

SENATE FINANCE COMMITTEE
January 29, 2018
9:04 a.m.

9:04:26 AM

CALL TO ORDER

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

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Peter Micciche
Senator Gary Stevens
Senator Natasha von Imhof

MEMBERS ABSENT

Senator Donny Olson

ALSO PRESENT

Mark Luiken, Commissioner, Department of Transportation and Public Facilities; Amanda Holland, Acting Deputy Commissioner, Department of Transportation and Public Facilities; Matt McLaren, Controller, Alaska Marine Highway System.

SUMMARY

SB 144 APPROP: OPERATING BUDGET/LOANS/FUNDS

SB 144 was HEARD and HELD in committee for further consideration.

PRESENTATION: DEPARTMENT OF TRANSPORTATION and PUBLIC FACILITIES FY19 OPERATING BUDGET

Co-Chair Hoffman informed that the committee would be considering a presentation from one of the state's four major budget drivers.

#sb144

SENATE BILL NO. 144

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making supplemental appropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

^PRESENTATION: DEPARTMENT OF TRANSPORTATION and PUBLIC FACILITIES FY19 OPERATING BUDGET

9:05:30 AM

MARK LUIKEN, COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, discussed the presentation "Alaska Department of Transportation and Public Facilities" (copy on file). He spoke to slide 2, "Our DOT&PF People: Alaskans Serving Alaska":

Meet some of the transportation professionals who Keep Alaska Moving

Matt Tanaka Engineer/Architect III, Statewide Public Facilities

- Lifetime Alaskan, grew up in Anchorage, raised family there.
- 32 years engineering experience, 21 years with DOT&PF.
- Professional engineer, two bachelor's degrees, and MS in civil engineering from Dartmouth.
- Specialized in the delivery of large and complex public facilities projects.
- Enjoys the Alaskan outdoors as a skier, cyclist, fly fisher.
- Contributes to DOT&PF's mission by building & maintaining Alaska's infrastructure with consistent success at meeting customer needs while finishing on time and under budget. He advances One DOT&PF through enthusiastic support and with his expertise

Lauren Staft Project Manager, Statewide Public Facilities

- While hiking the Appalachian Trail, decided to pursue a career in the great outdoors and moved to Alaska in 2000.

- Geological Engineering degree from University of Alaska, Fairbanks.
- Has two young daughters and enjoys hiking and camping.
- 10 years of service across the state working with DOT&PF Design & Construction and Statewide Public Facilities.
- Responsible for managing construction, renovation, and repair of facilities in the Northern Region and is committed to thoughtful project development to ensure facilities meet the needs of the people who use them.
- In 2016, was named one of Construction's "Deserving Dozen" for dedication, leadership, and service.

Commissioner Luiken highlighted department employees that were dedicated to providing service to the department and the state.

Commissioner Luiken discussed slide 3, "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

Constitutional Authority:

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

FY2019 Proposed Budget:

www.omb.alaska.gov/html/budget-report/fy2019-budget/proposed.html

Commissioner Luiken listed the Alaska Marine Highway System (AMHS) and the Alaska International Airport System as two examples of infrastructure operated by the Department of

Transportation and Public Facilities (DOT). He explained that results-based alignment was a service delivery framework through which DOT measured the contribution of the services delivered in support of its mission. He drew attention to weblinks to source documents at the bottom of slide 2.

AMANDA HOLLAND, ACTING DEPUTY COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, referenced slide 4, "Department of Transportation and Public Facilities - Share of Total Agency Operations," which showed a bar graph that showed a ten-year lookback of DOT's Unrestricted General Fund (UGF) and General Fund (GF) spending. She noted that the subsequent four slides showed the budget slides prepared by the Division of Legislative Finance (LFD). She shared that the governor's proposed FY 19 budget, UGF equaled \$177.9 million, and DGF equaled \$97.9 million. The numbers were close to FY 09 budget levels.

