

SENATE FINANCE COMMITTEE
March 17, 2015
9:04 a.m.

[9:04:32 AM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:04 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Peter Micciche, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Lyman Hoffman
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Patrick Gamble, President, University of Alaska; Michelle Rizk, Associate Vice President, Statewide Planning and Budget, University of Alaska; Marc Luiken, Commissioner, Department of Transportation and Public Facilities; Roger Maggard, Aviation Improvement Program, Department of Transportation and Public Facilities; Jeff Ottesen, Director, Division of Program Development, Department of Transportation and Public Facilities

SUMMARY

SB 26 BUDGET: CAPITAL

SB 26 was HEARD and HELD in committee for further consideration.

OVERVIEW: FY 16 BUDGET UNIVERSITY

OVERVIEW: FY 16 BUDGET DEPARTMENT OF TRANSPORTATION and PUBLIC FACILITIES

#sb26

SENATE BILL NO. 26

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

9:04:41 AM

^OVERVIEW: FY 16 BUDGET UNIVERSITY

PATRICK GAMBLE, PRESIDENT, UNIVERSITY OF ALASKA, revealed that Michelle Rizk, Associate Vice President, Statewide Planning and Budget, University of Alaska, would be heading the newly created Strategy Planning and Budget Office.

9:06:05 AM

President Gamble presented Slide 2 of the University of Alaska's FY16 Capital Operating Budget Overview, which listed two capital requests:

- Deferred Maintenance Funding
- UAF Engineering Building

President Gamble relayed that the requests totaled approximately \$8 million each. He recalled that the system had received \$37.5 million out of \$100 million over the last five-years, which had made it easier for the University to put the funds to work on the deferred maintenance backlog. He hoped that the work could continue toward further reducing the deferred maintenance list.

9:06:48 AM

President Gamble explained that each of the three Universities had a list of deferred maintenance projects that the money would be applied to, and that data could be provided to assure the committee that the funds had been used in an efficient and timely manner. He spoke to the second request for funds to finish the University of Alaska Fairbanks (UAF) Engineering Building. He shared that the funding currently available would run out on August 15, 2015. He said that the \$8 million would allow the University to fund the current contractor through January 2016, resulting in the opening of two classrooms and a test

laboratory. He said that the project that the University had been involved in with the Alaska Center for Energy and Power (ACEP) no longer required a site, but would move into the fourth floor of the Engineering Building, saving the state approximately \$25 million.

[9:09:59 AM](#)

Co-Chair Kelly understood that ACEP was specifically oriented toward private industry solutions.

President Gamble replied that that was the hope. He said that the spin-off from ACEP would be applied research, which could result in the generation of significant future revenue.

Co-Chair Kelly thought that moving ACEP into the building had been a good move.

President Gamble agreed. He added that ACEP was popular enough to generate its own funding.

[9:11:19 AM](#)

Co-Chair MacKinnon requested an explanation for the concept concerning the completion of the UAF Engineering Building and how it was incorporated into the Operating Budget.

President Gamble explained that the concept was still under development. He offered that it was an incremental concept that was working toward the completion of the building. He warned that lack of funding could result in the demobilization of the contractor. He said that mobilizing and demobilizing contractors from year to year would be counterproductive. He relayed that the state would see operating costs of \$100 million once the building was fully occupied and operational.

[9:12:51 AM](#)

Co-Chair MacKinnon asked how many full-time students, or full-time equivalent (FTE), were enrolled at UAF.

President Gamble stated there were approximately 30,000 students to equate 20,000 FTE. He added that there were a lot of non-traditional students registered that were taking lower credit hours.

Co-Chair MacKinnon asked if the ratio of students to square footage was on average for other universities.

President Gamble replied no. He thought that the ratio was a burden that was carried as a result of the decision to build out the access for the system across the state.

Co-Chair MacKinnon queried a bond package or the possibility of funding the building through UA revenue rather than general funds.

