

HOUSE FINANCE COMMITTEE  
March 15, 2019  
1:34 p.m.

1:34:58 PM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:34 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Tammie Wilson, Co-Chair  
Representative Jennifer Johnston, Vice-Chair  
Representative Dan Ortiz, Vice-Chair  
Representative Ben Carpenter  
Representative Andy Josephson  
Representative Gary Knopp  
Representative Kelly Merrick  
Representative Colleen Sullivan-Leonard  
Representative Cathy Tilton

MEMBERS ABSENT

Representative Bart LeBon.

ALSO PRESENT

Lacey Sanders, Budget Director, Office of Management and Budget; Amanda Holland, Management Director, Department of Transportation and Public Facilities; Mary Siroky, Deputy Commissioner, Department of Transportation and Public Facilities.

PRESENT VIA TELECONFERENCE

None

SUMMARY

FY 20 BUDGET OVERVIEW: DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

Co-Chair Foster reviewed the meeting agenda.

^FY 20 BUDGET OVERVIEW: DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

[1:36:04 PM](#)

LACEY SANDERS, BUDGET DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, indicated Amanda Holland would be speaking this afternoon.

AMANDA HOLLAND, MANAGEMENT DIRECTOR, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, introduced the PowerPoint Presentation: "FY2020 Governor's Amended Budget Overview: Department of Transportation and Public Facilities." She began with slide 3: "FY2020 Budget: Department of Transportation & Public Facilities" which showed the funding comparison between the FY 19 management plan operating budget for the Department of Transportation and Public Facilities (DOT) in comparison to the FY 20 governor's amended budget from February 13, 2019. The difference between the two budgets was a \$57,200,800 unrestricted general fund (UGF) reduction and a \$38,849,500 designated general fund (DGF) reduction for a total general fund reduction of \$96,050,300. She conveyed that the total operating budget was \$593,349,600 for the FY 19 management plan. The FY 20 governor's amended budget reflected a total of \$533,126,500.

Ms. Holland reported fund changes throughout the operating budget for FY 20 in the "other" fund category. There was an overall increase of \$36,352,300 resulting from a \$42 million request for interagency receipts - an authority to receive funds from other agencies for the newly established Division of Facilities Services. The division was a consolidation of facilities maintenance across the enterprise. It was offset by some reductions in unrealized receipts in the other fund category. She continued that in the federal fund category there was a reduction of \$525,100 due to unrealizable federal receipts and the depletion of the last amount of the Adak Airport operation fund (the fund provided to the state by the federal government several years prior when Alaska first took over operations of the airport).

Vice-Chair Ortiz asked the reason for unrealizable federal receipts in the amount of \$525,100. Ms. Holland replied

that in the operating budget the department had some authority to receive federal reimbursement from the Transportation Safety Association (TSA) for Alaska's rural airports. The federal government no longer provided as much monetary support for law enforcement officials at the rural airports. Even though the state had the authority in the budget, the federal government was no longer providing the funding.

Ms. Holland spoke to the position comparison. There was some slight movement between the two budgets. She explained that the changes reflected the positions being moved out of DOT to the Office of Information Technology within the Department of Administration (DOA) as well as some positions being moved into DOT as part of the consolidation of facilities services.

Vice-Chair Ortiz asked about the potential position changes if the governor were to move forward with his budget changes to the Alaska Marine Highway System (AMHS). He wondered where the reductions in positions to the AMHS could be found. Ms. Holland responded that the department was not deleting any positions in the operating budget for the AMHS. The positions were funded for 3 months, 6 months, or a full year depending on the work that was available. The state needed all of the positions in order to be able to honor the summer schedule.

[1:41:06 PM](#)

Co-Chair Foster responded that effectively the positions would be gone but were included because of the summer months. Ms. Holland explained that when the department budgeted for the positions, it was able to budget them for 2 months, 6 months, 8 months, or 12 months depending on the work and the funding available. The position control number (PCN), a unique identifier for each position, would actually stay in the budget on the department's books for an entire fiscal year based on the work the state had for each position for at least part of the fiscal year.

