

SENATE FINANCE COMMITTEE
February 22, 2017
9:01 a.m.

9:01:47 AM

CALL TO ORDER

Co-Chair Hoffman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Mike Dunleavy
Senator Peter Micciche
Senator Donny Olson
Senator Natasha von Imhof

MEMBERS ABSENT

None

ALSO PRESENT

Mark Luiken, Commissioner, Department of Transportation and Public Facilities; Senator Mia Costello; Amanda Holland, Administrative Services Director, Department of Transportation and Public Facilities.

PRESENT VIA TELECONFERENCE

SUMMARY

PRESENTATION: FY 18 OPERATING BUDGET - DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

Co-Chair Hoffman relayed that this would be the last overview from one of the four major cost drivers in the state's operating budget. He hoped that each of the four could cut their budget a nickel on the dollar in their departmental budgets. He lamented that the state was in financial crisis and that the senate was revisiting budgets that had remained at the status quo for further cuts.

^PRESENTATION: FY 18 OPERATING BUDGET - DEPARTMENT OF
TRANSPORTATION AND PUBLIC FACILITIES

[9:03:15 AM](#)

MARK LUIKEN, COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (DOT), discussed the presentation "Alaska Department of Transportation and Public Facilities - Department Overview" (copy on file). He presented Slide 2, "Transportation & Public Facilities - Keep Alaska Moving through service and infrastructure":

The Department of Transportation & Public Facilities is responsible for providing these core services:

- Preserve Alaska's Transportation Infrastructure
- Operate Alaska's Transportation Infrastructure
- Modernize Alaska's Transportation Infrastructure
- Provide Transportation Services

Sources:

Department Home: dot.alaska.gov

Strategic Plan:

dot.alaska.gov/comm/strategic_plan.shtml

Department Fact Sheet:

dot.alaska.gov/comm/legislative/docs/Fact-Sheet.pdf

Commissioner Luiken relayed that the mission of the department was to keep Alaska moving through service and infrastructure. Per AS 44.42, the department is responsible for planning, research, design, construction, operation, maintenance, and protection of all state transportation systems and many public facilities. He said that the mission was achieved through the core services and strategic approach known as "results based alignment":

- Preserve: extends the life of existing infrastructure; surface preservation and bridge preservation
- Operate: allowed movement on existing infrastructure; snow and ice removal, illumination
- Modernize: updated infrastructure to meet modern standards and capacity; plan, design, construct

- Provide: encompassed the services the department provides to move people and goods; ferry system and international airport system

Commissioner Luiken noted that the department had shifted from a regional, or modal, orientation to a service orientation.

[9:05:14 AM](#)

Commissioner Luiken showed Slide 3, "Our DOT&PF People: Alaskans Serving Alaska":

Joshua McGrath

Vessel Captain, Alaska Marine Highway System

- California Maritime Academy graduate
- Responsible for all shipboard activities and safe navigation of the vessel
- Received the department's recognition award for Leadership in 2014
- Captain McGrath donates his time by volunteering for Mercy Ships, the world's largest civilian hospital ship

Vanessa Musich

Project Engineer, Northern Region Construction, Nome

- University of Notre Dame graduate
- Manage Western Alaska projects - Shishmaref Airport Resurfacing
- Rural Alaska depends on safe and functional infrastructure, especially airports, for access and transportation of goods
- Exemplifies DOT&PF core values - open, respectful communicator

Commissioner Luiken emphasized that DOT was not a bureaucratic organization.

[9:06:01 AM](#)

Commissioner Luiken turned to Slide 4, "Who is DOT&PF?"

Over \$7.5 Billion in infrastructure asset value under DOT&PF responsibility, consisting of:

- Roads, highways and bridges
- DOT&PF staffed maintenance stations

- Rural Airports
- International Airports
- Ferries
- Ferry Terminals
- Ports and harbors
- Public facilities
- State equipment and vehicles
- Weigh Stations
- Anderson Memorial Tunnel

DOT&PF consists of approximately 3,662 permanent full-time, part-time and nonpermanent employees in 8 labor unions in 85 locations throughout the state.

Commissioner Luiken relayed that DOT maintained 242 state owned and operated airports, 822 bridges, and 731 public facilities - occupied by 17 different agencies.

[9:06:38 AM](#)

Commissioner Luiken displayed Slide 5, "Who is DOT&PF?":

Regions

- Northern
- Central
- Southcoast

Systems

- Alaska Marine Highway
- Alaska International Airports

Statewide functions

Commissioner Luiken related that the department had 3 regions and 2 systems that encompassed a variety of transportation modes: airports, roads, and the ferry system. He noted that statewide functions included services such as: administrative services, program development, planning, measurements and standards, and commercial vehicle enforcement.