President Gamble replied that UAF had taken on a bonding and debt service in 2015, and were at the limit of their capacity to guarantee the payment of the debt service. He believed that it would be too risky to encumber the system with additional debt service without knowing their ability to pay into the future.

[9:14:56 AM](#)

Senator Hoffman asked about the increase in the Engineering Program by 100 percent enrollment. He queried the timeframe of the increase and the status of the engineering facility at the University of Alaska Anchorage (UAA).

President Gamble related that the statistics referred to the period of time between 2010 and now. He stated that the Anchorage engineering building was not yet complete, but was fully funded and would open without incident.

Senator Hoffman asked whether there were operational dollars budgeted for the UAA building when it was completed.

MICHELLE RIZK, ASSOCIATE VICE PRESIDENT, STATEWIDE PLANNING AND BUDGET, UNIVERSITY OF ALASKA, stated that there had been a request for operating funds in the Board of Regents Budget that had not been included in the Governor's Budget. She said that the \$1.6 million that UAA would need would need to be funded somehow through reallocation.

[9:16:21 AM](#)

Senator Bishop asked whether the construction of the UAA building had involved any industry support.

President Gamble stated he was not aware of any donations having been made.

[9:16:40 AM](#)

Co-Chair MacKinnon requested a status update on the power plant, and a timeline for when savings would be realized.

President Gamble responded that the design for the plant had been completed, but that the estimate for the project had increased. The project had been put on hold until value engineering was completed. He said that a delay in bringing the power plant online would necessitate reassessing the recent efforts to bring gas to Fairbanks. He hoped a cross-over point where the gas option became more viable than the current plan could be identified. He reminded the committee that the gas option would lower construction cost, but raise the cost of operating over the long run of the plant. He noted that the market was changing and suggested that the value engineering effort to reduce cost would save the University further funding requests to the legislature.

[9:18:39 AM](#)

Co-Chair MacKinnon understood that the project was on hold for evaluation.

President Gamble said that there was an evaluation that was ongoing, the results of which would be brought before the Board of Regents.

[9:18:54 AM](#)

Vice-Chair Micciche asked whether President Gamble had engaged with Alaska Industrial Development and Export Authority (AIDEA) on the issue of lowering the cost of bringing natural gas to Fairbanks.

President Gamble replied that the University had been observing the situation, and was interested, but had not taken an active role.

Vice-Chair Micciche thought that the "earmark" for the power plant was worth the University engaging in the issue.

President Gamble stated that the University was not yet engaged in any partnerships on the matter.

[9:20:13 AM](#)

Senator Dunleavy asked whether the power plant was a time sensitive issue. He asked how the reevaluation of the cost factored into the timeline.

President Gamble stated that the risk was elevated. He said that a major failure had occurred over the winter and buildings had to be evacuated. He added that there had been two incidents where there had been cracks in the piping around boilers, which were repairable but were indicative of an old boiler system. He said that the repairs to the old boilers were complicated, risky, and inconvenient.

[9:22:35 AM](#)

Senator Dunleavy noted that a cost for the power plant had been set and wondered what had occurred to derail the project.

President Gamble replied that the initial estimates for the program had been done very early on; the cost of the engineering and design work had contributed to the increase cost. He offered to provide a breakdown of the costs at a later date.

[9:23:31 AM](#)

Co-Chair MacKinnon asked for a timeline detailing the financial activity of the project. She queried how much the state had contributed, and how much remained unallocated.

President Gamble outlined the past and future funding of the project as follows:

- FY11 Capital Appropriation - \$4 million
- FY13 Capital Appropriation - \$46.3 million
- FY14 Capital Appropriation - \$15 million
- FY15 Capital Appropriation - \$5 million
- Future FY16 Capital Appropriation - TBT (\$28.3 million)
- UA Revenue Bonds - \$10 million
- UA Non-General ACEP Funding (4th floor only) - \$1 million
- (\$5 million still needed)

President Gamble related that the total in capital appropriations through FY15 was approximately \$70 million.

