

HOUSE FINANCE COMMITTEE
February 25, 2025
1:34 p.m.

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CALL TO ORDER

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

MEMBERS PRESENT

Representative Andy Josephson, Co-Chair
Representative Calvin Schrage, Co-Chair
Representative Jamie Allard
Representative Jeremy Bynum
Representative Alyse Galvin
Representative Sara Hannan
Representative Nellie Unangiq Jimmie
Representative DeLena Johnson
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

Representative Neal Foster, Co-Chair

ALSO PRESENT

Ryan Anderson, Commissioner, Department of Transportation and Public Facilities; Dom Pannone, Administrative Services Director, Department of Transportation and Public Facilities.

SUMMARY

HB 53 APPROP: OPERATING BUDGET; CAP; SUPP

HB 53 was HEARD and HELD in committee for further consideration.

HB 54 APPROP: CAPITAL/SUPPLEMENTAL/FUNDS

HB 53 was HEARD and HELD in committee for further consideration.

HB 55 APPROP: MENTAL HEALTH BUDGET

HB 55 was HEARD and HELD in committee for further consideration.

OVERVIEW: FY 26 DEPARTMENT BUDGET BY THE DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

Co-Chair Josephson reviewed the meeting agenda.

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#hb54

#hb55

HOUSE BILL NO. 53

"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 reappropriations; 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."

HOUSE BILL NO. 54

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

HOUSE BILL NO. 55

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

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^OVERVIEW: FY 26 DEPARTMENT BUDGET BY THE DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

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RYAN ANDERSON, COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, provided a PowerPoint presentation titled "House Finance Committee: Department of Transportation and Public Facilities and Alaska Marine Highway System Overview," dated February 25, 2025 (copy on file). He began on slide 2 with the department's mission to keep Alaska moving.

Core Values

Integrity - Excellence - Respect - Safety

DOT&PF oversees a network of highways that link together cities and communities throughout the state, thereby contributing to the development of commerce and industry in the state, and that aids in the extraction and development of its resources, and improves the economic and general welfare of the people of the state (AS 19.05.125)

Commissioner Anderson moved to an organizational chart on slide 3 titled "Through Land, Air, Sea: It Takes a Team." He reviewed the various divisions and offices under four columns including strategic assets; planning, design, construction, maintenance and operations; cross-functional support; and boards. He mentioned the project delivery division and a project management office. He mentioned consistency in project management. He highlighted the measurement standards and commercial vehicle compliance, which involved staffing way stations. He discussed how cross-functional support affected the whole department. He mentioned the newer division of data modernization and innovation. He highlighted the importance of resourcing people quickly for communication when disasters struck. He mentioned civil rights reviews handled by the core team in the Civil Rights Office.

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Representative Stapp asked about weights and measures. He recalled that weights and measures was calibrating and certifying items used by the state. He wondered if the state was completing the work or if there was another entity to fact check the work.

Commissioner Anderson replied that there was a measurement team setting the standards for the state. There was a lab in Anchorage. He used the example of measuring a true gallon of fuel and providing a certification.

Representative Stapp mentioned truck scales in the state, which were certified by state inspectors. He recalled that last time he had checked, the state workers were calibrating the scales for the state's own trucks.

Commissioner Anderson replied affirmatively. There was not any authority above DOT to certify what it did.

Representative Hannan asked if there were any vacancies in the measurement standards and weigh stations for commercial vehicle compliance.

Commissioner Anderson replied that he did not have the information on hand and could follow up. He relayed that it was not an area where they saw many vacancies.

Representative Hannan was concerned that a weigh station was not operational, and wondered if it was a result of staffing, budget, or other reasons. She addressed vacancies and thought there were staff with multiple hats. She asked about employees who filled more than one position.

Commissioner Anderson affirmed that the Northern Region director position was vacant, and the department had actively solicited for the position. He noted that the position would be advertised soon. He noted that Deputy Commissioner Katherine Keith was performing the role currently as a temporary measure. There was a dedicated director in the South Coast region. Sean Holland was the director in the Central Region.

Representative Galvin looked at the statewide personnel and distribution of 3,445 permanent full-time positions on slide 3. She noted that the next page reflected 2,950 total. She assumed that there were a number of positions that were not full-time or not permanent.

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DOM PANNONE, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, relayed that the statistics on page 4 were pulled from actual positions, while the data on slide 3 were positions counted whether they were filled or not.

Representative Galvin thought it meant there were approximately 500 positions not currently filled. She asked where the Statewide Transportation Improvement Program (STIP) manager was under the organizational chart.

Commissioner Anderson responded that the department was taking a team approach to manage the STIP and it fell on the commissioner to move it forward. He noted that the regions were where the project managers and engineers resided; and were feeding the STIP with current estimates and project schedules. He noted that the STIP was a four year program, which was really focused on project delivery. He referenced the project delivery office under the heading of "Planning, Design, Construction, Maintenance and Operations" on slide 3; where a lot of the STIP happened. He described the fed-aid team, which considered funding and fund types to match with projects. The data modernization side provided good sorting tools. The department had built a system where all of the individuals contributed and moved the STIP forward to the commissioner.

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Representative Galvin understood that the STIP work was a team approach. She asked how to answer her constituents regarding \$1.6 billion ready for a request-for-proposals (RFP) when she observed there was around \$170 million for access to real projects. She asked how to understand how the team approach transferred into real projects that were ready to put people to work.