Ms. Holland turned to slide 5, "Department of Transportation and Public Facilities - Line Items," which showed a bar graph depicting all funds by line item. She pointed out that commodities and travel had decreased below FY 09 level, while the services line had increased. She explained that the increase was primarily due to personal services being transferred to the services line to fund shared services reimbursable services agreement. The funding was for Shared Services of Alaska, the Office of Internet Technology, and the Division of Facilities Services.

[9:09:07 AM](#)

Ms. Holland reviewed slide 6, "Department of Transportation and Public Facilities - Appropriations (GF Only)," which showed a line graph. The graph showed GF only, which included UGF and Designated General Fund (DGF) sources. Highways, aviation, and facilities; and the AMHS made up 94 percent of the department GF operating budget. In the governor's proposed FY 19 budget, all of the department's GF appropriations were below FY 09 levels.

Co-Chair Hoffman asked why the Alaska Marine Highway System (AMHS) reflected a smaller reduction than that of the highway and aviation portion of the DOT budget.

Ms. Holland explained that during the timespan on the chart on slide 6; there had been a greater decrease in GF for highways, aviation and facilities as opposed to AMHS.

Co-Chair MacKinnon asked if the GF funding for the AMHS was for personnel or for facilities.

Ms. Holland explained that the majority of the GF paid for personal services, but also paid for contractual and services lines.

Co-Chair MacKinnon asked if the AMHS fares paid for the facilities where ferries docked. She discussed how DGF was spent in other agencies.

[9:12:21 AM](#)

MATT MCLAREN, CONTROLLER, ALASKA MARINE HIGHWAY SYSTEM, stated that most of the AMHS generated in revenue was used for personal services for shore-side and vessel operations. He stated that vessel operations and personal services were split. About two-thirds vessel operation personal services for crew was UGF, and the other third was through AMHS generated revenues. He thought 90 percent of the shore-side terminal staff, central office staff wages were paid with AMHS generated revenues. The fuel for AMHS was split with UGF and DGF. He referenced he previous two years' fuel increase and stated that all fuel during the two years was paid with UGF.

Co-Chair MacKinnon asked if there was a reason that DOT had chosen the funding sources instead of applying all passenger revenues to a single line item. She thought it was difficult to follow the accounting, particularly when there was significant federal funding in play.

Mr. McLaren understood that AMHS tried to pay as much as possible with designated funds that were generated by the system. He explained that there were not enough generated funds to cover all personal services. There was enough funding to cover shoreside costs, and the approximately \$20 million in DGF was used to cover personal services. He detailed that vessel crew wages ran over \$80 million, and the revenue generated by AMHS was not sufficient to cover the amount.

Co-Chair MacKinnon explained that the legislature paid closer attention to GF dollars and wondered if enough attention was being paid to the costs generated by short-side facilities of AMHS.

9:16:00 AM

Co-Chair Hoffman asked what percentage of the population of Alaska was being served by AMHS.

Mr. McLaren shared that AMHS had annual traffic of approximately 60 percent by Alaska residents, and 40 percent non-residents.

Co-Chair Hoffman clarified his question was regarding the percentage of Alaskans that used the system.

Commissioner Luiken thought it was difficult to provide a precise number, as the focus of the ferry was on coastal Alaska. He stated that the system was used by Interior Alaska residents as well.

Co-Chair Hoffman asked if the total was higher or lower than 30 percent.

Mr. McLaren stated that the system served more than 30 percent of Alaskans. He referenced an economic study by the McDowell Group, which had focused on the portion of Alaskans served by the system. The study found that the majority of tourist dollars went toward businesses in the Interior, Anchorage, and Fairbanks.

Commissioner Luiken considered that the system served all Alaskans, since it was available to all Alaskans, much like road and airport systems.

Co-Chair Hoffman wondered how many people from Quinhagak were served by the system.

Senator von Imhof thought it would be useful to have total ridership data over time that included demographics. She discussed her personal experience riding between Skagway and Haines on a private ferry with Allen Marine. She wondered if there was consideration and discussion of further privatization of the shorter ferry route to alleviate some of the operating burden of AMHS.

