

HOUSE FINANCE COMMITTEE
March 23, 2021
1:35 p.m.

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CALL TO ORDER

Co-Chair Merrick called the House Finance Committee meeting to order at 1:35 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Kelly Merrick, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Bryce Edgmon
Representative DeLena Johnson
Representative Andy Josephson
Representative Bart LeBon
Representative Sara Rasmussen
Representative Steve Thompson
Representative Adam Wool

MEMBERS ABSENT

None

PRESENT VIA TELECONFERENCE

Rob Carpenter, Deputy Commissioner, Department of Transportation and Public Facilities; Matt McLaren, Alaska Marine Highway System Business Development Manager, Department of Transportation and Public Facilities; Dom Pannone, Administrative Services Director, Department of Transportation and Public Facilities, Office of Management and Budget, Office of the Governor.

SUMMARY

PRESENTATION: ALASKA MARINE HIGHWAY SYSTEM BY DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

OVERVIEW: COVID FUNDING FY 21 and FY 22 BUDGET OVERVIEW and UPDATE BY DEPARTMENT OF TRANSPORTATION

Co-Chair Foster reviewed the meeting agenda.

^PRESENTATION: ALASKA MARINE HIGHWAY SYSTEM BY DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

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ROB CARPENTER, DEPUTY COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), continued a PowerPoint presentation from the previous afternoon, "Alaska Department of Transportation and Public Facilities: House Finance Committee Alaska Marine Highway System." He noted the committee was on slide 5. He added that Ketchikan had just had a power outage and would join the meeting when possible.

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Mr. Carpenter advanced to slide 6, "Historical Traffic and Operating Weeks." The slide showed vehicle and passenger ridership from 1989 to 2020. He noted that the red line reflected the operating weeks shown in previous slides. He felt that vehicles ridership had been steady but there had been a continuous decline in passenger count. He asked his colleague to provide additional detail.

MATT MCLAREN, ALASKA MARINE HIGHWAY SYSTEM BUSINESS DEVELOPMENT MANAGER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), spoke to slide 6. He reiterated that vehicle traffic had been consistent and passenger traffic had declined since 2005. He thought that the decline was due to easier access to air travel and people wanting to travel without vehicles.

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Representative Thompson wondered what kind of seasonal change there was in terms of passenger ridership. He asked whether travel was heavier in the summer.

Mr. McLaren replied that there was much heavier traffic in the summer, May through September, at 60 to 70 percent of the total.

Vice-Chair Ortiz asked whether there was a connection between the lack of a known supply of ferries and declining ridership. He asked whether there had been a growing

deterioration of confidence from the rider standpoint due to scheduling issues.

Mr. McLaren replied that the department received numerous calls early on from travel operators and tourists who wanted to book far in advance. He said that the department was looking into the last 5 to 10 years to identify a correlation between when schedules are released and when the budget is allocated. He offered to provide the information later.

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Representative Wool observed a steady decline in passenger traffic beginning in 1998 and continuing until 2006. He noted that operating weeks had increased beginning in 2002. He wondered about the divergence.

Mr. McLaren responded that in 2005-2007, operating weeks increased by approximately 40 percent, while ridership increased by 18 percent. He said that adding more service had not seemed to increase ridership. He relayed that the department was now trying to operate more efficiently to maximize revenues.

Representative Wool discussed the decline in operating weeks in the past few years. He assumed the red line reflecting operating weeks would increase a bit. He asked how much of the decline had been due to equipment malfunction. He asked about the target operating weeks going forward.

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Mr. McLaren replied that he would follow up with the information about equipment malfunction. He shared that 286.7 operating weeks were in the in FY 21 authorized budget. He said that due to decreased revenue those operating weeks had been reduced to 204.5. He said that there were 241.9 operating weeks in the governor's proposed budget.

Representative Wool asked about long-term goals. He pointed to the serious decline over the past 10 years. He asked about the goal for a stable, predictable operating schedule.

Mr. McLaren replied that the question would be address in a later slide.

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Co-Chair Foster recognized that Representative Carpenter had joined the meeting.

Mr. McLaren turned to slide 7, "AMHS System-Wide Capacity Utilization 2011 - 2019." He pointed out that the yellow bar represented vehicle utilization, which had been at 60 percent to 65 percent, dropping in 2018 and 2019. He noted that passenger utilization had also declined in the past few years. He relayed that the slide compared demand to routes run in particular years and how passenger numbers for those years.