Commissioner Anderson answered that the STIP was the funding plan, and the project delivery teams in the regions engaged in putting together the engineered plans, producing environmental documents, acquiring the right of way, and getting utility agreements before going to Director Pannone's area where the project would be authorized the funded by the federal government. He relayed that the department felt good about the STIP. The STIP Amendment 2 had been reviewed by the Federal Highway Administration (FHWA) informally, and the document was the four-year funding plan for about \$1.6 billion. Now the department had to deliver, and the process would go to DOT's engineers and pre-construction/construction groups to get the projects on the street.

Commissioner Anderson shared that he had met with the Association of General Contractors for a roughly 4.5-hour discussion the previous day. The department had brought pre-construction engineers from the region to discuss the projects and the tentative advertising schedule. There was a good plan in place and now DOT had to deliver the plan.

Representative Galvin asked what the legislature could do to help the department get the (STIP) plan in motion. She emphasized that the legislature was there to support DOT and relied on the department providing the information. She mentioned the safety pieces that came with building roads appropriately.

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Representative Stapp addressed the topic of getting the work out. He asked for a timeline for the projects and getting back to the same status as when the commissioner was director of the Northern region.

Commissioner Anderson replied that the department had heard from the contracting community that the next few months were critical to get projects on the street. He shared that the department was looking at projects that could be accelerated. It was taking some aggressive steps including a \$50 million project on the Kenai Peninsula. The department had been working with a utility that was uncomfortable with the Build America/Buy America (BA/OBA) rules for compliance. He specified that DOT would have its contractor include the work to relocate power lines and other items. He discussed looking at general engineering consultants to augment staff when needed. He used the example of a DOT team that included a professional with the right-of-way expertise needed to proceed. He emphasized that the department was doing as much work as it could get and was projecting more contract awards than the previous year. He cited that DOT was projecting contract awards in the amount of around \$900 million.

Representative Stapp asked how much in contract awards would be given out in the next three to four months. He asked if the commissioner could project a reliable and achievable goal.

Commissioner Anderson answered DOT was currently at about \$180 million to \$200 million in awards, with another \$120

million in pending awards that had been advertised, for a total of up to \$300 million. He mentioned several large Construction Manager/General Contractor (CMGCs) [an alternative project delivery method in which the contractor is hired before the project moved to the construction phase] and used the example of the Chena floodplain bridges between \$80 million to \$100 million that would be awarded the next month. He mentioned a Parks Highway CMGC that would also be awarded the following month. The CMGC projects were not included in the advertise lists. He mentioned the tentative advertise list and estimated that there would be between \$150 million and \$200 million in projects going out the next month.

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Representative Stapp wanted to hear that in the next three months DOT was going to get another \$100 million in work out the door. He asked if the department could make that commitment.

Commissioner Anderson agreed.

Mr. Pannone addressed the FY 26 operating budget on slide 4. He directed attention to the pie chart that reflected DOT's operating budget. The department budgeted for about \$210 million of contractual services, \$99 million for commodities, \$7.8 million for travel, and \$2.1 million for capital outlays. The biggest expense was \$488.1 million in personal services for staff. The right-hand side of the slide showed the activities of the department's employees. He mentioned scientists, drone pilots, law enforcement at airports, and heavy mechanics as part of DOT's diverse workforce.

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Mr. Pannone addressed slide 5 showing the department budget fund sources. There was \$184 million in Unrestricted General Fund (UGF) receipts, mostly budgeted in highways and maintenance operations and the Alaska Marine Highway System (AMHS). There was \$6.2 million in General Fund (GF) program receipts; about \$3.5 million of which was for measurement standards and commercial vehicle compliance for overweight and oversize permit receipts. The rest was largely for repairs for which the department recovered in damages. The AMHS Fund received \$22.8 million in operating

receipts from ridership. He mentioned Vehicle Rental Tax receipts and Motor Fuel Tax receipts at \$6.6 million and \$37.1 million, respectively.

Mr. Pannone highlighted federal receipts at \$81.8 million, which was largely the Rural Ferry Operations Grant. There were federal receipts for rural aviation as well. He pointed out interagency receipts of \$60.8 million, which were largely fees that DOT collected from the Division of Facilities Services that maintained other agencies' buildings. He highlighted the Highways Equipment Working Capital Fund and the International Airports Revenue Fund. He highlighted capital improvement project receipts for \$207 million, which was funded from DOT's \$1.8 billion capital program. He noted that the Public Building Fund held 12 state office buildings, and DOT charged tenants for maintenance and operations to bank the funds for future improvements.

Mr. Pannone continued to discuss DOT operating funds on slide 5. He mentioned Whittier Tunnel toll receipts at \$1.8 million from toll fees in and out of Whittier. He highlighted unified carrier registration receipts, which were federal grants Alaska received for commercial vehicle compliance. The aviation fuel tax amounted to \$4.9 million and supported the state's rural airports maintenance and operations activities. The rural airport \$281,000 in receipts were receipts received from leasing space at rural airports.

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Representative Tomaszewski asked about the Whittier Tunnel. He mentioned federal funding from the previous year and asked if Mr. Pannone could provide an update.