Commissioner Luiken relayed that there had been discussions on the matter in the past, and private service had been utilized when vessels were unable to fill part of AMHS's marine route. He elaborated that the marine union contract had a clause pertaining to contracting services, therefore discussion was needed in the event of utilizing private service. He stated that AMHS was continually negotiating the concept with the marine unions, and it was necessary to work through the union process.

Co-Chair Hoffman thought he had heard the same explanation ten years previously.

9:20:01 AM

Vice-Chair Bishop referenced a report by Southeast Conference (copy not on file). He wondered how much more revenue AMHS might generate if it was forward-funded for a year.

Commissioner Luiken clarified that the department was not asking for forward-funding, but rather stable funding. He read from AS 19.65.60, which referenced the creation of the AMHS Fund. The statute mentioned funds that were consistent from year to year to provide stable services to the public. He considered the appropriations from the previous few years, and thought it was inconsistent. He posited that the system would be more confident in its business plan if had stable reliable funding. Consistent and stable funding would allow AMHS to publish a consistent and reliable schedule, which would increase marketing and ridership.

Commissioner Luiken continued his remarks. He acknowledged that there were many variables at work when trying to estimate the revenue impact of AMHS. He conservatively estimated that with a stable funding source, AMHS could see an increase of 48 percent in ridership and vehicle traffic, which would equate to \$2 million to \$3.5 million in additional revenue. He referenced the previous year's approximate 250,000 passengers. Over the previous 30 years, the average passenger total was 300,000. Even returning to the earlier average would signify a revenue increase of \$1.25 million. He was confident the system could bring in additional revenue if given a stable budget.

Senator Stevens commented on the importance of AMHS. He thought it was a lifeline for Southeast and Southwest

Alaska. He likened the marine highway to the other highways in the state. He discussed the effects of reduced funding. He agreed with the commissioner regarding the need for stable funding.

[9:24:35 AM](#)

Co-Chair MacKinnon appreciated the commissioner's statement about a potential increase in revenue, but she wondered at the cost to the state. She referenced anecdotal information about travelers waiting for the ferry in British Columbia. She respected communities that received benefits from AMHS. She wondered how much it would cost the state to increase the revenue to AMHS.

Commissioner Luiken reiterated that the department was not necessarily asking for additional funds, but rather stable funds. Stable funds would allow for the system, as well as businesses and travelers, to make plans.

Co-Chair Hoffman reminded that the state was at a cross roads. He wondered what other state had entities that were revenue-dependent upon one-time funds that were evaporating. He thought it was necessary for every department to examine its activities. He discussed the need for additional cuts. He referenced the business community, and thought it also wanted stable funding.

[9:28:13 AM](#)

Co-Chair MacKinnon stated she did not have an issue with the value of the system. She agreed with Co-Chair Hoffman's comments about the state's fiscal transition, and thought it was necessary to right-size state services. She had utilized the system the previous year and experienced great service from the crew. She had observed freight from private carriers waiting to be loaded on the ferry. She was concerned about subsidizing freight movement for private businesses. She referenced Senator von Imhof's remarks pertaining to privatization. She thought there was approximately \$5 million generated in freight costs.

[9:31:26 AM](#)

Senator Micciche thought the value of AMHS was undeniable and stated that the system was something he would always support. He discussed recent cuts to DOT and thought that

there had been drops to ridership on the system over the previous 20 years. He discussed fuel prices, and thought in lower fuel price years, ridership on the ferry went down as more people drove. He thought there was forward motion on privatization that might make certain runs more efficient. He thought that most coastal communities also had state highways. He thought there were partnerships that could bring the cost of AMHS down. He discussed the work of the Southeast Conference.

[9:34:29 AM](#)

Senator von Imhof referenced the remarks of Chief Justice Craig Stowers, who spoke about acknowledging the revenue challenges in the state. The chief justice had spoken about how his department had made changes to adjust to the new fiscal climate. She hoped that Commissioner Luiken would also discuss how DOT acknowledged the budget challenges facing the state, and what specific things it had done to address the challenge.

