

**ALASKA LEGISLATURE**

**2035**

**HOUSE and SENATE FINANCE COMMITTEE FILES, 1999 - 2000**

184

**HCR**

**3**

**HFIN**

**FILE**

4/23/99

adopted

AMENDMENT

①

OFFERED IN THE HOUSE

BY REPRESENTATIVE BUNDE

To: HCR 3

Page 1, line 2, following "Airport":

Insert "on aircraft with a seating capacity of 60 or more passengers"

Page 2, line 9, following "Airport":

Insert "on aircraft with a seating capacity of 60 or more passengers"

# CORRECTION

THE FOLLOWING DOCUMENT(S)  
HAVE BEEN REFILMED TO  
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services  
Department of Education & Early Development  
State of Alaska

4/23/99

adopted

AMENDMENT

①

OFFERED IN THE HOUSE

BY REPRESENTATIVE BUNDE

To: HCR 3

Page 1, line 2, following "Airport":

Insert "on aircraft with a seating capacity of 60 or more passengers"

Page 2, line 9, following "Airport":

Insert "on aircraft with a seating capacity of 60 or more passengers"

# HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: March 31, 1999

FURTHER REFERRALS:

Date of Committee Action: 4/23/99

The FINANCE Committee considered:

HCR 3

HOUSE CONCURRENT RESOLUTION NO. 3

PASSENGER FACILITY CHARGES AT ANCHORAGE

Relating to use of passenger facility charges at the Anchorage International Airport.

recommends it be replaced with the following committee substitute CS HCR 3 (FIN)  the same title  a new title

additional referral to \_\_\_\_\_ Committee  
 attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): \_\_\_\_\_ (Dept)

APPROVES PREVIOUS: \_\_\_\_\_ (Dept/Date)

fiscal note(s) \_\_\_\_\_

fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_

zero fiscal note(s) HSC Trans Com 3/31/99

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>[Signature]</i> Therriault			x	
<i>[Signature]</i> Mulder			/	
<i>[Signature]</i> Bunde			/	
<i>[Signature]</i> Kohring				x
<i>[Signature]</i> Austerman				x
<i>[Signature]</i> Grussendorf			x	
<i>[Signature]</i> J. Moses	x			
<i>[Signature]</i> G. Davis		x		
<i>[Signature]</i> J. Foster		x		

CHAIR'S SIGNATURE \_\_\_\_\_

Therriault

*[Signature]*

Mulder

# FISCAL NOTE

STATE OF ALASKA  
1999 LEGISLATIVE SESSION

BILL NO. HCR 3

Title: "An Act Relating to use of passenger facility charges at the Anchorage International Airport."  
Sponsor: House Transportation Committee  
Requestor: (H) TRA

Dept. Affected: DOT&PF  
BRU: \_\_\_\_\_  
Components: \_\_\_\_\_  
Serial #: \_\_\_\_\_

**EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)**

OPERATING	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants, Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>REVENUE</b>	0.0	0.0	0.0	0.0	0.0	0.0

**FUNDING: (THOUSANDS OF DOLLARS)**

General Fund						
Federal Fund						
Other						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

**POSITIONS:**

Full-Time	0	0	0	0	0	0
Part-Time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

**ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)**

Note: This bill may imply a fiscal note because of the message it conveys (asking to establish a fee). However, the resolution itself carries no fiscal impact.

Prepared by: Ted Deats, Committee Aide  
House Transportation Committee  
*Beverly Masek*

Date: 03/03/99  
Phone: 465-2679  
Phone: 465-2679

# FISCAL NOTE

STATE OF ALASKA  
1999 LEGISLATIVE SESSION

BILL NO. HCR 3

Title: "An Act Relating to use of passenger facility charges at the Anchorage International Airport."  
Sponsor: House Transportation Committee  
Requestor: (H) TRA

Dept. Affected: DOT&PF  
BRU: \_\_\_\_\_  
Components: \_\_\_\_\_  
Serial #: \_\_\_\_\_

**EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)**

OPERATING	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants, Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>REVENUE</b>	0.0	0.0	0.0	0.0	0.0	0.0

**FUNDING: (THOUSANDS OF DOLLARS)**

General Fund						
Federal Fund						
Other						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

**POSITIONS:**

Full-Time	0	0	0	0	0	0
Part-Time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

**ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)**

Note: This bill may imply a fiscal note because of the message it conveys (asking to establish a fee). However, the resolution itself carries no fiscal impact.

Prepared by: Ted Deats, Committee Aide  
House Transportation Committee  
*Beverly Masek*

Date: 03/03/99  
Phone: 465-2679  
Phone: 465-2679

KIP 4/23/99

BEFORE THE ALASKA STATE LEGISLATURE / HOUSE FINANCE  
COMMITTEE --RE: HCR 03 -- APRIL 13, 1999

Mister Chairman and Members of the Committee:

My name is Paul Landis. I am a Vice President for Era Aviation and an Executive Board member of the Anchorage Airport Affairs Committee. The views expressed today outline the position of Era Aviation.

With respect to Passenger Facility Charges, Era Aviation has made its position clear that we oppose the implementation PFC's at the Anchorage International Airport as it is currently structured. Our chief concern revolves around the exemptions that apply to select air carriers, based on the markets they serve.

Of the three regional air carriers based in Anchorage, the collection of PFC's would fall solely on Era Aviation. With the exception of Iliamna, every Era destination would be subject to PFCs by virtue of the fact that they are connected to Anchorage either by road or the marine ferry system. The so-called "rural exemption" that is moving forward in Federal legislation exempts communities not connected to the National Highway System. This is an inequity that singles out both Era and its passengers.

The same Senate Bill also exempts carriers in Alaska from collecting PFCs aboard an aircraft having a seating capacity of less than 20 passengers. Era currently operates 18 passenger, 37 passenger or 50 passenger aircraft. Passenger loads can jump in the final hours before departure justifying an upgrade from the 18 seat aircraft to the 37 seat aircraft. The reverse is also true. There are times when we change aircraft types for our own convenience for reasons unrelated to passenger loads. In any case, it is not realistic to have a two tier pricing structure in a common market whereby passengers riding on the larger aircraft pay more than those on a smaller aircraft. It would be impossible to collect PFCs in advance, not knowing which aircraft would be on what flight. The 20 passenger seat exemption places an insurmountable burden on Era Aviation.

While Era Aviation does not question that PFC's could provide a reliable revenue stream to the Anchorage International Airport, it strikes us as terribly inefficient to first identify a source of revenue, and then propose to choke-off the funding with exemptions that have nothing to do with the movement of passengers through a terminal facility.

Beyond the area of exemptions, we are concerned over the disproportionate tax on a \$55.00 one way fare to Kenai verses a \$350.00 one way fare to Seattle. The same \$3.00 PFC would be collected for either ticket, however, on the local fare it represents just over 5% of the total value of the ticket. On the Seattle fare, the PFC represents nine-tenths of one percent of the total ticket price. Residents of the Kenai Peninsula should not be subjected to such unbalanced taxation.

With respect to regional carriers in Alaska, either *all* should be required to collect PFCs - with no exemptions whatsoever - or *all* excluded. Era Aviation clearly prefers the latter approach. However, we are willing to seek equitable alternative solutions. One approach might be for regionals to collect a PFC for Anchorage, but only if in conjunction with a downline ticket, e.g., a passenger travelling Kenai to Anchorage *and beyond*.

Although I am commenting currently on HCR 3, I like to also express Era Aviation's support for HB 84 authorizing revenue bonds for the Anchorage International Airport.

Thank you for your consideration of Era Aviation's position on this issue. I'll be glad to answer any question that you might have.

## Sponsor Statement for HCR 3

In 1990, Congress passed a law to allow publicly owned airports to collect user fees called Passenger Facility Charges. The state of Alaska owns and operates 170 airports stateswide and, to date, has not elected to participate in the PFC program. In contrast, the city owned airports of Juneau and Ketchikan have each implemented Passenger Facility Charges.

Passenger Facility Charges are a flat user fee collected at the time of ticket purchase, in most cases the fee is \$3.00. Funds collected through the PFC mechanism may only be used for specific, pre-approved projects that directly benefit airport users. All major airlines serving Anchorage International support the implementation of PFC's with the exception of ERA Aviation.

Passenger Facility Charges are being paid now by Alaskans who travel out-of-state or to Juneau or Ketchikan. In the case of travel outside of Alaska, the money collected from Alaskans goes to outside airports like SeaTac, Salt Lake, or San Francisco, all of whom collect passenger facility charges. Anchorage International is losing up to \$10,000 per day in missed PFC revenues to the benefit of many outside airports.

The current expansion of Anchorage International Airport is a prime example of a capital project that could benefit from the implementation of a Passenger Facility Charge program. While the Department of Transportation does not need direct legislative approval to implement a PFC program, HCR 3 is an important step in bringing the public into the PFC discussion.

## Sample Itineraries with and without PFC's

\* Indicates PFC Participating Airport

With PFC's		Without PFC's	
Departure Itinerary	PFC Collected	Departure Itinerary	PFC Collected
*Kenai	\$3.00	*Kenai	\$3.00
*Anchorage	\$3.00	Anchorage	\$0
*Seattle	\$0	*Seattle	\$3.00
*San Deigo	\$0	*San Deigo	\$0
<b>Return</b>		<b>Return</b>	
*San Deigo	\$0	*San Deigo	\$3.00
*Seattle	\$3.00	*Seattle	\$3.00
*Anchorage	\$3.00	Anchorage	\$0
*Kenai	\$0	*Kenai	\$0

Departure Itinerary	PFC Collected	Departure Itinerary	PFC Collected
*Anchorage	\$3.00	Anchorage	\$0
*Juneau	\$0	*Juneau	\$0
<b>Return</b>		<b>Return</b>	
*Juneau	\$3.00	*Juneau	\$3.00
*Anchorage	\$0	Anchorage	\$0

With PFC's		Without PFC's	
Departure Itinerary	PFC Collected	Departure Itinerary	PFC Collected
Fairbanks	\$0.00	Fairbanks	\$0.00
*Anchorage	\$3.00	Anchorage	\$0.00
*Juneau	\$3.00	*Juneau	\$3.00
*Ketchikan	\$0.00	*Ketchikan	\$0.00
<b>Return</b>		<b>Return</b>	
*Ketchikan	\$0	*Ketchikan	\$3.00
*Juneau	\$3.00	*Juneau	\$3.00
*Anchorage	\$3.00	Anchorage	\$0
Fairbanks	\$0	Fairbanks	\$0

Departure Itinerary	PFC Collected	Departure Itinerary	PFC Collected
*Anchorage	\$3.00	Anchorage	\$0
*Seattle	\$0	*Seattle	\$0
<b>Return</b>		<b>Return</b>	
*Seattle	\$3.00	*Seattle	\$3.00
*Anchorage	\$0	Anchorage	\$0



COVER SHEET

Anchorage Legislative Information Office  
Office - (907) 269-0111 Fax - (907) 269-0229

To: House Finance Cmte

Atten: \_\_\_\_\_ Fax: \_\_\_\_\_ Phone: \_\_\_\_\_

From: \_\_\_\_\_ Phone: \_\_\_\_\_

Instructions: Written testimony

HCR 3 - Kathleen Stevenson

was in Anchorage LIO for canceled teleconf. 4-23

Sent: \_\_\_\_\_ Date: 4-23 Time: \_\_\_\_\_

Disposal of Original: Discard: \_\_\_\_\_ Hold for Pickup: \_\_\_\_\_

Number of Pages: 3 (counting cover sheet)

Transmitted by: [Signature]

Representatives:

I am here representing the thousands of your neighbors in Anchorage that go to work each day, volunteer endless hours a week, and with our last bit of strength come home to hug our loved ones good night. In the back of our minds we worry about the all the cut backs in jobs and community servers. We can fall asleep knowing you are probably laying awake worrying how to vote the next day. We feel assured since we only have the Daily News to keep us informed, that you will. Our Anchorage Community Councils meet once a month. What happens at the Airport is of our concern and our business. We need to be kept informed so we can let you know how we would like you to vote for us. The average Alaskan does not have a clue that cutting back is meant for us, not for pet projects.

I very concerned about this bill. Where as a facility charge would be a good source of funds for future repairs. Let it be just for that, and not to be used for the expansion debt. Just last week DOT and the Airport Expansion Team sat before you and promised to stay on budget and that the expansion would not effect ticket prices. I do feel the timing is wrong. By passing this bill now, we are sending a message that we expect the project to go over budget, so we will set up a trust fund for them. Let them show good intentions by scaling back, or echo Senator Peacre's threat to scratch the whole project.

I am weary of hearing how all the Airlines in full agreement. Five years ago we were in our glory. Travelers were enjoying record low airfares, we had competition with MarkAir in the skies. Times have changed and Air Carriers do not want to rock the plane and be outcasted later. They are counting on you to hear their silent cries. We are counting on you to put us first by getting the big picture of what is to come down the road. I urge to not let Alaska Airlines and its puppets sway your vote on this bill or HB 84. Send them a message now, so they will not be back next year. If you allow this bill to move forward, put a special limitation on where the funds can be used for.

Ask the Alaskan People what they want and they will tell you they want low airfares and competition in air carriers.

Kathleen Stevenson  
8400 Pioneer  
Anchorage AK  
99504

TO: GENE AND MIKE RE: HCR 3  
RR: KIP 266-8393

3/22/99 A. JOURNAL OF COMMERCE

approve a \$25 million bond issue for start-up construction costs.

The Federal Aviation Administration thinks the DOT may be misrepresenting to the Legislature federal funds that may be used to repay the bonds. Officials want to be sure funds disbursed as outlined in the FAA's \$48 million letter of intent to Anchorage International Airport, issued last summer, will be used for intended airside improvements, and not on the terminal project.

At the same time, there is concern about the absence of passenger facility charge revenues in the funding stream,

hearing early this month in Juneau.

The hearing was conducted by Transportation Committee chair Beverly Masek, R-Willow, after Transportation Sub-committee hearings by John Cowdery, R-Anchorage, who has been examining the need for passenger facility charges at Anchorage International Airport.

Masek passed the request from the House Transportation Committee to the House Finance Committee.

Among concerns of legislators, trustees for the Alaska International Airport System, are missing PFC revenues,

project, and see PFCs as a means to help defray them, and avoid increased ticket prices.

Some airlines have suggested that over the next five years, based on its track record so far, before the airport project is completed, costs will reach \$500 million.

Alaska Airlines, Reeve Aleutian Airways and Northern Air Cargo testified to a special legislative sub-committee in favor of PFCs that PFCs needs to be part of the funding stream at AIA.

FAA officials say AIA could be collecting an average of

## Anchorage airport losing \$10,000 daily, FAA says

By Rob Stapleton  
Journal reporter



Because it still isn't collecting passenger facility charges, Anchorage International Airport is losing as much as \$10,000 daily in revenue, according to Ron Simpson, manager of the Airports Division of the Federal Aviation Administration's Alaska Region, about the

PFCs amount to a \$3 charge for the first two and last two enplanements of a round-trip ticket, for a maximum of \$12 per ticket.

Controversy over the possible issue of \$25 million in bonds to help start construction of a \$234 million terminal expansion and renovation at AIA has forced Alaska legislators to examine the funding for that project.