Mr. Pannone answered that about three to four years back, the FHWA had done an audit on all toll facilities. The federal audit concluded that DOT had received federal reimbursement for about \$15 million of ineligible expenditures for the Whittier Tunnel. The department had contested the findings and asserted that the expenses were eligible. He continued that FHWA had indicated that the participation rate at which the state was reimbursed was not eligible. The department worked with its legal team to identify a way to make the expenses eligible. He identified that during the interim, DOT had avoided the \$15 million

payback, but had switched to GF for Whittier Tunnel operations. In the current year, DOT was switching back to federal funds after resolving eligibility and participation rates.

Representative Tomaszewski asked if the eligibility was back and DOT would be able to receive the federal funds.

Mr. Pannone answered affirmatively and relayed that DOT had renegotiated and determined the cost was eligible for federal reimbursement.

Representative Johnson asked if the funding was expended and then reimbursed. She asked if it was still needed in the budget.

Mr. Pannone answered that all of the federal programs were a reimbursement basis, but department requested federal receipts in the budget. He specified that DOT billed for reimbursement every two weeks.

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Mr. Pannone addressed a breakout of the FY 26 budget on slide 6. The slide had two tables and two pie charts and showed the major components of the DOT results delivery units. The top half of the slide showed all funding. He cited \$127 million for international airports, which were self-funded. The bottom half of the slide depicted just UGF and Designated General Funds (DGF). Highways and aviation was at \$136.1 million of UGF (Motor Fuels Tax) and DGF. The AMHS also received \$60 million in UGF and \$22 million of its own DGF. The department had focused on leveraging federal funds for preventative maintenance funds over the previous several years and kept the focus on leveraging federal funds for DOT operations whenever possible.

Mr. Pannone turned to FY 26 budget highlights on slide 7. He highlighted that the top of the slide showed a graph of the National Highway Construction Cost Index, which DOT tracked closely. The index directly impacted the cost of capital project delivery costs, and was reflective of the increases that FWHA saw on all highway construction projects. There was an increase of 67 percent from the fourth quarter of 2020. It was also tracked because the components of the index mirrored most of the components in DOTs maintenance and operations. The bottom of the slide

showed FY 26 budget requests including increments to the base budget. He mentioned an increment of \$25,000 for a federally mandated highway safety office with increases of staff and indirect cost. The second was a Dalton Highway materials stockpile for \$4.5 million. If there was a capital project, the costs could be reimbursed by federal dollars.

Representative Bynum asked about the cost index shown on the slide, which seemed to be a good indicator of the market. He asked Mr. Pannone how he correlated the information to what DOT was doing in Alaska. He thought the regions in the state had different constraints and needs. He used the example of road construction in his district in Southeast and wondered how the general trend information from the index would be extrapolated and used.

Mr. Pannone answered that the index was a baseline and reference point to check increases in engineers' estimates and bids. He mentioned bids coming in at double or over 20 percent higher. He noted that they were observing there was a nationwide trend.

Representative Johnson asked about the Whittier Tunnel and thought there was a fund change from UGF to federal receipts for FY 26.

Mr. Pannone agreed.

Representative Johnson thought there would be an accompanying budget reduction for DOT.

Mr. Pannone answered there would be a reduction in UGF and an increase in federal receipts.

Representative Stapp knew the Northern region was struggling to find personnel to maintain the Dalton Highway. He asked about maintenance camp contracting and asked if it was the beginning of a process of outsourcing work for the entirety of the highway, or if the arrangement was temporary while the recruiting issue was solved. He asked if the legislature should look at making decisions to ensure the highway remained open for all of the industry that required it.

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Commissioner Anderson answered that the Dalton Highway had been a focus point. He mentioned challenges with materials and the materials stockpile referenced by Mr. Pannone. He acknowledged that staffing was a challenge, particularly with the Livengood Camp. He noted that the Elliot Highway to Minto had been closed for five days due to understaffing the previous winter. He discussed maintenance camp contracting and noted that there had been success with contracting for winter operations. He mentioned proposals for Anchorage and Fairbanks and noted that all of the maintenance and operations crews had started to have term agreements for contractors so that when big storms hit it was possible to scale up resources quickly.

Commissioner Anderson continued that if the increment was approved, there would be a feasibility study. Teams were considering what made the most sense - whether to contract a whole camp or scale up as a one-time measure. He noted that the request was a one-time increment.

Representative Stapp mentioned the Tanana Road and the Iditarod. He had heard from constituents in Manly and Minto who were upset the road would not be open until March 17 instead of March 15. He asked what to tell his constituents.

Commissioner Anderson would follow up.

Co-Chair Josephson asked if the road in question was to watch the Iditarod.

Co-Chair Foster had been told that because the Iditarod was moving to Fairbanks, the road that was typically open on March 15 would open two to four days later, and individuals were upset.

Representative Hannan asked about the increased use of non-commercial drivers (independent travelers) on the Dalton Highway. She wondered about the cost it was contributing to maintenance of the highway.

Commissioner Anderson answered that DOT maintained traffic volume data to learn the percentage of trucks and smaller vehicles that were on the road. He offered to provide the information if the committee was interested, but DOT had focused on truck usage of the road.

Representative Hannan suggested that DOT not expend staff time on the topic if it was not a problem.

Mr. Pannone continued to discuss budget highlights on slide 7. He mentioned Dalton Highway safety training and a one-time increment for \$250,000. He cited \$1 million in UGF for roadside hardware repairs. The last one-time increment was \$500,000 in UGF for right of way clearing of vacant homeless encampments.