Ms. Holland continued to slide 4: "FY2020 Budget: Department of Transportation & Public Facilities Snapshot (\$ Thousands)" which showed some of the budget highlights for FY 20. The first item was the AMHS transition, an overall reduction in the budget of combined general funds of \$97,988,800. The total amount was composed of

\$64,179,700 UGF and \$33,809,100 DGF and included administration, support, and operations for the AMHS.

Vice-Chair Ortiz asked if there would be a reduction in DGF because of reduced revenues if the system were to shut down. Ms. Holland responded in the affirmative. She explained that the DGF that remained in the governor's amended budget for FY 20 was revenue that would be collected during the system's weeks of operation.

Vice-Chair Johnston asked about reduced federal funding with the closure of the AMHS. Ms. Holland responded that the department would be using all of its federal funding receipts in a fiscal year. The state would not lose federal funding through the AMHS transition.

Co-Chair Wilson asked how much federal funding the state lost when it decided to build its ferry system in-state rather than using the state's request for proposal (RFP) process. It was her understanding that federal funds would have been available if the state had gone through the RFP process, rather than a sole source award. Ms. Holland would get back to the committee with the information.

Co-Chair Wilson asked why in FY 92 the state had 61 percent in fare box recovery versus 33.3 percent in FY 18. Ms. Holland did not know the ridership history and the reason for the spike in 1992 of 450,000 passengers. In FY 18, the ferry system had a ridership of about 250,000. There was a large uptick in 1992. She mentioned a switch in the state's fare box recovery rated when the fast vehicle ferries came online between 2004 to 2006. The original plan was to divest some other ferries to maintain a 9-vessel fleet. She was unsure why the system kept operating the vessels when the fast ferries came online. As a result, the state fleet increased to an 11-vessel fleet and resulted in an increase in operating costs for the following several years.

[1:46:27 PM](#)

Co-Chair Wilson asked about the possibility of using the fleet in a different way to reach the 61 percent in order to continue service to all locations. It might mean a reduction in route frequency. Ms. Holland reported that the department had focused on maximizing service. It had been the department's direction for the previous 5 or 6 years. However, it was willing to look at other alternatives and a

different balance between revenue and service. She added that the department thought a qualified marine consultant might be able to provide some viable options for how to provide a good balance of service and revenue generation.

Representative Josephson had never sat on the transportation committee. He asked if the fleet would be turned over to a private operation. He wanted to understand the administration's plan. Ms. Holland responded that the department wanted to identify the ways in which to realize reductions in the state's financial liability and obligations. The door was open to look at several different options. Options included privatization, public-private partnership, refining service, and other options. The department recently put out a request for proposal for the consultant and included 9 or 10 possibilities as options for transitioning the AMHS to a more sustainable system.

Representative Josephson asked how many consultants applied. Ms. Holland indicated the state had received 1 proposal that was currently being evaluated to determine whether it met the criteria.

Representative Josephson asked if the administration would consider looking at the issue next year because not many proposals had been submitted. Ms. Holland reported that the administration was looking at a full implementation for the following year. She would be happy to ask about the possibility of changing the current timeline.

[1:50:28 PM](#)

Representative Knopp mentioned the state receiving a significant amount of federal dollars for transportation. He was aware that federal dollars associated with airports came with strings attached. He asked if strings were attached for the AMHS. If so, he wondered about the liability to the state.

Ms. Holland replied that all of the federal funding for the AMHS was received from the Federal Highway Administration. The Federal Highway Administration had a different payback policy for the AHS compared to the Federal Aviation Administration. For example, if the state were to calculate its responsibility when it was disposing of a federal highway funded ferry vessel asset, first the state would have to calculate the federal share. In other words, the

state would have to calculate how much it would owe back to the federal government.

