

ALASKA LEGISLATURE COMMITTEE FILES 1997-1998 80/2

9768 SENATE TRANSPORTATION

Still, it was my intent to ensure that the small air carriers who comprised the minority vote had an ample opportunity to present their issues. Representatives from ERA, and Northern Air Cargo made valuable contributions to the record that reinforced the committee's resolve to keep the project within manageable scope and limited indebtedness. In fact, it was because of prior input from the smaller carriers that I introduced HB 432 and reduced the bonding authority by \$25 million compared to the governor's proposal. (The difference to be made up in federal airport aid funds that must be targeted to specific project costs.) I urge you to maintain this difference in any substitute bill that issues from your committee.

IMPORTANT ISSUES:

1. Overall construction period from 1999 to 2004 seems too long. A critical path chart, however preliminary it may be at this point in time, would be a good reference. None has been submitted yet.
2. Along the same line, care should be taken to ensure separate sub-projects are completed in carefully coordinated, discrete time packages. The best information we have on discreet sub-projects is Commissioner Perkins letter dated March 19, 1998 which can be found in Volume I, Section II, Tab F of the IT&T Committee Binders accompanying this memo. This is important information because, to the extent possible, we want contracts sized to the capabilities of Alaskan contractors. There is a balance to be struck between the number of contracts issued and maintaining sound interface between them.
3. The relationship of the Cargo Master Plan to the overall Airport Master Plan is a little fuzzy. There should be only one Master Plan containing a comprehensive view of development for the whole airport. At the very least, the Airport Master Plan cannot be considered complete until the Cargo Master Plan is completed. It is not yet completed. So there is some uncertainty about the ability to pay for future cargo-related capital projects, within the amortization period of the current project, because they haven't all been identified. (Feb 24 Minutes, page 22. Tape #0532) Aside from the phantom Cargo Master Plan the Airport's CIP lists \$176 million in projects during the planning horizon of 6 years.

4. A two and a half year construction period for Concourse C may be unnecessarily long.
5. Mr. Eberle's testimony that DOT/PF will not staff up, but will use contractors, should be held to. One of the legislative goals should be to maximize Alaskan contractor content in this project.
6. Additional information should be developed about the possible need for interim financing, such as Bond Anticipation Notes, as suggested by Mr. Ross Kinney, State Treasurer. The FAA money will come in annual allocations over a span of time longer than the construction period. Mr. Kinney and the Airport's financial consultant, Mr. George King, are worried that they won't have enough money on hand to pay for construction as needed. However, given the contingency amount (20%), the Passenger Facility Charge revenues that are not yet included in the financing (\$6 million per year), interest during construction, the unexpended balances in IARF CIP funds, and surplus revenue in IARF that is traditionally rebated to the air carriers, it would seem that actual cashflow will be amply sufficient for construction. Bond Anticipation Notes may play a role in this project but not for the reason that there will be inadequate funds during construction. More likely they will be needed if IRS requires two offerings instead of one. The Finance Committee may want to investigate the likelihood of IRS approval of a single bond offering plan.
7. Additional investigation is required into the IRS rules requiring bond proceeds to be expended within three years. Testimony indicates a bond sale in 1998 and project completion at the end of 2003, a five year period. Despite DOT/PF's contention that one bond package is a must, it may be necessary to have two bond offerings. (ibid, page 27)
8. DOT/PF has not yet answered the question, "what project components can be discarded or delayed if costs exceed available funds." They seem to be worried that the legislature will curtail the project if they admit to a prioritization. If no prioritization is made now, then in the event of cost over runs the only option will be to increase expenditures. The legislature should keep both options available; to curtail or to increase. There is built-in resistance to curtailment. Herein, raising the

prioritization issue should not be considered as advocacy for curtailment. Instead, it is raised out of necessity for thoroughness in the legislature's review. Chairman Cowdery asked what curtailments would have to be made if interest rates climbed a hundred basis points (1%). Mr. George King responded that a 100 basis point increase would have no effect because the financial model has that much of a cushion built into it (see Volume III, Section VI, Tab D, IT&T Minutes for 02/25/98, Page 12). Staff's conclusion is that it is early enough in the process so that the project will be designed to fit the dollars available.

9. DOT/PF submitted a Letter of Intent (LOI) to FAA dated March 2, 1998 (Tab #). The IT&T Committee received a copy on March 19, 1998. The LOI is a one inch thick document that contains information that may have escaped review by the IT&T Committee, though a draft was provided to the committee's consultants. The LOI is a \$48 million funding request for capital projects within and outside the scope of the project envisioned by HB 432. A clear delineation should be made about which projects in the LOI relate to the HB 432 project and what is their cost. Mr. Ron Simpson is the FAA contact on this matter. A hole exists in the record about what we can expect the annual payments to be from FAA if the LOI is approved.
10. Passenger Facility Charges (PFC's) is a HUGE issue. The Governor does not want to address the issue of PFC's this year, election year, probably because it can be viewed as a tax. Therefore PFC's are not part of the financing plan, or debt reduction plan, for this project. FAA testified that Alaskans are paying PFC's but the money is going to airports outside, mostly SEATAC. Among municipally run airports, Juneau, Ketchikan, Kenai and Valdez are in various stages of consideration and application for PFC sponsored projects. FAA recommends we adopt PFC's for Anchorage and Fairbanks. It would mean about \$5 to \$7 million per year in added revenue, which must be spent, on specific airport projects. One argument against PFC's is that it would reduce the dollars we get from FAA's Entitlement Program. This is partly true. Actually, the decrease would only be for funds for Anchorage International Airport and would be offset by increased funds available for other, rural airports (according to Ron Simpson FAA). Hence rural communities will benefit from this

project. Additional explanation about limitations on how PFC's can be spent should be put in the record.

The IT&T Committee considered an amendment to require that PFC's, if and when they are levied, must be used first to pay off bonded indebtedness, and then for other uses as allowed by statute. However, State Treasurer, Kinney, testified that the likelihood of an early redemption is a disincentive to bond buyers and might result in a higher interest rate. The amendment was withdrawn. The Finance Committee may wish to verify this information or explore other ramifications of having the PFC cashflow available.

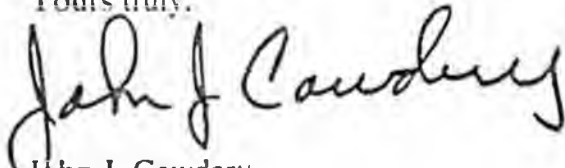
11. AIA's Terminal Project Manager, Mr. Kettner testified that they have an overall 20% contingency built into the project cost. How should this money be used if it is not needed for contingency costs?
12. The State Treasurer requested several amendments to reinforce the statute allowing the Bond Committee to delegate authority to staff, and, to purchase credit enhancements. As Chairman of IT&T, I have no strong objection to these amendments. I did not bring them up for active consideration because they seem redundant and are couched in jargon. However, I recommend these amendments be reviewed by the Co-chairs of the Finance Committee. The amendmen's are found at Volume I, Section I, Tab F.
13. The IT&T Committee did not delve into the environmental protection requirements that may be associated with this project. Commissioner Perkins letter of March 19, 1998 makes reference to an Environmental Assessment that is underway to comply with the National Environmental Protection Act. However, IT&T neither received nor solicited testimony on this aspect. I urge the Transportation Committee to include environmental issues in their overview of CSHB 432.
14. We tried to assess the ability of the AIAS to remain competitive after the rate increases are levied consequent to this project. The IT&T Committee Consultant Report indicated that some comparisons of landing fees were misleading because some airports include fuel flowage fees within their landing fees and AIA does not (Volume III, Section V, Tab A). Despite this discrepancy, that data and testimony by

airport officials and their consultants indicate that AIAS will remain competitive with U.S. airports. However, no data was submitted regarding competitiveness with international airports in Pacific Rim countries.

15. It is recommended that the Legislature develop a mechanism for directly tracking progress and problems during the course of the project. Programmed legislative oversight will by its very implementation increase conscientiousness among the parties involved in disbursing the huge amounts of money involved in this project.
16. Finally, instead of a public offering for the bonds, the IT&T consultants propose that the state explore the pros and cons of a private placement with the Permanent Fund Corporation. Substantial savings could accrue due to elimination of fees and credit enhancements.

It is my hope that this letter and the accompanying information will make your committee's work easier and enable you to avoid unnecessary duplication of effort. My office will make any request from you on this matter a top priority.

Yours truly,



John J. Cowdery
Chairman
International Trade and Tourism

Cc: Commissioner Joe Perkins

TESTIMONY
OF
CLIFFORD T. ARGUE
BEFORE
ALASKA STATE LEGISLATURE
SENATE FINANCE COMMITTEE
MAY 2, 1998

Madam Co-Chair, Mr. Co-Chair, and Members of the Committee:

My name is Clifford Argue. I am Staff Vice President-Properties and Facilities for Alaska Airlines, Inc., and also serve as Chairman of the Anchorage/Fairbanks Airlines Airport Affairs Committee, an organization comprised of some 25 airlines who have signed Lease and Operating Agreements with one or both of the international airports.

I am speaking today in favor of Senate Bill 352 which will authorize the issuance of revenue bonds to fund the much-needed expansion of the domestic terminal at Anchorage International Airport. There are three areas of focus in my testimony, the process, the project, and of special interest to this committee, the payments.

First, I would like to discuss the process. Last November, the airlines voted, in accordance with the agreements each has executed and long-standing past practice, to approve the financing and construction of the proposed Terminal Redevelopment Project at Anchorage with a total estimated cost of \$191 million. During the voting process, the Department of Transportation and Public Facilities pledged \$26.5 million in Federal Highway funds to the project, leaving a net total of \$164.5. The vote also approved the Alaska International Airport System(AIAS) to issue airport revenue bonds in an amount necessary to cover this new net project cost, plus financing, and escalation, with the understanding that AIAS would continue to "use its best efforts to obtain alternate sources of funding/financing to reduce airline cost exposure." We hope, but are not certain at this time that there will also be Federal Airport Improvement Program funds available to help in this regard.

I believe you have already been provided details of the actual votes, so I will not restate them here.

Having been involved for nearly 30 years in the planning and development of airport terminal facilities, I can tell you that the work to date on the Anchorage project is among the most thorough and professional such efforts I have seen. The needs assessment, conceptual solutions, and financing plan

were carefully developed by an expert team of airport staff and consultants. There was excellent coordination with the airlines at every step in the process as we participated in numerous meetings and reviews. My colleagues from a number of other airlines including Reeve, Lynden, Northwest, United, Delta, Reno, America West, Federal Express and U.P.S. share this feeling on the quality of the process and support for the project.

Last week I served on a panel at the annual Economic Conference of the Airports Council International in San Francisco. This session, which was co-sponsored by the Air Transport Association, focused on airline/airport relationships. While we heard about some very difficult situations around the country, I was pleased that I could point to Anchorage as a model of good cooperation resulting in a project endorsed by the airlines.