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Mr. Pannone turned to slide 8 related to rural aviation budget highlights. He noted that most of DOT's budget request was mostly using its own rural airport receipts. He highlighted a request of \$160,000 for Airport Stormwater Pollution Prevention Plans Tracker. This would centralize the collection of 14 required reports per year. He highlighted a \$72,000 UGF request for employee lodging for two staff year-round for Akutan Airport. He highlighted the third budget item, a database for the Alaska Aviation System Plan, which would track any letters of correction DOT needed to address with federal partners. The fourth item was software for aviation staff to collect conditions and needs at the airport that got incorporated into DOT's capital improvement program.

Representative Galvin asked if it was common to have employee housing and if the Akutan Airport housing was a normal UGF request.

Commissioner Anderson answered that it was getting harder to find people to work in certain remote areas, and DOT was bringing workers into work two weeks on and two weeks off while rotating employees such as requested in Akutan. He mentioned Kotzebue as another area with a similar challenge. He did not think it had not been a request in the past.

Representative Hannan noted that the presentation listed "PFAS transition" under key issues ahead and asked about PFAS (Per- and Polyfluoroalkyl Substances) cleanup. She knew much of the contamination was at rural airports and noted that the budget burden of cleanup had fallen largely on DOT. She asked if the cleanup money was located in the rural aviation component or somewhere else in the budget.

Commissioner Anderson noted that DOT had a plan to replace all foams with fluorine-free foams so there would not be an issue of PFAS going forward. He noted that DOT had been working hard to make sure the communities had good water. He mentioned a DOT program and noted that the department had secured funding from the Department of Environmental Conservation (DEC) and others. He mentioned funding the building of water systems and cisterns in communities like Gustavus. He noted that DOT was still providing water to people in several communities. The department had a team that was doing ongoing work in water infrastructure funded through grants and other sources, and trying to get to a permanent fix.

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Mr. Pannone continued reviewing slide 8 pertaining to rural aviation. He mentioned a request for Kotzebue Airport employee housing and travel. He cited a request for \$374,000 for combined rural airport maintenance contract increases and cited an increase in the contracts over the previous five years. There were well over 100 airports maintained by a local contractor, and the average contract was \$35,000. He highlighted a request for rural airport receipts to support after-hour call outs. He noted that the Southcoast region had seen an increase in the call outs. The last item was a one-time item of \$160,000 in rural airport receipts to remove abandoned buildings on lease lots. He explained that DOT was federally mandated to collect market rate for the spaces leased to other entities and the vacant buildings needed to be cleaned up or removed.

Representative Tomaszewski asked if there was an issue with rural airport runway lighting.

Commissioner Anderson responded that airport lighting systems was one of the key issues on an upcoming slide. He explained that there were several lighting systems due to be upgraded, many were installed 20 to 30 years previously and needed to be installed with more modern systems. There were several problematic systems that had been identified. The department had put out a contract to get design consultants on board for upgrade of 20 to 25 systems. The department was shifting focus in aviation and the capital program to work on the lighting systems.

Representative Tomaszewski asked if DOT was standardizing systems.

Commissioner Anderson agreed and noted that DOT was purchasing several additional emergency lighting sets to stage in hub locations that could be deployed quickly when there were problems. The sets were in the FY 24 budget.

Co-Chair Josephson asked what the department did with PFAS contaminants and how it was being funded when it had not been funded before.

Commissioner Anderson answered that typically the hazardous materials had to be shipped out of state. When DOT was working on a project and excavating, it would use the railroad or trucks to transport the materials. He used the example of a Cordova project with a fair amount of PFAS contamination in the soil. The cost estimates for removal had come in very high and the project was on hold. He mentioned that typically airport improvement program scenarios were not eligible. He noted that DOT was part of a lawsuit to rectify the situation for increased eligibility. He noted that when the cost issue was a factor, DOT would have to submit the request in a future budget.

Co-Chair Josephson pondered that the cost must be in the millions of dollars. He wondered if DOT was absorbing the cost with present operating budget appropriations.

Commissioner Anderson relayed that DOT did a lot of avoidance in the situations. He explained that typically in a PFAS issue, avoiding excavation was key. He mentioned case studies at Fairbanks International Airport.

Representative Josephson wanted to hear more about avoidance off-record. He pondered like it sounded like the problem was not resolved, unless there were a guaranteed water source and no threat to public.

Commissioner Anderson explained that when he said "avoidance" he was looking for engineered solutions that minimized excavation, because DOT was typically required to dispose of the materials if excavated.

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Mr. Pannone turned to slide 9 and reviewed international airport budget highlights. The system included Ted Stevens International Airport and Fairbanks International Airport. He clarified that the department did not have any specific requests but had a couple of changes to the adjusted base of the budget. There was a \$3.1 million increase for salary adjustments due to negotiated collective bargaining agreements. He mentioned a significant item happening at the airport, a transfer of \$4.1 million towards centralizing airport operations. The department had moved about 28 staff to a consolidated model to have a focus on a more system-wide approach.

Commissioner Anderson stated there had been great growth and opportunity in the state's international airports. One of the focuses had been how to manage the system. He mentioned huge growth in Anchorage cargo and the challenges of keeping up with the growth. Fairbanks had some capacity. He described bringing the two systems under one director. He relayed that there were a lot of innovative things happening. The airlines had been supportive, and DOT had done the work in coordination with the Aviation Advisory Board.