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Mr. Carpenter addressed a bar chart on slide 8, "FY 2015 - 2022 Gov. Proposed AMHS Operating Budget Fund Source Comparison." The blue portion of the bars reflected state funds, revenues were shown in gray, Coronavirus Aid, Relief, and Economic Security (CARES) Act funds were shown in green, and other funds were shown in purple. He noted that the slide showed the impacts to the system due to Covid-19 of roughly \$45 million dollars. He related that the governor's proposed budget was \$55 million in state funds and \$852.7 million in other funds and an anticipated \$47 million in revenue.

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Mr. Carpenter continued to the spreadsheet on slide 9, "FY2022 Scenario A - Sample Operation Plan." He shared that legislative finance committees had requested and alternate scenario of additional funding to the system over what was included in the governor's budget, which was reflected on the slide. The slide showed the FY 20 and FY 21 authorized budgets with expected weeks of service and ports of call. The fourth column to the right showed the governor's FY 22 proposed budget. He pointed to the far-right column, "scenario A" and said that additional funding. He explained that the additional dollars would go towards an increase in winter service, with less service gaps, and would allow for year-round crew retention.

Representative LeBon spoke to the FY 22 proposed budget that did not show any CARES Act funding. He asked whether it meant that no covid-19 relief funding was expected.

Mr. Carpenter replied that the release of the FY 22 budget had been prior to the Coronavirus Response & Relief Supplemental Appropriations Act (CRRSAA).

Representative Wool asked for the source of the Motor Fuel Tax in the columns on slide 9.

Mr. Carpenter answered that the source of funding was the standard Motor Fuel Tax, a marine component and highway component. He said that the allocation had not gone up or down with the volatility of the Motor Fuel Tax.

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Representative Wool asked whether it was dependent on the amount of motor fuel tax the state took in. He wondered if the tax were increased whether the allocation would increase as well. He asked whether the "port calls" line on the chart reflected the total cumulative stops at ports, from all ships, per year.

Mr. Carpenter replied that when the department had incurred a shortfall of Motor Fuel Tax it had looked agencywide for areas where funding could be restricted or cut. He said that if a motor fuel tax increase passed the legislature and was signed into law it would provide an increase in the revenue source that could be appropriated to the agency. He shared that the port calls line showed the total number of visits a ship made to a community in one year.

Representative Wool surmised it was all ships combined.

Mr. Carpenter responded affirmatively.

Representative Josephson looked at slide 8. He noted there had been three substantial federal acts in the past year. He asked whether there had been anything in those acts that could supplement the \$3.5 million.

Mr. Carpenter replied that the CRRSAA money had included over \$100 million from the Federal highway Administration that was primarily eligible for Title 23 capital projects but had an authority provision for operating purposes. He

said that additionally there had been \$55 million from the Federal Transit Administration that was for transit organizations, 13 in the state which were eligible including the AMHS.

Representative Josephson asked how the administration had recommended spending the \$100 million CRRSAA money and the \$55 million transit dollars.

Mr. Carpenter replied that they had not yet put forward a proposal. The department had been working with the Office of Management and Budget to solidify the details. He stated that there was a lot of demand across multiple grantees.

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Representative Josephson said that last federal act had passed December 27th, he wondered whether the governor's amended budget bills had included any direction about how to spend the funds.

Mr. Carpenter reiterated that they did not have a recommendation yet and they had been working with OMB and the proposal was not yet out.

Mr. McLaren turned to slide 10, "FY2015 - FY2022 Governor's Proposed Budget AMHS Cash Sources and Uses." He relayed that there were three vessels to focus on including the Kennicott, the Columbia, and the Matanuska. He said that the Kennicott was covering most of the entire system, which was the same schedule anticipated for the next year.

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Vice-Chair Ortiz looked at slide 10 and observed that the Aurora was part of the plan moving forward. He asked about the status of the vessel.

Mr. McLaren replied that the vessel was finishing up overhaul and was scheduled to begin on April 15.

Vice-Chair Ortiz observed that the service for the vessel was scheduled to begin March 10th and noted that it was already behind schedule.

Mr. McLaren clarified that the projection was for FY 22, not the current fiscal year.

Mr. McLaren addressed slide 11, which showed the AMHS fund balance from FY 14 - FY 22 for the governor's proposed budget. He said that the Kennicott would not cover Prince William Sound or the Homer/Kodiak area during the projected timeframe, which allowed for more service in Southeast. He shared that in the previous year services had been reduced in Southeast due to revenue shortfalls. He furthered that the Aurora would be able to continue providing service to Prince William Sound during the period. He pointed out that the Tustemena would have the ability to continue operating and would provide service in the Homer/Kodiak area. He stated that the projections decreased some of the service gaps and increased service frequency to all areas of the state.