According to state Department of Transportation officials, the \$25 million is not covered by a federally guaranteed \$32 million letter of credit provided by the FAA.

"This is what we all dreaded and tried to avoid," said Butch Hallford, vice president of postal operations for Northern Air Cargo. "This has all the indications of a runaway project that will eventually cost Alaska \$500 million before it is through."

AIA recently received a \$180 million bond issue for construc-

tion, approved by last year's Legislature. Initial construction plans called for a mix of bonds, funds from the FAA (including Airport Improvement Projects, Capitol Improvement Projects and Letter of Intent monies), Federal Highway Administration grants and PFCs to help pay for the project.

Legislators, the FAA and AIA airlines have testified that the airport should be charging PFCs, so that the cost of doing business around the airport will not increase. State Transportation officials have refused to apply with the FAA to receive them and are instead waiting for Congress to pass special exemptions into law. Those would exempt aircraft in Alaska with 20 seats or less, communities not on a highway or marine highway system, and cities with populations less than 10,000.

"This is absolutely unconscionable," said Dave Jensen, vice president at Reeve Aleutian Airways. "This should have been part of the original funding stream." Department of Transportation and Public Facilities Commissioner Joc Perkins promised AIA signatories that PFCs would be added to the funding stream, but now officials are stalling, Jensen said.

According to Deputy Transportation Commissioner Kurt Parkan, the department wants to avoid controversy and scrutiny from Interior airlines operat-

ing at Fairbanks International Airport, which is also part of the Alaska International Airport System. Most Fairbanks air taxis and airlines oppose charging PFCs, because the majority of their passengers live in remote villages and are without other transportation options. The Senate recently stalled the FAA Reauthorization Bill, which includes funding for qualified projects nationwide along with the PFC exemptions.

"I now doubt that the reauthorization bill, with the Alaska exemptions, will be debated this session," said Mitch Rose, chief of staff for Sen. Ted Stevens, R-Alaska.

PFCs have been the topic of debate in Juneau in the past few weeks. A special meeting was conducted in Anchorage on March 8, between Transportation and AIA officials, to consider a strategy on the implementation of PFCs for the Alaska International Airport System.

Lynn Leibovitz, a former consultant to AIA on PFCs, was among those who attended, and has been asked to work with the airport again on this issue, according to Parkan.

Transportation Department documents show that AIA drafted a PFC application in 1996, but let it expire after objections from Alaska Natives in Fairbanks. According to FAA studies,

Continued on Page 24

## Passenger fees meet Interior opposition

*Continued from Page 11*

Alaska Natives would make up the majority of passengers who pay PFCs, on flights from villages to Fairbanks and back, averaging less than \$200. Another FAA study, in 1992, indicated PFCs could garner \$7.7 million yearly from 29 rural villages.

→ Art Warbelow, president of Warbelow's Air Ventures in Fairbanks — considered a Robin Hood by some — has campaigned against PFCs. Warbelow flew Natives from villages to Fairbanks in 1996 to testify against the issue, before state, FAA and Senate Finance Committee leaders.

"Once again we will pull out the stops and let the governor and commissioner know how people feel about PFCs here in the Interior," Warbelow said recently. "If

we have to, we will fly to Juneau and let the whole Legislature know how villagers feel about paying this fee."

Parkan recently told this newspaper that the Department of Transportation was in favor of PFCs and would apply to the FAA to collect them. But according to FAA officials, to date no communication from the department or the commissioner's office about a draft or application to authorize AIA to collect PFCs has not been received.

Rep John Cowdery, R-Anchorage, recently introduced a draft resolution to implement PFCs at AIA and to apply the funds to the current funding stream. The Legislature can put this to a vote if DOT does not make the application.

# FISCAL NOTE

STATE OF ALASKA  
1999 LEGISLATIVE SESSION

BILL NO. HCR 3

Title: "An Act Relating to use of passenger facility charges at the Anchorage International Airport."  
Sponsor: House Transportation Committee  
Requestor: (H) TRA

Dept. Affected: DOT&PF  
BRU: \_\_\_\_\_  
Components: \_\_\_\_\_  
Serial #: \_\_\_\_\_

**EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)**

OPERATING	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants, Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>REVENUE</b>	0.0	0.0	0.0	0.0	0.0	0.0

**FUNDING: (THOUSANDS OF DOLLARS)**

General Fund						
Federal Fund						
Other						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

**POSITIONS:**

Full-Time	0	0	0	0	0	0
Part-Time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

**ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)**

Note: This bill may imply a fiscal note because of the message it conveys (asking to establish a fee). However, the resolution itself carries no fiscal impact.

Prepared by: Ted Deats, Committee Aide  
House Transportation Committee  
*Beverly Masek*

Date: 03/03/99  
Phone: 465-2679  
Phone: 465-2679



U.S. Department  
of Transportation  
Federal Aviation  
Administration

Alaskan Region

222 W. 7th Avenue #14  
Anchorage, Alaska  
99513-7587

February 18, 1999

The Honorable Jerry Ward, Chair  
Senate Transportation Committee  
Alaska State Capitol  
Room #423  
Juneau, Alaska 99801

The Honorable Beverly Masek, Chair  
House Transportation Committee  
Alaska State Capitol  
Room #432  
Juneau, Alaska 99801

Dear Senator Ward and Representative Masek:

#### Testimony on the Passenger Facility Charge Program

I appreciate this opportunity to share our perspective on the benefits of implementing a Passenger Facility Charge program at Anchorage International Airport (ANC) in order to provide additional revenues for the terminal redevelopment project.

The Department of Transportation has requested an additional \$25 million in new revenue bonding authority from the legislature to complete the financing package for the ANC terminal redevelopment project. PFC's can be used to supplement the available financing, or fill the funding shortfall without incurring an additional \$25 million in bond debt for the State of Alaska.

By implementing PFC's, ANC will generate at least \$5 to 6.5 million in additional revenues annually. The airport will be required to give up 50% of its passenger entitlement funds; about \$1.5 million annually, however the result is a net gain of \$3.5 to 5 million in revenues annually. The foregone 50% of passenger entitlement funds would go to smaller airports, which could benefit other Alaska airports.

The FAA has supported the ANC terminal redevelopment project with a Letter of Intent (LOI), which is a long term commitment of Airport Improvement Program (AIP) discretionary funds, \$32 million for reimbursement over ten years.

ANC has committed a major portion of its AIP entitlement funds to the terminal redevelopment project. PFC's can be used in conjunction with AIP and the LOI to limit the bond debt, reduce the term of the bonds, or offset the financing charges.

The PFC application and approval process requires full public disclosure, including public hearings, consultation with the airlines and tenants, consensus with the proposed projects, and publication in the Federal Register for public comment.

PFC's are collected for projects pre-approved by the FAA and are project specific. For example, if ANC were approved to collect PFC's for only the terminal redevelopment project, when the project is complete and the bond debt is paid off, the PFC collection would be terminated. ANC would have to re-apply to collect PFC's for future projects.

The FAA encourages airports to take advantage of every available funding source when financing airport infrastructure development projects. PFC's are the most viable funding source for large airport infrastructure development projects such as the terminal redevelopment project ANC is undertaking.

Failure to implement a PFC program may impact an airport's ability to receive AIP discretionary funds, which are allocated on a competitive basis. For example, if ANC were competing for discretionary funds with another airport that has implemented PFC's and taken advantage of every available funding source, then the other airport would more likely be awarded AIP discretionary funds to complete the financing package for its projects.

There are over 300 airports approved for collection of PFC's, and more than 100 more applications currently in process. Estimated collections, based on current approvals, for January 1, 1999 through December 31, 1999, will exceed \$1.4 billion. PFC collection of \$1.4 billion annually is vastly approaching the AIP Reauthorization level of \$1.95 billion for fiscal year 1999. There are over 3500 airports eligible to compete for limited AIP funds.

Juneau International and Ketchikan International Airports are approved for PFC collection. Juneau's PFC application was approved in April and collection began in October. Ketchikan's PFC application was approved in December and collection began this February. The FAA has not received any complaints as a result of implementing PFC programs at either Juneau or Ketchikan. Prior to Juneau initiating PFC collection, Alaska was one of only two states without an airport participating in the PFC program.

Several of the AIP reauthorization proposals currently being considered by Congress include an increase in the maximum PFC's that an airport can collect (from \$3 to \$4 or \$5 per segment). If this passes with AIP reauthorization, then

large and medium hub airports that elect to raise their PFC charge to more than \$3 will likely forego 100% of their passenger entitlement funds and face new restrictions on the use of AIP cargo entitlement funds. AIP funds for large and medium hub airports will be limited to federal mandates such as meeting safety, security and environmental requirements, noise mitigation and increasing airfield capacity.

Whatever level of PFC is implemented, this legislation which has been in effect since 1990 authorizes PFC collection at the first two participating airports on the outbound trip, excluding the destination airport. On the return trip, the last two participating airports, excluding the destination airport, are authorized for PFC collection. This would remain the case with any new legislation. Airlines collect this fee as part of the ticket price and remit PFC revenues to the specific airport for which PFC collection is approved.

There are legitimate concerns regarding the impact PFC's will have on rural Alaska, where aviation is the only means of transportation. The Department of Transportation has proposed that PFC exemptions be pursued by federal legislative action, but there is no assurance that it will pass through Congress. There is strong support for - and strong opposition to - increasing the PFC limit. During the last AIP Reauthorization, all PFC provisions were dropped from the Omnibus Bill because the industry had not reached consensus on the maximum PFC limit.

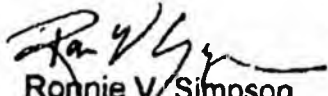
The FAA has the authority to approve PFC exemptions by administrative action. We are sensitive to the concerns about the impact PFC's will have on rural Alaska and we are willing to work with ANC to craft exemption language for their PFC application to address those concerns. Juneau requested exemptions in their PFC application for several routes to rural communities. The FAA approved Juneau's exemptions by administrative action without federal legislative direction or mandate (reference Juneau Record of Decision).

Alaskans are already paying PFC's when flying outside of Alaska. PFC's are charged on flights that connect through Seattle, Portland, San Francisco, Salt Lake City, Denver, Minneapolis, Chicago; every major airport with connections from ANC. Alaskans are paying up to \$6 dollars one way, \$12 dollars per round trip in PFC's to help finance development projects at those other airports. None of the funding remains at ANC because the airport has not applied for PFC's.

In summary, we believe that PFC's should be an integral part of the ANC terminal redevelopment financing package. We stand ready to move forward on the PFC application when we receive it, and we are willing to work with ANC to craft exemption language for its PFC application to address the concerns of rural Alaska.

If there are any questions, or if I can clarify the PFC process, please do not hesitate to contact me at (907) 271-5438.

Sincerely,



Ronnie V. Simpson  
Manager, Airports Division

cc: Joseph Perkins, P.E., Commissioner DOT&PF

TESTIMONY OF  
CLIFFORD T. ARGUE  
ALASKA AIRLINES  
BEFORE THE  
ALASKA STATE LEGISLATURE  
JOINT HEARING  
SENATE TRANSPORTATION COMMITTEE  
AND  
HOUSE TRANSPORTATION SUBCOMMITTEE

February 18, 1999

Mr. Chairmen and Members of the Committees:

My name is Clifford Argue. I am Staff Vice President of Properties and Facilities for Alaska Airlines and also serve as Chairman of the Anchorage/Fairbanks Airlines Airport Affairs Committee, an organization representing the some 25 airlines who have signed operating agreements at and serve the two airports. My comments today reflect the position of Alaska Airlines as well as several other members of the committee including Reeve, Delta, Northwest, Fed Ex, United and American, some of whom you will also be hearing from directly.

I would like to commend your committees for your interest in Passenger Facility Charges (PFC's), and for holding this hearing today.

We support the imposition and use of PFC's, at the \$3 amount, as an appropriate funding source for airport projects which meet the statutory and regulatory criteria of safety, security, capacity, noise mitigation, or enhancement of competition AND which have been otherwise reviewed and approved by the airlines as necessary. There is a very well defined airline consultation process set forth in the PFC law and regulations which must be followed by the airport operator separate and apart from any approval required in the airline/airport operating agreements.

The Terminal Expansion Project at Anchorage International Airport is certainly one for which PFC funding makes sense. Most of the airlines would endorse the imposition and use of PFC's to help fund this project, either through direct capital payments or to help offset debt service on the \$179 million in revenue bonds already issued or the forthcoming additional \$25 million to be issued in the near future to bridge the FAA Letter of Intent.

Further, there are various other projects at Anchorage and some at Fairbanks as well that would be worthy candidates for PFC funding to reduce the impact on airline rates, fees, and charges paid to the airports. These projects include planned airfield, ramp, and terminal work at both locations.

You have heard and will continue to hear that Alaskans are already paying PFC's everytime they travel out-of-state, and none of this money benefits State DOTPF airports. This is very true. In the rest of the country, some 300 airports serving all sizes of communities have PFC's in place with a total collection estimated at more than \$23 BILLION over the next 20 - 25 years. ANC and FAI are among the only airports of their size not collecting PFC's. In state, passengers departing Juneau and Ketchikan airports are now paying \$3 PFC's.

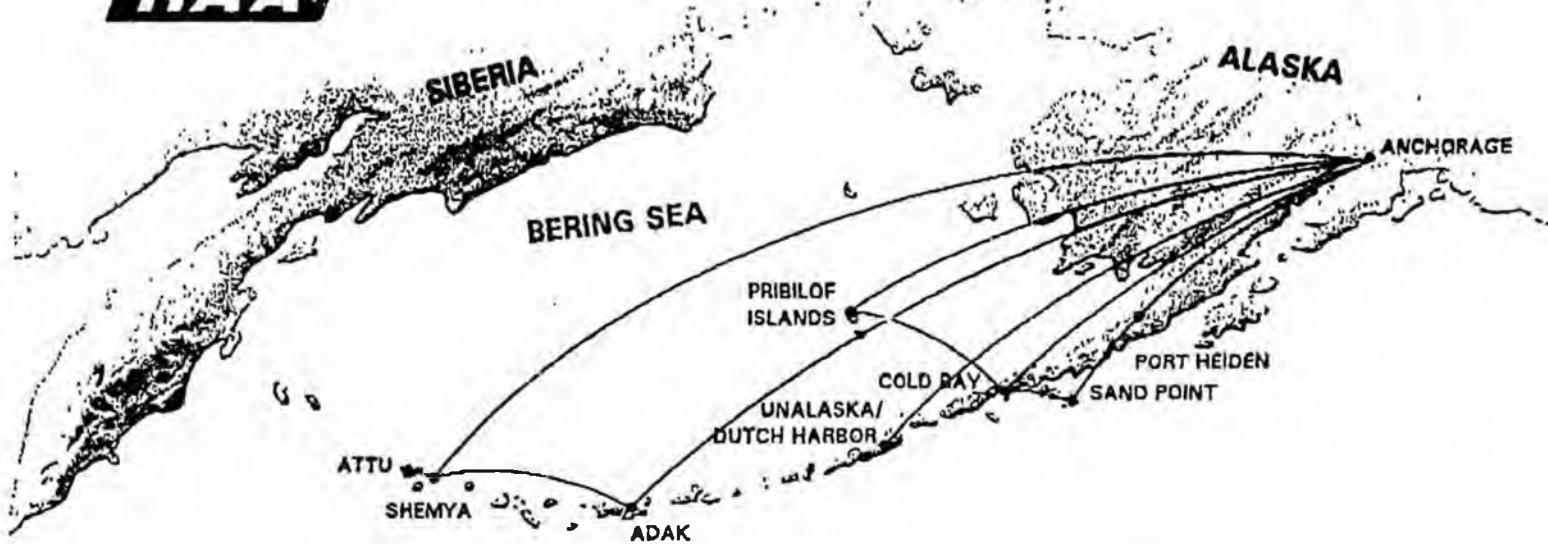
Despite initial concerns by some airlines and communities, there has been no hard evidence that the addition of PFC's to the ticket cost has made any difference in air travel demand, even in those markets where the personal auto, bus, or train are reasonable transportation alternatives.