With respect to the project, the serious deficiencies in the existing Anchorage domestic terminal are well-known, both as documented in the studies and certainly experienced at one time or another by each of you when traveling or meeting someone who is. The plan to remedy these shortcomings, as well as accommodate forecast growth between now and 2005 is sound and conservative. It will provide the citizens of Alaska and the many visitors from outside a modern, efficient, and functional airport terminal serving the largest city and air transportation hub of the state. It will also allow passengers flying out of Anchorage to use the newest technologies to speed their progress through the terminal. We at Alaska Airlines are especially excited about the opportunities this project presents for offering better customer service as quickly as possible.

Finally, and probably the most important consideration is the payment. As you consider this legislation, I urge you to give AIAS the maximum flexibility to issue the bonds necessary for the project all at one time and immediately. This is the most cost-effective way to proceed rather than try to phase it. These bonds will be backed by airport revenues generated from rates, fees, and charges to the airlines, concessions, and others benefiting from the airport. The proposed bonds in no way impact the state's general fund nor will they harm the ability for either Anchorage or Fairbanks airports to continue to develop other necessary improvement projects using already established capital project funding sources. The additional cost to the airlines, when considered on a cost per enplaned passenger basis is modest, and the airlines are ready to pay. The AIAS proposal is a prudent and reasonable approach to funding much-needed improvements to one of the major economic engines of the state.

This is a project whose time has come. The need is overdue and well-justified. I request your favorable action on SB 352 to allow this important work to move ahead in a timely and complete fashion

Thank you for the opportunity to comment. I will be pleased to answer your questions.

What To Do About Aircraft Noise

The Airport's proactive approach to noise issues has significantly reduced the number of flights to the east and south over the city of Anchorage. However, we recognize noise issues and concerns remain. The best way the Airport has of learning about a problem is for someone to take the time to call. Public assistance in identifying issues is critical to our long term success.

Noise Hotline: You can call the noise hotline at 266-2648 24hrs per day. You will get the latest on noise related events and activities. You can also use the hotline to leave a message concerning a noise complaint or issue.

Mailing List: The Airport maintains a mailing list of individuals interested in noise issues. Individuals on the mailing list receive Part 150 Noise Study Update meeting notices and occasional Airport updates. Anyone desiring to be added to the list should call the Airport at 266-2525 or dial the Noise Hotline number listed above.

Community Councils: Many of the Anchorage Area Community Councils have representatives on the Part 150 Study Technical Advisory Committee (TAC) Sincerely,

Noise Program Manager

These members represent you on noise related issues. You can use these members to present your noise related views and opinions. If you would like to know if your area is represented on the TAC you can call the noise hotline listed above.

Other important Noise related phone numbers:

- * Municipality of Anchorage Noise & Air Quality - 343-4200
- * Anchorage International Airport ATIS - 248-1131
- * FAA (to report low flying aircraft) - 271-2000
- * Elmendorf AFB (Public Affairs/Noise Complaints) - 552-2341/8151

TO: CRAIG JOHNSON 907-465-4921
 FR: Christy Shelton 907-343-6718

Written Testimony
of Joseph Sprague
Director of Marketing
Era Aviation

before the
House Special Committee on International Trade & Tourism
John Cowdery, Chair

February 25, 1998

The Anchorage "Terminal Expansion 2005" Project

Good evening Mr. Chairman and members of the Committee. My name is Joseph Sprague. I am with Era Aviation and am representing tonight Era's president, Charles Johnson. I am here to testify on behalf of Era about our views on the Administration's Anchorage Airport "Terminal Expansion 2005" Project.

First and foremost, allow me to make one point very clear: Era supports terminal renovation and expansion at Anchorage. We always have and we believe the time has come to embark on a businesslike plan for renovation and expansion that is appropriate to legitimate needs. We believe that the Administration's proposed project could serve as broad concept for long range planning for future needs – if and when they arise.

From what position does Era share its views? Era enplanes approximately 10% of the domestic passengers using Anchorage International Airport. We spend much of the year as the second busiest carrier at the airport, behind only Alaska Airlines in terms of enplanements. Many of the nearly 450,000 passengers carried annually by Era are not visitors, but residents of the state. Additionally, we employ over 250 Alaskans at Anchorage International Airport.

On November 17th, 1997, we voted against the Terminal Expansion 2005 project, as presented by the Administration on the Signatory Airline Ballot. A copy of our cover letter and Ballot have been distributed to you (attached). In our letter we stated, "[T]he ballot does not include alternatives to the massive and costly project that we can be comfortable with. ... [W]e are limited to one source of funds and a minimum size and price for the project."

A total of twelve Signatory Airlines voted against the project; only ten voted for it; three did not vote.

Today, as then, the Administration freely admits that the project as proposed still remains "only a concept". This concept is still in its infancy; and the estimated costs can only be "best guesses", to be charged later by yet-emerging design concepts. Therefore, in view of our commitments to our customers, our fellow citizens, our employees and our shareholders, we have no choice but to continue opposing the project as presented by the Administration.

In the letter accompanying our vote, we also encouraged, and offered to participate in, a cooperative effort involving representatives from all the Terminal users, to establish terminal renovation and expansion plans that might better meet the needs of all concerned. We stand by that offer.

We agree that the Airport is a tremendous economic benefit to the citizens of Anchorage and the entire state. We also agree we should plan and build for the future. We must all keep in mind, however, that the costs of these improvements will be borne in large measure by the citizens of our state. These costs should be thoroughly and rigorously justified.

How good are the analyses offered in support of this project? For example, although passenger traffic at Anchorage has increased over the last 10 years, it has remained essentially flat since May of 1997. What will continued failure to meet growth projections do to the costs that all of us must bear? There are abundant examples, both within Alaska and across the nation, of how quickly airline passenger traffic levels can change -- and what happens to business at airports when costs skyrocket due to over-building. Additionally, the Administration's plan proposes to increase airline lease space by 75% and concession space by 100%, but has gathered NO commitments for any of this additional space.

As I mentioned earlier, we do believe the concept being presented by the Administration has some merit as a potential long term master plan. Last June, all participating airlines, including United, Delta, Alaska Airlines, Northwest, Era, PenAir and Northern Air Cargo, among others, favored an incremental approach to terminal renovation and expansion. We were on a course to establish priorities and do the most important things first. In July the airport administration proposed a \$33 million incremental approach. However, by October the number was \$191 million; in November it was reduced to \$164.5 million; last month it was \$235 million; and now the legislature is asked to authorize bonding for \$204 million.

Whatever the final cost, this is a major investment; one that merits careful consideration and reasoned discussion among airport users, airport staff, legislators, and other community leaders.

We all want a modern efficient airport terminal. The needs at our present facility are readily apparent. "C" Concourse was built in the early 1950's, and renovation studies have been ongoing for at least the last ten years. There are legitimate needs in the main terminal baggage handling areas and ticket lobby areas. Before rushing forward, however, we must develop a sound business plan that prioritizes problem areas and identifies cost effective solutions.

We must learn from the experiences of others also. There are examples around the country of airports that over-expanded -- places like San Jose and Denver where high terminal costs resulted in downturns in airline activity. We must consider this possibility at Anchorage. The Administration has done a good job attracting cargo carriers to Anchorage. These carriers employ many hundreds of Alaskans, and there are good prospects for more cargo carriers to come. Cargo carriers will, however, pay a substantial portion of the Terminal Expansion costs, perhaps as much as 30-40% -- for the next twenty-five years. How will this affect the decisions of potential new cargo carriers; or for that matter, existing ones?

In closing, we believe the Administration's Terminal Expansion 2005 concept merits serious and careful consideration. We have the expertise right here in Alaska to evaluate and prioritize the legitimate needs at the Anchorage International Airport -- and to come up with sound, fiscally responsible, plans to meet those needs. This is an opportunity that we cannot afford to miss; and we should do it right.



Era Aviation, Inc.

VIA FACSIMILE TO 1-206-431-7031

November 14, 1997

Mr. Cliff Argue
Alaska Airlines, Inc.
P.O. Box 68900
Seattle, WA 98168

RE: Signatory Airline Ballot Due November 17, 1997
Anchorage Airport Terminal Expansion

Dear Mr. Argue:

Attached is Era Aviation's Ballot for the above project. Unfortunately, we are compelled to vote "Disapprove" on the proposed Anchorage Terminal Expansion 2005 project.

I say "unfortunately", as we are convinced that improvements and expansion plans are necessary for the Anchorage Domestic Terminal. It is mandatory that we plan for and meet the needs of the future at Alaska's gateway airport. However, the Ballot does not include alternatives to the massive and costly project that we can feel comfortable with.

In the Ballot we are limited to one source of funds and a minimum size and price for the project. The design concept is in its infancy, and the estimated cost is only a best guess based on the emerging design. In view of this, and the corporate commitment we have to our customers, employees and shareholders, we have no alternative but to vote for disapproval on this ballot wording.

We encourage, and will readily participate in a cooperative effort involving representatives from all Terminal users, to establish Terminal renovation and expansion plans that might better meet the needs of all concerned.

Sincerely yours,

Charles W. Johnson
President

cc: The Honorable Tony Knowles, Governor
Mr. Morton Plumb, Director, AIA
Mr. John J. Ungar, Controller, AIA
All Signatory Airlines

BALLOT

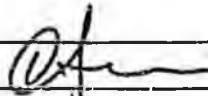
ALASKA INTERNATIONAL AIRPORT SYSTEM
FY99-2004 AIRLINE CAPITAL IMPROVEMENT REQUEST

In accordance with Article 4, Section 4.02 A&U Anchorage and Fairbanks International Airports Airline Operating Agreement and Terminal Building leases dated November, 1990 and extended in June, 1995, the Signatory Airline identified below approves or disapproves the Capital Improvement listed below as indicated. The Signatory Airline's vote takes into consideration, among other things, the Terminal Concept Package Report #8 dated 10/1/97, Plan of Finance (Volume I & II) dated 10/2/97, and previous reports, the discussions at the October 15, 1997 Airlines Airport Affairs Committee meeting in Anchorage and preceding Airline Executive Committee and Technical Committee meetings.

FY 99		FUNDING X \$1,000				
AIRPORT	PROJECT	AIP	IARF	TOTAL	APPROVE	DISAPPROVE
ANC	TERMINAL EXPANSION 2005	191,000*		191,000*		X

* Project costs identified in 1997 dollars. Approval authorizes AIAS to issue up to \$235 million in airport revenue bonds, which includes escalation and financing costs. AIAS pledges to use its best efforts to obtain alternate sources of funding/financing to reduce airline cost exposure.

SIGNATORY AIRLINE NAME Era Aviation, Inc.

SIGNATURE OF AUTHORIZED REPRESENTATIVE 

DATE November 17, 1997 TITLE President

Cliff Argus has agreed to serve as designated representative and collect and tally votes and provide the requisite written certification within the required time. He requests Ballots sent to him arrive by 12:00 noon, PST, November 17, 1997 at Alaska Airlines, P.O. Box 68900, Seattle WA 98169, FAX (206)431-7031 or TTY SEAPZAS.