[9:07:01 AM](#)

Commissioner Luiken discussed Slide 6, "One DOT&PF":

- Leaders at all levels influence effectiveness and efficiency

- Fosters communication and sharing of best practices up, down, and across a vast geographically diverse organization
- Those closest to front line delivery often have the best ideas
- Unites department through Trust, Teamwork, and Results

Commissioner Luiken elaborated that his team embraced the guiding principles of public service, core values, mission focus, solutions oriented teamwork, and transparent and proactive communications. He explained that "One DOT&PF" was a strategic framework from which standardized policies, procedures, and delivery of services were ensured. Best practices were used to provide the most efficient system possible, while supporting the departments second initiative of results based alignment.

[9:07:39 AM](#)

Commissioner Luiken reviewed Slide 7, "Transportation & Public Facilities - Results Based Alignment: Core Services":

PRESERVE ALASKA'S TRANSPORTATION INFRASTRUCTURE
 Preserve extends the life of existing infrastructure

OPERATE ALASKA'S TRANSPORTATION INFRASTRUCTURE
 Operate allows movement on existing infrastructure

MODERNIZE ALASKA'S TRANSPORTATION INFRASTRUCTURE
 Modernize updates infrastructure to meet modern standards and capacity

PROVIDE TRANSPORTATION SERVICES
 Services provided to move people and goods

Commissioner Luiken explained that results based alignment was the service delivery framework from which the contribution of the department's services, delivered in support of the mission, were measured. The four core services linked the work of the department to its statutory and regulatory requirements. He shared that results based alignment had started 18 months ago after being introduced

to the legislature in 2016. He said that since its inception the department had involved over 200 employees in refining core services, developing direct services to support core services, and defining the measures that support core services.

[9:08:18 AM](#)

Commissioner Luiken presented Slide 8, "Results Based Alignment: Direct Services":

PRESERVE ALASKA'S TRANSPORTATION INFRASTRUCTURE

- Off-Surface Preservation
- Surface Preservation
- Vehicle Management
- Bridge Preservation
- Vessel/Terminal Preservation

OPERATE ALASKA'S TRANSPORTATION INFRASTRUCTURE

- Illumination
- Signals
- Snow & Ice Removal Signage
- Striping
- Operate Certificated Airports

MODERNIZE ALASKA'S TRANSPORTATION INFRASTRUCTURE

- Plan Infrastructure
- Design/Engineer
- Construct

PROVIDE TRANSPORTATION SERVICES

- Manage Ferry Reservation System
- Operating Ferry Terminals
- Operating Ferries on Routes
- Retain and Expand Business
- Transit

Commissioner Luiken stated that he had relied on employees within the department to define the direct services and then to develop performance measures related to each direct service. He highlighted the direct service of providing transportation services. He said that the department's 2017 operating budget had been aligned to the core and direct services.

9:09:05 AM

Commissioner Luiken showed Slide 9, "Budget Breakout by Core Service," which showed a pie chart separating the FY 17 operating budget by identified core services. He said that the slide contained the total operating budget and included all fund sources. He noted that 6.7 percent of the budget had been assigned to "other services", which primarily represent the services DOT provided supporting other state agencies.

9:09:46 AM

Commissioner Luiken turned to Slide 10, "Example: Budget/Core Service Alignment (FY2017 Management Plan)," which showed a pie chart depicting how DOT planned to depict their operating budget into the future. The slide reflected DOTs operate core service portion of the 2017 operating budget and depicted the components that performed the duties in support of the core services. He noted that the size of the slice of pie was proportionate its amount of the core service budget.

9:10:27 AM

Co-Chair Hoffman asked if the previous slide (Slide 9) included all funds.

Commissioner Luiken answered in the affirmative.

Co-Chair Hoffman asked whether the commissioner to provide a budget breakdown of only general fund dollars.

Commissioner Luiken replied that there would be a slide with the information later in the slide deck.

9:11:22 AM

Commissioner Luiken displayed Slide 11, "Example: Direct Service Level," which showed a flow chart detailing the operating budget of the "operate" expenses of the direct services. He noted that the right side of the slide listed the direct services provided under the core service; the left side of the slide provided an expanded breakdown of the direct service of snow and ice removal. He relayed that the department spent approximately \$77,997.4 million across the state per year for snow and ice removal. The pie chart

also showed which components performed snow and ice removal functions, as well as their proportionate slice of the pie. He pointed to the 385 positions dedicated to the service. He mentioned that on the far left of the slide was the effectiveness and efficiency measure tied to the service. He said that each direct service had at least one efficiency and one effectiveness measure. He stated that the alignment of function to core service allowed the department to report more accurately what was being accomplished and measured accountability.