PFC's, at the current \$3 level, used correctly and with prudence, are a good funding source for justified airport projects, allowing the user - the passenger - to pay directly for the facilities enjoyed. PFC's were contemplated in the process of developing the plan for the Anchorage Terminal Expansion. Now is the time to begin the formal application process with the airlines and FAA to get PFC's in place as quickly as possible.

Thank you for the opportunity to offer these comments. I'll be glad to answer any questions you may have.



# Reeve Aleutian Airways



SENATE TRANSPORTATION COMMITTEE AND  
HOUSE TRANSPORTATION SUB-COMMITTEE

FEBRUARY 18, 1999

SENATORS, REPRESENTATIVES, LADIES AND GENTLEMEN

My name is David Jensen. I am the Administrative Vice President of Reeve Aleutian Airways. Reeve Aleutian is Alaska's oldest airline. Throughout our history, Reeve Aleutian has always supported Alaska's growth and we have enjoyed Alaska's economic successes. We support Gateway 2000 and the Anchorage Terminal Expansion but, there is a problem.

Last year at this time the debate and discussion before us revolved around Anchorage International Airport and Gateway 2000. This proposed project was designed to accommodate six million passengers who are anticipated by 2005 according to projections. The project adds new jet gates, regional aircraft positions, associated lounges, ticketing areas, baggage facilities, and enhanced access to the terminal. Legislation passed last session with your support.

All of you are aware that the build up to supporting the Terminal Expansion began with a vote of signatory airlines. Pursuant to the Airport Airline Operating Agreement, 22 of the 25 signatory airlines voted. Twelve airlines voted disapproval and ten voted to approve the project. A simple majority of airlines did not approve the project. However, according to the Agreement, a two-thirds vote is required for disapproval. Hence the project was approved by ballot, but with less than a majority of airlines approving.

On behalf of Reeve Aleutian Airways, I voted to disapprove the project. However, we noted that with passenger facility charges (PFCs) included in the funding stream for bonds redemption that Reeve would change its position to approve the Anchorage Terminal Expansion project.



Arising from discussions and meetings with state DOT officials, wherein I asserted Reeve's firm position that PFCs were essential for our support. I came to the belief that PFCs should and would be a part of the funding for the Anchorage project in 1999. Based on my belief, Reeve Aleutian Airways joined with members of the Airline Transport Association supporting Gateway 2000 and the Anchorage Terminal expansion.

Before you today, I again restate my support for the terminal expansion at Anchorage International Airport. But, consistent with my position from the beginning, PFCs must be included in the funding stream for redemption of bonds. Alaska Air Carriers operating today are collecting PFCs at Anchorage and at rural Alaska airports, as we speak, for Seattle and virtually every airport in the Continental United States. It would be unconscionable to continue to collect PFCs in Alaska for out-of-state airport projects and not collect PFCs for the Anchorage airport expansion.

The State of Alaska should propose a PFC for Anchorage Terminal Expansion. A consultation and approval process with the FAA needs to happen as soon as possible. PFCs should be factored into the bond amortization schedule, now.

I ask your support for PFCs. Thank you.

REEVE ALEUTIAN AIRWAYS, INC.  
4700 W INTERNATIONAL AIRPORT ROAD  
ANCHORAGE, AK 99502

NATIONAL BANK OF ALASKA  
ANCHORAGE, AK  
88-5/1252

057373

CHECK DATE	CONTROL NUMBER	CHECK AMOUNT
03/11/98	057373	\$*****1518.40

PAY One Thousand Five Hundred Eighteen and 40/100 ----- dollars

ORDER OF SEA-TAC INT'L AIRPORT  
ATTN PFC COLLECTIONS; DEPT#201  
PO BOX 34249-1249  
SEATTLE WA 98124-1249

REEVE ALEUTIAN AIRWAYS, INC.  
GENERAL ACCOUNT



AUTHORIZED SIGNATURE

SECURITY FEATURES INCLUDED. DETAILS ON BACK.

⑈057373⑈ ⑆125200057⑆0006851665⑈

⑆0000151840⑆

**Testimony of Northern Air Cargo**  
**(before the joint Senate & House Transportation**  
**Committee on the subject of PFC's at ANC)**  
**February 18, 1999**

Good Afternoon Mr. Chairman, committee members etc. My name is Butch Hallford. I am Vice President of Northern Air Cargo and a member of the Alaska Int'l Airport Affairs Committee.

The question of whether the Alaska Int'l Airport System should be authorized to impose PFC's has been asked before. The arguments for and against PFC's were many and both sides arguments still hold great merit. Now however, there is a new element to the equation in the form of a nearly quarter Billion \$, (and yes, that's billion with a "B") terminal expansion.

The approval for this 1/4 Billion dollar undertaking was predicated on the agreement of the signatory air carriers that serve ANC and FAI to pay for it. I'm sure you will remember that that agreement was far from unanimous but it did carry never-the-less. Several of the carriers that supported the project did so conditionally based on promises both written and verbal on the part of the AK DOT that new and additional sources of income, specifically including Passenger Facility Charges, would be sought to pay for the terminal. Among the questions asked and answered was confirmation that PFC's could be applied for after the fact and still applied to this project. The DOT argued that the commencement of the project was so urgent, that it would create an overwhelming hardship not only on the airport but also on the citizens and visitors of Alaska, were they to delay the project until PFC's could be approved in advance.

The reason for the approval on the part of at least some of the carriers that voted to approve, was the honest belief that as soon as it was physically possible to do so, the DOT would begin the process to implement PFC's. It is now that time.

I testified last year that approximately 1/3 of the cost of the terminal expansion would be born by the cargo carriers that operate to and through the ANC and FAI airports. I was then and now remain concerned that to impose even only a fraction of a 1/4 billion dollars on cargo carriers, carriers incidentally that derive absolutely no benefit whatsoever from the greatly improved terminal, adds a level of expense

that could potentially damage Alaska's ability to compete in the global market. The promise of PFC's, the promise of transferring at least portion of that expense back to the passengers that actually use the terminal, provided in many cases just enough rationale on balance to allow them to approve the project.

I understand that there are many good arguments for both sides of the PFC issue as it affects Alaskan's. I don't know or understand them all. I do know however, that my customers that live in Kotzebue, or Nome, or Bethel, or Emmonak, or Hooper Bay are going to have to pay a portion of the cost of that terminal in every loaf of bread or gallon of milk they buy, whether or not they get to fly through ANC ever again. They may never set eyes on that 1/4 billion dollar terminal as long as they live, but they will be paying for it every day.

That the cost of a project this size must be spread across a broad base of payers is clear and easily understood. The least that can be done however is to minimize the amount of cost born by people that never use the terminal. Have the people that actually use the facility pay for it. The PFC program is not without it's problems and there are some fairness questions within it as well. There is however, no fairer way to pay for something, anything, including this 1/4 billion dollar 1<sup>st</sup> stage of terminal expansion, than to have the people that use it, be the ones to bear the greatest share of the burden of paying for it.

In summary, there are admittedly problems with the PFC program with respect to Alaskans. The exemptions being contemplated will no doubt address many or most of the inequities. Never the less, whatever fairness issues the PFC program present, pale next to the unreasonable share of the burden born by cargo carriers at ANC & FAI airports. This coupled with the question of retaining PFC's already being collected and remitted out of state make this a "no-brainer." Thank You.



February 26, 1999

Senator John Cowdery  
716 W. 4<sup>th</sup> Avenue, Suite 320  
Anchorage, AK 99501-2133

Dear Senator Cowdery:

I regret I was unable to attend the Senate Transportation Committee and House Transportation Subcommittee meeting to testify in regard to Airline Passenger Facility Charges (PFC's) being implemented at the Anchorage International Airport (AIA).

FedEx supports the collection of PFC's at the Anchorage International Airport. We also recommend that the consultation and the approval process with the FAA begin as quickly as possible. FedEx has made a sizeable commitment to the State and the City in support of growth at the Anchorage International Airport.

We have supported Gateway 2000 and the Anchorage Terminal Expansion project from its inception. As a signatory of the Airport Operating Agreement, we voted for approval of the project last year. FedEx, an express cargo operator at the airport, realized we would *not* directly benefit from:

- The addition of new jet gates
- Regional passenger aircraft positions
- Ticketing areas
- Lounges
- Baggage handling capabilities
- Improved passenger access and flows

However, from an industry standpoint, improvements to existing passenger facilities are the right things to do.

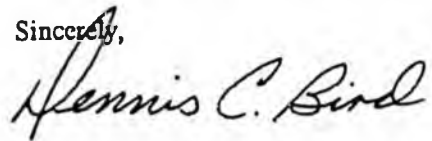
Capturing PFC funds to support this growth is also the right thing to do for all concerned. Last year, during the process to gain approval for the AIA Expansion Project, there were numerous discussions between state DOT officials and the airlines regarding PFC implementation and their use toward funding that project in 1999. I came away from those discussions with the perception that PFC's would be pursued in 1999 and the funds applied to that project.

PFC's are being collected today at the Anchorage International Airport. It would seem unreasonable to collect these charges in Alaska, but not pursue PFC authority from the FAA allowing the State to use its share of these funds for the Anchorage International Airport Terminal expansion.

PFC's for AIA, cont.

I request your support for PFC implementation.

Sincerely,

A handwritten signature in cursive script that reads "Dennis C. Bird".

Dennis C. Bird  
Managing Director  
Alaska Operations

cc: Teri Kerichenko, FedEx Airport Relations  
Doug Buttrey, FedEx Government Affairs

DCB/cb



**Era Aviation**

6160 Carl Brady Drive  
Anchorage, Alaska  
99502

February 18, 1999

Representative John Cowdery  
Alaska State Legislature  
State Capitol, Room 204  
Juneau, Alaska 99801-1182

Dear Representative Cowdery,

It is my understanding that you are leading a special Transportation subcommittee charged with reviewing Passenger Facility Charges (PFCs) at the Anchorage International Airport. Era Aviation has expressed opposition to PFCs based on a number of inequities to our passengers, and to the company in general. Following are the key points to our opposition:

1) The community of Kenai is Era's largest passenger market. We have served Kenai for over 15 years and have seen six other air carriers come and go in that timeframe. More than any other market we serve, Kenai is highly price sensitive and currently Era is their only air carrier. Our biggest competition is the new and improved roadway that has cut driving time to Anchorage by approximately one hour.

Era's full "walk-up" fare between Anchorage and Kenai is \$55.00. Included in that amount is an 8% transportation tax. The reason for 8% (rather than 7.5%) is because Kenai is within 75 miles of Anchorage International Airport which is considered a "non-rural airport." Due to this unfortunate proximity, Era must also collect an additional Tax in the form of a \$2.00 "segment fee" from each passenger. That increases the out-of-pocket fare to \$57.00. To saddle Kenai passengers with yet another tax in the form of a \$3.00 PFC would mean that approximately 15% of each full fare is pure tax. Obviously, that tax percentage increases with discounted and advance purchase fares. The PFC alone would constitute just over 5% of the airfare. On long haul flights to Seattle and beyond, PFCs are well below 1% of the total airfare. Residents of the Kenai Peninsula should not be subjected to such unbalanced taxation.

2) Among regional air carriers based in Anchorage, Era would carry a disproportionate share of the load in collecting PFCs. Senator Stevens office has confirmed that language is currently moving in a Senate Bill whereby communities with a population of less than 10,000 and not connected by a land highway or vehicular way to the land-connected National Highway System within

Representative John Cowdery  
Alaska State Legislature  
February 18, 1999  
Page 2 of 3

a State are exempted from collecting a PFC. In effect, this means that Anchorage based carriers such as Reeve and PenAir would not be required to collect a PFC on local airfares. With the exception of Iliamna, every Era destination would be subject to PFCs by virtue of the fact that they are connected by either road or the marine ferry system. This is an inequity which singles out both Era and its passengers.

3) The same Senate Bill referenced above also exempts carriers in Alaska from collecting PFCs aboard an aircraft having a seating capacity of less than 20 passengers. Era currently operates 18 passenger, 37 passenger or 50 passenger aircraft in the Kenai and Homer markets. Passenger loads can jump in the final hours before departure justifying an upgrade from the 18 seat aircraft to the 37 seat aircraft. The reverse is also true. There are times when we change aircraft types for our own convenience for reasons unrelated to passenger loads. In any case, it is not realistic to have a two tier pricing structure in a common market whereby passengers riding on the larger aircraft pay more than those on a smaller aircraft. It would be impossible to collect PFCs in advance, not knowing which aircraft would be on what flight. The 20 passenger seat exemption places an insurmountable burden on Era Aviation.

4) An interesting situation exists in Cordova, a market served by both Era Aviation (as a subcontractor to Alaska Airlines), and by Alaska Airlines with their jet equipment. According to FAR 158.9 subparagraph (a), Alaska Airlines cannot collect a PFC because they also collect an EAS (Essential Air Service) subsidy for Cordova. Era does not share in the EAS subsidy, and therefore must collect a PFC. This puts Era in an immediate price disadvantage in a common market with our own partner, Alaska Airlines.

5) While no one questions that PFC's can provide a reliable revenue stream to the Anchorage International Airport, the question that must be answered is whether or not the push for PFCs is an attempt to mask the known cost overruns on the terminal expansion project. Before we apply a band-aid, we must first address the wound. Era withdrew its objections to the terminal expansion and has not changed that position, however, *as the second largest carrier of passengers to and from the Anchorage International Airport* it is our desire to seek other solutions before we disproportionately shift the burden onto our passengers.

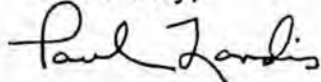
Representative John Cowdery  
Alaska State Legislature  
February 18, 1999  
Page 3 of 3

It is important to note that approximately 75% of Era's passenger traffic is local in nature, meaning that they travel only on Era flights. These are not passengers who's PFC money "now wings its way south." In actual fact, these are passengers who did not necessarily need the expanded terminal project in the first place, but will certainly be forced to carry a disproportionate share of the load if PFC legislation is enacted...particularly those from the community of Kenai.

With respect to regional carriers in Alaska, either *all* should be required to collect PFCs - with no exemptions whatsoever - or *all* excluded. Era Aviation clearly prefers the latter approach. However, we are willing to seek equitable alternative solutions. One approach might be for regionals to collect a PFC for Anchorage, but only if in conjunction with a downline ticket, e.g., a passenger travelling Kenai to Anchorage *and beyond*.