SPECIAL REVIEW

HB 432

ANCHORAGE INTERNATIONAL AIRPORT

REVENUE BOND AUTHORIZATION

for

ALAKSA HOUSE OF REPRESENTATIVES

**SPECIAL COMMITTEE ON INTERNATIONAL TRADE AND
TOURISM**

Report prepared by:

March 19, 1998

**Dr. Heinz Noonan,
Economist, Airport Planner
Stephen F. Wells,
Certified Internal Auditor**

EXECUTIVE SUMMARY

Within the time allowed a special review was conducted on behalf of the Alaska Legislature, Representative Cowdery. The following are some of the keys points.

1. The Anchorage International Airport (AIA) Concourse C project has been **thoroughly examined and alternatives considered**. There isn't any reasonable design that cannot be discussed at length. What may not have been presented or may need further exploration is a design that meets the estimated needs of the airport to year 2015. The current design to 2005 may not meet forecasted needs within 5 years if estimates by AIA are accurate.
2. **Information data**, particularly the financial data, **needs to be entirely accurate and complete**. Therefore, the process for assuring that happens may need some refinement. The IARF Controller and his staff need to review all financial data before it is released. That is not happening. The result is that certain information may be inaccurate. When the bond package is reviewed in the due diligence process, there should not be any unresolved questions in this area.
3. Air cargo is the major revenue producer at the AIA. Without the completed Air Cargo Master Plan or a clear determination of the capital projects needs for air cargo, it is difficult to understand how the total debt capacity can be determined. Additionally, how the terminal costs, the air cargo costs, and current list of \$175 million in CIP might impact one another **does not seem clear at this time**.
4. **Cost control** for this project to insure that any significant escalations are minimized will require certain commitments from all parties. Some design uncertainty or at least **alternative design possibilities might significantly change the cost picture**. This project does have some high-risk construction portions particularly in the main terminal area. The DOT/PF and AIA should insure that certain key staff members be assigned to report only on the costs and that function should report differently than the Design and Construction function to insure cross checks and unbiased reviews. This could be easily accomplished by the IARF Controller's office. If the Legislature desires to maintain an **independent oversight** role throughout this project, you may want to require that such a person be involved and report directly to the Legislature. That function could provide for immediate project status reports in terms of design changes, construction progress, use of funds, cost control, and specific inquiry feedback.
5. **Impact to rates and fees** was difficult to report in a short version answer. The formulas for how other airports determine this comparative data are different and result in an **apples to oranges comparison**. There may be a method for accomplishing this by identifying one or two common aircraft and finding out how much it costs for that particular aircraft to land at any given airport. That information was not provided but could be determined. How this or future projects might impact the current rates and fees only at AIA can be determined but only if the assumptions and formula is clearly defined and understood. This needs further review.

Airport Bond Questions:

Introduction:

In all fairness to the AIA we must say that there has been considerable effort made toward presenting as complete a package of information as may be possible. Numerous staff and consulting hours have been incurred in preparing more reports than we could possibly review in detail. Therefore, it is entirely conceivable that the AIA has answers to any questions we may raise and that those answers have already been covered in a report somewhere. We have briefed both Dave Eberle and Mort Plumb of the general nature of this report and some of its specific findings in order that they may be prepared for your questions or so that they could supply us with any additional comments they might have. They have not received a copy of this report.

Because we have been asked to review certain information related to the Anchorage International Airport proposed bond package, we have agreed to try to answer certain questions and provide additional information. Also because we want to provide a cost effective product we will avoid duplicating efforts that have already been expended, but may in some cases evaluate already provided information. Our review was limited to information available at AIA. Discussions with airlines or consultants were not done due to time constraints. Therefore, there may be additional information which might need to be considered.

Question:

1. What is the total debt capacity of the International Airport System?

The simple answer is that there is no singular dollar debt capacity that remains constant.

The short version answer is that the level of activity and associated revenue at the Anchorage and Fairbanks airports (IARF) are tied together to calculate bond capacity given a point in time and certain assumptions. More directly the current bonded debt of approximately \$33 million and the proposed bonded debt of approximately \$200 million is within bonding capacity of the IARF but only if certain conditions are met. If the IARF is willing to accept a lower credit rating then the amount of the bonded debt could conceivably be as much as \$400 million.

The long version can not be covered in the limited time allocated for this report but requires a due diligence review by qualified bond counsel. Additionally, should further review be requested we would be available to assist where possible.

2. Is the borrowing capacity for Anchorage International Airport (AIA) legally separate from Fairbanks International Airport (FLA), i.e. does debt incurred for AIA project affect the borrowing capacity for FLA?

The simple answer is NO the borrowing capacity of AIA and FIA are not separate but are linked together in the form of the International Airport Revenue Fund (IARF). And to continue, YES debt incurred at AIA does affect FIA borrowing capacity and vice versa.

AIA has historically subsidized operations at FIA because Anchorage generates excess revenues and Fairbanks has lost money consistently. While this is not a popular statement, it is true, and can easily be seen in any of the financial statements for the airports. What it means for your purposes in this question is that anything which either reduces revenue or increases cost at AIA will have a significant impact on FIA's ability to justify any bond financed improvements. Regardless of where the projects are located (AIA or FIA) the impact is to both airports as they affect the IARF in total.

- 3. After the proposed project is complete, what will be the plane/passenger capacity at AIA and how long will this capacity satisfy anticipated demand?

AIA has answered that "The project is designed to accommodate 3,000,000 enplanements or 6 million passengers, which are projected for the year 2005." Additionally, they answered that "...an additional four jet gates may be needed in about 2010 with another four jet gates in about 2015."

The Hirsh report, ("Final Report, AIA, Terminal Expansion Study, date 12/22/97, Hirsh Associates") table II-1 indicates that by 2005 the total enplanements are estimated to be 3,070,000 and by 2015 the enplanements will total 4,440,000 or almost 9 million passengers.

- 4. What are the long-range capital improvement plan and accompanying cost estimates for AIA and FIA? Match funding sources to the project in the long range capital improvement plan and compare to debt capacity.

This is a complicated question. Numerous reports have been generated which cover parts of this question. We'll try to summarize but what you may want to ask for is what we normally call a "Source and Application of Funds" statement(s).

ALA CIP	Estimated Funding/Costs
FY99	\$25.150 million
FY00	\$23.150
FY01	\$22.100
FY02	\$16.400
FY03	\$35.050
FY04	\$20.400
total	\$142.250 million

FIA CIP	
FY 99	\$6.359 million
FY00	\$8.050
FY01	\$7.368

FY02	\$5,937
FY03	\$3,220
FY04	\$2,200
total	\$33.134 million

IARF total CIP \$175.384 million

Part of the answer for the source of funds is that IARF revenue normally provides some of the funding and FAA AIP provides some funding. When you look back to previous CIP projects that have been approved and not yet built it is hard to understand how future projects will really be paid for. The "reserve account" is for previously approved projects that may or may not have received planned-for AIP funding. If the federal funding portion were revised, cancelled or funded by IARF revenue this would impact future projects, debt capacity, etc.

5. How does the fund for the proposal presented in HB 382 differ from funding methods used for past terminal projects at AIA and FIA?

In past terminal projects a combination of bond funds and revenues or cash has been used to pay for the projects.

6. What are the historic balances of the IARF? Show which major capital projects were funded in which years?

The published financial reports for the IARF for each year has a schedule in the very last pages which I find most useful and comparative for AIA and FLA, but they do not show relationship to projects.

Historic Balance -Net Income (Loss)

	AIA	FLA	Total IARF
FY97	\$8,615,979	(\$7,723,270)	\$ 892,709
FY96	\$6,584,122	(\$7,053,665)	(\$ 469,543)
FY95	\$4,341,090	(\$6,689,017)	(\$2,347,927)
FY 94	\$1,261,104	(\$7,292,081)	(\$6,030,977)
FY93	\$3,416,468	(\$7,242,494)	(\$3,826,026)
FY92	\$8,004,223	(\$7,892,669)	\$ 111,554
FY91	\$16,604,397	(\$8,258,443)	\$8,345,954
FY90	\$21,562,965	(\$7,837,424)	\$13,725,541
FY89	\$26,282,113	(\$6,802,607)	\$19,479,506
FY88	\$24,943,829	(\$7,121,223)	\$17,822,606

What this information should clearly demonstrate is that from a strictly financial point of view, FIA should carefully consider any project which might increase its operating costs and further impact its net income and ability to repay debts. Certainly without the support of income from AIA, the rates and fees at FIA would be considerably higher.

What the impacts are when the total fund is at a loss should be explained by the IARF Controller.

The AIA provided a list of major projects and year of funding in their 3/4/98 response, attachment #6.

7. How long is the proposed project's life and how long is the amortization period?

The AIA has responded, "Industry standard building design life - 30 years and Bond amortization period - 25 years"

8. Under the current proposal, how long will it be before AIA will need to be expanded again?

There is a strong possibility, that if estimates and projection within the AIA reports are experienced, that within 5 years and again in 10 years after this project is complete there will be another expansion project needed for passenger growth and gate needs. Those alternatives can be seen in the new "finger" alternatives that would extend out from the new Concourse C.

The proposed project's design life and useful life for demand purposes may be different. As has already been shown the demand may require more building by 2010 or within 5 years after this project. In all fairness, however, the planners have alternatives (at more costs) which can be expanded to meet growth demands. That information may not have been presented or clearly explained. Certainly the AIA can explain in detail why this project is being design for 2005 instead of 2010 or 2015.

9. In light of AIA traffic growth projections, has the building of a new terminal been seriously evaluated?

YES.

In the "Sketch Planning Process" Technical Report dated 1/2/98 by McCool Carlson Green Team, you can find numerous alternatives, their evaluation process, and a recommended 2005 conceptual design. In discussion with Mr. Donn Ketner, he indicated that as many as 15 different alternatives have been considered. When you review the document mentioned above you see an evolutionary process unfolding. Sophisticated models of evaluating which alternative would be presented were utilized, as well as decisions about what items would be of more importance. The AIA team should answer any specific questions about design alternatives.

10. Is a 25 - year debt being incurred for a remedy that will only be adequate one or two years after completion?

Very possible, and certainly within 5 years as their own information and forecasts state.

11. How will the AIA landing fees compare nationally after the proposed \$165 million in debt is incurred?

One critical point that you may have heard in testimony before the committee is that at AIA and FIA, you need to combine landing fees and fuel flowage fees in order to make a comparison to many airports who only have landing fees. You need to have an apples to apples comparison. What you have been given is an apples to oranges comparison. How the landing fee number is generated by the industry can reflect entirely different cost information.

What is needed and what could be supplied if we had more time is a simpler way to making a comparison at different airports. For instance, it should be possible to use a standard aircraft size and configuration to determine what it would cost for that particular aircraft to land at different airports. In that manner you would get an apple to apple comparison. How the fee was developed and what different cost information was used to determine the fee wouldn't matter as much because the end result would show what it would cost that particular aircraft.