[9:25:10 AM](#)

Co-Chair MacKinnon clarified that she wanted to know how much was left, in cash, which the state had appropriated for the project.

President Gamble responded \$31.3 million had not yet been appropriated. The \$8 million that was being requested would be \$8 million toward the \$31.3 million.

Ms. Rizk clarified that President Gamble was speaking to the engineering building. She said that she could get back to the committee with the numbers for the power plant. She shared that the municipal bonds had not been issued, nor the UA bonds. She agreed to provide the committee with further information regarding financing of both projects.

Co-Chair MacKinnon understood that the University had spent state dollars rather than bonding, which she categorized as a good use of the money from the University's perspective.

Ms. Rizk interjected that the University was counting on fuel savings in order to pay back the debt service; the funding package was complex and the fuel savings were necessary before the debt service could be paid.

Co-Chair MacKinnon retorted that the committee was interested in what was left of the state appropriated dollars in the bank for both projects.

[9:26:49 AM](#)

Senator Olson referred to removal of funding for the WWAMI program [WWAMI is a collaborative medical school among universities in Washington, Wyoming, Alaska, Montana, and Idaho.] He offered a personal story about his acceptance to medical school. He expressed concern that intent language written by the other body would terminate the program. He noted that he had been instrumental in funding the program during its infancy. He lamented that the cuts from the FY16 budget would take effect July 1, 2015, after medical school applicants had received acceptance letters. He feared that those students would not have time to apply to other

schools or reconcile all of the disruptions that the change would cause.

President Gamble shared that the action on the house side had been surprising because the program was one of the oldest and most successful programs that the University had to offer. He said that a large percentage of the graduating doctors returned to the state to reside and practice. He asserted that the program's return on investment should be considered a classic example. He added that normally in a budget cutting process, projects that did not yield a return should be considered for cuts, and the WWAMI program did not fall into that category. He stated that the area of study was one of high need. He related that 20 students had received acceptance letters who would not be entered into the program because of the cuts on the house side. He warned that the unintended consequence of the cut to WWAMI would be that there would not be doctors available in the state to answer the needs of Alaskans in the future. He reiterated that the program made significant returns to the state.

[9:30:58 AM](#)

Vice-Chair Micciche requested an overview of the WWAMI program in the state.

President Gamble explained that the program was a cooperative partnership with the University of Washington (UW), whereupon medical students spend one year in Alaska and three at UW. He explained that, lacking a medical school, Alaska established a relationship with UW in 1971; students study in Washington State for three years and then finish the fourth year in Alaska. He relayed that the length of time distributed would be changing to two and two, in an attempt to have more of the education take place in Alaska. He related that the program had expanded to 20 students and had a 97 percent graduation rate, with a 70 percent rate of returning students back to Alaska.

[9:32:43 AM](#)

Senator Dunleavy commented that there would be a lot of good programs that would be cut due to the state's fiscal crisis.

[9:33:23 AM](#)

Senator Olson clarified that he was never a part of the WWAMI program, but felt very strongly that the need was worth the expense.

[9:34:08 AM](#)

Co-Chair MacKinnon revealed that her office had been receiving a large amount of emails concerning the possible termination of the WWAMI program. She believed that the committee would be forced to scrutinize all state programs in order to balance the budget. She felt that medical care in the state was already expensive due to limited competition in the field and that cutting the program could drive prices higher.

[9:35:24 AM](#)

Co-Chair MacKinnon spoke to the deferred maintenance request. She thought that strategic moves needed to be made to protect the state's investments. She wondered about a previous plan to bond in order to create revenue to keep up with long-term deferred maintenance.