Co-Chair Hoffman asked whether DOT could provide the committee of a detailed breakdown of each pie chart on the slide.

Commissioner Luiken agreed to provide the information.

[9:14:20 AM](#)

Co-Chair MacKinnon referred to a question submitted to the department by her office concerning how road service areas managed inside of municipalities. She relayed that the state had entered into several agreements with municipalities where the responsibility was transferred to local communities. She revealed that she had received feedback that local communities had been able to get the job done for less than the cost had been to the state. She wondered whether there were more municipal, or private sector companies, that could provide the service for a lower price than the state.

Commissioner Luiken relayed that DOT was gathering the analysis and would provide the comparison of cost per road mile.

Co-Chair Hoffman asked whether the information could be provided to the committee in time to inform decisions to be made during the current legislative session.

Commissioner Luiken replied that getting communities to take over the service areas was the biggest hurdle.

Co-Chair Hoffman disagreed. He believed that larger communities in the state would be responsive to the request.

Commissioner Luiken was certain that legislative intent would be helpful.

[9:17:03 AM](#)

Co-Chair MacKinnon relayed that Eagle River had actively pursued a relationship with the state to take over road maintenance operations. She said that she had preliminary numbers from both the state and the municipality that reflected that the state's cost for services was higher than the municipality.

[9:18:35 AM](#)

Senator Micciche said he had visited the topic when he held the office of mayor. He wondered whether DOT was considering an evaluation of a comprehensive plan for the most efficient delivery of the service. He thought that a formal evaluation of each community could help deliver savings.

Commissioner Luiken knew that the practice took place in the Municipality of Anchorage, and that responsibility agreements had been transferred. He asserted that DOT was constantly trying to find the most efficient delivery of the service. He said that the department worked to share best practices with municipalities. He noted that some municipalities had different road power laws, which was a complicating factor. He stressed that DOT would be happy to work with municipalities on the matter. He agreed that local municipalities had the best ability to operate and maintain their infrastructure.

[9:20:57 AM](#)

Senator Micciche reiterated his desire for a comprehensive statewide plan. He felt that a creative approach was necessary in the current fiscal climate.

[9:21:51 AM](#)

Vice-Chair Bishop agreed that everyone at the table was working to more efficiently provide services. He relayed that his priority was the safety of the traveling public. He concurred with previous statements that municipalities could become responsible for snow and ice removal in their communities.

[9:22:55 AM](#)

Senator von Imhof asked whether there was a way to identify the barriers prohibiting the department from being efficient within various municipalities around the state. She felt that the legislature could address and remove any barriers to efficiency. She wondered whether, in response to the fiscal crisis, the department was decreasing all services across the board, or prioritizing certain services and holding them harmless.

Commissioner Luiken relayed that the department had tried to apply budget cuts equally across services. He reiterated that the safety of the traveling public was the department's priority. He noted that, while overtime had been decreased in the winter months, it had not been eliminated. He asserted that conditions on roads would be addressed to ensure the safety of the public. He shared that funds that were set out in the budget for other activities could be used if necessary.

[9:25:08 AM](#)

Commissioner Luiken noted that the effectiveness measure on Slide 11, had referenced road priority levels, the definitions of which were on Slide 12, "Results Based Alignment - Consistent Levels of Service":

Roadway Priorities and Performance Targets

Priority 1

High volume, high-speed roadways, such as expressways and safety corridors

Priority 2

Major highways and arterials connecting communities

Priority 3

Major local roads or collector roads

Priority 4

Minor local roads that primarily provide residential or recreational access

Priority 5

Roadways that are designated as "No Winter Maintenance" routes, such as Denali Highway and Taylor Highway

Commissioner Luiken noted that Winter Performance Targets did not include Priority 5 roads.

[9:26:46 AM](#)

Commissioner Luiken reviewed Slide 13, "Sample Performance Data - Highway Winter Performance Targets":

Percentage of times Target Condition was achieved within time goal: 96.6 percent

Average precipitation per event in inches: Southcoast, 10.0; Central, 5.2; Northern, 4.4

Time to restore roads to Target Conditions:

Priority 1

Time Goal: 24 hours

Average: 9:59 hours

Priority 2

Time Goal: 36 hours

Average: 13:06 hours

Priority 3

Time Goal: 48 hours

Average: 19:16 hours

Priority 4

Time Goal: 96 hours

Average: 31.25 hours

Commissioner Luiken shared that the department's website provided an interactive map that could provide screenshots that the public could access to determine their road priority level. He pointed to the example screenshots on the bottom of Slide 13.