Senator Stevens thought there was an assumption that AMHS impacted only coastal communities. He asserted that Anchorage was affected by the marine highway. He discussed the City of Cordova, which did not have a connecting road. He informed that all building materials and grocery materials came from Anchorage to Cordova and had a major impact on the Anchorage economy. He thought it was important to recognize that AMHS affected the whole state.

Vice-Chair Bishop discussed freight and asked the commissioner to provide information on rates for AMHS. He wanted to compare to barge freight rates.

[9:37:46 AM](#)

Commissioner Luiken discussed slide 8, "Transportation & Public Facilities Results Based Alignment: Core Services":

PRESERVE ALASKA'S TRANSPORTATION INFRASTRUCTURE
Projects and activities that extend the life of existing infrastructure

OPERATE ALASKA'S TRANSPORTATION INFRASTRUCTURE
Support safe and efficient movement on existing infrastructure

MODERNIZE ALASKA'S TRANSPORTATION INFRASTRUCTURE

Improve infrastructure to meet current standards and capacity

PROVIDE TRANSPORTATION SERVICES

Services that move people and goods on existing infrastructure

Commissioner Luiken reiterated that results-based alignment was the service delivery framework through which the department measured the contribution of the services it delivered to support its mission. The four core services listed on the slide linked the work of the department to its statutory and regulatory requirements.

Commissioner Luiken spoke to slide 9, "Budget Breakout by Core Service - \$586,592.5," which showed a pie chart of the FY 18 management plan. The slide showed the breakdown of core services of the department's FY 18 management plan budget and included all fund sources. He stated that DOT had performance data for nearly every direct service it performed, and the data was used to make data-driven decisions. He stated that he would be happy to provide the committee with further details on what efficiencies had been gained and how the department had absorbed the budget cuts it experienced over the previous four years.

[9:39:28 AM](#)

Senator von Imhof referenced slide 7 and calculated that Administration and Support had gone up 20 percent in the previous 10 years, with an 8 percent increase since 2015.

Ms. Holland explained that there were a number of reasons for the increase. The south coast regional group had consolidated its administrative support, and the costs had been consolidated in one area. She detailed the areas in which funds had been transferred in for reduction of vacancy factor, and positions to help process time and equipment work.

Senator von Imhof asked if the funds were UGF. She thought generally consolidations were associated with a decrease in costs. She asked for greater detail.

Ms. Holland explained that the observable increase in administration and support was not reflecting an overall

increase in the budget in the department. Some costs from other budget components had been moved to the results-delivery unit. The increase was a transfer of funds as the department was organized to become more efficient.

Co-Chair Hoffman asked if there would be a levelling off of the costs for administration and support in the future.

Ms. Holland answered in the affirmative. She shared that DOT was in the midst of working towards shared services, which had not been fully implemented.

[9:42:57 AM](#)

Co-Chair MacKinnon asked if the department could comment on new technology that was deployed. She asked for details on effectiveness and efficiency.

Commissioner Luiken stated that the department was deploying a program called Agile Assets, which would provide greater automation in the department's asset management process. Additionally, the department had a new program to help with procurement and construction administration. None of the systems had been implemented but would be in the following spring. He estimated that the costs would decrease as more efficiencies were realized. He offered to provide more detail at a later time.

Co-Chair MacKinnon relayed that it came to her attention during a special session that there was something occurring with federal reimbursement that was related to implementation of Integrated Resource Information System (IRIS). She wondered whether the issue had been worked out.

Ms. Holland stated that the department had been working closely with Department of Administration (DOA) on a joint workgroup to work through issues to use the new system more effectively.

Co-Chair MacKinnon asked if the system had been certified with the federal government.

Ms. Holland stated that the Federal Highway Administration (FHWA) performed a performance review before the department could use IRIS to perform federal transactions. The department continued to meet with FHWA on a regular basis to ensure the system was meeting the requirements.

9:46:07 AM

Co-Chair MacKinnon asked if the department was certified.

Ms. Holland stated the FHWA had approved the department's use of IRIS and had not requested any corrective action.

Co-Chair MacKinnon discussed the aforementioned Southeast Conference report and did not see expanded conversation in reference to Senator Micciche's remarks about privatization. She asked if the commissioner had any comments about the report and the recommendations wherein.