Ms. Holland explained the Federal Highway Administration's procedure. The costs expended on the vessel were identified by year in three categories: federal, state match, and other state funds. The figures were converted to the year of sale using an inflation rate. Afterwards, the sum of each category of year and current year value were totaled. The federal share was the fraction of funds divided by total funds and expressed as a percentage. She used the example of the M/V Taku which was recently divested. First, the department had the expenditures with no inflation, then the department did the conversion to 2016 dollars, and the federal share percentage was calculated to be 63.9 percent. She asserted that the percentage would be different for every vessel depending on how much federal money was invested in the vessel and how long ago the state invested the federal funds into the vessel.

Ms. Holland continued that the department looked at how much it would receive for the vessel. The department used statutory state disposal methodology. The M/V Taku sold for a gross price of \$4,000,000 and the cost of the sale was \$550,000. The net receipt for the M/V Taku was \$3,450,000. After the net price was determined, the department took 63.9 percent of federal funds and subtracted the amount of \$2,204,550. The remainder of \$1,200,000 was state funding and remained with the state. The federal funding of 63.9 percent or \$2,204,500 was applied to another Alaska federal aid project and could qualify as a state match. It could also be applied to another federal capital project such as a road or bridge.

Representative Knopp asked if a full analysis had been done for the entire system. He wondered about the bottom line if the system were to end. Ms. Holland replied that the administration had not done a full analysis because the department was waiting for the options the consultant would be providing. It could change things significantly. They might recommend divesting one or two assets or all assets. All of the AMHS assets combined were worth \$1.1 billion.

[1:55:45 PM](#)

Vice-Chair Ortiz brought up the formula Ms. Holland had reviewed. He wanted to clarify that the 63.9 percent

federal funding would not have to be repaid to the federal government but could be used for other projects. Ms. Holland indicated he was correct. She noted that the money had to be used for other federal aid projects (other Federal Highway Administration funded projects). She confirmed that the state would be able to reuse the money rather than paying it back to the federal government.

Vice-Chair Ortiz asked if the same would be true for the terminals in which federal dollars were used to build them. Ms. Holland responded that it did not apply to facilities such as terminals and docks. She would get back to the committee about the process.

Vice-Chair Ortiz asked if she know enough to determine whether the state would be negatively or positively affected. Ms. Holland did not know much about the issue. She was aware there was a different payback process for a land-based operation.

Vice-Chair Ortiz asked if anyone from the department had looked into the issue. Ms. Holland was aware of several engineers and transportation planners who had looked at what the process would be. She knew they were working with the Federal Highway Administration to better understand what the process would look like. The department focused on the vessel first and just received information on the vessel process in the prior week. They were looking at the facilities information next.

Vice-Chair Ortiz suggested that the decision to shut down the ferry system had occurred before the report was released. He thought the legislature was being asked to make a decision without all of the information.

Co-Chair Foster interjected that Mary Siroky from the department might be able to respond to Vice-Chair Ortiz's questions.

[1:59:48 PM](#)

MARY SIROKY, DEPUTY COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, had not had time to brief the Office of Management and Budget. The department had just heard earlier in the day at a staff meeting that the process for facilities was basically the same as for vessels. She elaborated that whatever money the department

took in and the related percentage was the state's to spend as match funding or as part of a federal aid project.

Vice-Chair Ortiz asked about the historical investments made by the federal government. He asked if there would be an obligation by the state to sell off or repay money back to the federal government. Ms. Siroky reported that the department would do a similar present net value calculation which would lead to the federal and state percentages. The percentage would be applied to a sales price. The percentage of state funds would be put into the general fund and the percentage of federal funds would remain with the state and be used for federal aid projects.

Ms. Holland continued speaking to slide 4. She reported that the proposed FY 20 governor's amended budget would adjust the operating weeks [days] for the AMHS. In FY 19 the number of operating weeks [days] was 345.9 weeks [days]. In FY 20 it would reduce down to 84.8 weeks [days] which would allow the AMHS to honor its published schedule. The Alaska Marine Highway System published its schedule through September. In June or July the system would publish its schedule. Schedules only came out 5 to 6 months at a time.