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Representative Wool asked whether the Aurora serviced Prince William Sound, Whittier, Cordova, and Valdez. He asked whether the schedule would be consistent through the winter months.

Mr. McLaren replied in the affirmative. He explained that Prince William Sound would not have to wait for every other week for the Kennicott to provide service.

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Mr. Carpenter discussed slide 12, "FY2015 - FY2022 Governor's Proposed Budget - AMHS Service." The slide showed a historical spreadsheet showing cash flow sources and uses. He said that the top portion was state funded revenue with the funding usage below. He noted that they were projected to end FY 21 with a \$6.6 million deficit. He shared that FY 21 operating plan had been reduced. He asserted that they were looking for a best path forward, working with the legislature and OMB.

Vice-Chair Ortiz asked about the drop off in UGF appropriations. He considered FY 14 and wondered whether the UGF figure went higher than the \$107 million.

Mr. Carpenter responded by referencing slide 3. The dark blue represented state funding, mostly UGF, which peaked in the FY 14/FY 15 time period.

Vice-Chair Ortiz asked whether it was safe to say that while DOT had been cut, the AMHS had been cut by at least 60 percent.

Mr. Carpenter responded that 60 percent decline in funding was correct.

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Mr. Carpenter moved to slide 13, showing the governor's proposed budget and AMHS fund balance. He stated that the total fund balance in FY 20 was \$8.5 million and was projected to be zero for FY 21. He shared that typically there was a fund balance to manage cash flow which is now nonexistent. He shared that they strived for around 10 percent of the budget, which meant that the system would need \$10 million.

Representative Josephson was trying to determine the correlation between ships on the water and cost recovery. He considered the value to coastal Alaska. He looked at slide 3 showing a huge decline in revenue. He wondered whether the recovery rate was linked to ridership.

Mr. Carpenter answered that revenues had remained fairly flat but the UGF budget had increased so that the ratio of revenue to total budget dropped significantly. He noted that in 2021 revenues plummeted. He shared that they were trying to reach 50 percent revenue, 50 percent state funding. He relayed the challenge of understanding whether providing more service increased ridership and what was needed to provide basic service to all communities regardless of low populations. He shared that the department felt the level in the \$100 million range was a spot where the department could meet demand and provide support to all ports reliably. He said that the more ships running meant higher costs; therefore, the idea was fewer ships and improved utilization.

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Representative Josephson asked whether the higher UGF years on slide 3 reflected all costs to the system, including fast ferries.

Mr. Carpenter replied that it was partially correct. He pointed to the note on the slide that added the fast

ferries in 2004 and 2007 when more services had been provided because funding had been higher. He said that ridership at that time had not necessarily increased but had been spread out.

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Mr. Carpenter turned to slide 14, which provided a recap and projections of the weeks of service FY 15 through FY 22. He noted that Metlakatla had been removed from the data. He stated that in FY 22 weeks of service would drop from 241 to 192. Ports of call would drop from 4,175 to 3,675.

Representative Wool asked whether Metlakatla was a ship or a place.

Mr. Carpenter clarified that it was a location near Ketchikan.

Representative Wool confessed he was not familiar with all routes. He understood that the difference in weeks of service, less Metlakatla, was considerable.

Mr. Carpenter replied that the other graphs did include the Metlakatla run. He explained that it was a bit different than the rest of the routes in the system. He agreed that historical graphs included Metlakatla.

Vice-Chair Ortiz clarified that the Metlakatla run did well in terms of fare-box recovery.

Mr. Carpenter agreed.

Mr. McLaren agreed that it was one of the few runs that paid for itself throughout the year.

^OVERVIEW: COVID FUNDING FY 21 and FY 22 BUDGET OVERVIEW and UPDATE BY DEPARTMENT OF TRANSPORTATION

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DOM PANNONE, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR (via teleconference), provided a PowerPoint presentation, "Alaska Department of Transportation & Public Facilities

House Finance Committee: Coronavirus Aid, Relief & Economic Security Act (CARES) and Coronavirus Response & Relief Supplemental Appropriations Act (CRRSAA)," dated March 23, 2021 (copy on file). He began on slide 2:

Two Types of Funding and Amounts Received

Total: \$337,499.5

CARES - \$112,927.1 Enacted March 27, 2020
Federal Transit Administration - \$28,801.4
Federal Aviation Administration - \$82,501.1
Health and Social Services (The CRF) - \$1,624.3

CRRSAA - \$224,572.4 Enacted December 27, 2020
Federal Transit Administration - \$55,786.5
Federal Aviation Administration - \$44,383.9
Federal Highway Administration - \$124,402.0

Note: American Rescue Plan Act of 2021 funding is not included.