Thank you for your consideration of Era Aviation's position on this issue.

Yours truly,



Paul Landis  
Vice President

Cc: Senate Transportation Committee  
House Transportation Committee  
Commissioner Joe Perkins, DOT&PF

# ALASKA HOUSE OF REPRESENTATIVES

John J. Cowdery

House Rules Committee, Chair  
Transportation Committee - Legislative Council  
World Trade and State & Federal Relations

---

## PASSENGER FACILITY CHARGES FAQ

### **1. What is a Passenger Facility Charge?**

It's a user tax. You are paying it each time you buy an airplane ticket involving a takeoff from Juneau, Ketchikan or someplace outside of Alaska. The money is dedicated to pay for airport improvement projects pre-approved by the FAA.

### **2. How much am I paying?**

You pay up to \$6 on a one way ticket and up to \$12 on a round trip ticket.

### **3. What am I getting in return for this tax?**

Airports are being improved in Seattle, Portland, San Francisco, Los Angeles, Salt Lake City, Denver and virtually every other major airport within two stops of Anchorage, but not Anchorage.

### **4. Aren't Alaskan airports receiving improvements from this tax; if not, why not?**

No, Alaska's state owned airports, including Anchorage and Fairbanks, receive no benefits from this tax because the Governor won't apply for participation in the program. The Juneau Airport receives benefits because it's a municipal airport and their local government applied for the program. Every time someone in Anchorage flies roundtrip to Juneau we pay Juneau a \$3 tax to improve their airport. If we extend our roundtrip to Seattle then we also pay Seattle's airport \$3. The total tax is \$6 but we get zero for Anchorage's airport.

If Anchorage International Airport was part of the program, then on the outbound trip, Anchorage would get the first three dollars, Juneau would get the second three dollars and Seattle would get zero. On the return trip, Seattle would get the first three dollars, Juneau would get the second three dollars and Anchorage would get zero. We would capture \$3, i.e., twenty-five percent, of the taxes paid for Anchorage.

### **5. That doesn't seem very good. We pay 100% of the tax and only get back 25%.**

Our capture is greater when only state operated airports are included in the itinerary. For example, if Fairbanks and Anchorage are part of the program, and the itinerary is from Fairbanks to Anchorage and Anchorage to Seattle, then on the outbound trip Fairbanks gets \$3, Anchorage gets \$3 and Seattle gets zero. On the return trip, Seattle would get \$3, Anchorage would get \$3 and Fairbanks would get zero. We capture 75% of the tax for

Alaskan airports with this itinerary. But, remember, people from outside Alaska flying to destinations beyond Anchorage also pay the tax that benefits Anchorage.

The operative rule is that on the outbound trip, the tax is collected by the first two participating airports, excluding the destination airport. On the return trip, the tax is collected by the last two participating airports, excluding the destination airport.

**6. How much could we get if the state participated in the program?**

FAA estimates that Anchorage would receive about \$5 million per year. I don't have an estimate for Fairbanks. Bear in mind that we are already paying most of that tax. We're just not getting any benefits from it.

**7. What do you mean, "we're paying most of the tax already?" Will we be taxed more if the governor applies for the program?**

Some travelers who do not presently pay the tax, would have to start paying. For example, a round-trip traveler from Dillingham to Anchorage would have to pay three dollars that would be collected by Anchorage International Airport.

**8. Can rural Alaska get any benefits from this tax or does all the money stay in Anchorage?**

The program is probably not economic for very small airports. But FAA will allow the state to pool revenue from several airports. This needs to be studied. But there is still no reason why Anchorage shouldn't proceed right away. Remember Anchorage International Airport services the whole state, not just Anchorage.

**9. Outside of Anchorage where else is this Passenger Facility Charge being implemented?**

Juneau started in July 1998. Ketchikan (city operated) is scheduled to start this month. Kenai is inquiring into the application process. In the lower 48 there are more than 300 airports already participating and more than 100 applications in process. Anchorage International Airport is the only airport of its size that is not participating. We are way behind the curve. But, we are first in exporting the highest percentage of our PFC revenue to other states.

**10. How long would it take to start Anchorage participating in the process?**

FAA estimates about six months. We have to show them how we plan to spend the money. But, approval is virtually guaranteed. Incidentally, the program is retroactive. It allows us to pay ourselves back for some expenditures we made since 1990.

**11. How would the state spend the money at the Anchorage airport?**

We just sold \$180 million in bonds to finance new improvements. The governor wants to borrow an additional \$25 million. FAA and most legislators think PFC money should be used to pay off the debt.

**12. Is anybody against collecting PFC's at Anchorage?**

Other than the governor, only ERA Aviation has expressed opposition to this program. Virtually every other airline operating in Anchorage is in favor of it.

**13. What about the rumor that we'll lose other federal funds for airport development if we implement PFC's?**

FAA tells me that if that were true, no airport in the country would participate in the program. The rumor is a mischaracterization of the fact that half of Anchorage International Airport's money from FAA's Annual Entitlement Program would be displaced by the PFC revenue. This amounts to about \$1.5 million. Anchorage is the only airport affected by this decrease. The decrease is offset by the \$5 million from PFC's. Also, the displaced funds would go into a national small airport grant program to help those airports that are too small to implement PFC's. The state could apply for these funds on behalf of small rural airports.

**HCR**

**5**

**HFIN**

**FILE**

# ALASKA STATE LEGISLATURE

REPRESENTATIVE  
**JEANNETTE JAMES**  
PO Box 56622  
North Pole, Alaska 99705  
(907) 456-1546  
FAX (907) 488-4271



White in Juneau  
State Capitol  
Juneau, Alaska  
99801-1182  
(907) 465-3743  
FAX (907) 465-2381

House of Representatives  
House District 34

## **HCR 5 - A RESOLUTION CALLING FOR OPENING THE DALTON HIGHWAY TO THE ARCTIC OCEAN**

The goal of this resolution is to complete the opening of the Dalton Highway from the Yukon River to the Arctic Ocean by the time this summer's tourism season gets under way.

At present, the Dalton Highway ends at one of two oil company checkpoints just seven miles from the Arctic Ocean - a situation which has proved frustrating for Alaskans and visitors alike.

While VIPs as well as oil company and government officials can walk the shores of the Arctic Ocean after driving the Dalton Highway, other Alaskans and visitors cannot - unless they pay a \$20 fare to ride a bus to the Arctic Ocean. This bus option is a poor solution to the issue of access. For larger families, the fare is prohibitive. For the adventurous, time limits are prohibitive. For just about everyone, the limits are onerous.

Tourism is Alaska's second-largest industry. Restricted access to the Arctic Ocean causes damage to the state's image every time a traveler is blocked just miles from what is an obvious objective of that traveler's drive North.

It is clear that Alaska law sees the Dalton Highway as a road connecting the Arctic Ocean with the rest of the state. While oil companies claim leases of state land and ownership of private land permit them to keep the Dalton Highway closed, state statutes clearly show the people of Alaska are entitled to an easement to the Arctic Ocean (AS 38.05.127).

There is no reason why the oil companies and the state of Alaska cannot come to a reasonable agreement on this issue. This resolution in no way dismisses the need for some restrictions to access of oil company leases or private property.

## UNRESTRICTED PUBLIC ACCESS TO THE ARCTIC OCEAN

### BACKGROUND

Following the Discovery of oil on the North Slope, the Sixth Legislature directed the construction of a public highway from the Yukon Bridge to the Arctic Ocean, stating the intent that "This highway will provide the first year-round, overland route to the Arctic Ocean and will result in the completion of a highway from the Pacific Ocean to the Arctic Ocean". The Legislature, in 1981, named the highway the James Dalton Highway. (Alaska Statutes 19.40.010 Attachment 1)

The Constitution of the State of Alaska states "Free access to the navigable or public waters of the state, as defined by the legislature, shall not be denied any citizen of the United States or resident of the State, except that the legislature may by general law regulate and limit such access for other beneficial uses or public purposes." (Article VII, Section 14, Attachment 2)

The Alaska Statutes are explicit on legal rights-of-way and easements to be reserved for public access before any sale, lease or grant of state land adjacent to a body of water. AS 38.05.127 (c) states "Nothing in this section affects valid existing rights or limits in any way the constitutional right of the public to use and have free access to the navigable or public waters of the state." (Attachment 3)

The Dalton Highway does not provide for the public use and free access to the Arctic Ocean. The Department of Natural Resources (DNR) permitted Atlantic Richfield Company to restrict public access on four leases in the Prudhoe Bay area at a time the Dalton was closed to all but commercial, oil field and residential use. The four leases were the North Dock, the West Dock, the East Dock and the Prudhoe Airport. DNR's "Special Conditions:" stated the lessee is to give public access on, across and use of the dock/patent, subject to reasonable restrictions imposed by the lessee and approved by the lessor so the public will not be endangered by or interfere with the lessee's activities. (Attachment 4)

Two of these leases are located at the Prudhoe Bay Airport and the East Dock. The seven-mile ocean access road now skirts the Prudhoe Bay Airport. The East Dock is no longer used to receive or ship freight. Spur roads to industry facilities off the East Dock road can be controlled by blockage, signs or gates as necessary. The public would not be endangered nor interfere with the lessees business activities any more than on the remainder of the Dalton. (Attachment 5)

The Dalton Highway is the second northernmost highway in the world. Deadhorse lies about 70 degrees, 15 minutes North Latitude. The road across Lapland extends to Hammerfest, Norway at approximately 70 degrees, 40 minutes North Latitude. The road to Murmansk in Russia and the Dempster Highway in Canada both lie completely south of the 70th parallel.

Department of Public Safety have law enforcement powers within the North Slope Borough and along the highway system. These same authorities apply to the beach access route.

#### **HIGHWAY STANDARDS**

The 7-mile long East Dock Road leading to the ocean shore was constructed to the same state highway secondary standards as the Dalton and the road now bypasses major facilities.

#### **HIGHWAY SAFETY**

The East Dock road passes a few drill sites and spur roads that will be "off limits" and be gated or marked "restricted". Both the Alaska Department of Environmental Conservation and the Alaska Oil and Gas Conservation Commission state the road is safe from any H<sub>2</sub>S oil field emissions.

#### **HEAVY EQUIPMENT**

All heavy freight to Prudhoe Bay travels the Dalton, which is open to the public, and there is significantly more industrial traffic in the open Deadhorse area than along the road to East Dock. Most oil company trucking for recycling of drill mud and brine occurs during the winter when no tourists will be present. The Department of Transportation and Public Facilities routinely authorizes temporary closure of a section of a public highway for movement of oversize equipment when necessary. This option would be available along the beach access route.

#### **LIGHT EAST DOCK TRAFFIC**

During numerous inspection trips to the 7 mile by-pass road to the East Dock by DOT/PF Headquarters staff, Northern Region management, planning and maintenance personnel, the Dalton Highway Advisory Board and others, only light traffic was observed on the beach access route.

#### **WILDLIFE PROTECTION**

While the oil industry may be restricted in their operations in order to protect wildlife and habitat, those permits are industry specific and are not directed to activities of the general public. Officials from both the Alaska State Department of Fish & Game and the Federal Fish & Wildlife agree the East Dock Road can be opened to unrestricted public travel with no more impact on wildlife than any other road to the beach, noting the public is allowed unrestricted access within our National Wildlife Refuges. Both agencies have offered to participate in planning highway access to the ocean.

#### **HUNTING**

The public is not allowed to use firearms within the pipeline corridor for hunting and motorized vehicles are not allowed off the road or on the beaches. Bow hunting only is allowed within the corridor if the hunter has successfully completed an Alaska bow hunting safety course. No big game bow hunting is allowed in the Prudhoe Bay closed area.

# CORRECTION

THE FOLLOWING DOCUMENT(S)  
HAVE BEEN REFILMED TO  
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services  
Department of Education & Early Development  
State of Alaska

## UNRESTRICTED PUBLIC ACCESS TO THE ARCTIC OCEAN

### BACKGROUND

Following the Discovery of oil on the North Slope, the Sixth Legislature directed the construction of a public highway from the Yukon Bridge to the Arctic Ocean, stating the intent that "This highway will provide the first year-round, overland route to the Arctic Ocean and will result in the completion of a highway from the Pacific Ocean to the Arctic Ocean". The Legislature, in 1981, named the highway the James Dalton Highway. (Alaska Statutes 19.40.010 Attachment 1)

The Constitution of the State of Alaska states "Free access to the navigable or public waters of the state, as defined by the legislature, shall not be denied any citizen of the United States or resident of the State, except that the legislature may by general law regulate and limit such access for other beneficial uses or public purposes." (Article VII, Section 14, Attachment 2)

The Alaska Statutes are explicit on legal rights-of-way and easements to be reserved for public access before any sale, lease or grant of state land adjacent to a body of water. AS 38.05.127 (c) states "Nothing in this section affects valid existing rights or limits in any way the constitutional right of the public to use and have free access to the navigable or public waters of the state." (Attachment 3)

The Dalton Highway does not provide for the public use and free access to the Arctic Ocean. The Department of Natural Resources (DNR) permitted Atlantic Richfield Company to restrict public access on four leases in the Prudhoe Bay area at a time the Dalton was closed to all but commercial, oil field and residential use. The four leases were the North Dock, the West Dock, the East Dock and the Prudhoe Airport. DNR's "Special Conditions" stated the lessee is to give public access on, across and use of the dock/patent, subject to reasonable restrictions imposed by the lessee and approved by the lessor so the public will not be endangered by or interfere with the lessee's activities. (Attachment 4)

Two of these leases are located at the Prudhoe Bay Airport and the East Dock. The seven-mile ocean access road now skirts the Prudhoe Bay Airport. The East Dock is no longer used to receive or ship freight. Spur roads to industry facilities off the East Dock road can be controlled by blockage, signs or gates as necessary. The public would not be endangered nor interfere with the lessees business activities any more than on the remainder of the Dalton. (Attachment 5)

The Dalton Highway is the second northernmost highway in the world. Deadhorse lies about 70 degrees, 15 minutes North Latitude. The road across Lapland extends to Hammerfest, Norway at approximately 70 degrees, 40 minutes North Latitude. The road to Murmansk in Russia and the Dempster Highway in Canada both lie completely south of the 70th parallel.

The Dalton Highway was opened to public travel in 1994 and was added to the National Highway System by the Federal Department of Transportation in 1995. During 1995, the average daily traffic at the Yukon River Bridge increased 34.5 percent and 45 percent at Kuparuk River, thus verifying the popularity of this scenic highway.

The Department of Transportation and Public Facilities is working with the Bureau of Land Management and other agencies to provide waysides, campgrounds and other facilities for the increasing number of travelers on the Dalton.

**DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES RESPONSE**  
to ARCO issues surrounding unrestricted public travel to East Dock(Attachment A)

**HIGHWAY RIGHT-OF-WAY**

When the Department of Transportation and Public Facilities acquires or takes possession of a highway right-of-way (the East Dock Road), then the Department and other state agencies become responsible for monitoring the activities that occur along that right-of way. This includes safety, enforcement, environmental, wildlife, litter, traveler facilities, & maintenance.