President Gamble stated that the University had requested approval for bonding, which was a best practice for universities with regard to deferred maintenance. He lamented that the nature of deferred maintenance was that it was a large number that represented old buildings that were getting older. He stated that all of the University's buildings had been evaluated for their mission value, as well as their functional value, as a building and had created a priority list. He reiterated that bonding approval for \$100 million had been granted by the legislature in the past and then was reduced by half by the governor at the time. He stated that the University had bonded for the \$50 million, which added on to the \$37.5 million and took a large chunk out of the deferred maintenance. He opined that five years had passed, the money had stopped, and the \$8 million request was an attempt to keep funds flowing into the deferred maintenance effort. He felt that looking ahead, the University would not have the capability to provide the debt service in regular payments. He revealed that the University needed to put a moratorium on bonding because the risk was too high.

[9:40:48 AM](#)

President Gamble shared Slide 3, "Land Grant Equivalency":

- UA's Land-Grant Equivalency
- Based on Future Resource Development
- Future State Earnings in Oil/Gas/Mining
 - Legislative-controlled account
 - Appropriated annually
 - University Building Fund (UBF)
 - System-wide capital: capital maintenance and equipment
- Reasonable Annual Limits
 - Higher education deferred maintenance/renewal and repurposing receives first \$XXM
 - Legislature determines appropriation
- Long Term Goal
 - Employ alternative source of revenue
 - Reduce the annual UA budget request
 - Modernize university technology, equipment
 - Materially reduce facilities falling into DM status

He testified that in 2000 the University lost a Supreme Court case that determined that it was unconstitutional to give the University land that was dedicated for revenues for the University. He opined that the system did not have the dowry that most other land-grant universities received. He shared that the first legislature after statehood had tried to give 500,000 acres to the University, but the bill was vetoed because it had been found unconstitutional. He shared that the legislature tried to override the veto in 2000, but lost the case. He assured the committee that the University was still looking into ways to generate revenue. He hoped that in the future it could be written into future resource development contracts that would allow a fractional share of future state royalties to be identified into an account that would be used to fund the capital needs of the University. He said that the state of Texas had a program similar to this proposal. He clarified that the money would not be dedicated to the University, but to an account that the legislature could use for capital needs. He asserted that it would not take long for the account to make a significant difference in the deferred maintenance funding request that the University brought to the body on a yearly basis. He said that a lot of legal research had been done on the matter, should the legislature wish to draft a bill that spoke to the issue.

[9:45:18 AM](#)

Co-Chair MacKinnon expressed interest in meeting during the interim to discuss the idea. She wondered whether the issue could be put to the people of Alaska for a vote.

President Gamble opined that it was not likely to see land legally deeded to the University. He said that the state had been divided in so many different ways that the land that was available was inaccessible and could not be developed by the University for legal and monetary reasons.

[9:48:12 AM](#)

Co-Chair MacKinnon clarified that it was her suggestion to allow the people of Alaska to modify the constitution in order to assist the University in acquiring land to develop.

[9:49:17 AM](#)

AT EASE

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^OVERVIEW: FY 16 BUDGET TRANSPORTATION and PUBLIC FACILITIES

MARC LUIKEN, COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, referred to the presentation outline on Page 2 of his presentation, "Alaska Department of Transportation & Public Facilities -FY16 Capital Budget Overview":

- Introduction
- Budget Comparison FY13-16
- Federal Aviation Administration Program
 FAA Modernization and Reform Act
- Federal Highway Administration Program
 Moving Ahead for Progress in the 21st Century
 Statewide Transportation Improvement Program
- FY16 Budget Highlights

Co-Chair MacKinnon noted that Michael Coffee, Assistant Commissioner, Department of Transportation and Public Facilities was available online for questions.

[9:59:33 AM](#)

Commissioner Luiken presented Page 3, "Budget Comparison FY 13-16." He relayed that the slide illustrated the genesis of the departments funding sources, noting that there had been an increase in the federal authority request to meet program requirements. He pointed out to the committee that the departments general and other fund requests continued to decrease.