Commissioner Luiken stated that he had confined his presentation to an overview of the department's operating budget. He was happy to engage the committee at a later time on the specifics of the recommendations by the Southeast Conference. He acknowledged that most of the topics were recommendations rather than actionable items.

Co-Chair Hoffman asked if Commissioner Luiken envisioned the administration introducing legislation pertaining to privatization.

Commissioner Luiken thought the legislation was still in question.

Commissioner Luiken discussed slide 10, "Department-wide performance data," which showed a pie chart that gave an example of the department's FY 18 budget information combined with performance data. The left side showed the budget breakdown for the direct service of snow and ice management. There was a breakdown of fund category and a pie chart denoting region. The right side of the slide showed performance data related to the service. He pointed out that the department had met its snow and ice management target 98 percent of the time in FY 17. The target referred to the priority road system and the time necessary to return a road to good conditions after a winter weather event. The department had performance data for nearly every direct service of the department. He expressed willingness to meet with members individually to share the details.

Commissioner Luiken referenced slide 11, "Accomplishments," which showed a line graph. He highlighted DOT's commitment to excellence in an example of the State of Minnesota

adoption of the department's ice breaker design. The department, along with the Department of Public Safety, was the recipient of the Roadway Safety Foundation Award in November 2017. He referenced a reduction of serious crashes in the state's safety corridors.

[9:50:40 AM](#)

Commissioner Luiken turned to slide 12, "Safety & Health":

Safety

- Safety moments at the start of each meeting
- Raised awareness in work zones
- Decrease Workers' Compensation claims

Health

- Monthly health newsletter posted in various facilities
- Regularly host Aetna/Wellness program functions at facilities
- Walks during breaks and lunch
- Commissioner's Corner

Environment

- Goal: achieve independent state of DuPont Bradley Curve
- Increase employee awareness of health and safety

Commissioner Luiken reminded that safety was at the forefront of all the department's activities. Safety of the travelling public was a top priority. Employee health was a focus of the department. The department's budgeted healthcare costs had decreased by approximately \$2.5 million in the previous six years, and healthcare had maintained steady as 8 and 8.5 percent of the operating budget.

[9:51:50 AM](#)

Commissioner Luiken reviewed slide 13, "Challenges":

Transition facilities management and maintenance from participating departments to the Division of Facilities Services.

Keeping existing road and airport systems in serviceable condition, enabling safe, efficient

travel, despite budget reductions, aging infrastructure and the impacts of weather.

Provide uninterrupted ferry service and meet as many customers' needs as possible.

Commissioner Luiken discussed details of transitioning facilities management. He discussed challenges of keeping existing road and airport systems in serviceable condition. He mentioned increasing costs of equipment and materials, and increased costs for maintenance of rural airports. He discussed providing ferry service and stated that due to the increasing age of the fleet, it was becoming more difficult to provide on-time and on-budget delivery of ships during yearly shipyard overhauls. Additionally, compliance with new environmental regulations required additional staff and resources.

Vice-Chair Bishop apologized to Co-Chair MacKinnon and referenced an uncertain sailing schedule.

[9:54:21 AM](#)

Ms. Holland looked at slide 14, "FY2019 Governor's Proposed Operating Budget: \$584,816.5":

FY2019 Governor's Proposed
UGF \$177,931.5 (30.43%)
DGF \$97,972.1 (16.75%)
Other \$306,846.7 (52.47%)
Federal \$2,066.2 (.35%)

FY2018 Management Plan
\$586,592.5
UGF \$135,191.8 (23.05%)
DGF \$142,201.3 (24.24%)
Other \$307,133.2 (52.36%)
Federal \$2,066.2 (.35%)

UGF
General Fund Receipts
\$177,931.5

DGF
Marine Highway System Fund \$51,470.9
Motor Fuel Tax Receipts \$36,200.1
Vehicle Rental Tax Receipts \$5,497.3