**TOURISM**

Businesses that depend on tourism in Alaska, particularly in Fairbanks and along the Dalton, state their revenues would increase substantially if the Dalton was opened to the Arctic Ocean and question why the oil industry is allowed to continue blocking private vehicle access. In an era of declining oil revenues, tourism, Alaska's second largest industry, will benefit from tourists traveling to the Arctic Ocean. The Division of Tourism supports opening this last 7 miles to the ocean.

**PUBLIC RELATIONS**

Tourists and Alaskans are frustrated with excuses for restricting private vehicle travel to the beach. Both BP and ARCO admit this discontent in a brochure that states "The haul road ends for the general public at oil field checkpoints just beyond Deadhorse, a few miles short of both the Prudhoe Bay oil complex and the shores of the Arctic Ocean... the public is not permitted to drive past these manned checkpoints. This comes as quite a disappointment for many tourists, having driven their campers and motorhomes hundreds of miles expecting to camp along the Ocean's shore. However, commercial tours are available". (Attachment 6)

A 1995 University of Alaska research paper on Dalton Highway travelers stated "A large number of visitors expressed disappointment in not being allowed ocean access without payment, others with large families could not afford the cost, and others were livid with the restriction". (Attachment 7 - Access to the Arctic Ocean)

**LAW ENFORCEMENT**

Both the Alaska Department of Public Safety and the North Slope Borough

Department of Public Safety have law enforcement powers within the North Slope Borough and along the highway system. These same authorities apply to the beach access route.

#### **HIGHWAY STANDARDS**

The 7-mile long East Dock Road leading to the ocean shore was constructed to the same state highway secondary standards as the Dalton and the road now bypasses major facilities.

#### **HIGHWAY SAFETY**

The East Dock road passes a few drill sites and spur roads that will be "off limits" and be gated or marked "restricted". Both the Alaska Department of Environmental Conservation and the Alaska Oil and Gas Conservation Commission state the road is safe from any H<sub>2</sub>S oil field emissions.

#### **HEAVY EQUIPMENT**

All heavy freight to Prudhoe Bay travels the Dalton, which is open to the public, and there is significantly more industrial traffic in the open Deadhorse area than along the road to East Dock. Most oil company trucking for recycling of drill mud and brine occurs during the winter when no tourists will be present. The Department of Transportation and Public Facilities routinely authorizes temporary closure of a section of a public highway for movement of oversize equipment when necessary. This option would be available along the beach access route.

#### **LIGHT EAST DOCK TRAFFIC**

During numerous inspection trips to the 7 mile by-pass road to the East Dock by DOT/PF Headquarters staff, Northern Region management, planning and maintenance personnel, the Dalton Highway Advisory Board and others, only light traffic was observed on the beach access route.

#### **WILDLIFE PROTECTION**

While the oil industry may be restricted in their operations in order to protect wildlife and habitat, those permits are industry specific and are not directed to activities of the general public. Officials from both the Alaska State Department of Fish & Game and the Federal Fish & Wildlife agree the East Dock Road can be opened to unrestricted public travel with no more impact on wildlife than any other road to the beach, noting the public is allowed unrestricted access within our National Wildlife Refuges. Both agencies have offered to participate in planning highway access to the ocean.

#### **HUNTING**

The public is not allowed to use firearms within the pipeline corridor for hunting and motorized vehicles are not allowed off the road or on the beaches. Bow hunting only is allowed within the corridor if the hunter has successfully completed an Alaska bow hunting safety course. No big game bow hunting is allowed in the Prudhoe Bay closed area.

### **TRAVELERS SERVICES**

State policies for traveler services and related needs apply equally to all roads the state maintains. With the cooperation of Federal, State and Local government agencies, ARCO and BP, the visitor services that are now lacking in the Deadhorse, Prudhoe Bay area can be installed and maintained. These services include highway pullouts, visitor information, interpretive signs, restrooms, dump stations, potable water, litter control and campgrounds.

### **FINANCIAL IMPACT ON ARCO-BP**

Contrary to statements by ARCO & BP, general access to the Prudhoe Bay oil fields has not been proposed. Public restriction from other roads in the field is appropriate. Any financial impact from public use of the East Dock Road will be minimal at most and would be offset by favorable public relations in working with the state in providing public access to North America's northern coast.

### **NEWSPAPER COMMENT**

The Fairbanks Daily New - Miner editorial of January 12, 1996 called for ocean access  
(Attachment 8)

### **PUBLIC ACCESS TO THE OCEAN**

The Department of Transportation and Public Facilities is responsible for providing the intermodal transportation needs of the public. The oil industry, the North Slope Borough and the State of Alaska will all gain by working together to resolve concerns that have thus far restricted the constitutional right of Americans to have free and unrestricted public access to one of Alaska's attractive destinations, the Arctic Ocean.



UNIVERSITY OF ALASKA FAIRBANKS  
 P.O. Box 757200 • Fairbanks, Alaska 99775-7200  
 Phone: (907) 474-5550 • Fax: (907) 474-7962

Dear Advisory Board Member,

This report is an overview of preliminary survey results from data collected during the summer of 1995 on the Dalton Highway. Intensive analysis is being conducted on the data and final interpretation of the survey will be presented to the Bureau of Land Management and the Alaska Department of Transportation & Public Facilities in the near future. The report allows the Advisory Board a sneak preview of the findings and is presented with the understanding that it is a work in progress, needing additional study for proper analysis.

From personal interviews with visitors and from the data collected, I have discovered some problems and have provided recommendations that you might consider addressing during your deliberations:

- Lack of information - Many visitors told of confusion while driving the Dalton Highway from inadequate signage. This was especially true in Deadhorse where directional signs for visitors are almost nonexistent. I recommend placing signs noting the mileage to facilities at closer intervals, use of camera icon signs advising upcoming scenic turnouts, and installing a sign at the entrance to Deadhorse that provides visitors with information about the complex as well as a simple map noting street layout and service locations.
- Distance between services - Several comments were made that the road should remain a challenge to travelers and that only basic services be allowed. There was worry that too much commercialism would detract from the experience. I recommend allowing one additional commercial node providing fuel, vehicle service, and food service north of the Brooks Range. The Galbraith Lake site is already disturbed and is located within a safe fuel range from either Deadhorse or Coldfoot. Some visitors expressed concern about running out of fuel before reaching Deadhorse or having a flat tire so far from a repair facility.
- Campgrounds - BLM's Marion Creek campground received high marks and several visitors asked that additional Marion Creek type facilities be provided. By the same token, many R.V. drivers said that they would be happy just to have a large flat parking area clearly designated for camping. Due to the large amount of traffic that has the Arctic Circle as their destination, I recommend using Old Man Camp as a developed campsite location. Old Man Camp is already disturbed, has a better view than the Arctic Circle site, and has less of a mosquito problem due to the breeze off the valley. A small moderately primitive campground should be made available at Galbraith Lake and designated primitive camping made available at Chandalar and Happy Valley. A small developed campground is needed at Deadhorse along with a dump station. The current Yukon River campsite is a good location, but needs to be better marked, organized, and upgraded.

- Access to the Arctic Ocean - This subject was deliberately left off the survey to avoid biasing destination plans of the visitor. It is notable that a large number of participants voluntarily commented on their disappointment at having to take a tour bus to travel the last few miles of what has been a very long and exhausting trip. For visitors with children, the cost was prohibitive and they turned back frustrated for the effort. Other participants took the tour and were satisfied with the access available while a few memorable visitors were livid that they were denied access and declined the tour on principle. I recommend that the Advisory Board seek an alternative to the current public access situation.
- There are other minor recommendations such as pullout design, toilet spacing, and interpretive opportunities that I have if you wish to hear them.

I am planning to attend the meeting at Noel Wien Library on December 11, 1995 and will be available for any questions you may have about the survey. In the introduction to the report, I briefly discuss survey methodology and areas of bias that should be taken into consideration when viewing the data. I have included copies of the survey instrument to help you understand how the results are organized.

There are several people I would like to publicly acknowledge for their help in conducting this research and that deserve my deepest gratitude. Thanks go to my graduate committee; Dr. Alan Jubenville, Dr. Terrence Cole, and Dr. Lorin Toepper; Roger Delaney and Cal Westcott of BLM; Norm Piispanen and Bev Fantazzi of DOT/PF; and the wonderful volunteers at the Yukon Crossing BLM cabin - Bob and Thelma Bowser.

Thank you for taking the time to review this Preliminary Results Report and please feel welcome to call me if you have any questions before the Advisory Board meets. You can reach me in the evenings at 457-6007, or leave a message and I'll return your call.

Sincerely yours,

Gregory A. Robbe

FAIRBANKS

**Daily News - Miner**

"Independent in All Things ... Neutral in None"  
Established in 1903

CHARLES L. GRAY  
Publisher Emeritus

PAUL J. MASSEY  
Publisher

KELLY BOSTLAN  
Managing Editor

MARILYN ROMANO  
General Manager

SAM BISHOP  
Editorial Page Editor

## Close the ocean road (But which one?)

Alaska's largest end-of-the-road industrial zone is clearly an inappropriate location for a major public road. Look at it from every angle and the conclusion is the same. Why anyone would argue the point is utterly mystifying!

Yes, it's true. There is no good reason to allow public access to Cook Inlet and Anchorage via the Parks Highway. It's time to shut down this dangerous and costly piece of road.

Hey, it's not such a radical idea. We've already shut down the Dalton Highway six miles from the Arctic Ocean. A few fringe legislators are apparently trying to reverse that policy, with little success to date. They should turn their resolutions southward instead. Something needs to be done get the administration moving on this issue of critical importance to the people of Alaska.

Consider:

■ Anchorage is unsafe for the general public. Immense trucks travel its main road day and night, moving over-sized loads and dangerous materials. Small personal vehicles could be crushed at any time, with tragic results!

■ The area hosts an infrastructure essential to the economy of this state. Immensely valuable buildings and production facilities can be seen from horizon to horizon, mixed with housing for the workers who keep it all running. The present laxness of security puts all this real estate at severe risk! Allowing public access to the main thoroughfares invite vandals, terrorists or just plain stupid bumlbers nosing about where they shouldn't. A concerted effort to damage these facilities could create enormous costs for the state!

■ Allowing public access is costly to the state's economy even if no vandalism occurs. Wise companies operating in this zone should post security guards and gates at every driveway onto their properties! That siphons off money better spent on more productive enterprises. Also, the companies in this area have to spend more money on liability insurance to protect them from claims by stupid bumlbers (see above.)

■ Who wants to go there anyway? The marine waters are too shallow, rough and ice-clogged most of the time for anyone but experienced people to launch boats. If the weather's not cold, it's damp, with little sunlight reaching the place much of the year. Anyone who really wants to see the area can pay for a warm, safe tour bus with guides to interpret what they're seeing so no one gets any wrong impressions.

**Daily News - Miner**

"Independent in All Things . . . Neutral in None"

Established in 1903

CHARLES L. GRAY  
Publisher EmeritusPAUL J. MASSEY  
PublisherKELLY BOSTIAN  
Managing EditorSAM BISHOP  
Editorial Page Editor**Beachfront access**

All manner of excuses can be found for not opening the final eight miles of road to the Arctic Ocean at Prudhoe Bay. None of them outweighs the public's interest in obtaining such access.

Oil field security is the principal reason cited for closing the state land at Prudhoe to the public. But there is no evidence that a serious threat exists.

The trans-Alaska pipeline stretches from the North Slope to Prince William Sound, and for most of that distance any person can easily walk under, around and on top of it. Even so, significant vandalism has been extremely rare. The number of shutdowns caused by vandals has been dwarfed by the numerous spills and closures caused by design or maintenance failings of the line itself.

Admittedly, facilities at Prudhoe Bay and the other North Slope fields are more sensitive and more easily damaged than a pipeline. But access to the ocean doesn't have to mean access to those facilities. Driving to Valdez alongside the pipeline doesn't mean you can pull into each pump station and spraypaint "Big Oil Go Home" on the Alyeska pickups.

Alaskans wouldn't need access to the entire field to accomplish the principal goal—access to the ocean. Just a single track, with some kind of visitor facilities at the "beach," would be adequate.

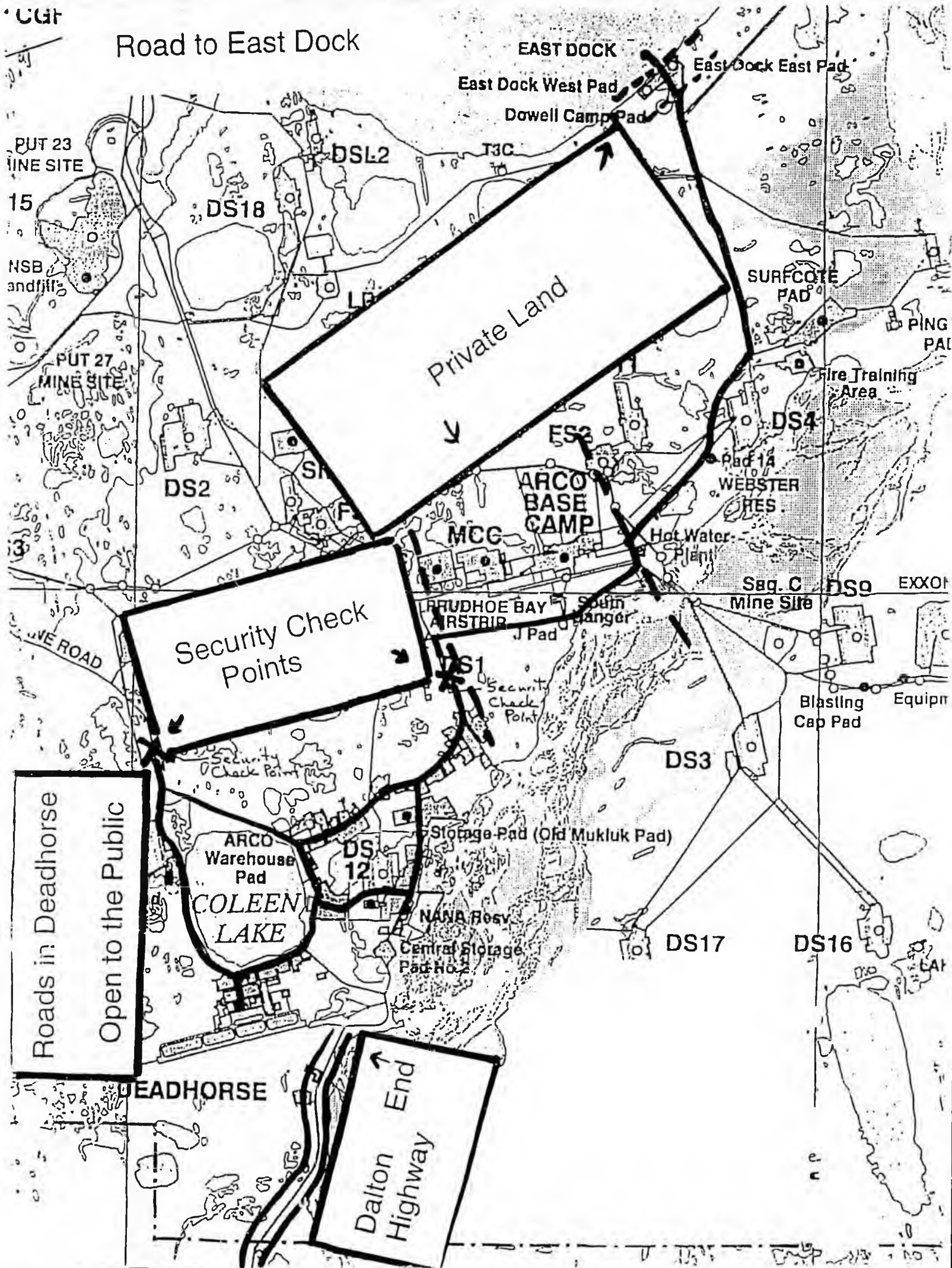
Sure, a public track through the middle of the oil field would be inconvenient for the oil companies. They'd have to put up a few more gates. Maybe hire a few more guards to address whatever miniscule additional threat there might be.