Commissioner Anderson discussed the positions on the flow chart on the slide. He mentioned opportunities to market the airports as a system. He mentioned that IT had been a big focus, particularly with concerns about cybersecurity. He mentioned having good Wi-Fi at airports. Human resources had been a big focus of the airlines. He mentioned that Anchorage International Airport had a huge capital program including taxiways, security, and gate replacements. He mentioned keeping the infrastructure on the cutting edge and supportive of the growth. He mentioned the new Alaska International Airport System (AIAS) director.

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Representative Johnson thought the state might have saved a little money on snowplowing in the current year, and wondered what DOT would do with extra snowplowing money.

Commissioner Anderson answered that the individuals were still working and did not get sent home. He mentioned filling potholes from rain events. He mentioned that DOT did quarterly budget projections and the central region was doing well on its budget. He did not anticipate any

additional budget requests. He mentioned that there was an ice storm up north a month and a half previously and noted that winter weather was ongoing. He pondered how to budget for years when one year was so extreme and the current year was the other direction. He continued to like the concept of using contractors to scale up.

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Representative Tomaszewski mentioned changing snow conditions and moving the Iditarod to Fairbanks. He mentioned problems with airport parking in Fairbanks and asked if there were plans for future increased parking.

Commissioner Anderson relayed that there was some work on a parking garage concept a year or two previously. He mentioned hearing from the public about the matter. He offered to get back to the committee with more information.

Commissioner Anderson continued to review highlights on slide 9 pertaining to the international airport system. He noted that DOT was working on solar power for Anchorage and Fairbanks and mentioned diversifying energy so as to not be such a drain on the community. He hoped to install solar over the following summer. He cited that DOT had a sustainable aviation fuel initiative for the two airports. He mentioned use of 900,000 gallons of aviation fuels annually for carriers at the two airports. Air carriers had expressed interest in sustainable aviation fuels as a way to cut down carbon usage. He mentioned fish waste and woody biomass. He noted that the deputy commissioner was taking a lead role and contractors were on board doing technical feasibility analysis. There was a lot of technical work to be done.

Representative Galvin saw that the presentation would address AMHS ridership on a later slide. She asked if there was anything to report on passenger numbers and if there was expected growth in Anchorage and Fairbanks considering what was happening in logistics.

Commissioner Anderson looked forward to bringing the committee the numbers. There were some new routes, and the passenger service had been strong. He thought there had been five to seven percent cargo growth.

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Mr. Pannone reviewed budget highlights for the Division of Facilities Services on slide 10. The division's FY 26 operating budget was \$104 million, with \$21.2 million UGF and largely 82 million of interagency receipts. Project and maintenance and operations were the two major parts to the division. The division served multiple state agencies, maintaining 827 public facilities spanning 50 communities. The division was currently working on "Digital Twins," a large initiative taking inventories using 360-degree cameras to capture virtual models of buildings and capture assets such as heating systems. The division had 180 projects underway.

Commissioner Anderson addressed key issues on slide 10. He highlighted legacy systems, and noted DOT was going to computerized maintenance management systems. He mentioned assessments and tools that were economic to use to build inventories. He mentioned great deferred maintenance lists based on real time data. He mentioned that many of the buildings taken care of by DOT had many occupants and listed a focus on customer service and training. He mentioned deferred maintenance and working on the backlog.

Representative Bynum stated that a lot of the spending for departments was related to facilities and capital infrastructure. He observed the number of facilities and asked for the department's long-term capital replacement plan aside from mentioning deferred maintenance.

Commissioner Anderson mentioned plans for replacement facilities in three locations including Northway and Haines. He offered to provide a complete list at a later time. He understood Representative Bynum's concern with the capital plan. He acknowledged that there was work to do on the facilities side, and part of what DOT wanted to focus on was inventorying what DOT had and what was utilized. He did not believe they had any better information at present.

Representative Bynum asked what resources the department needed to make a report on long-term capital needs.

Commissioner Anderson answered that rapidly changing technology was contributing greatly to the issue. The department was limited on human resources, but technology tools could allow a person to do much more.

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Mr. Pannone responded that the division of facilities group was looking at potentially contracting out condition surveys in over 50 communities. The first step would be to evaluate the conditions, which would help better prioritize projects and have a long term capital plan. The division director was also looking at different funding models and how to manage the different types of buildings managed by DOT.

Co-Chair Josephson remarked that the state had no sophisticated deferred maintenance plan. He mentioned the Capital Investment Fund, which was Amerada Hess-related dollars that spun off \$25,000 per year. He thought Utah was a leader in the area. He asked what other states did with a deferred maintenance strategy. He clarified it was not a criticism and thought the state would do more if it had greater funding.

Commissioner Anderson mentioned the Public Building Fund. He thought expanding the fund had been discussed. He was not familiar with Utah but would look into it.

Representative Hannan would like to see a list of what it would cost to replace all of the buildings that needed replacement. She mentioned collapse of the Palmer Library. She mentioned the Fairbanks Pioneer Home, which was on the deferred maintenance list. The home was more expensive to maintain than replace, but she did not see a capital request for replacement. She pointed out the lack of a realistic picture of what needed repair. She emphasized that the state needed a big-ticket goal before there were elders in buildings collapsing. She wanted a realistic discussion of what needed to be done. She knew the Design Council was around with a plan that indicated 3 to 4 percent of the budget should be invested annually in maintenance. She stressed the need for regular maintenance and deferred maintenance.

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Commissioner Anderson was not aware of any buildings with impending collapse. He understood Representative Hannan's request for a list.