[10:00:30 AM](#)

Commissioner Luiken discussed Page 4, "FAA Modernization and Reform Act of 2012":

- Current FAA Authorization Bill --Effective FFY12 through FFY'15.
- Decreased Annual Authorized Airport Improvement Program (AIP) Funding from \$3.5 B to \$3.35 B Nationally.
- Alaska DOT&PF Airports FFY'12 -FFY'14AIP Annual Average = \$175M. FFY'15 is expected to be similar.
- Increased Alaska's Non-Federal Match Ratio from 5% Back to 6.25% for Most Projects.

Commissioner Luiken stated that the changes to the legislation had impacted what projects were eligible for Airport Improvement Funding (AIP) and expired at the end of FY15; the department did not have an idea of what the funding would be after federal FY15. He said that the department had been focusing work on runway safety areas, particularly for airport with commercial jet traffic. He added that new cost effectiveness criteria had been introduced that made it difficult for projects to qualify for federal funds. He stated that acquiring funding for smaller community rural airports had been particularly challenging.

ROGER MAGGARD, AVIATION IMPROVEMENT PROGRAM, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, added that over the last three years, DOT had received approximately \$175 million, per year, for the AIP. He anticipated the same amount in FY15.

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Senator Olson asked whether there was an existing waiver available to certain airports to bypass some of the requirements of the reform act of 2012.

Mr. Maggard stated that it was possible to receive a waiver from the FAA for a technical specification.

Senator Olson noted that Ketchikan airport had been the site of a major Alaska Airlines accident. He asked how many airports in the state had waivers or were in the process of acquiring waivers for Part 139.

Mr. Maggard replied that he did not know how many airports had waivers. He asserted that the state had complied with the runway safety area requirements for all of the Part 139 airports with the exception of Adak, which the department had planned to fund with non-AIP funding.

[10:05:22 AM](#)

JEFF OTTESEN, DIRECTOR, DIVISION OF PROGRAM DEVELOPMENT, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, presented Page 6, "FHWA Program," and explained that the flow of federal funding over the past 10 years had been steady. He noted that the red bars on the graph represented funds that had been earmarked by congressional members. He stated that earmarking ended in 2012 and now the state could decide where to spend the formula funds. He noted that the spike in 2009 was from the American Recovery and Reinvestment Act (ARRA), the state was now running on \$500 million in federal funding and anticipated the same funding in 2015. He relayed that the state had received two-thirds of the annual allotment of funding as Congress had yet to act on the final one-third.

[10:07:25 AM](#)

Mr. Ottesen discussed Page 7, "MAP-21," which was the name of the federal act that was currently providing surface transportation funding:

- Down from \$520 M in 2011 to \$484 M in 2013 and 2014 (~7% decrease)

- Increased emphasis on NHS = less available for Community Transportation Program (CTP); no new projects being considered
- Less flexibility in use of funds.
- Significant streamlining of funding categories
- Highway Safety Improvement Program (HSIP) doubles for Alaska
- No earmarks (which reduce formula funds)
- Now operating under continuing resolution until May 2015

Mr. Ottesen explained that as a result of the act, the National Highway System (NHS) had been emphasized as the primary purpose of the program. He noted that the NHS was a collection of highways initially approved by congress; the Federal Highway Administration now approved additions to the list. He stated that these were the biggest roads in the state that carried the most traffic and moved the most freight. He added that approximately 58 percent of department funding was directed to NHS roads, which only comprised 25 percent of the road miles in the state. He opined that as a result the state was responsible for the funding needed for other road needs in the state. He stated that MAP-21 had effectively tripled the amount of money used for safety, which had resulted in very large safety projects on Alaska highways.

[10:10:00 AM](#)

Mr. Ottesen turned Page 8, which was continuation of MAP-21 funding:

Performance Mandate

- FHWA to set National Highway System (NHS) Performance Measures for:

Safety

Pavements and Bridges

Freight Mobility

Congestion

System Performance

- If National Highway System (NHS) system conditions fall behind:

First, divert more funding to performance concerns

Later, penalized with higher match requirement

Mr. Ottesen said that there would be report cards issued to every state in regard to the performance measures; if the state received a bad report it would be expected to direct a greater amount of money to performance improvement. He furthered that if performance did not improve, the states match contribution would be enlarged to 35 percent. He shared that Alaska currently had a lower than 20 percent match rate because of the high land base of federal lands.