But oil companies should realize that they lose far more than they gain by continuing to oppose access to the Arctic Ocean. They may be gaining some slight margin of security for their facilities. But in exchange they are generating a great deal of animosity from the average Alaskan. Permitting us to pay \$25 for a bus ride to the shore and back doesn't cut it.

This dispute is reminiscent of those that develop over mining claims elsewhere in Alaska. Until patented, the surface of a claim is not the property of a miner. The miners can glare and grumble at the "trespassers," but they don't have any right to lock them out of the entire claim.

So it is at Prudhoe Bay. The governor should tell oil companies to stop locking Alaskans out of the state's oil leases.

# Road to East Dock



Roads in Deadhorse  
Open to the Public

Security Check  
Points

Dalton Highway  
End

Private Land

(12)

HOUSE COMMITTEE REPORT

Date Referred to Committee: April 23, 1999

FURTHER REFERRALS:

Date of Committee Action: 5/4/99

The FINANCE Committee considered:

HCR 5

HOUSE CONCURRENT RESOLUTION NO. 5

EXTEND DALTON HWY TO ARCTIC OCEAN

Relating to extension of the James Dalton Highway to the Arctic Ocean.

recommends it be replaced with the following committee substitute CS HCR 5 (TRA) [X] the same title [ ] a new title

[ ] additional referral to \_\_\_\_\_ Committee [ ] attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(s): (Dept) APPROVES PREVIOUS: (Dept/Date)

[ ] fiscal note(s) \_\_\_\_\_ [ ] fiscal note(s) \_\_\_\_\_

[ ] zero fiscal note(s) \_\_\_\_\_ [X] zero fiscal note(s) House TRA, 4/23/99

Table with columns: SIGNING WITH RECOMMENDATIONS, DP, DNP, NR, AM. Rows contain signatures of committee members with 'X' marks in the DP column.

CHAIR'S SIGNATURE Lane Herrick (Eden & Fred)

# FISCAL NOTE

No: 1

Bill Version: CSHCR 5 (TRA)

(H) Publish Date: 4/23/99

STATE OF ALASKA  
1999 LEGISLATIVE SESSION

Title: \*Relating to extension of the James Dalton Highway to the Arctic Ocean.\*  
Sponsor: REPRESENTATIVES JAMES  
Requestor: (H) TRA

Dept. Affected: DNR  
BRU: \_\_\_\_\_  
Components: \_\_\_\_\_  
Serial #: \_\_\_\_\_

**EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)**

OPERATING	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants, Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>REVENUE</b>	0.0	0.0	0.0	0.0	0.0	0.0

**FUNDING: (THOUSANDS OF DOLLARS)**

General Fund						
Federal Fund						
Other						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

**POSITIONS:**

Full-Time	0	0	0	0	0	0
Part-Time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

**ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)**

Prepared by: Ted Deats, Committee Aide  
House Transportation Committee

Date: 04/12/99  
Phone: 465-2679  
Phone: 465-2679

**COMMITTEE COPY**

*Bumpy Mark*

WHEREAS, the Division of Tourism's official state map and Alaska's National Highways map both depict the Dalton Highway reaching the shores of the Arctic Ocean; and

WHEREAS, a report by the University of Alaska states: "A large number of visitors expressed disappointment in not being allowed ocean access without payment, others with large families could not afford the cost, and others were livid with the restriction"; and

WHEREAS, in 1994, then Governor Wally Hickel used his executive power to open the Dalton Highway to the public from the Yukon River to the BP and ARCO checkpoints in Deadhorse; and

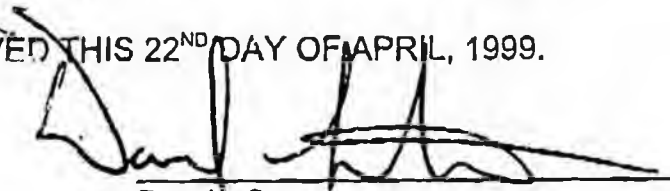
WHEREAS, highway traffic to Deadhorse has increased 34 percent since the Dalton Highway was opened to the public; and

WHEREAS, in light of declining oil revenues, Alaska's and the Interior's tourism industry will benefit from tourists gaining unrestricted access to the Arctic Ocean.

WHEREAS, state and federal regulatory agencies have offered to work with the Department of Transportation, the oil industry, and the North Slope Borough to assure that the opening of the East Dock Road would be safe for industry, wildlife and visitors.

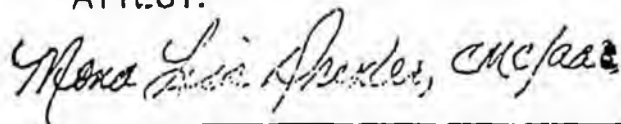
NOW, THEREFORE, BE IT RESOLVED that the Fairbanks North Star Borough Assembly requests that Governor Tony Knowles open the remaining seven miles of the Dalton Highway to the Arctic Ocean.

PASSED AND APPROVED THIS 22<sup>ND</sup> DAY OF APRIL, 1999.



Dan LaSota  
Presiding Officer

ATTEST:



Mona Lisa Drexler, CMC/AAE  
Municipal Borough Clerk

Ayes: Prax, Webb, Veazey, Parr, Young, Sonafank, Cummings, Solie, Beck, Sattley, LaSota  
Noes: None

By: Tim Beck  
Mike Prax  
Nancy Webb  
David Veazey  
Karen Parr  
Mike Young  
Cole Sonafrank  
Eileen Cummings  
Rick Solie  
Guy Sattley  
Dan LaSota  
Introduced: 04/22/99  
Adopted: 04/22/99

RESOLUTION NO. 99 -031

A RESOLUTION SUPPORTING HOUSE CONCURRENT RESOLUTION 5,  
EXTENDING THE JAMES DALTON HIGHWAY TO THE ARCTIC OCEAN

WHEREAS, Representative Jeannette James has introduced House Concurrent Resolution (HCR) 5, which would extend the James Dalton Highway to the Arctic Ocean; and

WHEREAS, the Federal Highway Administration added the James Dalton Highway to the Federal Highway System in 1995; and

WHEREAS, the Dalton Highway access currently ends seven miles from the Arctic Ocean and visitors to Alaska are allowed to drive the 500 miles up the highway but then are denied access to the ocean; and

WHEREAS, visitors must now pay a minimum of \$20 each to take a half-hour guided tour to the shore and ARCO currently controls the highway and keeps private vehicles off the final industrial stretch; and

WHEREAS, allowing tourists and Alaskans to travel up the Dalton Highway and not see the Arctic Ocean under their own power falls short of the freedom of access to our lands that Alaskans cherish more than anything else; and

WHEREAS, the Dalton Highway was designated a State Scenic Byway in 1998 and it seems unfair not to add one of the most scenic aspects of the highway to the designation—an unrestricted view of the Arctic Ocean; and

WHEREAS, the Dalton Highway is under consideration as an All American Road, which would make it eligible for additional federal funding; and

# CORRECTION

THE FOLLOWING DOCUMENT(S)  
HAVE BEEN REFILMED TO  
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services  
Department of Education & Early Development  
State of Alaska

By: Tim Beck  
Mike Prax  
Nancy Webb  
David Veazey  
Karen Parr  
Mike Young  
Cole Sonafrank  
Eileen Cummings  
Rick Solie  
Guy Sattley  
Dan LaSota  
Introduced: 04/22/99  
Adopted: 04/22/99

RESOLUTION NO. 99 -031

A RESOLUTION SUPPORTING HOUSE CONCURRENT RESOLUTION 5,  
EXTENDING THE JAMES DALTON HIGHWAY TO THE ARCTIC OCEAN

WHEREAS, Representative Jeannette James has introduced House Concurrent Resolution (HCR) 5, which would extend the James Dalton Highway to the Arctic Ocean; and

WHEREAS, the Federal Highway Administration added the James Dalton Highway to the Federal Highway System in 1995; and

WHEREAS, the Dalton Highway access currently ends seven miles from the Arctic Ocean and visitors to Alaska are allowed to drive the 500 miles up the highway but then are denied access to the ocean; and

WHEREAS, visitors must now pay a minimum of \$20 each to take a half-hour guided tour to the shore and ARCO currently controls the highway and keeps private vehicles off the final industrial stretch; and

WHEREAS, allowing tourists and Alaskans to travel up the Dalton Highway and not see the Arctic Ocean under their own power falls short of the freedom of access to our lands that Alaskans cherish more than anything else; and

WHEREAS, the Dalton Highway was designated a State Scenic Byway in 1998 and it seems unfair not to add one of the most scenic aspects of the highway to the designation—an unrestricted view of the Arctic Ocean; and

WHEREAS, the Dalton Highway is under consideration as an All American Road, which would make it eligible for additional federal funding; and

WHEREAS, the Division of Tourism's official state map and Alaska's National Highways map both depict the Dalton Highway reaching the shores of the Arctic Ocean; and

WHEREAS, a report by the University of Alaska states: "A large number of visitors expressed disappointment in not being allowed ocean access without payment, others with large families could not afford the cost, and others were livid with the restriction"; and

WHEREAS, in 1994, then Governor Wally Hickel used his executive power to open the Dalton Highway to the public from the Yukon River to the BP and ARCO checkpoints in Deadhorse; and

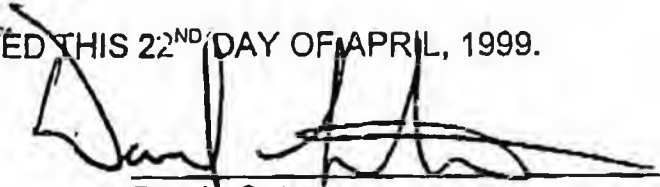
WHEREAS, highway traffic to Deadhorse has increased 34 percent since the Dalton Highway was opened to the public; and

WHEREAS, in light of declining oil revenues, Alaska's and the Interior's tourism industry will benefit from tourists gaining unrestricted access to the Arctic Ocean.

WHEREAS, state and federal regulatory agencies have offered to work with the Department of Transportation, the oil industry, and the North Slope Borough to assure that the opening of the East Dock Road would be safe for industry, wildlife and visitors.

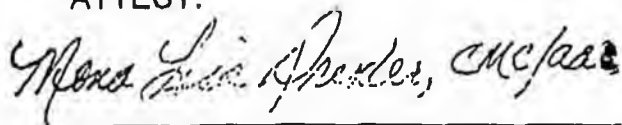
NOW, THEREFORE, BE IT RESOLVED that the Fairbanks North Star Borough Assembly requests that Governor Tony Knowles open the remaining seven miles of the Dalton Highway to the Arctic Ocean.

PASSED AND APPROVED THIS 22<sup>ND</sup> DAY OF APRIL, 1999.



Dan LaSota  
Presiding Officer

ATTEST:



Mona Lisa Drexler, CMC/AAE  
Municipal Borough Clerk

Ayes: Prax, Webb, Veazey, Parr, Young, Sonafrank, Cummings, Solie, Beck, Sattley, LaSota  
Noes: None

Introduced by: Council Member Rex  
Date: May 3, 1999

RESOLUTION NO. 3817

A RESOLUTION TO SUPPORT THE OPENING OF THE  
LAST FEW MILES OF THE DALTON HIGHWAY TO  
PROVIDE UNRESTRICTED PUBLIC ACCESS TO THE  
ARCTIC OCEAN.

WHEREAS, there is an immediate need for a public highway  
from the Yukon River to the Arctic Ocean; and

WHEREAS, this highway will provide the first year-round,  
overland route to the Arctic Ocean and will result in the  
completion of a public highway from the Pacific Ocean to the Arctic  
Ocean; and

WHEREAS, this highway is named the James Dalton Highway,  
popularly known as the Dalton Highway; and

WHEREAS, the Dalton Highway will provide North America's  
only highway link to the Arctic Ocean; and

WHEREAS, the Dalton Highway is the second northernmost  
highway in the world; and

WHEREAS, the Dalton Highway was opened for unrestricted  
public access to and including the Deadhorse industrial area in  
1994; and

WHEREAS, the Federal Highway Administration added the  
Dalton Highway to the National Highway System in 1995; and

WHEREAS, highway traffic to Deadhorse has increased 34  
percent since the Dalton Highway was opened to the public; and

WHEREAS, the Dalton Highway offers unparalleled scenic  
beauty and access to the Gates of the Arctic National Park and  
Preserve, the Yukon Flats National Wildlife Refuge, the Kanuti

National Wildlife Refuge, and the Arctic National Wildlife Refuge,  
and

WHEREAS, the Dalton Highway was designated a State Scenic  
Byway in 1998; and

WHEREAS, the Dalton Highway is under consideration as an  
All American Road eligible for additional federal funding; and

WHEREAS, the Alaska Department of Transportation and  
Public Facilities in cooperation with the Bureau of Land  
Management, the National Park Service, and other agencies are  
adding waysides, campgrounds, and other facilities for the  
increasing number of travelers on the Dalton Highway; and

WHEREAS, there is an increasing demand from these  
travelers for unrestricted private vehicle access to visit the  
Arctic Ocean; and

WHEREAS, the division of tourism's official state map and  
Alaska's National Highways map both show the Dalton Highway  
reaching the Arctic Ocean shores; and

WHEREAS, it is illogical to block a 500 mile long route  
just seven miles short of the Arctic Ocean, especially when the  
infrastructure is in place to accommodate beach access; and

WHEREAS, the only public access to the Arctic Ocean is  
through a \$20 payment to an oil company authorized tour operator  
for a guided half hour on the beach; and

WHEREAS, a report by the University of Alaska states, "A  
large number of visitors expressed disappointment in not being

allowed ocean access without payment, others with large families could not afford the cost, and others were livid with the restriction"; and

WHEREAS, AS 38.05.127(c) states, "Nothing in this section affects valid existing rights or limits in any way the constitutional right of the public to use and have free access to the navigable or public waters of the state"; and

WHEREAS, an existing seven mile road, designed to state highway secondary standards, skirts industry headquarters and most other facilities and offers a short, safe route to East Dock on the ocean shores; and

WHEREAS, the East Dock gravel pad is vacant except for some storage and offers an ideal site for a visitor wayside; and

WHEREAS, in an era of declining oil revenues, Alaska's tourism industry will benefit from travelers' desires for unrestricted access to the Arctic Ocean; and

WHEREAS, tourism is now the second largest employer in Alaska; and

WHEREAS, state and federal regulatory agencies have offered assistance in working with the Alaska Department of Transportation and Public Facilities, the oil industry, and the North Slope Borough in assuring that the opening of the East Dock Road would be safe for industry, wildlife, and tourists; and

WHEREAS, the Alaska Department of Transportation and Public Facilities, by taking the lead in working with industry,

regulatory agencies, and the North Slope Borough, can resolve concerns that would allow citizens to journey to the Arctic Ocean without charge.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF FAIRBANKS that the city council hereby supports opening the last few miles of the Dalton Highway to provide unrestricted public access to the Arctic Ocean; and

BE IT FURTHER RESOLVED BY THE CITY COUNCIL OF THE CITY OF FAIRBANKS that the city council respectfully requests Governor Tony Knowles to direct the Department of Transportation and Public Facilities to move expeditiously in providing visitor access to one of America's most incomparable destinations, the shores of the Arctic Ocean, for the 1999 tourist season.