Mr. Pannone added that there was a list provided annually and there was \$83 million in deferred facilities costs identified. He furthered that the governor's office and the Office of Management and budget (OMB) also requested an annual batch of deferred maintenance funds. The division worked with the facilities council on prioritizing needs with the limited revenue available.

Co-Chair Schrage thought there seemed to be blinders on that the state did not address long standing deferred maintenance. He thought the department had indicated it needed technology to identify deferred maintenance, yet there was already a large mass of buildings needing work. He thought there were long-standing systematic problems in the state. He asked if the current plan was adequate.

Commissioner Anderson relayed that DOT's focus was on prioritizing because of working in a fiscal environment with limited funds. He described boiler failures and repurposing resources. He agreed that the planning was a great step in understanding facilities. He reiterated that it was a fiscally limited environment and there was a heavy focus on prioritization.

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Mr. Pannone addressed FY 26 budget highlights for the state equipment fleet on slide 11, with an annual operating budget of \$39.9 million collected through fees that DOT charged other agencies. He cited that DOT was the largest customer of the fleet at approximately 80 percent, which it paid from the maintenance and operations budget. The funds paid for heavy and light equipment mechanics, fuel, and other associated costs. The department annually requested an additional \$39 million of highway equipment working capital funds for replacements. There were currently 7,596 assets managed for state agencies, with 889 assets managed for universities, housing, and energy sectors. There were 51 equipment maintenance shops and 3,400 active fuel cards.

Representative Bynum asked about the \$39 million for the fleet replacement in the capital budget for FY 26. He asked if the request was part of a replacement plan.

Mr. Pannone directed attention to two numbers. The \$39.9 million in operating costs on the top left was for operating costs that paid for mechanics, and repairs and

maintenance for the entire fleet. The \$39 million was a capital request and was part of a plan. The statewide equipment fleet had an inventory of all assets and prioritized replacement on an annual basis. There was a plan for the useful life of every asset.

Co-Chair Josephson asked if the two \$39 million amounts on the slide were different from one another.

Mr. Pannone agreed.

Representative Hannan asked if the \$39 million for fleet replacement was to replace the same exact item.

Mr. Pannone agreed. He relayed that as part of the rate, users paid into the highway equipment working capital fund. Then DOT paid out of the fund for an asset at the end of its life and usually replaced with like assets.

Representative Bynum asked about end of life for equipment and asked if items were cycled or at the true end of life. He thought some of the equipment was probably sold off. He asked if the state was running equipment to failure before replacement.

Mr. Pannone responded there were several classes of vehicles in the fleet. When each vehicle was purchased, there was a predicted useful life of the item before failure. The department calculated a salvage cost reflecting how much the item could be sold at public auction at the end of its useful life. The department was replacing the assets before failure on a predetermined schedule.

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Mr. Pannone addressed slide 12 pertaining to the Alaska Marine Highway System (AMHS). For FY 26, DOT proposed a flat budget for AMHS. Upcoming slides would address budget structure. The department anticipated 9 ferries running to 35 ports of call and over 3,500 miles of routes.

Commissioner Anderson relayed that one challenge faced by AMHS was the maritime workforce. He noted that DOT was working with FTA and FHWA, both of which had different sets of rules. He felt DOT had resolved some of the BA/BA. He mentioned the M/V vessel Matanuska, which was the hotel

ship at present because it did not meet standards for sailing. The department would undergo a process over the following months to decide what to do with the vessel. He continued that DOT had done a lot of work including looking at hull structure. He discussed issues that needed resolution. The department was working through the AMHS Operations Board to determine the future of the vessel. The long-range plan for AMHS was scheduled to come out the following Friday and would have opportunities to comment. Capital investment in vessels and terminals had been a big push, with over \$400 million in vessels and \$170 million in terminal facilities. A lot of work had been done with modernization and customer service. He noted there was Starlink Wi-Fi on the M/V Columbia. There were plans to do the same on all vessels. He mentioned trooper ride-alongs and working in partnership with the Department of Public Safety.

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Commissioner Anderson turned to AMHS vessels on slide 13. The slide showed all the different vessels and what was currently being done or planned. He highlighted the M/V Lituya, M/V Hubbard and M/V Aurora, with no major projects planned. The M/V Columbia was the mainline vessel running the Bellingham/Skagway/Haines route. The M/V Kennicott was at Everett shipyard with a major emissions and exhaust project for \$25 million. The M/V LeConte was up for extended overhaul over the winter. He thought the work could extend into June. To accommodate additional passengers, the crew was looking into the M/V Tazlina to make up for the LeConte overhaul. The M/V Tustumena had a replacement vessel project. The funding had been secured, and the ship was in final design process. The bidding would be out of bid in September or October. There was a design for a new mainliner, and there was a grant for a no/low emissions ferry that had gone out to bid for the design.

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Commissioner Anderson turned to slide 14 and discussed AMHS terminals. There were 12 projects listed to upgrade terminal facilities so that all AMHS vessels could fit all docks. The next two to three years would see a lot of construction.

Representative Bynum did not see Prince Rupert on the list. He understood the state had some issues with Prince Rupert and relayed he had heard many questions on the topic. He pondered the reasons and asked what DOT was doing differently to get back to that port or a Southern connection. He asked what resources the department needed to get back to the port. He wanted to treat it like an emergency to understand what could get done.