Mr. Pannone relayed that each fund had its own requirements, uses, and guidance.

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Mr. Pannone turned to slide 3, "How we'll walk you through it:

- Authorized
- Available
- Eligibility
- Timeframe

Mr. Pannone said he would discuss each bullet point in reference to each fund.

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Mr. Pannone turned to a spreadsheet on slide 4, "Authorized." He said that the slide illustrated the fiscal year in the vertical and the fund type in the horizontal. He said that all fund shad been received initially through and RPL request. He said that the slide showed the funds that had been received and who had received them by year and fund type.

He continued to slide 5, "Proposed." He addressed the FY 22 proposed budget in which the department was proposing to use \$17 million of FAA Coronavirus Aid, Relief, and Economic Security (CARES) Act funds and \$2.7 million in CRRSAA funds.

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Mr. Pannone discussed the FY 22 proposals on slide 6:

Dalton District Shift Change Two Week On/Two Week Off
(1,298.6 Fed - FHWA CRRSAA)

Reopening of Silvertip Maintenance Station
(620.0 Fed - FHWA CRRSAA)

Reopening of Chitina and Birch Lake Maintenance Stations
(794.6 Fed - FHWA CRRSAA)

Projected aviation fuel shortfall
(276.4 - FAA CARES/-276.4 DGF)

Replace rural aviation UGF with FAA CARES Act funding for a one-time swap
(-14,6000.8 UGF/14,600.8 Fed - FAA CARES)

Rural Airport Paint Striping
(2,302.3 Fed - FAA CARES)

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Mr. Pannone advanced to slide 7, "Available - Legislative Authority Required," which showed projects requiring legislative authority. He relayed that the current plan for the \$11 million Alaska Rural Airport System was to continue to supplant the UGF in the rural airport system into 2023. He said that the \$26.8 million could be mixed and matched with the FAA CARES funds in FY 22 to preserve CARES funds. He spoke to the \$11.2 million, which was pass through funding that went to the Anchorage Metropolitan Area Transportation System (AMATS).

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Representative Johnson had a question about upcoming federal funding and would defer to colleagues with questions related to the current slide.

Representative Wool asked whether the FAA money for the Anchorage area and wondered if the funding for Merrill Field was included in the \$11.294 million.

Mr. Pannone answered that the \$11.294 in FAA CRRSAA funds was for the metropolitan planning organization in Anchorage. He said the FAA CARES funds involved a formula developed by the federal government and had a portion dedicated to Merrill field. He said that debt service payments factored into the formula.

Representative Josephson looked at slide 2 and expressed the understanding that the state could receive up to \$700 million.

Mr. Pannone answered that it was difficult to hear the question.

Representative Josephson said that slide 2 showed \$225 million and the geo bond proposed was \$350 million, which was \$575 million. He believed that the entire package totaled \$700 million.

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Mr. Pannone answered that a proposal had not been put forward for a significant portion of CRRSAA funds at this time.

Representative Johnson referenced the ARPA funds, the first tranche of which was expected to be appropriated in May. She thought those funds would be applicable in the FY 22 budget. She asked whether there was any information about the funding.

Mr. Pannone discussed slide 8, "CARES Eligible Activities and Requirements.":

Federal Transit Administration

1. Operating expenses for all FTA 5311 recipients (non-urbanized areas). Costs necessary to operate, maintain, and manage a public transportation system.
2. Prevent, prepare for, and respond to COVID-19

3. Administrative leave, such as for employees due to reductions in service.

Federal Aviation Administration

1. Any purpose for which airport revenues may be lawfully used.

2. CARES grant recipients should follow the FAA's Policy and Procedures Concerning the Use of Airport Revenues ("Revenue Use Policy"), 64 Federal Register 7696 (64 FR 7696), as amended by 78 Federal Register 55330 (78 FR 55330). The Revenue Use Policy defines permitted uses of airport revenue.