[10:12:13 AM](#)

Mr. Ottesen referred to slide 9, "Sum Up FHWA Program":

- NHS Program:
 - More funding overall, but much directed to performance, not capacity or new routes
 - Safety program increases target the NHS too.
- Non-NHS Program (STP):
 - Decline in funding is hurtful. Fewer projects, slower pace of completion.
 - 58% of public bridges and 77% of road miles!

[10:12:59 AM](#)

Vice-Chair Micciche requested examples of performance concerns in Alaska.

Mr. Ottesen referred to structural deficiency in bridges; when a bridge rating fell below 50, on a scale of 1 to 100, it would be considered structurally deficient. He said this did not mean that the bridge could not carry traffic or was in imminent danger of collapse, but could be load restricted to heavier truck loads and signaled the time for rehabilitation or complete replacement. He said that pavement was tested with a tool that measured bounce, which was difficult for Alaska because underlying permafrost and tracked gravel contributed to roughness and caused the tool to bounce. He added that the rule making that would ultimately determine how measurements were taken was still in progress which could provide some leeway.

[10:15:38 AM](#)

Vice-Chair Micciche understood that the structural deficiencies were caused primarily by corrosion on carbon steel support members.

Mr. Ottesen relayed that the structural deficiency had historically been based upon three sub-grades: a grade for the deck and railing, the horizontal support members, and the foundation elements. He said that the grading criteria had been dramatically increased, which added greatly to the complexity and timetable of bridge inspections. He concluded that all of the various pieces of the bridges were being rigorously inspected.

[10:16:53 AM](#)

Co-Chair MacKinnon welcomed former Alaska State Representative Ralph Samuels, who was present in the gallery.

[10:17:06 AM](#)

Senator Bishop asked whether high float gravel had been considered by NHS.

Mr. Ottesen explained that the fact that the Dalton Highway was part of the NHS and did not have traditional asphalt pavement created an issue for pavement performance standards. He said that the issue had been noted. He stated that a majority of the highway was a gravel surface that was being held down with calcium chloride, which was effective for the environment, but added roughness to the surface.

[10:18:10 AM](#)

Mr. Ottesen shared that the non-NHS program (STP), which was primarily the surface transportation program funding, had decreased because the NHS programs had increased. He opined that fewer non-NHS programs were being accomplished than in prior years. He stated that projects that had been scored and nominated for funding four years ago were being accomplished at a half-pace. He opined that new projects had been forced to be placed on hold, creating hardship across the state. He relayed that 77 percent of the state's road miles and 58 percent of the state's bridges were dependent on the smaller level of STP funding.

[10:19:21 AM](#)

Mr. Ottesen turned to Page 10, "FY 16 Budget Highlights":

- Contract Award Summary
- FY16 Capital Budget
- GF Projects
- Other Funds
- Federal Projects
 - AIP-Aviation
 - STIP-Surface (Highways, AMHS)

[10:19:47 AM](#)

Mr. Ottesen pointed to the pie chart on Page 11, which illustrated the magnitude of the federal funding when compared to the General Funds and Other Funds.

[10:20:00 AM](#)

Vice-Chair Micciche requested further detail of the Other Funds.