[9:27:50 AM](#)

Co-Chair MacKinnon believed that DOT was committed to the safety of Alaska's public. She wondered whether safety should be considered as a performance measure. She spoke to

winter road conditions on the Glenn Highway, and shared that the road was unsafe due to ruts. She thought that the ruts increased accident rates. She asked whether there were additional criteria for performance measures other than snow clearing.

[9:29:46 AM](#)

Commissioner Luiken stated that DOT did have other performance targets, but was unsure if there was one specifically for rutting. He discussed the high volume of traffic on the Glenn Highway, and relayed that the road was cleared to the surface the best possible condition. He said that the highway would be resurfaced in summer 2017, from Airport Heights Road to Highland road, which should solve the rut problem for a few years.

Co-Chair MacKinnon asked whether DOT had a performance measure based on the safety of the road. She appreciated that the ruts were going to be addressed, but she worried about the damage that could be done to vehicles and the subsequent rise in individual car insurance rates. She asked whether there was a performance measure for anything to improve the safety of the roadways in high-priority areas.

Commissioner Luiken believed that the identification of safety corridors spoke to the issue of performance measures for safety. He relayed the Glenn Highway was one of those corridors and received more attention than other thoroughfares.

[9:32:03 AM](#)

Co-Chair MacKinnon asked whether sand was being put on the Glenn Highway despite the ruts in the road. She reiterated her concern for the safety of the drives on the Glenn Highway.

Commissioner Luiken stated that DOT addressed each road based on the weather forecast, temperatures, and expected precipitation. He believed that the Glenn Highway had been sanded before the snowfall of the previous weekend.

Co-Chair Hoffman asked whether rutted roads had different sanding requirements than other roads.

Commissioner Luiken reiterated that all roads were treated based on their road priority. He said that the use of chemicals, or sand, was dependent upon precipitation, temperature, and the current condition of the road.

Co-Chair Hoffman asked if there was priority for sanding rutted roads. He asserted that rutted roads caused more roll-overs than roads without ruts.

Commissioner Luiken said that he would consider the matter. He reiterated that roads were addressed based on the priority system on Slide 11.

[9:34:16 AM](#)

Senator Micciche queried the department's process for clearing roads to surface condition A, as shown on Slide 13.

Commissioner Luiken reiterated that Priority Level 1 roads were expected to be cleared to surface condition A after a weather event. He noted that there were mitigating factors such as volume of traffic and safety corridor designation that would increase the priority level of the road. He said that DOT was constantly checking forecasts and current weather conditions, and making decisions about application of chemicals or sand based on that information. He stressed that the department could not instantaneously address all roads simultaneously.

[9:36:49 AM](#)

Senator Micciche asked whether DOT applied a special focus to area that traditionally had different weather exposure than the remainder of the road system.

Commissioner Luiken replied that the priority level of the road would determine when the department would address certain sections of road. He understood that it was not a perfect system, but he believed that the results based alignment would help DOT identify areas where additional work needed to be done. He explained that different ways to deploy forces could be determined by measuring, and continually examining, the way that services were delivered.

[9:39:07 AM](#)

Senator Micciche felt that DOT was lacking in the understanding of road conditions at the local level.

Commissioner Luiken related that the department had instituted a framework that would allow for the measurement of employee performance, with the goal of improving performance in a meaningful way. He stressed that the goal was to provide the safest possible transportation system in the most efficient and effective way possible.

[9:40:54 AM](#)

Vice-Chair Bishop spoke to the ruts on the Glenn Highway. He wondered how many tons of sand had been put on the road in the last few weeks. He hoped more sand could be applied.

[9:41:37 AM](#)

Senator Dunleavy discussed the Portage Road and tunnel. He said that he had driven the Glenn and Seward Highways over the weekend and had witnessed many flipped cars. He asked whether plow operators had the authority to dump sand where they thought necessary, or where dump areas and amounts predetermined.

Commissioner Luiken responded that the new system was allowing the department to give operators the opportunity and discretion to make those decisions. He added that operators shared information in the hopes of continually improving the system. He described a way this had been helpful in Fairbanks. He believed that the power of using the results based alignment measures was the ability to share successes, and failures, to create a more efficient way to address the system.

[9:44:39 AM](#)

Senator von Imhof thought that it would be helpful to look at the measurements in each priority corridor over time, and how the department had responded to issues from year-to-year.

Commissioner Luiken relayed that the data was being collected for the first time in 2017, and would take time to process. He reminded the committee that DOT had predicted differences in the department's ability to respond to heavy snowfall based on the 24 percent cut in

their operating budget over the past two years. He argued that no organization could absorb a cut that substantial without noticing a hinderance in operations.