3. May not be used for any purpose not related to the airport.

CRF Section 5001 (d)

1. Necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19).

2. Not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government.

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Mr. Pannone spoke to slide 9, "CRRSAA Eligible Activities and Requirements.":

Federal Transit Administration - 01/14/2021 Guidance Received - updated 03/10/2021

1. Operating expenses for all FTA 5311 recipients (non-urbanized areas). Costs necessary to operate, maintain, and manage a public transportation system.

2. Prevent, prepare for, and respond to COVID-19

3. Priority-operating expenses

4. Administrative leave, such as for employees due to reductions in service.

Federal Aviation Administration Guidance Received - 02/12/2021

1. Costs related to operations, personnel, cleaning, sanitization, janitorial services, combating the spread of pathogens at the airport and for debt service payments.

2. Specifically for operating expenditures (airport specific); no capital expenditures.

Federal Highway Administration Guidance Received - 02/24/2021

1. Activities eligible under 23 USC 133(b) e.g., capital, highway infrastructure, ferry vessel capital projects
2. May be transferred to public tolling agencies or a ferry system to provide a public transportation benefit
3. Preventative maintenance, routine maintenance
4. Operations, personnel
5. Debt service, availability payments
6. Advance Construction

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Representative Wool asked about the maintenance stations and appreciated they would reopen with the federal funds. He asked whether it would be necessary to determine how to fund the stations after the federal funds were gone.

Mr. Pannone answered in the affirmative. He said that they were one-time items that would need to be addressed in the future.

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Mr. Pannone turned to slide 10, showing when the CARES and CRRSAA funds had come to the state and when they had to be expended:

CARES: How long are the funds available?

FTA - Expenses on or after January 20, 2020; Available until expended

FAA - Expenses on or after January 20, 2020; Available until April 29, 2024 (FY2024)

CRF - Expenses on or after March 1, 2020; Available until December 31, 2021 (FY2021)

CRRSAA: How long are the funds available?

FTA - Expenses on or after January 20, 2020; Available until expended

FAA - Expenses on or after January 20, 2020. Budget period is four years from execution of grant (FY2024) (Need authority by June 30, 2021)

FHWA - Expenses on or after January 27, 2020; Available for obligation until September 30, 2024

FHWA - Obligated balances are available for expenses until September 30, 2029 (FY2030)

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Representative LeBon looked at slide 7, pertaining to airports. He asked whether Alaska International Airport System included Fairbanks International Airport and Ted Stevens International Airport.

Mr. Pannone replied in the affirmative.

Representative LeBon asked how the money was divided between the two airports.

Mr. Pannone answered that both airports used funds from the International Airport Revenue fund (IRF). He said that it was likely the money would go into the account to be used for debt service payments at Anchorage International Airport or other operating expenses out of the IRF.

Representative LeBon asked how much control the state had over the spending of the funds.

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Mr. Pannone moved from left to right on slide 7. He explained that the \$11,059.8 million in FAA CARES funds could be used at any rural airport, to replace UGF or for capital projects. He shared that the \$17,560.9 million in CRRSAA funds was locked into the Alaska International Airport System and had to be used for operating expenses. The \$26,823.0 had to be used for the Alaska Rural Airport System and had to be spent on operating expenses. He shared that there was flexibility in the last two columns. He said that the \$108.264.3 could be used for capital projects, routine maintenance, or could be transferred to a tolling road or ferry system. He stressed that the \$11,294.3 million had to be used by AMATS. He furthered that the FTA monies could be distributed to any of the 13, 5311 eligible transportation agencies - one of which was the AMHS.

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Representative Josephson asked that except for lost tax revenue at airports, it was hard to measure the influence

of Covid-19 on highway. He assumed that DOT could be more flexible in terms of how the money was spent.

Mr. Pannone agreed. The funds DOT received were not necessarily tied to Covid-19 impacts but were tied to secondary impacts of the pandemic. For example, there had been a motor fuel tax shortfall of \$3.5 million in 2020 and \$3.3 million in 2021, which had been offset by CARES funds.

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Mr. Pannone pointed out on Slide 9 the dates when guidance had been received from the federal government. He highlighted the complexity of the guidance. He said that there was not a significant amount of money coming to the department from the FTA funds.

Representative Wool referenced one of the ferries that needed cleaning at the cost of \$1 million and commented that some of the funds under discussion could be used for that cleaning.

Co-Chair Foster discussed housekeeping.

#

ADJOURNMENT

[2:57:26 PM](#)

The meeting was adjourned at 2:57 p.m.