12. How will higher tariffs affect AIA and FIA ability to finance future expansion and attract new carriers?

Certainly the ability to finance future expansion projects through revenue bonds will be affected. As the AIA has explained if there is a demand then presumably there will be a resultant way to pay for that demand by those who needs the services or facilities. Attracting new cargo carriers could be a problem IF this project precludes further air cargo projects due to limited funding or revenue. However, if rates and fees are still competitive then improvements should be possible.

13. How much money is in the LARF at this point?

The AIA has responded that there is approximately \$78 million in the LARF as of 6/30/97.

The financial statements show that it is probably an asset consisting of investments at \$77,327,177.

14. How much money in the LARF is being held as collateral for debts?

The AIA responded that "Approx. \$36 million was in reserves required by the AIAS bond resolutions and operating agreement;"

15. How does the passenger facility charge system work?

I believe that the FAA testified in answer to this question.

16. How will reduction in the requested bond authorization from \$304 million to \$280 million affect the project?

The AIA indicated that they may need to request additional bonding authority if they fail to secure federal funding.

In trying to analyze how further reductions in funding might affect the project was difficult. The only pieces we identified that might be worth further review were the main terminal ticketing and baggage claim construction and remodeling. There seems to be another way to accomplish this in the new Concourse C. The part that we couldn't ignore was the need for certain code remodeling needs. How that all gets broken down into its respective costs would have required more review on our part. Perhaps the AIA could supply this information.

Additional Information:

During the process of obtaining information for the specific questions asked by the Legislature, there were certain categories of information which either appeared to answer questions the Legislature was interested in or pointed to questions that might still need to be answered.

This additional information may be useful in your deliberation process. We believe that the DOT/PF and AIA may want to comment on certain of these items.

In line with Commissioner Perkins request to keep Dave Eberle informed of our needs and information, we have met with Mr. Eberle on three occasions and have generally informed him of our progress and results. This report, however, has not been distributed to anyone other than to Mr. Marco Pignalberi in draft. This information was fully discussed with Mr. Pignalberi on two occasions.

Throughout our review process we have found AIA to be very cooperative.

Design Comments:

When we first started out with the information that was initially supplied to us, we believed that there might be certain design questions that had not been adequately considered. Because we questioned Mr. Donn Ketner in this area at some length, we now can state that we believe the AIA has adequately reviewed most possible alternatives that can be imagined within reasonable limits. There has been considerable work devoted to examining alternatives from various sources including the airlines. Almost any idea for reasonable development has received detailed examination. Mr. Ketner was able to discuss any question in a very knowledgeable manner and supply supporting detail.

We were very impressed with the work that has gone into the design effort and the resultant alternatives that have been documented.

Because of that extensive effort, we believe the Legislature could ask for and receive detailed information about any alternative that you might be interested in examining.

What we also determined is that it is very possible to reconstruct Concourse C without the remodeling portions. There are alternatives which allow for predicted future growth. The AIA can provide the estimates for the additional costs. Such a design has not been totally presented to the Legislature in this bond package. We question why the project has not been designed for 2015? We believe the AIA may have answers which should be provided which might explain more fully why the 2015 design was not chosen.

Most of the costs of this bond package are not for reconstruction of Concourse C and the predictable growth but to remodeling of the existing main terminal areas. As such there is a considerable risk associated with the remodel of the main terminal because of its age. Therefore, there is also a considerable likelihood that additional and unexpected costs may occur. The main point here is that this portion of the project is high risk and potentially more costly.

In examining the design process a few questions do come up that may need to be explained.

1. How can this or any design and associated major construction project be considered without reasonably asking what the needs of and impact will be to the air cargo operations, the major revenue producer?

We know that at least some effort has gone into the needs and resultant projects that air cargo will have because of the recently prepared LOI that has issued to FAA. Therefore, AIA should be able to report what air cargo development is needed .

2. What assurance does the Legislature have that the concept design presented will be the design that is built and, therefore, shouldn't a final design be presented before funding of this amount is requested?

Although a concept design has been presented to the Legislature, it is our understanding that such a design is not binding in any way other than as a total price tag. We have heard explained that this process is the way it is done at other airports around the country. Our understanding is that this design could and may be changed several times in significant detail before the project is built.

We understand that the normal DOT/PF design and construction process is to have a complete design before full funding is generally requested. Design work is a separate funding item usually accomplished before the legislature appropriates money for the construction project. There may be exceptions such as design/build projects.

So the issue seems to be whether to allow the AIA to issue bonds before a design and costs are finalized and to maintain some oversight on the process or to wait for various reasons.

3. Should Concourse A be a regional only terminal providing a separation from jet only operations and giving the ability to meet the future needs of the regional carriers in a cost effective manner? Has this option been given due consideration and what are the specific issues?

When we reviewed the design alternatives, it became apparent that some consideration had been given to moving all regional operations to Concourse A. One of the reasons given for not pursuing this design was that the FAA saw some problems. When we reviewed the FAA letter, we remained unclear as to any serious objections. Furthermore,

there was no letter from the FAA that we were given which discussed the possible safety considerations to having both jet and non-jet aircraft operating in the new Concourse C areas together. Perhaps there should be a letter requested from FAA that discusses any potential safety problems associated with the current design where jet and non-jet operations are both located at Concourse C.

The only argument that we heard which seemed to raise a good question was that if the regional carriers were all in Concourse A, then their passenger would have a long walk to get to Concourse C if they had a connecting flight in that area. However, the reverse argument will also be true. So someone is going to have to walk.

The Hirsh report (AIA Terminal Expansion Study, Domestic Terminal Facilities Requirements, dated 12/22/97), page 10 states that "it is estimated that less than 5% of the peak hour passengers are connecting directly from one flight to another."

Further explanation of this option may need to be provided by AIA and the airlines.

4. Peak Hour Passenger Design:

To illustrate how numbers and statistics may be viewed differently, the following statement is true and uses numbers from AIA reports, but is presented here in a different view.

The design presented in the bond package is based on peak hour passenger volumes as a standard industry method of designing terminals, resulting in a facility designed to meet the needs of at most 0.07% of the annual enplaning passengers at AIA, or at most 8.7% of the daily passenger activity during the peak month of August, occurring only between the late night hours of midnight and 2 AM. (Annual enplanements 1997 total 2,076,936. peak hour passengers enplaned 1,460 or .0007 see Hirsh Table II-1 after page 10)

A person might question whether such a design and design criteria meets the needs of Alaskans. Perhaps the design is merely for certain tourists traveling late at night only in the peak month of August. A person might also ask whether the airport's future was in passengers or with air cargo where 70% of the revenue is generated.

5. Baggage Check-in/Claim Needs:

A considerable portion of the bond package design deals with the need for additional baggage claim area. Whether that need should be accommodated through a remodel of the main terminal or in the new Concourse C might be questioned further. We did note that in the Hirsh report there were recommendations as follows, page B-6, B-9:

"Direct transfer of baggage from aircraft to cruise ships and hotels for land packages could initially be implemented at AIA without significant terminal construction or investment by either airlines or the tour companies."

Additionally. "Remote check-in could potentially provide the highest level of service to the passenger with the least amount of confusion, but be more difficult to implement."

The reports that we read do not address how the airlines could modify their operations to accommodate some of the peak time problems. For instance, we specifically looked for but did not find discussion of the airline's staffing at check-in counters and at baggage areas. Were the airline staffing levels at maximum during these peak hours? If that type of information is available, it might be interesting to examine further. If not, then further discussion with the airlines might be warranted to determine the extent to which operations issues might mitigate some of the problems.

What these statements seem to suggest is that there may be alternatives to construction which might address the peak hour passenger volumes needs. What might be interesting to hear is how these recommendations affected the main terminal remodel design. The AIA may be prepared to address these comments.

Cost Comments:

1. What assurance does the Legislature have that this bond package amount will not increase or be insufficient to meet whatever design is eventually constructed and how accurate are these numbers?
2. Who has committed to repay these bonds and where is that written commitment? What risk does that imply and what is the AIA plan to cover such a risk?
3. **Will the AIA Controller be required to provide written assurances for the bond package that the accounting information and cost information is accurate, complete and in accordance with generally accepted accounting principles?**

There are already indications that the costs associated with the bond package may differ considerably before construction begins and may require the Legislature to authorize additional bonding limit. Specifically, there has been **no written assurance from either FHWA or FAA** that monies in specific amounts will be made available or are even eligible on the part of the FHWA. Without federal funding the future bonding capacity and ability to construct either air cargo improvements at AIA or other bonded improvements at FIA may be severely impacted.

The high risk associated with remodeling the main terminal area may encounter changed conditions and more costs.

The fact that the Operating Agreements will expire in July 2000 may have a material effect on the bond sale unless there are written commitments from the users of the facility that will repay the bonds. There may be a strong resistance to signing a new operating agreement if there is a material impact to rates and fees. This issue should be addressed by AIA and the bond counsel.

The following are certain cost or accounting issues that may need to be further examined or clarified:

1. In a recent submittal dated March 4, 1998 to the Legislature there were several attachments to answer questions that had been asked. In Attachment 8 "Status Report" there are several pieces of information that may need clarification.
 - a. At the top of the page titled Concourse C Funding, there are three appropriations, AR65837, AR59898, AR 63836 totaling \$14,700,000. When AR 63836 for \$4.5 million was submitted to the Legislature there was a commitment to seek AIP funding in the amount of \$1,690,000 (see Attachment 9, page 1, 1994 AIA Term Expand Design, near the bottom of the list). **Has the AIP funding been requested or received, and if not, please explain?**
 - b. Within the text of the Concourse C Funding report, noted above, there is a line item for Terminal Schematic Design, Schematic Design and Admin in the amount of \$605,878. Directly above that is the line item Terminal Assessment totaling \$2,400,000. This information was prepared by the AIA consultants. **Was this information substantiated or verified with the AIA accounting section? What was their input or response as of 2/11/98? Did it differ from the information being presented to the Legislature? Please explain.**

2. Leif Selkregg Associates:

The contract for Leif Selkregg Associates and the resultant increases in contract value might be viewed as a measure of what could be expected throughout this project if a person were somewhat suspicious.

The original contract for Task 1, dated 9/20/96 estimated that overall services would "be in the range of \$1,000,000". The next contract, Task 2, dated 11/1/96 estimates that overall services would "be in the range of \$1,200,000". All subsequent contracts for additional tasks do not contain an estimate of overall services costs.

Therefore, we reviewed the project cost reports dated 3/11/98 to determine what the budgeted to actual costs are running for this project and found that the Leif Selkregg authorized contract amount is now at **\$1,611,082.16**.

Furthermore, we examined the period of performance for the tasks to determine if there were any controls on the amount of time that was being permitted to accomplish the required work. What we found was that up until Task 3, Amendment 2 there were cut off times when work products were suppose to be completed. With that amendment all cut off times were extended out to 12/31/2001.