[10:20:09 AM](#)

Mr. Ottesen drew attention to page 12, which denoted the composition of "Other Funds":

- State Equipment Fleet Replacement \$24.6M
- International Airports \$11.1M
- Cooperative Reimbursable Agreements \$12M

[10:21:46 AM](#)

Mr. Ottesen referred to page 13, "GF Projects":

- Federal Programs Match: \$63.9M
- Muni Harbor Grant Program: \$10.4M
- Deferred Maintenance: \$8M
- AMHS Overhaul: \$12M (via Repeal/Reapprop section)

Mr. Ottesen related that the state match for highways had been underfunded for the past four years. He said that, on average, \$53 million per year in state matching funds had been used for federal highway funding while receiving only \$40 million, this had effectively used up surplus and the department was now funding 2014's federal program from 2015's state match funding. He believed that if the trend continued the department would run out of matching funds early and programs would stall until the start of the next fiscal year effectively slowing projects and the state's

ability to use federal funds. He explained that the Muni Harbor Grant Program was a cross-agency program where the state provided money to municipalities for harbor work and in exchange the municipalities were required to provide an equal amount. He shared that the \$8 million request for deferred maintenance was approximate one-third the amount the department had received in the past. He concluded with the final bullet point explaining that inspections had to be done on every vessel, and a certificate of inspection had to be issued, in order for the vessel to go into passenger service for the year. The funding for the project had been reappropriated from the Kodiak Launch Facility and was not an addition to the FY16 budget.

[10:25:00 AM](#)

Vice-Chair Micciche wondered if it made sense skip a construction season to avoid utilizing the funds from the following year.

Mr. Ottesen noted that skipping a construction season would entail returning federal funds, which would stall construction projects statewide; additionally, doing so could jeopardize the ratio \$6 federal dollars to every \$1 state dollar, with the state receiving less match finding.

[10:26:27 AM](#)

Vice-Chair Micciche clarified that he was speaking to the first bullet on Slide 13. He asked how the state could avoid getting to the point where a construction season had to be skipped.

Mr. Ottesen claimed that the match request in the FY16 budget would stop the cycle of borrowing from the next year to fund the current year.

[10:27:09 AM](#)

Senator Bishop understood that the state could not afford for the department to miss a year work because the multiplier effect could have a \$3 billion to \$5 billion ripple throughout the statewide economy.

Mr. Ottesen replied in the affirmative.

[10:27:38 AM](#)

Co-Chair MacKinnon asked whether the state had ever turned back the ability to access federal dollars. She wondered whether the intent had been to position the state to have enough matching money available if other funds lapsed.

Mr. Ottesen explained that every year in the month of August, the federal government polled states to determine which ones were going to be able to use all of their federal funding, and if yes, which states could use extra funding. He related that the state had always been in the position to reply affirmatively to both questions. He shared that the money left over from states that did not use all their funding was redistributed to states that could use extra. He revealed that in September FY15, Alaska received \$8 million additional federal dollars.

Co-Chair MacKinnon commended the department making the issue a priority.

[10:29:51 AM](#)

Vice-Chair Micciche asked whether the \$63.9 million put the state in the position for additional federal match funds, or simply meet the requirement for 100 percent of the expected federal match.

Mr. Ottesen replied that the \$63.9 million was essentially 100 percent, with a "little cushion." He noted that Slide 14 would cover the issue. He said that there were two possible upside events, in addition to the August redistribution, that could provide extra funds, the state had \$154 million of earmarked funding that had yet to be put under contract with the federal government and Congress had a pattern of repurposing older earmarks. If Congress repurposed the current unused earmarks the state would have 30 days to identify the projects that the extra money would be spent on, and an additional 90 days to obligate the funds. He said that this would give the state 120 days to find the match and the legislative authority, and have projects that had been designed, had the right-of-way done, and had bid packages prepared. He said that those three steps took two years for a simple project, and 5 to 10 years for a big project; it was impossible to start a project, and be ready to begin the project, in 120 days. He asserted that the only way the state could be ready to use the funds would be to be working on extra projects now, and have them already in the design pipeline. He added that the

other upside event was reauthorization by Congress, which had historically increased the program by approximately 20 percent; a 20 percent increase for the state would equate to an extra \$100 million. He lamented that the state did not have the match for either of the upside events.