General Fund/Program Receipts \$4,803.8

OTHER

Capital Improvement Project Receipts \$161,668.8
International Airport Revenue Fund \$90,272.6
Highway/Equipment Working Capital Fund \$34,583.3
Rural Airport Receipts \$8,481.9
Aviation Fuel Tax Revenue \$4,622.1
Inter-agency Receipts \$3,955.4
Whittier Tunnel Toll Receipts \$1,929.4
Statutory Designated Program Receipts \$535.1
Uniform Commercial Registration Receipts \$513.5
Rural Airport Inter-agency Receipts \$256.1
In-state Pipeline Fund Inter-agency Receipts \$28.5

Ms. Holland informed that the two graphs on the slide compared the FY 18 management plan breakdown to the FY 19 proposed breakdown. The largest change was in the distribution of fund categories between UGF and DGF. In FY 18, the AMHS Fund was given a one-time increment of \$40 million. The FY 19 governor's proposed budget reflected the decrease in the fund (DGF), and the subsequent increase in UGF necessary to allow the system to provide a level of service that was comparable to FY 18 and in accordance with its 2018 summer schedule.

Ms. Holland looked at slide 15, "FY2019 Governor's Proposed Operating Budget Changes":

Increases

International Airport System increase for two 24/7 building maintenance positions, law enforcement training funding and safety operational cost increases (Intl Airport Revenue Fund Receipts) \$457.0

Decreases

Supply resource reduction and accounting resource reallocation (UGF) (\$90.5)
Eliminate Harbor Program Development allocation (UGF) (\$320.1)
Eliminate state funded minor structure inspections (UGF) (\$35.0)
Reduce overtime-winter and summer (UGF) (\$175.0)
Delete unrealizable receipt authority-AK LNG (\$1.3);
In-state Pipeline Funding (\$672.9); Inter-agency receipts (\$155.7) (\$829.9)
Total

(\$1,450.5)

AMHS Service Changes

Service level increase of 8.2 weeks from 337.7 to 345.9 (UGF \$4,364.5; DGF (\$1,236.4))
\$3,128.1

Salary Adjustments

Salary and health insurance increases (UGF \$32.4; DGF \$59.4; Other \$396.6) \$488.4

One-Time Items

Reverse one-time funding from the Alaska Marine Highway System Fund (\$4,000.0)
Reverse Anchorage International Airport feasibility study funding for maintenance repair & overhaul facility (\$400.0)

Fund Source Swaps

Replace Marine Highway System Funds with Unrestricted General Funds to maintain marine highway system service \$40,000.0
Replace Unrestricted General Funds with Marine Highway System Funds due to elimination of winter driver discount program \$300.0
Replace Capital Improvement Project Receipts with Rural Airport Receipts to fund required Federal Aviation Administration planning costs \$1,030.0
Replace Unrestricted General Funds with Motor Fuel Tax Receipts based on anticipated collections \$647.8
Replace Unrestricted General Funds with Capital Improvement Project Receipts to maintain environmental positions \$88.0

Total

\$42,065.8

Organizational Changes

Establishment of the Division of Facilities Services (shared services initiative)

Agency Transfers

Transfer PCNs from Department of Administration and Education for Facilities Shared Services Initiative (25 PFT; 3 PPT)

Transfer Information Technology (IT) Commodity staff to the Department of Administration/Division of IT for program alignment (10 PFT)

Position Count Changes

Delete Digital Mapping Project Manager (1 PFT)

Delete Harbor Program Support (1 PFT)

Co-Chair MacKinnon remarked that when the state was facing a \$2.5 billion revenue shortfall, the ferry system was increasing ferry runs. She asked if DOT was increasing services.

Ms. Holland stated that there was an overall decrease in the FY 19 budget for AMHS, but the department was able to have an increase in weeks of operating services because of the mix of vessels that were being run. The combination of running vessels changed the operating costs.

Co-Chair MacKinnon referenced a conversation with Co-Chair Hoffman pertaining to clarity in the budget. She looked forward to examining the numbers more closely, and thought it appeared as though AMHS had increased services at an increased cost.