From a cost and control point of view there seems to be few if any dollar limits or time limits and therefore, there is a strong possibility that in addition to the already significant increase of 60+% there could be other increases in the amount of the contract.

There may be a need to review this contract, the State Procurement Code, and the reasons for these increases in cost and changes in control. We have not discussed this issue with the consultant but have provided the AIA with this comment. Perhaps the AIA has additional information at this time.

3. In answer to your questions about "What percentage of the budget will be for Contingency, Planning, Design Engineering " the AIA responded to you on 3/4/98 with the following schedule:

Contingency	10%	
Planning	02%	
Design & Engin, Const Admin		10%
Project Admin	02%	
Construction	76%	
Total		100%

To summarize they answered that 76% went to construction and 24% went to Planning Design Admin or Contingency (PDAC).

We reviewed that information to see if we could determine if there might be additional information available. In the AIA Terminal Concept Package Report #8, (dated October 1, 1997 in the Cost Estimate section on pages 3) there is a summary report which breaks down the cost for a project total of \$190,755,354. If you were to prepare a schedule of all the PDAC costs as shown in the supporting schedules what you would find is that there are \$68,525,867 in PDAC costs or a 36% factor instead of a 24% factor. If you choose to explain the PDAC as a percentage of only the construction cost (\$122,229,487) then the resultant PDAC % would be even higher at 56%.

4. We wanted to know if there was a simple formula for determining what the impact might be for each additional \$1 million in CIP and what that would do to the landing fee.

The short answer is that using FY 2002 as a base year, not counting the bonded project, and after using the available LARF funds which would be approximately \$13 million, there would be a \$0.0333 increase in landing fees for each \$1 million in CIP.

5. We have seen different interpretations on the airline vote for this project presented in different reports. What is implied is that there is a majority of support for this bond package and design. Perhaps with all the changes in design and different cost presentations, there should be another vote by the airlines to confirm their continued support. Such a confirmation might be most useful in the bond package if there is no progress toward new operating agreements until year 2000.
6. Interest Rates:

The AIA has used the approach that if we wait until next year the interest rates could be higher. In recent discussions there has also been the statement that if we move ahead this year we will be in a position to take advantage of any lower interest rates next year. The later statement seems to have merit.

We examined this question and have determined the following:

The short answer is that **interest rates are likely to drop even further.**

The long answer is:

Mr. Paul McCulley, Chief Economist for UBS Securities recently stated that the Federal Reserve and its Chairman, Alan Greenspan have won the war against inflation and high interest rates. In his semi-annual Humphrey-Hawkins testimony, Dr. Greenspan indicated the economy was in great shape. The economy is "delicately balance between inflation and recession".

During the next twelve to eighteen months the Federal Reserve will react favorably toward the US financial markets by shaving 100 to 125 basis points from the benchmark rate of 5.50 percent. In our opinion the interest rate cut will formally start this summer (1998).

Dr. Greenspan will chop away at interest rates in a very cautious manner. The last interest rate cuts came in three steps starting in July 1995 and ending in January 1996. This monetary move caused short-term interest rates to decline from 6.00 percent to 5.25 percent. The lower interest rates will provide a monetary hedge for the US economy against the Asian economic problems that will hurt the US economy and corporate earnings in the second half of 1998. The Federal Reserve and its short-term forecasts on the health of US economy have not been very accurate, as noted by Dr. John Shaughnessy, Chief Investment Strategist for Advest, Inc. The Federal Reserve economic growth forecasts has been by far too conservative. For example the Central Bank had forecasted a 1997 growth rate of 2.25 percent in Gross Domestic Product compared to the actual growth of 3.9 percent.

In a recent speech at Carnegie Mellon University, Lawrence H. Meyer, Federal Reserve Board Governor, noted that we have a good news economy that has a "remarkable combination of healthy growth, low unemployment, low inflation, a soaring stock market and a declining federal deficit". He said he could summarize the recent economic performance into a single sentence. "We have been recently blessed with relatively strong cyclical growth, the lowest unemployment rate in 24 years, the lowest inflation in 31 years, an impressive investment boom, soaring equity prices and a 5-year decline in the federal deficit".

RECOMMENDATIONS:

1. Should the Legislature decide to move forward with a bond package authorization in any manner which allows the AIA to continue with this project, we strongly recommend that there be some mechanism which allows you to **maintain a continuous oversight of the project** by having a assigned person to be a part of the project team (with no decision making responsibility) to merely provide oversight and reporting to the Legislature. That person may not need to be full time but should plan on being involved in status meetings every week. That person could easily be funded out of the project. That person should be experienced with and knowledgeable about the AIA and its processes. This effort could be considered part of the Quality Control process.

2. The Legislature may want to consider a bond authorization by approving a **private placement or partial private placement of the bonds with the Alaska Permanent Fund**. This potential option could offer some significant interest cost, financing cost and opportunity cost savings. At the same time, it should be noted that the current bond resolutions prohibit private placements or privately negotiated sales. Those resolutions would have to be amended.

3. Several of the comments we made in the Cost Comments portion of this report are intended to point out the need to have accurate and complete information. We are concerned about the process. **We recommend that all financial information be reviewed by the IARF Controller before it is released.** That is not being done at this time at either Anchorage or Fairbanks. The problem is that without this review, there is a strong possibility for error which has been demonstrated in some of these comments. If we had more time to do an in-depth review we could provide more examples. The need is to insure that the process is providing accurate and complete information. Certainly when the bond package is reviewed in the due diligence process this financial information and the process used to present the information will come into question and be of critical significance.

Written Testimony
of Joseph Sprague
Director of Marketing
Era Aviation

before the
House Special Committee on International Trade & Tourism
John Cowdery, Chair

February 25, 1998

The Anchorage "Terminal Expansion 2005" Project

Good evening Mr. Chairman and members of the Committee. My name is Joseph Sprague. I am with Era Aviation and am representing tonight Era's president, Charles Johnson. I am here to testify on behalf of Era about our views on the Administration's Anchorage Airport "Terminal Expansion 2005" Project.

First and foremost, allow me to make one point very clear: Era supports terminal renovation and expansion at Anchorage. We always have and we believe the time has come to embark on a businesslike plan for renovation and expansion that is appropriate to legitimate needs. We believe that the Administration's proposed project could serve as broad concept for long range planning for future needs – if and when they arise.

From what position does Era share its views? Era enplanes approximately 10% of the domestic passengers using Anchorage International Airport. We spend much of the year as the second busiest carrier at the airport, behind only Alaska Airlines in terms of enplanements. Many of the nearly 450,000 passengers carried annually by Era are not visitors, but residents of the state. Additionally, we employ over 250 Alaskans at Anchorage International Airport.

On November 17th, 1997, we voted against the Terminal Expansion 2005 project, as presented by the Administration on the Signatory Airline Ballot. A copy of our cover letter and Ballot have been distributed to you (attached). In our letter we stated, "[T]he ballot does not include alternatives to the massive and costly project that we can be comfortable with. ... [W]e are limited to one source of funds and a minimum size and price for the project."

A total of twelve Signatory Airlines voted against the project; only ten voted for it; three did not vote.

Today, as then, the Administration freely admits that the project as proposed still remains "only a concept". This concept is still in its infancy; and the estimated costs can only be "best guesses", to be changed later by yet-emerging design concepts. Therefore, in view of our commitments to our customers, our fellow citizens, our employees and our shareholders, we have no choice but to continue opposing the project as presented by the Administration.

In the letter accompanying our vote, we also encouraged, and offered to participate in, a cooperative effort involving representatives from all the Terminal users, to establish terminal renovation and expansion plans that might better meet the needs of all concerned. We stand by that offer.

We agree that the Airport is a tremendous economic benefit to the citizens of Anchorage and the entire state. We also agree we should plan and build for the future. We must all keep in mind, however, that the costs of these improvements will be borne in large measure by the citizens of our state. These costs should be thoroughly and rigorously justified.

How good are the analyses offered in support of this project? For example, although passenger traffic at Anchorage has increased over the last 10 years, it has remained essentially flat since May of 1997. What will continued failure to meet growth projections do to the costs that all of us must bear? There are abundant examples, both within Alaska and across the nation, of how quickly airline passenger traffic levels can change -- and what happens to business at airports when costs skyrocket due to over-building. Additionally, the Administration's plan proposes to increase airline lease space by 75% and concession space by 100%, but has gathered NO commitments for any of this additional space.

As I mentioned earlier, we do believe the concept being presented by the Administration has some merit as a potential long term master plan. Last June, all participating airlines, including United, Delta, Alaska Airlines, Northwest, Era, PenAir and Northern Air Cargo, among others, favored an incremental approach to terminal renovation and expansion. We were on a course to establish priorities and do the most important things first. In July the airport administration proposed a \$33 million incremental approach. However, by October the number was \$191 million; in November it was reduced to \$164.5 million; last month it was \$235 million; and now the legislature is asked to authorize bonding for \$204 million.

Whatever the final cost, this is a major investment; one that merits careful consideration and reasoned discussion among airport users, airport staff, legislators, and other community leaders.

We all want a modern efficient airport terminal. The needs at our present facility are readily apparent. "C" Concourse was built in the early 1950's, and renovation studies have been ongoing for at least the last ten years. There are legitimate needs in the main terminal baggage handling areas and ticket lobby areas. Before rushing forward, however, we must develop a sound business plan that prioritizes problem areas and identifies cost effective solutions.

We must learn from the experiences of others also. There are examples around the country of airports that over-expanded -- places like San Jose and Denver where high terminal costs resulted in downturns in airline activity. We must consider this possibility at Anchorage. The Administration has done a good job attracting cargo carriers to Anchorage. These carriers employ many hundreds of Alaskans, and there are good prospects for more cargo carriers to come. Cargo carriers will, however, pay a substantial portion of the Terminal Expansion costs, perhaps as much as 30-40% -- for the next twenty-five years. How will this affect the decisions of potential new cargo carriers; or for that matter, existing ones?

In closing, we believe the Administration's Terminal Expansion 2005 concept merits serious and careful consideration. We have the expertise right here in Alaska to evaluate and prioritize the legitimate needs at the Anchorage International Airport -- and to come up with sound, fiscally responsible, plans to meet those needs. This is an opportunity that we cannot afford to miss; and we should do it right.



Era Aviation, Inc.

VIA FACSIMILE TO 1-206-431-7031

November 14, 1997

Mr. Cliff Argue
Alaska Airlines Inc.
P.O. Box 68900
Seattle, WA 98168

RE: Signatory Airline Ballot Due November 17, 1997
Anchorage Airport Terminal Expansion

Dear Mr. Argue:

Attached is Era Aviation's Ballot for the above project. Unfortunately, we are compelled to vote "Disapprove" on the proposed Anchorage Terminal Expansion 2005 project.

I say "unfortunately", as we are convinced that improvements and expansion plans are necessary for the Anchorage Domestic Terminal. It is mandatory that we plan for and meet the needs of the future at Alaska's gateway airport. However, the Ballot does not include alternatives to the massive and costly project that we can feel comfortable with.

