOOKESH closed public testimony and announced his intention to move the bill. It goes to finance next and that committee has the expertise to consider whether or not to include additional port project requests in the bill. He asked for a motion to move the bill, as amended.

[2:33:12 PM](#)

SENATOR THOMAS moved to report CS for SB 163, 27-GS2769\M as amended, from committee with individual recommendations and attached fiscal note(s).

SENATOR HUGGINS objected to comment. He said he'd support the bill but in the last hour and one half the committee increased the size of the bond by 25 percent. The additional projects might be the most important on the list, he didn't know. But he did know that at some point there would be a tipping point and nobody would get anything. Maybe that's good too, he said, because that would save a whole lot of money.

SENATOR HUGGINS removed his objection.

[2:34:42 PM](#)

SENATOR MENARD stated that she did not want the Governor to become uncomfortable with additions to the bill to the point that it jeopardized the projects that he wanted in the bill in the first place.

CHAIR KOOKESH commented that reducing Anchorage's grant by 50 percent would put things in good shape. The rest of the state needs to be considered and he appreciated that Nome and Kotzebue

were included. \$310 million was allocated to Anchorage and the Mat-Su Borough and \$40 million went to the rest of Alaska. "This is an appropriate step and I'm very comfortable with doing this," he stated.

CHAIR KOOKESH announced that without objection CSSB 163(TRA) moved from the Senate Transportation Standing Committee.

[2:35:44 PM](#)

There being no further business to come before the committee, Chair Kookesh adjourned the Senate Transportation Standing Committee hearing at 2:35 p.m.