[9:47:21 AM](#)

Commissioner Luiken pointed out to the committee that the department had successfully removed snow from roads in 2017 despite fiscal challenges.

[9:48:27 AM](#)

AMANDA HOLLAND, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, showed Slide 14, "Kaizen - Project Control". The slide showed the results of a recent Kaizen event for the project control process of the department, and compared the current process to the future process, reflecting improvement after applying Kaizen.

Ms. Holland explained that in addition to measuring performance through results based alignment, the department had been analyzing ways to streamline business processes; Kaizen was the practice of continuous improvement, evolving from total quality management and was recognized worldwide as an effective way to eliminate waste and rework. She related that Kaizen was a lean tool that improved quality, productivity, safety, and workplace efficiency. She said that the state had begun using Kaizen to improve functions and eliminate work processes that were overly difficult. She asserted that the department was committed to continuous improvement and increased effectiveness, and believed that the Kaizen event would help to optimize resources, including personnel, equipment, assets, and the budget.

[9:50:43 AM](#)

Ms. Holland turned to slide 15, "FY2018 Governor's Proposed - Operating Budget: Results Delivery Units (RDU)," which showed a pie chart for 'All Funds,' and a pie chart for 'Unrestricted General Funds.' She detailed that the total operating budget for FY 18 was \$581,260.5, and the unrestricted general fund (UGF) budget was \$145,691.4.

Co-Chair MacKinnon appreciated the new approach by the department. She worried that the Alaska Marine Highway

System was subsidized by nearly 60 percent UGF, while benefitting a small percentage of the state's population.

[9:54:06 AM](#)

Commissioner Luiken related that the marine highway system contribution from the UGF represented a cut to the system and the amount of funding needed to sail the schedule published for the public. He said that revealed that the department had assured the Alaskans that depended on the system that the published schedule would be honored. He lamented that one of the challenges with the system was that a schedule had to be published before a budget was in place.

Co-Chair MacKinnon argued that Alaskan's dependency on the system was being subsidized at \$.60 on the dollar, which created an unfair business practice. She contended that the state did not have the funds to continue to subsidize the system at that rate. She stressed that a limited group of people benefitted from and depended on the marine highway, and that there were other methods of transportation available to most of the routes services by the system. She felt that communities were actively choosing not to build roads, which she felt would reduce the states contribution to the system. She assessed that \$51 million was moving 90 percent of the population, while \$85 million was moving 10 percent. She expounded on the reasons why the Alaska Marine Highway System was too expensive for the state to maintain.

[9:58:36 AM](#)

Commissioner Luiken responded that the department had laid up 2 vessels in the fleet, one of which was for sale. He added that the crews that ran those 2 vessels had been placed on lay-off. He shared that operating weeks of service for other vessels had been reduced from 178 to 133 operating weeks of service. He believed that these actions demonstrated the realization that the system was expensive, and a commitment to reducing operating costs. He pointed out to the committee that Highways and Aviation were intended to receive a larger portion of the total operating budget, included UGF and designated general funds through the Alaska Transportation Maintenance Fund.

Co-Chair MacKinnon appreciated the efforts, but felt that they were small in relation to the deficit faced by the

state. She reiterated that more people traveled on roads than by ferry, and that the spending should be equal. She asked whether the 24 percent cut the department had faced in its budget was for capital and operating, or operating only, and was it spread evenly across all services provided by DOT.

[10:01:46 AM](#)

Commissioner Luiken detailed that there had been a 24 percent cut to the operating budget, the marine highway system had received the largest cut to their budget.

Ms. Holland said that a forthcoming slide would show the UGF reductions experienced by the department in the past 5 years and how they affected each division's budget.

[10:02:58 AM](#)

Co-Chair MacKinnon asked whether Commissioner Luiken could tell how much freight was moved on the ferry system, compared to people. She wanted to know the number one vendor using the system to ship freight because she believed the state was subsidizing the shipping.

Commissioner Luiken responded that he did not have exact numbers on hand. He shared that the freight that was moved consisted primarily of groceries, which were delivered to rural communities; additionally, the system delivered goods and services to communities that many Alaskans on the road system easily enjoyed. He agreed to provide specifics as to exactly how much freight was moved and by who.

Co-Chair MacKinnon offered an anecdote of her experience seeing heavy equipment being moved, via the ferry, by private contractors. She understood that it was less expensive to ship some things on the ferry, rather than by barge.

Commissioner Luiken agreed again to provide more detail on the shipping matter.

[10:05:12 AM](#)

Senator von Imhof asked whether DOT had examined shorter, more direct ferry routes that could be serviced by private vessels.

Commissioner Luiken stated that the Southeast Conference was leading a study to investigate the entire system and alternative governance models for the system.