PASSED AND APPROVED this 3rd day of May, 1999.

\_\_\_\_\_  
James C. Hayes, Mayor

AYES:  
NAYS:  
ABSTAIN:  
ABSENT:

ATTEST:

APPROVED AS TO FORM:

\_\_\_\_\_  
Nancy L. DeLeon, City Clerk

\_\_\_\_\_  
Herbert P. Kuss, City Attorney

**HCR**

**10**

**HFIN**

**FILE**

(11)

# HOUSE COMMITTEE REPORT

Date Referred to Committee: April 29, 1999

FURTHER REFERRALS:

Date of Committee Action: 5/7/99

The FINANCE Committee considered:

HCR 10

HOUSE CONCURRENT RESOLUTION NO. 10

SALE OF FOUR DAM POOL

Proposing recommendations concerning the sale of the Four Dam Pool hydroelectric facilities.

recommends it be replaced with the following committee substitute CS HCR 10 (FIN)  the same title  a new title

additional referral to \_\_\_\_\_ Committee  
 attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(s): (Dept) \_\_\_\_\_

APPROVES PREVIOUS: (Dept/Date) \_\_\_\_\_

fiscal note(s) \_\_\_\_\_

fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_

zero fiscal note(s) HURS/DCed  
4/29/99

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<u>Therriault</u> Therriault			X	
<u>Mulder</u> Mulder	X			
<u>Bunde</u> Bunde		X		
<u>Kohring</u> Kohring	X			
<u>Davies</u> Davies			X	
<u>Grussendorf</u> Grussendorf	X			
<u>Davis</u> Davis			X	
<u>Williams</u> Williams	X			
<u>Foster</u> Foster	X			
<u>Austerman</u> Austerman	X			

CHAIR'S SIGNATURE Carl E. Moses Therriault de Bure

FISCAL NOTE

No: 1  
 Bill Version: CSHCR 10 (URS)  
 (H) Publish Date: 4/29/99

STATE OF ALASKA  
 1999 LEGISLATIVE SESSION

Revision Date: 4-28-99  
 Title: Sale of 4 Dam Pool  
 Sponsor: Rep. Austerloman  
 Requester: \_\_\_\_\_

Dept. Affected: Commerce/DCRA  
 BRU: \_\_\_\_\_  
 Component: \_\_\_\_\_  
 Component Serial No.: \_\_\_\_\_

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES [ ]						
------------------------	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

FUND SOURCE	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1091 Designated Program Receipts						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY98) cost: \_\_\_\_\_

POSITIONS

POSITIONS	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Prepared by

Rep Hudson  
Utilities Reauthorizing Comm.

Phone

3744

Phone

Date

4-28-99

Amendment offered in House Finance

by Austerman

#4

Adopted.

CSHCR 10(FIN) 1-LS0844\K

Page 1, line 10:

Insert "**WHEREAS**, the Alaska Energy Authority retains, under the power sales agreement, significant liabilities relating to the power projects, including responsibility for uninsured facility failure, substandard performance, deficiencies in the reserve and replacement fund, and loss of power sales; and"

Renumber the remaining lines accordingly.

Amended #1 pg 1 line 8-LS0844K  
Cramer/Utermohle  
5/7/99  
Amendment #2 pg 1 - line 16  
2 - line 8

*negotiation*

**CS FOR HOUSE CONCURRENT RESOLUTION NO. 10(FIN)**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-FIRST LEGISLATURE - FIRST SESSION**

**BY THE HOUSE FINANCE COMMITTEE**

**Offered:  
Referred:**

**Sponsor(s): REPRESENTATIVES AUSTERMAN, Harris, Grussendorf**

**A RESOLUTION**

1 **Proposing recommendations concerning the sale of the Four Dam Pool**  
2 **hydroelectric facilities.**

3 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 **WHEREAS** the state acquired land and constructed four hydroelectric facilities.  
5 referred to as the Four Dam Pool, to provide electricity to the communities of Copper Center,  
6 Glennallen, Ketchikan, Kodiak, Petersburg, Port Lions, Valdez, and Wrangell; and

7 **WHEREAS** the Four Dam Pool is owned by the Alaska Energy Authority, which is  
8 a party to a <sup>45</sup>40-year power sales agreement with local utilities to sell the power generated by  
9 the facilities; and

10 **WHEREAS**, during the last several years, the Alaska Energy Authority has entered  
11 into discussions with local utilities in the communities served by the Four Dam Pool power  
12 projects regarding the sale of the power projects to the local utilities; and

13 **BE IT RESOLVED** that the Alaska State Legislature respectfully requests the Alaska  
14 Energy Authority to divest itself of its interest in the Four Dam Pool power projects by  
15 preparing a <sup>negotiation</sup>request for proposals for the sale of the power projects, open only to the electric  
16 utilities in the communities served by the Four Dam Pool power projects or to a consortium

1 of electric utilities in those communities, with terms that will assure that

2 (1) the state receives a fair market value for the power projects;

3 (2) the authority gives due consideration to the prospective purchaser's  
4 commitment to Alaska hire, contracting, and Alaskan participation in the purchasing entity;  
5 and be it

6 **FURTHER RESOLVED** that the Alaska State Legislature respectfully requests that  
7 the Alaska Energy Authority issue the <sup>negotiation</sup> ~~request for proposals~~ as soon as practicable; and be it

8 **FURTHER RESOLVED** that the Alaska State Legislature respectfully requests that  
9 the Alaska Energy Authority evaluate methods by which private sector interests with  
10 experience in acquisition, ownership, operation, and maintenance of hydroelectric facilities  
11 may propose to purchase the Four Dam Pool power projects in a manner that honors the  
12 existing power sales agreement and indemnifies the State of Alaska for its current ownership  
13 liabilities.

14 **COPIES** of this resolution shall be sent to Wilson Hughes, Chair of the Alaska  
15 Industrial Development and Export Authority and the Alaska Energy Authority; and to  
16 Ketchikan Public Utilities; Wrangell Municipal Light and Power; Petersburg Municipal Power  
17 and Light; Copper Valley Electric Association, Inc.; and Kodiak Electric Association, Inc.

Amendment offered in House Finance

by Austerman

CSHCR 10(URS) 1-LS0844\I

Page 2, line 7:

Delete "that" following assure

Page 2, Line 8:

Delete "(1)"

Page 2, Line 9

Delete "(2) the power projects provide adequate power to the communities;"

Renumber the remaining lines accordingly.



**REPRESENTATIVE ALAN AUSTERMAN** Alaska State Legislature

P.O. Box 2368, Kodiak, Alaska 99615 (907) 486-5930 • Session: State Capitol, Juneau, Alaska 99801 465-2487

**Committee Substitute for  
HOUSE CONCURRENT RESOLUTION NO. 10 (URS)  
SPONSOR STATEMENT**

(Amended April 28, 1999)

The State of Alaska acquired land and constructed four hydroelectric facilities in the mid 1980's. These projects are commonly referred to as the Four Dam Pool. The Alaska Energy Authority (AEA) owns these projects and is a party to a 40-year power sales agreement with local utilities serving the communities of Copper Center, Glennallen, Ketchikan, Kodiak, Petersburg, Port Lions, Valdez, and Wrangell.

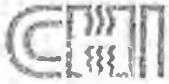
Through AEA, the State of Alaska retains significant liabilities relating to these power projects because of the power sales agreement. These liabilities include responsibility for uninsured facility failure, substandard performance, deficiencies in the reserve and replacement fund and loss of power sales.

The adoption of CSHCR 10 (URS) will request the AEA to divest itself of its interest in the Four Dam Pool.

This will be accomplished by preparing a request for proposals (RFP's) as soon as practicable for the sale of the power projects, open only to the electric utilities in the communities served by the Four Dam Pool or to a consortium of electric utilities in those communities.

The terms of the RFP's will assure that the state receives a fair market value for the power projects and that the power projects will continue to provide adequate power to the respective communities.

The House Special Committee on Utility Restructuring made one simple amendment. They inserted the word **only** on page two, line five, between the words **open** and **to**.



CHI Energy, Inc.

680 Washington Boulevard, 5<sup>th</sup> Floor  
Stamford, CT 06901  
(203) 425-8850  
Fax (203) 425-8880

Christopher Hocker  
Vice President  
Business Development and Corporate Affairs

May 5, 1999

TO: Members of the House Finance Committee

CHI Energy, Inc. is prepared to purchase the Four Dam Pool hydroelectric facilities for Fair Market Value with an all-cash payment.

The value of the facilities depends on several factors, including (i) the condition of the dams, (ii) operating costs, (iii) financing terms, and (iv) power purchase rates. These would be finalized during technical due diligence and financing phases. CHI's preliminary analysis indicates an approximate value of at least \$80 million.

For CHI to purchase and manage the facilities, the existing Power Sales Agreement between the Alaska Energy Authority and the communities served by the Four Dam Pool *need not be altered*. Similarly, day-to-day operations – including current operating and maintenance personnel – need not change. CHI would welcome a “Management Committee” or similar group representing all interested parties to oversee operations.

In addition, CHI intends to bring in an Alaska-based partner to help assure adequate representation of local interests.

CHI's purchase of the facilities would be a “win-win” proposition for everyone. It would (i) provide a significant cash payment to the State of Alaska during the upcoming fiscal year, (ii) maintain the status quo in terms of employment and day-to-day operations, (iii) relieve the State of ownership and operational risks, and (iv) offer long-term rate stability to the communities served by the dams.

CHI is the largest independent (non-utility affiliated) owner and operator of hydroelectric facilities in the U.S, with a portfolio of 79 operating facilities in the U.S. and Canada in 14 states and one province. Established in 1986, we are a private company whose principal owners are Morgan Stanley & Co., Inc., United Bank of Switzerland (UBS), and Merrill Lynch. Our in-house capabilities include operations, maintenance, engineering, construction management, environmental compliance, and financing.

For references on CHI, contact:

Michael J. Petrick, Managing Director  
Morgan Stanley & Co., Inc.  
(212) 761-1558

J. Alex Urquhart, Vice President  
General Electric Capital Corporation  
(203) 357-6601

# FISCAL NOTE

Bill Version: CSHB 157 (I&C)  
(H) Publish Date: 4/28/99

## STATE OF ALASKA 1999 LEGISLATIVE SESSION

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected Commerce & Econ Dev.  
 Title An Act relating to mobile home dealers. BRU Occupational Licensing  
 Component Occupational Licensing

Sponsor Rep. Cowdery by Request  
 Requester House Labor and Commerce Component Serial No. 2360

### Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ( )	0.0	0.0	0.0	0.0	0.0	0.0
------------------------	-----	-----	-----	-----	-----	-----

### FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY99) cost: 0.0

### POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)  
New funds are not required to implement this bill.

Prepared by Jennifer Strickler, Administrative Manager Phone 465-2144  
 Division Occupational Licensing Date/Time 4/16/99 10:28 AM  
 Approved by Commissioner Deborah B. Siedwick Date 4/16/99  
 Agency Commerce & Economic Development

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
For further distribution information, call the Governor's Legislative Office

# COMMITTEE COPY

# FISCAL NOTE

Bill Version: CSHB 167 (L&C)  
 (H) Publish Date: 4/28/99

**STATE OF ALASKA  
 1999 LEGISLATIVE SESSION**

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected Commerce & Econ Dev.  
 Title An Act relating to mobile home dealers. BRU Occupational Licensing  
 Component Occupational Licensing  
 Sponsor Rep. Cowdery by Request  
 Requester House Labor and Commerce Component Serial No. 2360

**Expenditures/Revenues (Thousands of Dollars)**

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ( )	0.0	0.0	0.0	0.0	0.0	0.0
------------------------	-----	-----	-----	-----	-----	-----

**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY99) cost: 0.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** *(Attach a separate page if necessary)*  
 New funds are not required to implement this bill.

Prepared by Jennifer Stricker, Administrative Manager Phone 465-2144  
 Division Occupational Licensing Date/Time 4/16/99 10:28 AM  
 Approved by Commissioner Deborah B. Sedwick Date 4/16/99  
 Agency Commerce & Economic Development

**PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE**

For further distribution information, call the Governor's Legislative Office



Alaska  
Rural  
Electric  
Cooperative  
Association, Inc.

703 W. Tudor Rd., #200  
Anchorage, AK 99503-6650  
(907) 561-6103  
FAX (907) 561-5547

Electric Service for 357,000 Alaskans

May 6, 1999

MAY 06 1999

The Honorable Alan Austerman  
Alaska State House of Representatives  
Juneau, Alaska

Subject: ARECA Support for HCR10 Concerning Divestiture of the 4-Dam Pool to Local  
Communities Served by the Projects

Dear Representative Austerman,

ARECA supports HCR10: Proposing recommendations concerning the sale of the Four Dam Pool hydroelectric facilities. ARECA members unanimously adopted a resolution at its February 25, 1999 Board meeting supporting the divestiture of the hydroelectric facilities to the utilities and communities that the projects serve. The full text of ARECA Resolution 99-2-5 is as follows:

“The Four Dam Pool is comprised of the Terror Lake, Swan Lake, Lake Tyee, and Solomon Gulch hydroelectric projects. Where divestiture is being pursued, the Alaska Energy Authority should negotiate the transfer of ownership of the Four Dam Pool projects to the utilities and communities purchasing power from the projects.”

The purchase of these projects by the communities that they serve would not only benefit the communities, but also the State by reducing State government, and by dissolving the maintenance and operational risks to the State associated with project ownership.

We hope that the Legislature will adopt Resolution HCR10 and would be pleased to testify in favor of its passage.


Sincerely,

Eric P. Yould  
Executive Director

# MEMORANDUM

State of Alaska  
Department of Law

TO: D. Randy Simmons  
Executive Director  
Alaska Industrial Development  
and Export Authority

FROM: Keith A. Laufer   
Assistant Attorney General  
Governmental Affairs Section, Anchorage

DATE: January 27, 1997

FILE NO:

TEL. NO: 269-5135

SUBJECT: Four Dam Pool

## I. INTRODUCTION

Recently there have been developments with respect to the Four Dam Pool projects owned by the Alaska Energy Authority ("AEA"). This memorandum will provide a background with respect to the projects and the existing power sales agreement between the State and the purchasing utilities. In addition, this memorandum will discuss the proposal received from former United States Senator Mike Gravel on behalf of a group of investors, the Energy Group, to purchase the projects.