Ms. Holland continued that the department was given a directive from the governor to identify potential reductions to the state's financial obligation and liability as related to the AMHS. The report from the consultant was due on August 1, 2019 and would include the information that was in several other reports. She relayed that through the years the department had produced a number of reports about the AMHS. However, none of them took a hard look at how the AMHS could transition to a more sustainable and affordable system. Some of the examples of the reports the consultant would reference as well as new information they would be gathering included a 2012 systems analysis, a 2015 tariff analysis, a 2016 economic impact analysis, 2017 phase 1 and 2 Alaska Marine Highway reform reports, numerous annual traffic volume reports, annual financial reports, and various vessel condition reports. There was a significant amount of information available and there was new information for the department to gather, compile, and synthesize.

Vice-Chair Ortiz returned to the topic of a consultant. He asked if the deadline for the submission of an RFP from a

consultant was March 11, 2019. Ms. Holland responded affirmatively. Vice-Chair Ortiz clarified that only one vendor submitted an RFP. Ms. Holland responded, "That is correct." Vice-Chair Ortiz asked how long the RFP had been posted. Ms. Holland replied that the informal RFP was submitted on March 1, 2019.

[2:05:17 PM](#)

Representative Josephson wondered if the administration was asking legislators to defund something before they had a report describing what a replacement operation might look like. Ms. Holland replied that the administration had asked the department to look at various options. Currently, there was an option on the table in the budget to discontinue service beginning August 1, 2019 which would be the plan going forward. Once received, the consultant report would indicate future plans for FY 21 and beyond.

Representative Josephson suggested that in the window between October 1, 2019 and 2021 there would not be any ferry service until a new proposal was adopted. He wondered if he was correct. Ms. Holland indicated the AMHS would not provide service. She could not speak to whether private operators would provide service in its stead.

Vice-Chair Johnston asked if the costs related to storing the ferries were in the budget. Ms. Holland responded in the positive. She indicated that the FY 20 budget and the plan that the department had proposed with sailings ending October 1, 2019 accounted for any layup requirements of the vessels. The state would continue to care and protect its assets even if they were not running.

Ms. Holland turned to slide 5: " FY2020 Budget: Department of Transportation & Public Facilities Snapshot (\$ Thousands) [con't]." She reported another change in the FY 20 governor's amended budget - a reduction in funding for rural airports in the amount of \$46,900 UGF. The state had 237 rural airports that were owned and operated by DOT including some seaplane bases. She reported that the governor issued a directive on February 13th for the department to analyze options for reducing the state's financial obligation and liability as it related to rural airports while also considering the importance of air travel for many rural communities. The department was establishing a formal divestment process. The total

operating costs for the rural airport system in FY 18 was \$35.6 million. The total revenues in FY 18 for the rural airport system was \$10.9 million which included airport leasing receipts of \$6.3 million and aviation fuel taxes of \$4.5 million.

[2:09:05 PM](#)

Co-Chair Foster had looked at the breakdown of the \$46,900 figure. He thought for the Northern region \$17,000 could be saved. There was a list in the finance subcommittee of at least 17 airports which meant that \$1,000 or less was being spent at some of the airports. He asked what kind of things happened at the rural airports. He wondered if there was an assessment each year where someone went out to the airport sites to evaluate them at a cost of about \$1,000. He asked her to clarify how the \$17,000 was being spent.

Ms. Holland answered that the airports had varying costs. The most expensive airports to operate were the part 139 airports - airports with jet service. The Federal Aviation Administration had higher requirements for operation including qualified firefighters, certain lighting, and runway lengths. Some of the state's airports were classified as "backcountry" airports which were not maintained. Pilots used those airports at their own risk. The Department of Natural Resources (DNR) had several backcountry airports as well. The state had a few airports on the road system which required equipment officers caring for the roads to provide for snow and ice management. The department would look at the conditions of the airports to determine where the \$17,000 reduction could be absorbed having the least impact on runways being operable.

Co-Chair Wilson asked why the state was replacing \$3,761,000 of vehicle rental with UGF. Ms. Holland replied that each year the appropriations of vehicle rental taxes equaled actual revenue collections in the previously closed fiscal year. The governor directed OMB to include a capitol appropriation of 70 percent of the available vehicle rental taxes to the Alaska Travel Industry Association as a named recipient grant. The required replacement of the vehicle rental taxes existed in three departments to allow them to maintain the level of services provided: The Department of Transportation and Public Facilities, the DNR, and the Department of Commerce, Community and Economic Development.