[10:06:16 AM](#)

Ms. Holland displayed Slide 16, "FY2018 Governor's Proposed Operating Budget: All Funding Sources," which showed the breakdown of each fund category by fund source. She pointed to the two pie charts in the upper right corner, which compared the FY 17 management plan breakdown to the FY 18 proposed breakdown. She stated that the largest change in the distribution of fund categories was UGF and DGF, which was related to the governor's fuel tax bill and the Alaska Transportation Maintenance Fund. She said that the fund would provide a direct link between fee for service. She relayed that the bubble chart portion of the slide showed the fund sources that made up each fund category; the size of the bubble demonstrated the proportionate amount of the fund category. She noted that many of the "other" fund sources had restrictions tied to them in terms of how they could be used in the department.

Co-Chair MacKinnon requested further information of the Alaska Transportation Maintenance Fund and the Marine Highway System Fund. She felt that some balls on the bubble chart had been made smaller than they should be.

Ms. Holland explained that the DGF was the proposal for motor fuel tax, aviation fuel tax, and marine fuel tax for composing the Alaska Transportation Maintenance Fund. She said that the motor fuel tax would result in \$62.4 million, and would fund the highways and aviation facilities component. She said an additional \$4 million of aviation fuel tax would fund the aviation portion of airport operations.

[10:09:33 AM](#)

Co-Chair MacKinnon requested a breakdown of how much the AMHS would contribute to the transportation fund. and whether the funds would be a highway fund - or a marine and highway fund.

Ms. Holland stated that 50 percent of the motor fuel tax that entered the fund would be marine fuel taxes. She said that \$2.5 million of the total transportation maintenance

fund would be allocated for the AMHS, the remainder would go to highways and aviation.

Co-Chair Hoffman understood that the transportation fund money would supplant general fund dollars.

Ms. Holland answered in the affirmative.

Co-Chair Hoffman asked whether there had been consideration to address the problem of using a portion of those dollars to subcontract out to local municipalities to address snow removal.

Commissioner Luiken stated that the idea was to create a direct link between what was paid at the pump, and where the dollars were spent for road preservation and operation, which included snow removal. He said that regular general funds would be supplanted with the designated general funds. He said that at the time the fund and distribution were created there had not been a consideration of revenue sharing with the various municipalities for their road maintenance.

[10:11:43 AM](#)

Co-Chair Hoffman asserted that the scenario could not be called revenue sharing, but rather providing services at the local level. He said that municipalities would be reimbursed for services rendered and would not be viewed as revenue sharing.

Co-Chair MacKinnon clarified that the numbers on Slide 16 were current, or did they rely on the passage of the governor's budget.

Ms. Holland stipulated that the numbers were considered with the passage of the bill. She relayed that approximately \$40 million had been collected for 2017, with the current fuel tax.

[10:13:03 AM](#)

Senator Dunleavy asked whether the marine highway was exempt from the proposed fuel tax.

Commissioner Luiken replied that the marine highway system did not currently pay the motor fuel tax and would continue to be exempt.

Senator Micciche referred to Slide 16, and offered his understanding that the reduction of UGF proportion and the increase in the DGF was illustrative of the passage of the fuel tax bill that was being considered this legislative session.

Commissioner Luiken replied in the affirmative.

[10:13:59 AM](#)

Ms. Holland discussed Slide 17, "FY2013-FY2018 Governor's Proposed - Unrestricted General Fund by RDU," which depicted a five-year retrospective of UGF in the operating budget, and showed the FY 18 governor's proposed UGF budget. She shared that that amount of UGF in the department's operating budget had steadily declined over all results delivery units. She said that FY 18 reflected the funds source change from UGF to the Alaska Transportation Maintenance Fund. He pointed to the blue section of the bars, which represented administration and report, often associated with overhead and process costs. She said that the administration and support deliver unit results represented 5 percent of the total UGF portion for the budget; 95 percent of the UGF portion of the budget provided core services to Alaskans. She pointed out to the committee the green section of the bars, which reflected the cuts to the AMHS, and had decreased from \$118 million in 2015 to \$85 million in 2017. She said that the highways and aviation function reflected the fund source change from UGF to DGF in FY 18.

Co-Chair Hoffman thought that funding for highways and aviation had dropped disproportionately to the amount being spent on the AMHS.

[10:16:03 AM](#)

Senator Micciche understood that the AMHS did not have the advantage of federal matching funds. Commissioner Luiken stated that the marine highway system was considered as part of the highway system by the federal government. He said that if there was a capital project

related to the AMHS, then it would benefit from the same federal match enjoyed by the highway and aviation systems.