[9:58:13 AM](#)

Senator von Imhof saw that the slide showed a proposed replacement of UGF with Motor Fuel Tax receipts based on anticipated collection. She thought the Motor Fuels Tax had not passed through both bodies of the legislature.

Ms. Holland explained that the amount listed on the slide was the projected increase in Motor Fuel Tax for the existing tax amount.

Co-Chair Hoffman asked if the increase was because the people in Alaska were using more fuel.

Ms. Holland did not have an explanation as to why there was an increase.

Senator von Imhof mused about the increased carbon footprint required to fund the ferries. She wanted to discuss asset valuation. She thought that it was possible for DOT to sell some older assets and thereby reduce deferred maintenance expenditures. She wondered if there had been an analysis of the idea.

Commissioner Luiken mentioned that there was an initiative to consolidate facilities services for all departments, and

consideration of selling properties was part of the process. He summarized that the department that was in the process of doing a facilities inventory of owned and leased facilities in order to make better decisions about the use of the facilities.

Senator von Imhof hoped that the process would be finished in the next few months and hoped there would be a grid produced with line items per facility, as well as a decision matrix.

10:01:26 AM

Senator Stevens asked for an explanation of the harbor program development reductions.

Ms. Holland stated that DOT had approximately \$320,000 UGF in its harbor program development budget component. The department proposed to eliminate the funds and move the functions across the department to be absorbed in other areas.

Senator Stevens asked about the purpose of the Harbor Development Fund.

Ms. Holland stated that the Harbor Development Program was designed to assist municipalities or communities get ownership of its harbors. The cut would mean that there would not be a large number of new harbor projects happening over the next several years, and the department would not be able to provide the same level of technical support for improvement of harbors.

Senator Stevens was concerned about the impacts of the budget decrease. He thought most Alaskan communities had taken over ownership of harbors.

Commissioner Luiken did not have a specific answer but agreed to provide more detail at a later time. He pointed out that the department had two marine engineers that had retired. In the engineer's absence, many communities had hired private contractors or consultants to fill the void.

Co-Chair MacKinnon discussed ownership or lease of assets and considered utilization of ferry terminals.

Commissioner Luiken believed there was one or two ferry terminals in Southeast that were built at a time when there was a different plan in place. The department was working with FHWA to take the terminals off the books.

Co-Chair MacKinnon wondered why the state built a ferry dock that was not being utilized.

Commissioner Luiken stated that terminals had been built at a time when the department thought there would be a short-route ferry system. The department had serviced the terminals in the past and had discovered that there was no longer demand at the location.

Co-Chair MacKinnon asked if there were staffing positions that were allocated for the terminals.

Commissioner Luiken stated that the department was responsible for maintaining the terminals in some working condition, but that they were no longer staffed.

Co-Chair Hoffman wondered if the two terminals in question could be considered for Senator von Imhof's proposed asset reduction plan to reduce maintenance costs.

[10:06:33 AM](#)

Co-Chair MacKinnon recalled an issue from a subcommittee discussion pertaining to reliance on federal dollars. She guessed the commissioner was negotiating with the federal government so as to not be required to pay back the federal funds. She asked for a follow-up with the department regarding the cost to keep the defunct terminals in working order, as well as when the related discussions with the federal government were concluded.

Ms. Holland continued discussion slide 15 and addressed the depiction of organizational change. The largest change for the department in the year was the establishment of the Division of Facilities Services, which was a shared services initiative. There were some positions being transferred from DOA and Department of Education and Early Development for the initiative. Conversely, there was a transfer of DOT positions to DOA for the Office of Information Technology shared services initiative.

Senator Micciche referenced a decrement from the previous year listed on the slide and wondered why there was not a number reflecting a decrease for the shared services initiative.

Ms. Holland stated that the costs for personal services for the ten IT positions were moved to the services line of the budget and would remain with DOT. The department would pay DOA through a reimbursable services agreement for the services from the positions. For Facilities Services shared services, the positions would be paid for by DOA and Department of Education and Early Development through a reimbursable services agreement. Budget funds were not transferred, but the positions were.

Senator Micciche asked if the efficiency project would by definition have a reduction in head-count.