Co-Chair Wilson asked for the previous year's percentage for the travel industry. Ms. Sanders responded that the entire available amount was distributed to the three agencies. There was not a specific allocation to a named recipient grant.

Co-Chair Wilson asked if it was general funds that went out to the travel industry the previous year. Ms. Sanders confirmed that it was general funds that went out in the prior year.

Co-Chair Wilson pointed out that the state was also replacing the motor fuel tax of \$1,232,000 with UGF. She asked about the short funding. Ms. Holland explained that the Department of Revenue did its best every year to project the total amount of motor fuel tax that would be collected. The motor fuel tax collection rate was not as high as projected which was the reason the department was asking for UGF instead. She commented that there had been an increase in energy efficiency. She noted more fuel efficient cars that could operate for longer. She noted there had been an uptick in the use of electric cars which the department thought contributed to the impact of less motor fuel taxes being collected.

[2:14:21 PM](#)

Co-Chair Wilson asked for the FY 18 actuals and projections. Ms. Holland would get back to the committee with the information.

Co-Chair Wilson noted airport leasing receipts being replaced with UGF in the amount of \$1,985,000. She asked for an explanation of the change. Ms. Holland reported the state having some unrealizable receipts in the department's airport leasing receipts primarily due to the downturn in the Deadhorse area. Leasing receipts in Deadhorse had gone down significantly as well as an overall downturn in the oil industry. It impacted the amount of money the state brought in through airport leasing receipts.

Co-Chair Wilson asked about revenue verses operating costs at the Deadhorse Airport. Ms. Holland reported that for FY 18 operating costs for Deadhorse were \$2,647,000 and the annual revenue was \$2,250,000.

Co-Chair Wilson asked if the department could change the fees to cover costs through regulations. Ms. Holland responded that the department had the authority to change landing fees through the regulation process. There had been pushback from carriers regarding the possibility of instituting landing fees. She indicated that recently the community of Sand Point wanted to become a part 139 jet service airport. The carrier flying into the area as well as the community requested landing fees to help cover the increased cost of maintenance by upgrading the airport to a part 139 facility. The department had some success stories where it was able to maintain a sustainable and affordable airport service by working with the communities.

Representative Josephson brought up vehicle rental taxes. He wondered if the revenue shift would largely cure the travel industry's problem. He suggested that some of the vehicle rental tax was being moved from DOT to the travel industry.

[2:18:41 PM](#)

Ms. Sanders reported a long history with the tourism industry and the vehicle rental tax collections. The vehicle rental tax collections were designated in statute for the purpose of tourism marketing and economic development. Several years prior, a decision was made to distribute the funding to highways in DOT, to parks within DNR, and to economic development within the Department of Commerce, Community and Economic Development (DCCED). Over the years there had been some level of funding that went to Alaska Tourism Marketing through a named recipient grant. Tourism was managed within DCCED.

Ms. Sanders continued that the request in the capital budget appropriated 70 percent of what was collected in the prior closed fiscal year. The estimated 70 percent was based on a few economic studies that had been completed. One study, done by the McDowell group, identified the use of the funding available for tourism marketing. She relayed that the funding was a tax. It was essentially UGF but was designated in statute for a purpose. The legislature had the ability to spend the funding as it saw fit. It could be spent on anything from a fish study to tourism depending on the will of the legislature. The proposal in front of the committee was to follow the allocation of 70 percent. Therefore, it required backfill of general funds in the

remaining departments in order to preserve the same level of service for the departments.

Representative Josephson assumed the tourism industry was delighted, felt protected, and no longer needed legislation. Ms. Sanders could not speak on behalf of the tourism industry. In her previous interactions with the industry, they had expressed that the money collected should go to their industry. She reminded members the funding was subject to appropriation. She was aware the industry's request had varied from year-to-year. She recalled previous funding level requests of \$20 million and \$16 million.