In the Ballot we are limited to one source of funds and a minimum size and price for the project. The design concept is in its infancy, and the estimated cost is only a best guess based on the emerging design. In view of this, and the corporate commitment we have to our customers, employees and shareholders, we have no alternative but to vote for disapproval on this ballot wording.

We encourage, and will readily participate in a cooperative effort involving representatives from all Terminal users, to establish Terminal renovation and expansion plans that might better meet the needs of all concerned.

Sincerely yours,

Charles W. Johnson
President

cc: The Honorable Tony Knowles, Governor
Mr. Morton Plumb, Director, AIA
Mr. John J. Ungar, Controller, AIA
All Signatory Airlines

BALLOT

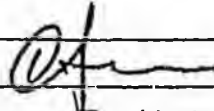
ALASKA INTERNATIONAL AIRPORT SYSTEM
FY99-2004 AIRLINE CAPITAL IMPROVEMENT REQUEST

In accordance with Article 4, Section 4.02 A&B Anchorage and Fairbanks International Airports Airline Operating Agreement and Terminal Building leases dated November, 1990 and extended in June, 1995, the Signatory Airline identified below approves or disapproves the Capital Improvement listed below as indicated. The Signatory Airline's vote takes into consideration, among other things, the Terminal Concept Package Report #8 dated 10/1/97, Plan of Finance (Volume I & II) dated 10/2/97, and previous reports, the discussions at the October 15, 1997 Airlines Airport Affairs Committee meeting in Anchorage and preceding Airline Executive Committee and Technical Committee meetings.

FY 99		FUNDING X \$1,000				
AIRPORT	PROJECT	AIP	IARF	TOTAL	APPROVE	DISAPPROVE
ANC	TERMINAL EXPANSION 2005		191,000*	191,000*		X

* Project costs identified in 1997 dollars. Approval authorizes AIAS to issue up to \$235 million in airport revenue bonds, which includes escalation and financing costs. AIAS pledges to use its best efforts to obtain alternate sources of funding/financing to reduce airline cost exposure.

SIGNATORY AIRLINE NAME Era Aviation, Inc.

SIGNATURE OF AUTHORIZED REPRESENTATIVE 

DATE November 17, 1997 TITLE President

Cliff Argue has agreed to serve as designated representative and collect and tally votes and provide the requisite written certification within the required time. He requests Ballots sent to him arrive by 12:00 noon, PST, November 17, 1997 at Alaska Airlines, P.O. Box 68900, Seattle WA 98168, FAX (206)431-7031 or TTY SEAPZAS.

Alaska State Legislature



Session:
State Capitol, Room 423
Juneau, AK 99801-1182
(907) 465-4921

Interim:
716 W. 4th Avenue, Ste. 450
Anchorage, AK 99501-2133
(907) 258-8183

SENATE TRANSPORTATION COMMITTEE

SPONSOR STATEMENT

SB 352

"An Act relating to International Airport Revenue Bonds"

Senate Bill 352 amends the statutory bonding limit for the State of Alaska to sell International Airport revenue bonds. The current limit is \$100,825,000. This bill changes the limit to \$280,000,000. The difference between the old amount and the new amount is \$179,175,000, which is the amount of new debt proposed to finance passenger terminal improvements at Anchorage International Airport.

This increased bonding authority is only one component of the financing for proposed airport improvements. Another component included federal highway funds for curbside improvements and a surface transportation access corridor. A third component is federal airport funding for ramp and airside improvements.

The bonding cap contained in this bill is \$25 million less than a similar bill introduced by the governor. This bill contemplates an additional \$25 million in federal funding. Consequently, we can reduce the amount the state needs to borrow. By taking the \$25 million off the table, it will not be available to expand the project.

	Senate Bill 352	Governor's Plan
BONDED DEBT	\$179,000,000	\$204,000,000
FEDERAL AIRPORT \$	25,000,000	?
FEDERAL HIGHWAY \$	26,000,000	26,000,000

The \$179+ million in proposed terminal improvements represents the single largest public works project the state has ever undertaken. The wisdom of taking on such a high amount of debt, and whether the International Airport Revenue Fund (IARF) can afford the debt, remains to be proven in the committee hearing process.

Several of the small air carriers have expressed concern that the proposed project is too big. They voted against it but they lost. Still, their concerns may be valid and we owe it to them to make the project no more expensive than is necessary.

This bill is also notable for what it does not contain. It differs from the Governor's bill in that it does not change the statutes to allow for undefined brokerage fees and unspecified "obligations" to be charged against the IARF.

Additionally, Senate Bill 352 requires the Department of Transportation and Public Facilities to submit an advance fiscal year spending plan to the Legislature by January 1st each year of the project.

Article 03. INTERNATIONAL AIRPORTS REVENUE BONDS

Sec. 37.15.410. Bond authorization.

For the purpose of providing part or all of the money to be used, with or without any grants or other money that may become available, the issuance and sale of revenue bonds of the state in the total principal sum of not to exceed \$100,825,000 is authorized to acquire, equip, construct, and install the additions, improvements, extensions, and facilities authorized in AS 37.15.510. The principal of and interest on these bonds shall be paid out of and secured by the gross revenue derived by the state from the ownership, lease, use, and operation of the airports, and of all the facilities of them and out of any other revenue or money that the state legislature may provide exclusive of any state tax or license.

Sec. 37.15.415. Continuing revenue bond debt service appropriation.

The amounts required annually to pay the principal, interest, and redemption premium on all issued and outstanding international airports revenue bonds of the state are appropriated each fiscal year from the international airports revenue fund to the state bond committee to make all required payments of principal, interest, and redemption premium.

Sec. 37.15.420. Construction fund.

(a) There is established a capital project fund known as the "International Airports Construction Fund," into which shall be paid the proceeds of the sale of the bonds (except any accrued interest paid on them, which shall be paid into the bond redemption fund) and grant or other money that is legally provided for the same purposes for which the bonds are authorized. The money in the construction fund shall be used to pay the costs of acquiring, equipping, constructing and installing additions and improvements to and extensions of and facilities for the airports and costs incidental thereto, including costs of the authorization, issuance and sale of the bonds. To the extent provided in the bond resolution, money in the construction fund may also be used for the payment of interest on the bonds during the period of actual construction, and for a further period, not exceeding one year after the period of construction, that may be provided in the bond resolution. Money in the construction fund may also be transferred to the bond redemption fund, to the extent provided in the bond resolution, to establish a reserve for the payment of the principal of and interest on the bonds.

(b) The bond resolution may provide for the investment of money in the construction fund in a manner that the committee may determine. The interest earned upon or any profits derived from the sale of this investment shall be deposited in and become a part of the construction fund.

Sec. 37.15.430. Revenue fund.

(a) There is established an enterprise fund known as the "International Airports Revenue Fund," into which shall be paid all revenue, fees, charges, and rentals derived by the state from the ownership, lease, use, and operation of the airports and all of the facilities and improvements of them and facilities and improvements used in connection with them. The revenue, charges, fees, and rentals may not include the proceeds of any state tax or license. The money in the revenue fund may only be used for the purpose of

(1) paying or securing the payment of the principal of and interest on the bonds and of and on any other revenue bonds issued by authorization of the legislature to provide money to acquire, equip, construct, and install additions and improvements to, and extensions of and facilities for, the airports, and to be payable out of the revenue fund;

(2) paying the normal and necessary costs of maintaining and operating the airports and all of the improvements and facilities of them;

(3) paying the costs of renewals, replacements, and extraordinary repairs to the airports and all of the improvements and facilities of them;

(4) redeeming before their fixed maturities any and all revenue bonds issued for the purposes of the airports;

(5) providing money to acquire, construct and install necessary additions and improvements to and extensions of and facilities for the airports and all of their facilities; and

(6) providing money to pay any and all other costs relating to the ownership, use, and operation of the airports.

(b) The investment of money in the revenue fund may be made in the manner that the committee may determine. The interest earned upon or any profits derived from the sale of this investment shall be deposited in and become a part of the revenue fund.

Sec. 37.15.440. Redemption fund.

There is another special fund of the state, known as the "International Airports Revenue Bond Redemption Fund," which is a trust fund for paying and securing the payment of the principal of and interest and redemption premium, if any, on the bonds and which shall be at all times completely segregated and set apart from all other funds of the state. The committee, on behalf of the state, shall obligate and bind the state to set aside and pay into the bond redemption fund any part or parts of, or all of, or a fixed proportion of, or a fixed amount of the money in the revenue fund sufficient to pay the principal of and interest and redemption premium, if any, on the bonds as the payments become due and, if it considers it necessary, to set aside and maintain reserves for this purpose. The bond redemption fund shall be drawn upon for the purpose of paying the principal of and interest and redemption premium, if any, on the bonds, and the bonds do not constitute a general obligation of the state.

Sec. 37.15.450. Bond terms.

(a) The bonds may be sold at public or private sale in the manner, in the amounts or series, and at the time or times that the committee determines. However, the bonds, or each series of them, shall be sold at such a price so that the effective interest rate over the life of the bonds does not exceed 11 percent per year or that rate of interest that is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest shall be payable annually or semiannually.

(b) The bonds mature at the time or times fixed by the committee. The bonds may be subject to redemption before their fixed maturities as determined by the committee and with a premium or premiums fixed by the committee, but a bond is not subject to redemption before its fixed maturity date unless the

right so to redeem that bond is expressly mentioned on the face of the bond. The bonds may be in denominations determined by the committee; may be issued in coupon form or in fully registered form, and may be registrable as to principal or both principal and interest, all under regulations and conditions that the committee shall provide; shall be payable as to principal and interest at such place or places as may be determined by the committee, shall be signed on behalf of the state by the governor and shall be attested by the lieutenant governor, both of which signatures may be facsimile signatures; shall have the seal of the state impressed, printed or lithographed on them, and each of the interest coupons attached to them shall be signed by the facsimile signatures of these officials; shall be issued under and subject to such terms, conditions and covenants providing for the payment of the principal of them and interest on them and such other terms, conditions, covenants and protective features safeguarding this payment and relating to the maintenance, operation and improvement of the airports as found necessary by the committee, which covenants may include a provision requiring the setting aside and maintenance of certain reserves to secure the payment of this principal and interest. The committee may provide that any additional bonds authorized after June 27, 1972 by the legislature to be payable out of the same source or sources as the bonds authorized as of that date may later be issued on a parity with the bonds authorized as of that date upon compliance with any conditions which the committee may prescribe.

(c) If found reasonably necessary, the committee may select a trustee or trustees for the holders of the bonds or any series of them, for the safeguarding and disbursement of any of the money in any of the funds created by AS 37.15.420, 37.15.430 and 37.15.440, or for duties with respect to the authentication, delivery, and registration of the bonds as the committee may determine, and shall fix the rights, duties, powers, and obligations of the trustee or trustees.