[10:32:49 AM](#)

Mr. Ottesen turned to Slide 14:

- Several years of under-funding have dried all surplus (\$40M provided; \$53M used)
- If this continues could see projects delayed; federal aid lapsed
- No match capacity to cover extraordinary needs such as "repurposed earmarks"
- Request herein covers expected funding, but no surplus for extra funding.

[10:33:13 AM](#)

Mr. Ottesen spoke to slide 15, which listed notable rural aviation construction projects expected in federal FY15 and 16:

Runway Safety Areas

- Adak (No AIP Funding will be Used)

Pavement Rehab

- Bethel
- Gulkana
- Haines
- Shishmaref
- Talkeetna
- Wrangell
- Yakutat

Rural Access

- Ambler
- Cold Bay
- Coldfoot
- Cordova
- Hooper Bay
- Kotzebue
- Kwigillingok
- Pilot Station

Buildings

- Barrow
- Bethel
- Cold Bay
- Deadhorse
- Ketchikan
- King Salmon
- Togiak
- Unalaska

[10:33:52 AM](#)

Mr. Ottesen spoke to slide 16, which listed notable Statewide Transportation Improvement Program (STIP) projects:

- Highway Safety \$60M (Passing lanes, RR grade separation)
- NHS & Non-NHS Pavement and Bridge \$155M
- Parks Highway Corridor \$115M
- Seward Highway Corridor \$90M
- Glenn Highway Corridor \$45M
- Ketchikan: Tongass Highway Rehabilitation \$33M
- Bridges: Seward Hwy, Gustavus, Ketchikan, TokR., ChickaloonR., Parks Hwy, Richardson Hwy., SlanaR.

[10:36:20 AM](#)

Senator Dunleavy referred to erosion on the Glenn Highway. He asked whether preventative maintenance could preserve the road and keep costs low.

Mr. Ottesen relayed that the department had been cataloging geotechnical risks starting three years previous. He stated that sometimes events unfolded faster than could be planned for. He agreed that the Glenn Highway needed to be relocated away from the river. He offered to follow up with a more detailed response at a later date.

[10:39:00 AM](#)

Mr. Ottesen spoke to Slide 17, which listed additional STIP projects:

- M/V Matanuska Repower \$34M
- AMHS Terminals Improvements: Gustavus, Ketchikan, Tenakee and Auke Bay.

•Wastewater Treatment System Upgrades: Auke Bay, Sitka, Haines, and Skagway.

Co-Chair MacKinnon solicited further questions from the committee.

[10:40:11 AM](#)

Senator Bishop requested an update on the University Avenue Project.

Mr. Ottesen said he would provide further information at a later date.

[10:40:25 AM](#)

Co-Chair MacKinnon asked for a high-level overview on the Kivalina Road Project.

Mr. Ottesen agreed to provide information at a later date.

Co-Chair MacKinnon asked about the Alaska-class ferry currently under construction and whether it was being redesigned.

Commissioner Luiken stated that the ferries were not being redesigned.

[10:41:58 AM](#)

Co-Chair MacKinnon understood that general accounting practices were going to start requiring states and municipalities to place deferred maintenance issues on their financial documents.

Mr. Ottesen responded that the accounting standards put requirements on how the state and local governments had to value assets. He said that the federal government was leaning on locals to provide financial support and was not helping with the assets.

[10:43:38 AM](#)

Senator Hoffman mentioned intent language that he had added to the FY15 budget requiring the department to examine the road between Metlakatla and Ketchikan.

Mr. Ottesen offered that a road had been built to the north end of the island where a ferry terminal had also been built.

Senator Hoffman clarified that the intent language was to examine how the road could be used to improve the services to the community of Metlakatla. He shared that the people on the island were interested in a shorter route to Ketchikan for medical and other services.

[10:44:59 AM](#)

Co-Chair MacKinnon discussed housekeeping.

SB 26 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[10:45:56 AM](#)

The meeting was adjourned at 10:45 a.m.