Senator Micciche stressed that the committee wanted to see a downward trend in the spending for the AMHS. He argued that costs were being reduced for every service in the state and to maintain safety standards on highways, which served 100 percent of Alaskans, there needed to be a shift in spending. He thought that the stability of the funding for AMHS was unfortunate.

10:20:00 AM

Vice-Chair Bishop referred to Governor Bill Egan's 1964 transportation plan, which had the goal of connecting more communities by road. He expressed support for the Juneau Access Road Project.

10:21:02 AM

Co-Chair MacKinnon understood that two new ferries were currently being build that would need to be staffed. She wondered how much the service increase was going to cost the state.

Commissioner Luiken believed that the intent of the two new day boats being built was to supplant the service in Lynn Canal, and would ultimately replace the vessels currently working in Lynn Canal. He said that the entire fleet was being scrutinized to determine whether all the vessels would be needed once the two new ferries came online.

10:23:01 AM

Ms. Holland reviewed Slide 18, "FY2018 Governor's Proposed Operating Budget Changes":

Increases

- International Airport System increases for maintenance and security contracts, deicing chemicals, safety
- supplies, feasibility study (OTI) and records management (Intl Airport Fund Receipts) \$2,590.8
- Authority for Facilities Maintenance and Operations (Inter-agency Receipt Authority) \$286.8

Total \$2,877.6

One-Time Items

- Reverse One-Time Appropriation of Alaska Marine Highway System Funds (**\$2,000.0**)

Organizational Changes

- Dissolution of Knik Arm Crossing Component (**\$736.4**)

Salary Adjustments

- Salary and Health Insurance Increases \$4,037.8
- Supervisory Unit 15 Hour Furlough Contract Term Reduction (\$171.4)

\$3,866.4

Reductions

- AMHS Service Level Reductions (\$2,501.4)
- Savings from Shared Services of Alaska Implementation (\$271.7)
- Delete unrealizable receipt authority (\$179.2)

Total (\$2,952.3)

Position Count Reductions

- Delete 76 Federal Program Positions & Partial Funding (\$4,553.3)
- Delete 12 Vacant Positions & Partial Funding (\$529.3)

Total (\$5,082.6)

Agency Transfers

- Transfer PCN from Alaska Court System for Maintenance of Court Facilities
- Transfer 35 PCNs to Dept. of Administration for Shared Services of Alaska Implementation

Fund Source Swaps

- Maintain Existing Programs With Capital Improvement Project Receipt Authority \$1,131.1
- Maintain Existing Programs With Rural Airport Receipts \$1,499.9
- Replace General Fund with Aviation Fuel Tax Funds \$4,512.3
- Replace General Fund with Motor Fuel Tax Funds \$64,821.0
- Replace General Fund Program Receipts with Rural Airport Receipts \$12.7

Total \$71,977.0
(funding in thousands)

[10:24:27 AM](#)

Co-Chair MacKinnon asked whether the reversal of the one-time appropriation for \$2 million for the AMHS was savings from shared services.

Ms. Holland specified that the one-time item was a one-time appropriation to the marine highway for \$2 million. She said that the budget for AMHS was \$2 million less in 2018. She noted that the positions transferring to the Department of Administration would result in a 10 percent savings for the listed positions.

Co-Chair MacKinnon understood that the 10 percent equated to \$271.7 of savings to the state.

Ms. Holland answered in the affirmative. She reiterated that the initial savings would be 10 percent, and that the goal of shared services was that as the back-office functions were absorbed into the shared services office, additional savings could reach as high as 30 percent.

Co-Chair MacKinnon stated that Senator Dunleavy's administrative service review had reflected a reduction of 50 percent overall and out into the future. She wondered whether the department predicted similar numbers.

Ms. Holland replied that the department anticipated a 30 percent decrease in 2019.

[10:26:45 AM](#)

Senator Olson asked about the exemption for international aviation carriers from the fuel tax. He wondered whether the administration had discussed reversing the exemption in order to bring in additional revenues.

Commissioner Luiken answered in the negative. He said that the fuel for international flights was sold in a foreign trade zone and was not purchased in Alaska. Senator Olson asked whether the administration would support a proposal to reverse the exemption.

Commissioner Luiken said that the economic impact would need to be studied before he could answer the question.