(d) In its determination of all of the matters and questions relating to the issuance and sale of the bonds and the fixing of the maturities, terms, conditions, and covenants of them as provided in (a), (b), and (c) of this section, the decisions of the committee shall be those found to be reasonably necessary for the best interests of the state and its inhabitants, and those that will accomplish the most advantageous sale of the bonds, with due regard, however, to necessary or normal costs of maintenance and operation, renewals, and replacements of and repairs to the airports and to all improvements to them and facilities of them owned, used, operated, or leased in connection with them, the future growth and expansion of the airports and all of such facilities, and the possibility of additional revenue bond financing for airports purposes. Any such decisions of the committee, as expressed in any bond resolution, are final and conclusive when any bonds have been issued pursuant to the bond resolution.

(e) A bond resolution may provide that the bonds issued must contain a recital that they are issued under AS 37.15.410 - 37.15.550, and a bond containing this recital shall be conclusively considered to be valid and to have been issued in conformity with AS 37.15.410 - 37.15.550.

(f) The validity of the authorization and issuance of bonds is not affected by any proceedings for the acquisition or construction of the additions, improvements, extensions, or facilities for which the bonds have been issued or by any contracts in connection with the acquisition or construction.

Sec. 37.15.460. Bond resolution.

The committee shall adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale and delivery of the bonds or any part or series of them. The bond resolution must fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall

provide whether the notice of sale is to be published elsewhere in addition to the publication required by AS 37.15.450.

Sec. 37.15.470. Enforcement by holder.

The holder of any bonds or the trustee for the holders of the bonds or any series of them may, by appropriate proceedings in the courts of record of the state, require and compel the transfer, setting aside and payment of money and the enforcement of all of the terms, conditions and covenants as required and provided in AS 37.15.410 - 37.15.550 and in the bond resolution.

Sec. 37.15.480. Amounts required for payments.

The committee shall, before December 31 of each year, commencing with the year in which the bonds are issued, certify to the commissioners of revenue and transportation and public facilities the amounts required in the next ensuing calendar year by the bond resolution or resolutions to be paid out of the revenue fund into the bond redemption fund and to be paid into and maintained in any reserve fund or account or any other fund or account created by the bond resolution or resolutions, and shall also certify to the commissioners the last date or dates upon which payments may be made.

Sec. 37.15.490. Bond negotiability.

The bonds and the coupons attached to them are fully negotiable instruments under the laws of the state.

Sec. 37.15.500. Airport charges.

As provided in AS 02.15.090 (a), the commissioner of transportation and public facilities shall fix and collect the fees, charges, and rentals derived by the state from the ownership, lease, use, and operation of the airports and all of the facilities and improvements that will provide revenue sufficient to comply with all of the covenants of the bond resolution.

Sec. 37.15.510. State improvements to airports.

The state is authorized to acquire, equip, construct, and install additions and improvements to and extensions of the airports, facilities for the landing, parking, loading, storing, repairing, safety, and utility of aircraft at the airports and passenger, freight, and terminal facilities, including safety equipment and devices at the airports, found to be necessary by the commissioner of transportation and public facilities.

Sec. 37.15.520. Refunding.

(a) The bonds or any part of them may be refunded at or before their maturity by the issuance of refunding revenue bonds of the state if in the opinion of the committee refunding is advantageous to and in the best interests of the state and its inhabitants.

(b) The issuance of refunding bonds need not be authorized by an Act of the legislature, and the committee shall adopt the resolution or resolutions and prepare all other documents and proceedings necessary for the issuance, exchange or sale, and delivery of such bonds. All provisions of AS 37.15.410 - 37.15.550 applicable to revenue bonds are applicable to the refunding bonds and to the issuance, sale or exchange of them, except as otherwise provided in this section.

(c) Refunding bonds may be issued in a principal amount sufficient to provide funds for the payment of all bonds to be refunded by them, and, in addition, for the payment of all expenses incident to the calling, retiring or paying of the outstanding bonds, and the issuance of the refunding bonds. These expenses include the difference in amount between the par value of the refunding bonds and any amount less than par for which the refunding bonds are sold, any amount necessary to be made available for the payment of interest upon the refunding bonds from the date of sale of them to the date of payment of the bonds to be refunded or to the date upon which the bonds to be refunded will be paid pursuant to the call of them or agreement with the holders of them, and the premium, if any, necessary to be paid in order to call or retire the outstanding bonds and the interest accruing on them to the date of the call or retirement.

Sec. 37.15.530. Bonds as legal investments.

The bonds are legal investments for all banks, trust companies, savings banks, savings and loan associations and other persons carrying on a banking business, all insurance companies and other persons carrying on an insurance business, and all executors, administrators, trustees and other fiduciaries. The bonds may be accepted as security for deposits of all funds of the state and its political subdivisions.

Sec. 37.15.540. Statutory construction.

AS 37.15.410 - 37.15.550 shall be liberally construed in order to carry out the purposes for which they were enacted, and all existing laws in conflict with any of these sections are superseded insofar as necessary to accomplish the purposes of and carry out the provisions of these sections.

Sec. 37.15.550. Definitions.

In AS 37.15.410 - 37.15.550, unless the context otherwise requires:

(1) "airports" means the international airports owned and operated by the state and located at or near the cities of Anchorage and Fairbanks;

(2) "bond redemption fund" means the International Airports Revenue Bond Redemption Fund created by AS 37.15.440, including any accounts that are created in that fund after June 27, 1972;

(3) "bond resolution" means the resolution or resolutions authorizing the issuance of bonds, adopted by the committee under AS 37.15.460;

(4) "bonds" means the international airports revenue bonds authorized by AS 37.15.410 - 37.15.550;

(5) "commissioner of revenue" means the principal executive officer of the Department of Revenue of the state as provided in AS 44.25.010, or a successor;

(6) "commissioner of transportation and public facilities" means the principal executive officer of the Department of Transportation and Public Facilities of the state as provided in AS 44.42.010, or a successor;

(7) "committee" means the state bond committee created by AS 37.15.110, or any other committee, body, department or officer of the state which or who succeeds to the rights, powers, duties and obligations of the state bond committee by lawful Act of the legislature;

(8) "construction fund" means the International Airports Construction Fund created by AS 37.15.420 .

(9) "revenue fund" means the International Airports Revenue Fund created by AS 37.15.430 .

Article 04. ALASKA CLEAN WATER FUND BONDS

Sec. 37.15.560. Bond authorization.

(a) For purposes of providing part of the money to be used to provide financial assistance to municipalities and other qualified entities for the purposes stated in AS 46.03.032 (d), including the costs of bond issuance and administration, the issuance and sale of revenue bonds of the state is authorized subject to (b) of this section. The bonds are to be issued by the state bond committee, as provided in AS 37.15.560 - 37.15.605, as part of the Alaska clean water fund revolving loan fund program (AS 46.03.032), a public enterprise of the state. The net proceeds of the sale of the bonds, remaining after any payment of costs of issuance and administration, shall be paid into the Alaska clean water fund. Accrued interest paid on the bonds shall be paid into the Alaska clean water fund for transfer to the Alaska clean water fund revenue bond redemption fund (AS 37.15.565).

(b) The state bond committee may not issue more than \$15,000,000 in revenue bonds under AS 37.15.560 - 37.15.605 during a fiscal year, excluding refunding bonds. The total unpaid principal amount of revenue bonds, including refunding bonds, but excluding refunded bonds, issued under AS 37.15.560 - 37.15.605, may not exceed \$150,000,000.

(c) The bonds do not constitute a general obligation of the state. Authorization by the voters of the state or the legislature is not required.

(d) The state bond committee may enter into agreements with other state agencies as necessary or convenient to implement AS 37.15.560 - 37.15.605.

(e) The state bond committee may contract for the services of underwriters, paying agents, trustees, bond printers, rating agencies, bond insurance, credit enhancement providers, accountants, financial advisors, and bond counsel, and other services as are necessary to accomplish the bond issuance and sale.

Sec. 37.15.565. Bond redemption fund.

(a) There is established a special fund of the state, known as the "Alaska clean water fund revenue bond redemption fund," which is a trust fund for paying and securing the payment of the principal of and interest and redemption premium, if any, on the bonds and which shall be at all times completely segregated and set apart from all other funds of the state. The committee, on behalf of the state, may obligate and bind the state to set aside and pay into the bond redemption fund, on a monthly or other periodic basis, any part or parts of, or all of, or a fixed proportion of, or a fixed amount of the money in the Alaska clean water fund (AS 46.03.032) sufficient to pay the principal of and interest and redemption premium, if any, on the bonds and, if it considers it necessary, to set aside and maintain reserves for this purpose. The bond redemption fund shall be drawn upon only for the purpose of paying the principal of and interest and redemption premium, if any, on the bonds, together with related trustee fees, if any.

(b) Money in the bond redemption fund may be invested in the same manner and on the same conditions as permitted for investment of money belonging to the state or held in the treasury under AS

070 ; however, the committee may agree with the bondholders to further limit these investments. Earnings on investments must be retained in the bond redemption fund.

(c) Separate accounts may be created in the bond redemption fund for the purposes of paying and securing the bonds. The accounts may be combined for purposes of investment.



STATE OF ALASKA

DEPARTMENT OF TRANSPORTATION
AND PUBLIC FACILITIES
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March 4, 1998

The Honorable John J. Cowdery
International Trade & Tourism Committee
Alaska State Legislature
State Capitol, Room 416
Juneau, AK 99801-1182

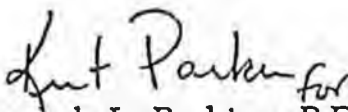
Dear Representative Cowdery:

Enclosed are responses to questions outlined in your February 26 memo, additional questions that were faxed to Mort Plumb on February 27, and several questions posed during the committee meeting on February 26. Also enclosed is additional supporting documentation related to various questions.

For the benefit of clarity and to minimize duplication of responses to similar questions, we have grouped the questions by topic and responded accordingly.

The Department will be available for tomorrow's scheduled meeting to answer any remaining questions the committee may have. Please let me know if you require any additional information on any of these issues.

Sincerely,


Joseph L. Perkins, P.E.
Commissioner

Enclosures

cc: International Trade & Tourism Committee Members

House Special Committee on International Trade & Tourism
Response to questions 3/5/98

NEED/PROGRAM QUESTIONS AND ANSWERS

After the proposed project is completed, what will be the plane/passenger capacity at AIA and how long will this capacity satisfy anticipated demand?

Under the current proposal, how long will it be before AIA will need to be expanded again?

The project is designed to accommodate 3,000,000 enplanements or 6 million passengers, which are projected for the year 2005. The ability of the project to meet airline needs is dependent on airline schedules and their ability or willingness to share gates or distribute daily gate use schedules more evenly.

The project will add five new jet gates for a total of 24, and seven new regional aircraft parking positions for a total of 20, along with associated gate lounges, ticket lobby, baggage claim facilities, and an extended curbside road. It is anticipated that some cross-use of apron will be required by regional and jet airlines.