Commissioner Anderson relayed that DOT had been to Prince Rupert a year and a half previously trying to understand what needed to be done. He mentioned that the state only had one vessel that was capable of going to the port because of Safety of Life at Sea (SOLAS) certification verification. The M/V Kennicott was the only vessel that had SOLAS certification. He mentioned that the infrastructure in Prince Rupert needed to be upgraded. He mentioned federal funds and BA/BA requirements being applied on Canadian soil. There had been a waiver submitted, which approved would be step forward.

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Representative Bynum thought Commissioner Anderson had indicated that the primary challenge was the waiver.

Commissioner Anderson mentioned that funding was also an issue.

Representative Bynum thought DOT just had to make the issue a priority. He wanted to know if the waiver was the largest hurdle. He wanted to solve the problem and looked forward to further discussions.

Representative Allard had a candid conversation with one of the senior captains in her district. She had discussed the cross-gulf ferry from Whittier to Juneau and previously heard that there were not enough employees. The captain had indicated that employees were not the issue, but rather ferries that were breaking down. She wondered about having the transportation reinstated.

Commissioner Anderson answered that the only vessel that could do a cross-gulf trip was the M/V Kennecott, which was currently getting the emissions repaired. He continued that having a new mainliner constructed would give the ability

to make the run. The AMHS was currently very constrained with vessels.

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Representative Allard asked what the department needed to fix the problem.

Commissioner Anderson mentioned the long-range plan coming out Friday and making sure it would address service levels, including the cross-gulf from Whittier to Juneau. He thought it would take time to get back to where people wanted it to be, and it would take more vessels.

Representative Hannan referenced Representative Bynum's question about Prince Rupert and thought the problem was two-fold. She thought the problem was not only the waiver but the SOLAS certification. She emphasized that the state did not have any vessels that were adequately prepared to cross the gulf, and it needed to. She emphasized the Yakutat had no ferry service for three years. The mammogram equipment could not reach the community. She emphasized they could not wait for another mainliner to be built.

[3:07:16 PM](#)

Mr. Pannone addressed DOT's proposed change to the FY 26 budget structure on slide 15. He noted that AMHS was on the calendar year, which meant that its budget started six months after all of the other state budgets. He described the multi-year waterfall model shown on the slide. He highlighted the significant administrative burden of budget close outs on the calendar year as well as the fiscal year. He discussed flexible carry-forward or roll-forward of funding surplus or shortfall. He suggested the change would lead to better management of funds.

Mr. Pannone addressed the history of federal funding for the Rural Ferry Program on slide 16. It showed the budget composition since 2023. He described that AMHS had been leveraging the Rural Ferry Program that was authorized in the Infrastructure Investment and Jobs Act (IIJA) for an operating grant on an annual basis. The current year's budget was structured with an anticipated \$76 million award that DOT would apply for when the notice of funding opportunity came out.

Co-Chair Josephson asked when the state would hit the cliff wall where the funding was gone.

Mr. Pannone answered that the authorization was for \$200 million for five years. Currently there was \$410 million remaining in the program to be awarded. The \$76 million DOT was hoping for would come out of the remaining amount. The department would continue to submit for grant awards after the \$410 million was gone. They were hoping the program would be reauthorized, which was not un-typical of programs in infrastructure.

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Mr. Pannone advanced to slide 17 titled "Trends: Budget, Expenditures, Revenue." The graphs on the slide went back approximately 10 years. He pointed out a dip in AMHS revenue in 2020 going from \$50.8 million to \$28.5 million. The revenue had not recovered since the Covid-19 period. He commented that AMHS had been growing into the current budget. In 2023 there was \$133 million in expenses in a \$144 budget. in 2024 there was \$150 million of expenses in a \$158 million budget. He explained that DOT was continuing to anticipate closing the gap and growing into the budget AMHS had.

Mr. Pannone discussed ridership history on slide 18. The graph showed the number of vessels operating, the number of vehicles carried, and the number of passengers on the system. The red line depicted expenditures. He observed an increase in vessels around 2004 that indicated the fast ferries. Around 2014 and 2015, there were less vessels running which denoted selling the fast ferries and the M/V Malaspina. He pointed out a significant dip during the Covid-19 pandemic. He highlighted a recovery path with ridership, and hoped the long-range plan provided a long-term vision for the system.

Representative Bynum mentioned the dip during Covid-19, which he thought had some impact on ridership. He thought routine schedules and having vessels in the water was what generated revenue and ridership. He asked to discuss the impact of the lack of frequent schedules and vessels running and causing an impact on revenue and ridership.

Mr. Pannone answered that one of the drivers behind the calendar-year budgeting was to have longer visibility on

the budget to get schedules out quicker. He mentioned a positive correlation between ridership and getting schedules out quicker. He described the main limiting factor as a lack of staffing on ships. He relayed that the forward funding was trying to achieve predictability.

Representative Bynum asked the department to provide a report to the committee that specifically addressed staffing issues and what the department was doing to solve the issue. Additionally, he asked for information on minimum staffing levels required by the U.S. Coast Guard and regulatory agencies to operate vessels, compared to obligations under contracts and AMHS standards.

Mr. Pannone responded affirmatively.

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Representative Allard asked about a constitutional obligation for a ferry system.

Co-Chair Josephson replied in the negative. He thought the AMHS dated back to right after statehood.

Commissioner Anderson was not aware of a constitutional mandate.