## II. BACKGROUND

### A. The Projects and the Power Sales Agreement

The State constructed and acquired the projects constituting the Four Dam Pool in the mid 1980's. The cost of the projects to the State was approximately \$483 million. The Four Dam Pool is owned by AEA and consists of four hydroelectric projects serving five communities. Power from the Tyee Lake project is sold through Thomas Bay Electric Association to the communities of Wrangell and Petersburg. Power from the Swan Lake project is sold to Ketchikan Public Utilities. Power from the Solomon Gulch project is sold to the Copper Valley Electric Association serving the Glennallen and Valdez areas. Finally, power from the Terror Lake project is sold to Kodiak Electric Association. The power from all the projects is sold under the terms of a Long Term Power Sales Agreement (the "PSA") between the purchasing utilities and the AEA. The projects are operated by the individual utilities pursuant to operating agreements between the utilities and AEA.

The PSA was executed in October, 1985 and has an initial term of 45 years; terminating October, 2030. Under the PSA, to the extent the purchasing utilities require power, they are required to first purchase the power produced from the Four Dam Pool. The price of the power is established by a formula in the PSA. Under the formula, the power rate has two components. The first component covers the operating cost of the four projects. For this purpose, operation costs of the four projects are pooled to determine one operating cost component for the entire

Four Dam Pool. The second component of the rate is the "debt service component." The debt service component is somewhat a misnomer as no debt was issued by the State to finance the projects (although funds were loaned from the Department of Commerce and Economic Development to AEA to partially finance the projects). The debt service component is the payment to the State in partial repayment of the State's investment in the projects. The debt service component is determined by reference to a debt service schedule contained in the agreement. The debt service component provides for rate "re-openers" in certain events based on the cost of power in the railbelt. In AEA's view, the likelihood of the next rate re-opener significantly altering the current rate is unlikely.

In fiscal year 1996, the power rate for energy produced by the Four Dam Pool was 6.4 cents per kWh. This rate consists of an operating cost component of 2.4 cents and a debt service component of 4.0 cents. For fiscal year 1996, the debt service component produced a debt service payment of about \$11 million dollars. AEA has estimated that the present value of the debt service payments to the State over the remaining term of the PSA is approximately \$165 million dollars. This amount assumes a discount rate of 7%.

Under the PSA, AEA retains significant liabilities related to the projects. In particular, AEA is responsible for uninsured facility failures, substandard performance, and deficiencies in the reserve and replacement fund. Moreover, the utilities obligation to purchase power is not a "take or pay" obligation. Rather, the utilities only pay for power actually purchased from the projects. While the utilities are required to purchase power first from the Four Dam Pool projects to the extent they require power, if the projects are not producing power for some reason, there is no obligation for the utilities to continue to pay.

The PSA also creates a "self-help right" on the part of the utilities. Under that provision of the PSA, if AEA does not fulfill its obligations regarding repairs to the projects, the utilities may withhold their debt service payment to the State and utilize the funds withheld to perform the necessary repairs.

As part of the 1993 legislation that re-organized AEA, the legislature has pre-allocated the debt service payments that are received from the Four Dam Pool to specific funds. Pursuant to AS 42.45.050, debt service payments made by the Four Dam Pool utilities are to be appropriated by the legislature as follows: 40% to Power Cost Equalization and Rural Electric Capitalization Fund; 40% to the Southeast Energy Fund; and 20% to the Power Project Fund to be used for Statewide energy projects. None of the Four Dam Pool debt service payment has been allocated to AEA to fulfill any of its repair obligations under the PSA, nor has AEA been appropriated any other funds to perform such obligations.

#### B. Funding of Required Repairs

In March, 1994, it became apparent that significant repairs were required to be made to the Tyee Transmission Line which is a part of the project. In addition, required repairs were identified for

the Terror Lake and Swan Lake projects and for spill prevention controls at the projects. Under the PSA, these repairs were the obligation of the State. Because AEA had no funds with which to make the repairs, the purchasing utilities filed suit against AEA in an effort to invoke their self-help rights under the PSA to withhold their debt service payments and utilize those funds to conduct the required repairs. In settlement of that lawsuit, the State agreed with the utilities that limited self-help would be invoked for fiscal year 1996. Funds withheld by the utilities were used for engineering studies to determine the proper scope of the repairs which were required to the projects. As part of the settlement AEA agreed to enter into discussions with the purchasing utilities regarding the possible transfer of ownership of the projects to the utilities.

In fiscal year 1996, the Administration proposed legislation that would have altered the allocation of revenues from the Four Dam Pool. Under the Administration's proposal, debt service payments would have first been allocated to AEA to pay debt service on debt that would have been issued by AEA to fund the required repairs. The legislature, however, failed to pass the proposed legislation and, as was expected, the utilities elected to utilize their self-help rights to withhold the entire debt service payments for fiscal year 1997 and 1998 in order to fund the necessary repairs. Because of the disruption in the debt service payments, no contributions from the Four Dam Pool will be made in either fiscal year 1997 or 1998 to the Power Cost Equalization and Rural Capitalization Fund, the Southeast Energy Fund, or the Power Project Fund.

### C. Divestiture Discussions with Purchasing Utilities

In August 1994, the utilities and AEA agreed to mutually explore the possibility of transferring ownership of the Four Dam Pool projects to the utilities. As part of the settlement of the 1995 litigation with the utilities, AEA agreed that it would continue these discussions with the utilities. Chief of Staff Ayers sent a letter to the utilities which described certain requirements which must be met for the Administration to support a transfer of the projects to the utilities. The requirements were that (1) the PSA remain in effect through the transfer, (2) AEA's duties and obligations under the PSA be completely transferred to a joint utility entity and AEA be fully released from those obligations and duties, (3) the State receive adequate value (to be determined) for the projects, and (4) the transfer be subject to review by the legislature.

Authority staff met with the utilities in several meetings over the course of the period from August, 1995 to February, 1996. Ultimately, these discussions broke down over the proper value to be paid by the utilities for the projects. AEA proposed that the reasonable value of the facilities, assuming the utilities completed, at their own cost, the repairs to the Tye Transmission Line, be \$84 million. AEA arrived at this purchase price by first discounting to present value the payment stream of the debt service payments that would be made to the State over the remaining term of the PSA. The present value of the payment stream utilizing a 7% discount rate was approximately \$165 million dollars. From this amount, AEA subtracted the estimated cost of AEA's continuing repair and risk obligations under the PSA. To arrive at this number, AEA utilized the results of an engineering and risk analysis prepared for the projects by

Memorandum to D. Randy Simmons  
Four Dam Pool

January 27, 1997  
Page 4

Harza Engineering Corporation. This study was jointly directed and funded by the purchasing utilities and AEA.

The utilities rejected AEA's proposal. The utilities indicated that, if they were to be required to complete the Tyee repairs, they believed the value of the projects to be somewhere between \$0 - \$20 million. The primary differences between the State and utility values were that the utilities perceived a high risk that energy loads for the region could significantly decline and that inflation could significantly increase the costs of ownership. In addition, the utilities stated that they believed that any transfer of the project would have to result in an immediate significant rate reduction in the wholesale power rate. The utilities factored in a 1 cent per kWh reduction in rates as part of their review of value.

Because the utility and AEA opinions of value were so disparate, the parties agreed to take a hiatus in the discussions to determine if other approaches were possible. Recently, AEA sent a letter to the utilities indicating that divestiture discussions could be reopened if the discussions looked promising and requesting that the utilities bring forth a new proposal in which to open discussions. The purchasing utilities are meeting in February, 1997 and will be preparing a response and counter proposal to AEA.

### III. PROPOSAL FROM FORMER U.S. SENATOR GRAVEL

In September, 1996, the Authority received an unsolicited proposal from Former United States Senator Mike Gravel indicating a desire on behalf of the Energy Group to purchase the Four Dam Pool projects from the State for \$84 million plus additional funds to repair the projects up to a cap of \$100 million. The Authority indicated to Mr. Gravel that AEA was in discussions with the purchasing utilities regarding divestiture and, pending the conclusion of those discussions, that the Authority would not entertain discussions regarding other options. Mr. Gravel took his proposals to the communities themselves and began preliminary due diligence with respect to the projects. To our knowledge, the purchasing utilities, while not receptive to the proposal, have nonetheless been courteous and cooperated with Mr. Gravel's due diligence. In December, 1996, at Mr. Gravel's request AEA staff met with Mr. Gravel. Once again, Mr. Gravel was informed that the Authority would not open discussions or entertain proposals regarding the purchase of the Four Dam Pool until and unless the utilities agreed that AEA entertain such discussions.

Mr. Gravel nonetheless went on to explain his proposal. Under Mr. Gravel's proposal, a new entity would acquire the Four Dam Pool Projects from the State. Ownership of the new entity would be comprised of two ownership groups. The first group would be the lower 48 utility investor group that Mr. Gravel represents. The second group would be a community stock ownership plan ("CSOP") under which utility purchasers in the various communities served by the Four Dam Pool would gain ownership shares. As proposed, the utility investor group would obtain financing for one half of the project purchase price while the trustee of the CSOP would obtain financing for the other half of the purchase price. Under the proposal, the community

stock ownership plan trustee would obtain a guarantee or other financial assistance from the State in order to facilitate the CSOP financing.

An important element of Mr. Gravel's proposal is the termination of the PSA. According to Mr. Gravel, the sale would not be viable unless the PSA were terminated and a new power sales agreement or agreements were entered into. The Energy Group proposal calls for a rate of return to the Energy Group investors of between 12% and 15%. Mr. Gravel indicated that under his proposal the communities would be guaranteed a wholesale power rate of 6.5 cents per kWh for 30 years, the period of the anticipated financing necessary to consummate the purchase. The operational component of that rate, however, would be subject to regular adjustments utilizing an index such as the Consumer Price Index.

Mr. Gravel indicated that the new entity could obtain operational savings by consolidating operational responsibility in the new entity. Mr. Gravel stated that this would likely result in the elimination of a number of jobs. Under the proposal, the new entity would be responsible for compensating those employees whose jobs are eliminated.

Mr. Gravel has commenced efforts in the local communities to increase knowledge about his proposal and has met with various community groups. Mr. Gravel has indicated to AEA that, unless the communities or the utilities come up with some sort of fatal flaw with his proposal, he intended to pursue the proposal with the legislature. I understand that Mr. Gravel has begun his legislative efforts in earnest by engaging several lobbyists on behalf of his investor group.

#### IV. PURCHASING UTILITY POSITION ON GRAVEL PROPOSAL

The purchasing utilities have sent a letter advising AEA of the utilities' continuing interest in pursuing divestiture discussions with the State. A copy of that letter is attached as Exhibit A. In addition, the utilities have asked AEA to reject the Gravel group's proposal and that AEA negotiate a sale with the utilities. The utilities have indicated that they have numerous objections to the proposal provided by Senator Gravel. It is our understanding that the principle objections are that any savings or profits that could be created by the projects would be shared 50% with Outside investors and that the Energy Group would be a "limited liability" company. In the utilities view, all savings or profits should benefit the communities. In addition, the utilities have stated that it would be difficult, if not impossible to gain the consent of all the communities to any change in the current PSA.

#### V. CONCLUSION

The proposal submitted by former Senator Gravel focuses attention on the existing structure of the Four Dam Pool and the need to develop a long term plan to put the projects on a sound economic footing. Should you require any additional information, please let me know.

# PROJECT MANAGEMENT COMMITTEE

## THE STATE ENERGY PROGRAM

Following the dramatic increase in oil prices in 1979-1980, the State was in a financial position to pump massive amounts of money into the development of energy projects.

During the early 1980s, the Alaska Energy Authority constructed or acquired four projects – Tyee Lake, Terror Lake, Swan Lake, and Solomon Gulch. The costs for constructing or acquiring the projects was initially paid by bond financing. Eventually, the bonds were replaced with money lent to the Authority by the Department of Commerce and Economic Development, from the Power Development Revolving Loan Fund.

In an effort to equalize power costs for the communities served by the four projects, the Alaska legislature provided that these four projects would be considered as one project – the Initial Project. Together they would be operated and managed jointly and the wholesale power rate for power sales would be the same for all four projects.

Between May and October of 1985, the parties engaged in intense negotiations. The Memorandum of Understanding between the Authority and the Representatives of the Four Dam Pool communities (signed on May 8, 1985), forged the basic tenets of what was to become the Long-term Power Sales Agreement for the Four Dam Pool.

## THE POWER SALES AGREEMENT

On October 28, 1985, the Alaska Power Authority (now the Alaska Energy Authority), the Cities of Ketchikan, Wrangell and Petersburg, the Copper Valley Electric Association and the Kodiak Electric Association entered into a Long-term Power Sales Agreement.

- WHO** The long term power sales contract is between the City of Petersburg, the City of Ketchikan, the City of Wrangell, Kodiak Electric Association, Copper Valley Electric Association and the Alaska Energy Authority.
- WHAT** There are four operating hydroelectric projects owned by the State of Alaska: Lake Tyee, serving Petersburg and Wrangell; Swan Lake, serving Ketchikan; Terror Lake, serving Kodiak; and Solomon Gulch, serving Copper Valley.
- WHY** Energy from the projects displaces energy formerly generated by diesel plants in each community. Electricity costs no longer depend upon diesel fuel prices and were projected to be lower than diesel-generated

power. The contract provides a long term resource with a relatively stable cost and predictable economic future.

## HOW

*Term:* The contract is for 45 years (1985 to 2030), renewable for a period up to the useful life of the projects.

*Power:* Each purchasing utility is entitled to receive, as needed, all the power available from its project and can benefit directly and indirectly from the sale of any surplus power from its project. The utility pays the agreed upon rate for the power it requires. No minimum amount or minimum payment is required.

*Wholesale Power Cost:* Each community pays the AEA a "postage stamp" rate for energy from the projects. The rate is established at the start of each fiscal year to cover estimated operating costs and agreed contributions toward debt retirement.

*Operating Costs:* Payments cover actual on-site costs, project-specific costs incurred by the AEA and utility management personnel, maintenance, and a fixed annual contribution of \$500,000 to an equipment renewals and replacement fund.

*Debt Service:* A schedule of debt service rates is agreed in advance for successive 15-year periods during the contract. The 1986 rate started at 2.6 cents per Kwh, rising in steps to four cents per Kwh for the years 1990-2000. Prior to 2000, a "rate opener" mechanism will establish the basis for rates between the years 2000-2015.

*Risks:* As owner of the four projects the AEA bears certain risks throughout the term of the contract and any renewals. These risks are:

- Uninsured project failures;
- Substandard project performance;
- Inadequacies in the funds for renewal and replacement of components;
- Failure of any of the participating utilities to pay their share.

*Operation and Maintenance:* The five utilities operate and maintain the four projects through a combination of local control and oversight by a Project Management Committee. The Committee consists of representatives from each of the five utilities and the AEA, and operating decisions are subject to management procedures adopted by the Committee (see *Four Dam Pool Policies and Rules of Procedure Handbook*).