[10:28:41 AM](#)

Ms. Holland presented Slide 19, "FY2018 Proposed Reductions":

Administration & Support RDU

- Position Reduction-5 (3 PFT; 2 NP)
- Deletion of unrealizable receipt authority \$179.2

Design & Construction RDU

- Position Reduction-71 (31 PFT; 11 PPT; 29 NP)
- Dissolution of Knik Arm Crossing Component
- Position Reduction 6 PFT

State Equipment Fleet RDU

- Position Reduction (5 PFT)

Highways & Aviation RDU

- Position Reduction-4 (1 PFT; 1 PPT; 2 NP)

International Airport System RDU

- Position Reduction (2 PFT)

Shared Services of Alaska Implementation

- Transferred 35 PCNs to Dept. of Administration
- \$271.7 reduction

Marine Highway System RDU

- (\$2,501.4) UGF
- (\$482.5) AMHS Funds
- Position Reduction (119 PFT; 24 PPT, 35 NP)
- Reduce operating weeks by 1.2 weeks
- Reduction in annual vessel operating weeks from 335.1 to 333.9
- The Taku and Chenega are not scheduled to operate at all in FY2018
- Bellingham and Prince Rupert will receive service on alternating weeks for 7.5 weeks from January 2nd through February 21st while the Kennicott is in her annual overhaul project
- No major service gaps compared to FY2017
- Service levels are approximately equal to FY2003 levels
- Reverse One-Time Appropriation of Alaska Marine

Highway System Funds (\$2,000.0)

Ms. Holland noted that 35 PCNs would be transferred to the shared services of Alaska, 34 of which would focus on travel and expense and accounts payable, 1 would be the CIO. She said the two vessels from the AMHS had been docked and de-crewed, and 177 positions had been eliminated from the division.

Co-Chair Hoffman asked about the future of the two vessels.

Ms. Holland relayed that the M/V Taku would be put up for public sale, while the M/V Chenega's status was still under evaluation.

[10:30:14 AM](#)

Commissioner Luiken showed Slide 20, "Capital Program Optimization":

END-STATE: a DOT&PF team with the core competencies necessary to ensure all program work meets current quality standards and federal regulatory requirements in the most effective and efficient manner possible.

Commissioner Luiken assured the committee that the department would demonstrate to investors, stakeholders, and customers that all funding was being well stewarded.

[10:30:43 AM](#)

Commissioner Luiken turned to Slide 21, "Commitment to:"

- Honor Collective Bargaining Agreements
- Respect DOT&PF employees
- Ensure the end state is sustainable
- No negative impact to our federal program
- Account for potential infusion of stimulus-type federal \$\$

[10:31:31 AM](#)

Commissioner Luiken displayed Slide 22, "Upcoming Action":

Focused Position Management:
No layoffs in FY2018

**Feasibility Study / Capital Program
Process / Organizational Review:**
Report Fall 2017

Innovation:

Northern Region Project Delivery
Pilot - Currently in Process

Commissioner Luiken stressed that the department was working to advance a culture of continuous improvement.

[10:32:07 AM](#)

Commissioner Luiken discussed slide 23, "What to Expect":

FY2018

- Governor's Amended is DOT&PF's mission for FY2018
- Feasibility Study Final Report in Fall 2017

FY2019

- Study Final Report considered during budget development
- Prepare for 2018 Legislative Session

[10:32:24 AM](#)

Co-Chair MacKinnon wondered whether numbers could be run that would reflect budget cuts that had not yet been considered, specific to the AMHS.

[10:33:07 AM](#)

Vice-Chair Bishop suggested that the committee might not be in alignment with the department concerning the design privatization section on Slide 19. He hoped for further discussion.

[10:33:41 AM](#)

Senator Micciche asked for the total reduction in annual vessel operating weeks from 2015 to the present. He noted that Slide 19 reflected a less than one-third of one percent of a reduction in the FY 18 budget. He felt that this illustrated the proportional imbalance between aviation and highways, and the AMHS.

Senator Olson understood that the department faced challenges at the state and the federal level. He felt that safety should be the priority.

[10:35:39 AM](#)

Senator Dunleavy said that transportation, public safety, and education were the top issues on the minds of Alaskans. He lamented that the state currently did not have the tax revenue to support all the services and programs Alaskans had enjoyed in the past. He understood that downsizing could be painful, and he noted that what the department had already accomplished was greatly appreciated. He expressed confidence that the budget would bounce back within the next couple of years. He thought that at that point transportation would be a significant component of the growth of the private sector.

Co-Chair Hoffman commented that airports were crucial in rural Alaska. He felt that the department had done well in operating and maintaining airports. He countered that there was always room for improvement. He relayed that the committee believed that there were more areas of the DOT budget where savings could be realized. He reiterated the committee's desire that all departments cut "a nickel on the dollar" from their FY 18 budgets.

[10:38:29 AM](#)

Commissioner Luiken thanked the committee for its comments, and that the department looked forward to working with the committee.

Co-Chair Hoffman relayed that the department's subcommittee would be chaired by Vice-Chair Bishop.

#

ADJOURNMENT

[10:39:20 AM](#)

The meeting was adjourned at 10:39 a.m.