Ms. Holland affirmed that the shared services model was to be faster, better, and cheaper. She continued that DOT was standing up the Division of Facilities Services. As the division began to perform and provide shared services, the department expected decreased budgets.

[10:10:29 AM](#)

Co-Chair Hoffman observed salary adjustments of a little under \$500 thousand, and asked about contract negotiations, since labor was such large part of the department's budget.

Ms. Holland relayed that DOT was in the middle of negotiating with the Labor Trades and Crafts Union. There had been several meetings and were in the middle of the negotiation process.

Co-Chair Hoffman asked how many employees were in the union.

Ms. Holland specified that DOT had approximately 950 to 1000 employees in the Labor Trades and Craft Union.

Co-Chair Hoffman asked about the status of the negotiations.

Ms. Holland stated that the groups had met twice and were scheduled for a further meeting. The groups were going through the main points of the contract. The administration

and the union both had points to offer; no definitions had been made, and the contract was not ready to go to union members for ratification.

Co-Chair Hoffman thought contracts were considered at the end of the budget cycle. He assumed the current budget process would not be informed of the contract negotiation.

Ms. Holland answered in the affirmative, and relayed that contracts were typically three years in duration. New contract negotiations were usually begun in the third year of the contract. Contract negotiations sometimes occurred before a budget was developed, but often occurred in the winter when the budget for the next year had already been developed.

Co-Chair Hoffman asked about the total dollar amount currently requested for CY 19 salaries.

Ms. Holland offered to provide the number at a later time.

Co-Chair MacKinnon asked about details of a potential supplemental request.

Commissioner Luiken thought there had already been a supplemental request published with the governor's budget in December. There was a request to supplement a shortfall in AMHS for \$23.7 million. He believed Co-Chair MacKinnon and Co-Chair Hoffman had received a letter the previous October informing of the request.

Co-Chair MacKinnon asked if \$23.7 million was a limit for the AMHS request.

Commissioner Luiken stated that the \$23.7 million was the amount to cover the FY 18 budget that was approved by the legislature the previous summer.

Co-Chair MacKinnon asked if the amount was built into the FY 19 budget.

Commissioner Luiken believed that the FY 19 budget request had roughly the same budget request as FY 18 original request.

Co-Chair MacKinnon asked if the FY 19 budget would cover all costs so there would be no need for a supplemental budget request for FY 19.

Commissioner Luiken stated that the department had published a summer schedule, with the intention of sailing the schedule based on the requested budget amount. If there was a budget shortfall or the system did not generate the anticipated revenue in the summer, the department would adjust the winter schedule to stay within budget.

10:15:00 AM

Commissioner Luiken looked at slide 16, "Thank You":

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Transportation is an economic driver

- Preserve, operate, and modernize existing infrastructure
- Provide transportation services
- Federally funded capital improvement projects Impacts daily quality of life

Impacts Daily Quality of Life.

- Safety
- Mobility
- Connectivity

Co-Chair Hoffman commented that the department did an outstanding job in providing broad services throughout the state.

Vice-Chair Bishop recalled that in 1968, a former Fairbanks lawmaker introduced legislation to expand AMHS on the Yukon River. The legislation had not progressed.

Senator Micciche thought that members could be perceived as harsh. He considered that DOT employees were like commercial fisherman and worked in the worst conditions. He emphasized that the committee was appreciative of the work of the department. He emphasized the need to continue downward pressure on the budget.

Co-Chair MacKinnon asked Vice-Chair Bishop to consider a lane-mile comparison to examine labor costs for AMHS. She was appreciative of the efforts of the department. She thought much of AMHS's costs were driven by contract negotiations, and hoped the department was doing everything it could to control some work rules that had been allowed into contracts that marginally increased safety but created huge costs. She remarked that the negotiating team was bound to act for the benefit of those that used the system as well as those that did not. She asked that the negotiating team worked to reduce costs.

Co-Chair Hoffman discussed the agenda for the following day.

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ADJOURNMENT

[10:19:46 AM](#)

The meeting was adjourned at 10:19 a.m.