Mr. Pannone addressed the AMHS Fund on slide 19. The slide outlined the two funds that were outlined in statute. The AMHS Fund included the deposit of all receipts generated from the system. The department was required to report on the fund on a fiscal year basis, which provided fund balances and revenues. The table on the slide ultimately showed that with revenues remaining, there was a potential for a shortfall in the fund in FY 26. Part of the long-range plan would be to address revenue, and the fund would need an increase of \$4 million annually to keep the fund positive.

Mr. Pannone addressed the AMHS Vessel Replacement Fund. The funds were for replacing vessels. There was currently \$19.6 million unappropriated and not designed for any of the vessels that were discussed during the meeting.

Representative Bynum discussed revenue generated by AMHS. He emphasized that the AMHS was Southeast Alaska's highway. He asked what kind of revenue was generated from highways

in the rest of Alaska to pay for the systems as opposed to what AMHS was doing with ridership fares and fees on its vessels.

Mr. Pannone answered that DOT collected an 8 cent per gallon Motor Fuels Tax, which was largely the basis for user funding. Additionally, DOT received federal funds from the FHWA from the federal highway account. The AMHS generated roughly \$36 million per year from ridership.

Representative Bynum asked if DOT had an analysis that had a per-user comparison. He pondered the cost of riding the ferry as compared to the 8-cent motor fuel tax.

Mr. Pannone replied that the department could provide the number of miles traveled in its annual traffic volume report. He thought it would be possible to make correlations with average daily traffic on highways and provide some high-level numbers on the number of diesel and gas consumed on state roads. He was not aware of a specific analysis but offered to do some research.

Representative Bynum asked for the information to be correlated to the cost spent for both programs.

Mr. Pannone agreed.

[3:19:32 PM](#)

Commissioner Anderson addressed AMHS crewing and lodging on slide 20. He pointed out the AMHS crewing options as of February 7th, which included job classes. He pointed out categories of "currently employed," as well as "minimum needed" and the current status based on the criteria. He pointed out that overall AMHS was in the red with needs for filling positions. He mentioned that typically the higher-licensed positions saw the biggest stresses. He mentioned better luck with recruitment for entry-level positions. He emphasized the amount of training needed for people to move up through the ranks. He mentioned AMHS wages and the comparison with Washington State Ferries. He noted that the state did have a nice benefit package, and DOT was working on getting the same information from Washington in order to do an analysis with the complete information.

Commissioner Anderson turned to the STIP Amendment 2 on slide 21. He encouraged members to submit comments. He

relayed that the plan was a culmination of the original STIP and working with the federal government on issues.

Representative Jimmie understood and appreciated the AMHS since her district had the same appreciation for aviation. She stated there was no highway in her district, but the area utilized the Kuskokwim River ice in the winter. She asked if the adjusted base had ever included consistent for the Kuskokwim River ice, and if the department had requested funds to maintain it.

Commissioner Anderson answered that the department had been pushing forward its ice road program across the state, including the Kuskokwim River. He thought the previous year DOT was funding the Kuskokwim. He relayed that one could see the funding in the STIP as a federally funded program, and DOT was working to have it exist with a regular program in the STIP. The program had not been added to the operating budget.

Representative Jimmie asked why the funding was not added into the operating budget.

Commissioner Anderson stated that DOT was looking at leveraging federal funds when possible. There had been new eligibility through the Infrastructure Investment and Jobs Act (IIJA) that allowed for ice roads to be funded through federal dollars. There had not been an ice roads program previously, and currently DOT was proposing a \$3.5 million ice roads program for the state, which was unprecedented.

Co-Chair Josephson asked if Representative Jimmie should be confident that the IIJA funding would flow. He referenced a previous amendment proposed for Kuskokwim River ice maintenance.

Commissioner Anderson answered that DOT was currently funding the Kuskokwim River. The department was working to solidify the federal program, which would be the most sustainable way to do it for the future.

[3:25:46 PM](#)

Representative Hannan asked about the STIP amendment program on slide 21. She had constituent groups meeting with her that day and had heard about things being added to the STIP and a governor's amendment. She asked about

taking public comment and whether the STIP amendment was a fixed list. She asked about the status of the list.

Commissioner Anderson answered that the QR code on the slide would get to the STIP Amendment 2. The STIP Amendment 2 was DOT's proposed four-year plan of what would be funded for projects. He stressed that there was an opportunity for members to comment and provide feedback. He noted would be a change record to see what had occurred.

Representative Hannan asked if people needed to send public comments in support of items on a list.

Commissioner Anderson confirmed that the STIP Amendment 2 was a draft document, and it would not be finalized until approval by FHWA and the Federal Transit Administration (FTA).

Co-Chair Josephson asked for verification that the STIP could include road projects that were not in existence yet. He used the example of investment in the West Susitna Access Road. He asked if the project was in a STIP.

Commissioner Anderson answered that the project was in the current STIP.

Co-Chair Josephson asked if the project required a state capital budget match before it could be realized.

Commissioner Anderson relayed that the majority of the projects in the STIP required a match.

Representative Tomaszewski thanked the department. He complimented the department. He commented that there was a lot to do in DOT. He mentioned that the department had been very helpful and responsive in the northern region.

Co-Chair Josephson thanked the department for its presentation.

HB 53 was HEARD and HELD in committee for further consideration.

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Co-Chair Josephson reviewed the schedule for the following day.

ADJOURNMENT

[3:30:12 PM](#)

The meeting was adjourned at 3:30 p.m.