[2:22:01 PM](#)

Representative Josephson asked if there were any safety considerations with rural airport closures. Ms. Holland responded that safety was one of the first things the department considered when identifying potential airports for closure, divestment, or reclassification to backcountry. One of the first things the department looked at was the Federal Aviation Administration's purpose and need. The department considered whether an airport was an essential service airport or an airport that no longer provided an essential service. For example, the state's jet service (part 139) airports were not included in the review of potential divestment or reclassification. They were serving an essential need and purpose as defined by the Federal Aviation Administration.

Ms. Holland continued that the department also looked at other things in the review which was why it was establishing a formal process. The department considered the proximity of alternative airports. She used the community of Ugashik as an example. It had 12 residents. The annual airport maintenance contract was \$4,800, and an alternate privately owned airport existed a 1/2 mile away from the DOT airport. The owners had expressed a willingness to work with the department. The question was whether it was worth maintaining an airport when another was available a 1/2 mile away.

Ms. Holland relayed that there were several other things the department considered including population. The state currently had 5 airports in communities with no official population. She noted that the airport at Deadhorse was one

that needed to be maintained even though it had a population of zero. The Deadhorse airport was an important part of the Alaska economy and would not be considered for divestment or reclassification. Safety was also a concern, and the Federal Aviation Administration had strict and clear safety requirements. One of the top priorities of the department was to ensure that the airports the state was responsible for were safe.

Co-Chair Foster asked if an airport closure meant that services such as snow removal would no longer be provided. He thought the airports would not be barricaded off and could be used for emergency landings. Ms. Holland responded that technically they would be open without receiving any care or maintenance.

Representative Josephson returned to the topic of ferries. He noted that one of the purposes for the Juneau Access Road was to provide a ferry terminal closer to Skagway or Haines. He wondered, if the state did not have a ferry system, whether the road project would be impacted. Ms. Holland was not qualified to make policy decisions for the department.

[2:26:47 PM](#)

Representative Josephson mentioned the \$42 million interagency receipts for highways, aviation, and facilities. Ms. Holland had brought up the new consolidation of facilities services. He wondered where the funds would come from. Ms. Holland replied that it was authority that would allow DOT to accept interagency receipts from the clients (other state agencies and the Court System). Currently, DOT provided facilities maintenance for the Court System. Through interagency receipt authority the department could receive funds to pay for the facility maintenance work it performed.

Representative Josephson asked if the funds were reflected on the other side of the ledger. In other words, were the funds currently traveling through interagency receipts, or were the \$42 million new dollars the state would have to raise. Ms. Holland explained that the Division of Facilities Services was established in FY 18 and began with DOT. It more recently added some facilities from DOA and the Department of Education and Early Development. More departments were coming online every fiscal year. The

departments already had their authority and funding for care and maintenance of facilities. The \$40 million allowed DOT to have the funds transferred to DOT when it provided service. The actual funding was already with the agencies for the work they were currently doing for facilities. When it was consolidated within the Division of Facilities Services, the department would have to have authority in place to accept the funding.

Vice-Chair Johnston asked if there was a way to compare the costs of maintaining the facilities and the department's projected costs. Ms. Holland responded that she would get the information back to the committee.

Co-Chair Foster asked for additional detail regarding the \$46 million for rural airports. He provided some examples. He wondered how much of the cost had something to do with driving to an airport to assess its condition. He suggested setting some money aside rather than making a full reduction. He was concerned that, without someone checking on an airport, the state would not be aware of any problems that might arise. He thought a plan might need to be in place of having assessments done.

Co-Chair Wilson mentioned the current fuel tax. She thought user fees should be examined for both the highway system as well as the Alaska Marine Highway System to cover maintenance expenses. She wanted to be looking at apples-to-apples. She thought the conversation would be ongoing, as maintenance was important.

Ms. Sanders referred back to the tourism marketing tax. She would check her numbers and get back to the committee.

Co-Chair Foster reviewed the agenda for the following Monday.

#  
ADJOURNMENT

[2:33:49 PM](#)

The meeting was adjourned at 2:33 p.m.