Future domestic terminal expansions will depend on a number of factors:

- Rate of passenger growth
- Distribution of peak operation periods
- Ability of airlines to share or cross-use gates
- Level of service to the traveling public

According to the forecast of passenger traffic growth, an additional four jet gates may be needed in about 2010 with another four jet gates in about 2015.

In light of AIA traffic growth projections, has the building of the new terminal been seriously evaluated?

Yes. The growth projections used on this project were the result of an in-depth aviation forecast conducted by TAMS Consultants. The forecast considered historical passenger growth, input from airlines, national aviation growth, local demographics, tourism, and other factors.

Looking at historical growth patterns, growth at Anchorage International Airport has been irregular with an overall trend in the range of 4.6% annual growth since 1990. Some year's growth has been flat or negative, while other years growth has been over 8%.

In 1993, Leigh Fisher prepared an enplanement forecast with results consistent with the TAMS forecast results.

Very serious consideration has been given to the forecast data, as this information forms a basis for the needs assessment and therefore the design and construction program.

Your booklet shows 717,000 sq. ft. in the new terminal. How much of that have the Airlines and other parties agreed to rent?

Do you have firm commitments from the Airlines or others to rent this space?

When the new Concourse C comes on line in late 2001, 93% of the available airline leasable space will be occupied. This is based on interviews with individual airlines and written requests for terminal space. Upon completion of all construction for the project in 2004 this percentage will be 80%. The Financial Model maintains a 10% vacancy rate for the life of the bonds.

How much will rent per sq. ft. increase?

Terminal rent at AIA will increase from \$32.97 in 1999 to \$41.75 in 2010 as compared to today's AIA rate of \$32.46. Comparable terminal rents at other medium hub airports in 1999 is \$40.63 and \$56.24 in the year 2010. See financial model addendum dated November 5, 1997, page 5.

Will preference be given to existing tenants?

Current tenants will be given an opportunity for equal space for the duration of their contract term. AIA will make every effort to accommodate requests for leased space.

How much will be used for your and others airport offices?

AIA administration area currently utilizes approximately 18,000 sq. ft. and expects to occupy a similar amount of space at the time of project completion. Conference room areas and potential consolidation will be considered in schematic design.

What binds the Airlines that voted to pay for this project to stick around until it is paid off?

What happens if they quit servicing Anchorage, or if they go out of business?

The project is being constructed in response to a real market based need on passenger traffic today and projected growth for the near future. Demand dictates the level of actual usage. When an Airline leaves or goes out of business, other Airlines capture that share of the market (For example, when Pan Am and National left Washington National Airport, US Air filled the void. In Anchorage, MarkAir left and Reno and American West moved in. This is no different than any other improvement made at the airport. Airlines using the facilities pay rental fees for its use regardless of whether

they were operating at the airport when the individual project was constructed.

Glycol disposal areas

AIA Environmental is presently working with an Airline Task Force to evaluate alternatives for addressing glycol disposal and recycling. Final recommendations are scheduled for January 1999.

CONCEPT/PLANNING QUESTIONS AND ANSWERS

Has the International Terminal been seriously reviewed as a short term, low cost alternative to expensive expansion?

Why not use the international terminal? Doesn't domestic terminal demand occur during hours that the international terminal is relatively quiet?

Near the low point in international passenger traffic in 1994, AIA Planning conducted a study to evaluate the use of the International Terminal for domestic operations. The study concluded that certain design features of the building were specific to larger international aircraft and the interior configuration of the building would have to be significantly changed to accommodate domestic operations. Correction of these problems was estimated to cost more than the building's original construction cost.

The conversion of the International Terminal to domestic operations at that time would have provided a domestic terminal which did not work well and today would have required a new international terminal to accommodate today's traffic. International passenger traffic is growing at a faster rate than domestic traffic. Last summer international passenger flights exceeded the terminal's ability to provide power-in parking due to larger aircraft sizes.

During construction of the new Domestic Terminal area Delta will temporarily operate out of the International Terminal. However, federal security requirements (Customs and Immigrations) make it difficult to accommodate domestic passengers in a building designed for uncleared International passengers. As International passenger traffic increases the ability to accommodate domestic passengers will become more difficult.

The International Terminal now serves over 70 International flights per week. Domestic services such as food service, retail, rental cars, gift shops, etc. are minimal. Parking is limited and the curbside access is single level. There is only one domestic baggage claim device.

Since the International Terminal was constructed in 1982 more than \$100 million has been generated in revenue to the Alaska International Airport

System in duty fee operations alone. Additional revenue is received from terminal rent, gate use fees, and landing fees.

Will the baggage system for the new Domestic Terminal be like Denveris?

No, the baggage system for this project will be designed by Cook Newhouse Associates (CNA). CNA designed the baggage belt systems for the International Terminal and the North Terminal Baggage Addition. CNA is a nationally recognized designer of baggage systems and was not involved in the new Denver airport project.

Rep Cowdery wants to know if the project will be broken into small enough contracts to accommodate Alaskan firms.

Specific efforts will identify logical pieces of work to provide maximum opportunities for Alaskan contractors. Alaska firms should be active on all elements of work.

CARGO QUESTIONS AND ANSWERS

How can the legislature or the governor make spending decisions about AIAS if we don't know the whole picture, including cargo CIP requirements?

What is scope of additional improvements?

The Master Plan for the airport does include cargo CIP requests. This Master Plan is being updated in the areas of cargo and airfield capacity. Improvements in the current Master Plan will be revalidated and additional projects considered. The Airlines will assist in the update of the Master Plan over the next two years.

What are their ballpark costs?

The updated Master Plan will prepare a cost estimate for each proposed improvement, which will be voted on by the Airlines and reviewed by the legislature. Cargo projects are included in the current 6 year CIP.

Have we always had a separate Cargo Master Plan?

How are Cargo Master Plan and Airport Master Plan related?

No. The Master Plan for the Airport has always included a cargo component. Because of the growth in cargo activity at AIA the cargo and airfield component of the Master Plan are being updated.

How will Master Plan be funded?

The Cargo Master Plan is being funded with federal Moines from FAA and IARF..

Why did EVA Airlines recently stop service at AIA?

EVA has not stopped passenger service at AIA but has rescheduled their activity to reflect the seasonal nature of passenger travel. They will have three flights a week through the summer of 1998.

Is FedEx and UPS using AIA to breakdown loads and redistribute?

Yes. FedEx is just finishing the \$38 million Phase 4 of their expansion program which has doubled the size of their operation. UPS is also completing another large expansion program. These increased facilities demonstrate FedEx and UPS commitment to AIA as a strategic location for breaking down loads and redistribution.

BUDGET/COST ESTIMATING QUESTIONS AND ANSWERS

How many feet in the new Terminal and what is the estimated cost per square foot? How does this compare with similar airports and US?

The total additional terminal area provided 367,000 SF. The raw construction cost is \$142. SF in 1997 dollars which compares favorably to similar airports around the US where raw construction costs range from \$135 sq. ft. at LAX to \$190 sq. ft. in Miami.

What percentage of the budget will be for Contingency, Planning, Design, Engineering and Construction?

Contingency	10 %
Planning, Environmental & Permitting	02 %
Design & Engineering & Construction Admin.	10 %
Project Administration	02 %
Construction	<u>76 %</u>
Total	100 %

This percentage distribution of costs is consistent with major project planning practices.

Why did this project escalate from \$33 million 9 months ago to its present cost of \$204 million?

There has never been \$33 million project. On July 1, 1997 Planning Progress Report #7 was presented to the Airlines for review and discussion. Within that report we identified a 1999 CIP request of \$33 million for the first year of the project. The total project identified as Option 4 at that time was estimated at \$198.3 million. The Airlines revised Option 4 to create a fifth option which is the one being developed for \$190.8 million (1997 dollars). The \$205.3 million adds \$14.5 million in inflation to the mid-point of construction.

Will you have to increase airport leasing staff, or do you plan to use private sector brokers?

The Airport does not intend to increase permanent leasing staff as a result of this project, nor will we need private sector brokers

Identify use of funds to date for the \$14.5 million of appropriations for Concourse C and the Terminal Project.

A total of \$14.7 million has been appropriated in FY94 and FY97. Please see Attachment #8 for a breakdown of the use of these funds to date

FINANCIAL QUESTIONS AND ANSWERS

What is debt capacity of AIAS?

How much debt is against the IARF at this point?

Presently, there are two sets of bond issues with approximately \$33 million of outstanding debt. One is paid off in FY2000 and the other in FY2015.

AIAS is a self-supporting enterprise fund with no general fund support. Each year, AIAS sets its airline rates and fees (landing fee, terminal rental rate, etc.) at levels high enough to ensure sufficient revenues will be generated to cover that years' operating, capital and debt service costs. Therefore, AIAS' debt capacity only becomes an issue when proposed debt would raise rates and fees to levels where they are no longer competitive for operators at Anchorage International Airport. Even after issuing \$204 million of new debt, AIAS' projected rates and fees will still be below the national average when compared to other airports. Debt capacity increases as volume of activity increases.

Is borrowing power capacity for Anchorage legally separate from Fairbanks?

No. The Anchorage and Fairbanks International Airports comprise the AIAS and are treated like a single entity for financial purposes.

What is the long range capital improvement plan, and accompanying cost estimates, for AIA and FIA?

Please match the funding sources to the projects in the above long range CIP and compare to debt capacity?

(Please see Attachment #5 which is the latest approved 6 year CIP)

How does funding for present proposal differ from funding proposals used for past terminal projects at AIA and FIA?

Bonds have always been issued in the past to help finance the construction of the AIA & FIA terminal projects. The last time AIAS issued debt was in 1986 in the amount of \$38 million for the AIA parking garage. It should be noted that the bonds issued in 1975 to construct the AIA International Terminal were defeased when it was determined that the AIAS had sufficient cash in the IARF to complete this terminal project without the use of outside financing.

What are historical balances of the IARF? Please show which major projects were funded in which year.

(See Attachment #6 - Tables, which show AIAS' capital projects and their funding sources from FY91 to FY98)

How long is the proposed project's life and how long is the amortization period?

- Industry Standard Building design life - 30 years
- Bond Amortization period - 25 years

Why are we incurring 25-year debt for a remedy, which will last only 1 or 2 years?

As discussed and agreed with the Airlines, the Plan of Finance allows the Airlines to pay for the redevelopment project over the next 25 years. This flattens the annual cost to the Airlines, and avoids a sharp spike to annual CIP requirements.

Anchorage has seen passenger traffic grow almost 60% since our last terminal expansion in 1983. This growth has caused extensive deficiencies particularly on the public side of the terminal. Ticketing and baggage claim have less than half the space required to provide an adequate level of service today. About 40% of the cost of this project corrects deficiencies that exist today.

This project supports long-term activity at AIA.

How will AIA's landings fees compare nationally after the proposed debt is incurred?

AIA landing fees at the highest point of our 25-year period will still be on the low end of landing fees for medium hub and large hub airports nationally. (See Attachment #3).

How will those higher tariffs affect AIA's and FIA's ability to finance future expansion and attract new carriers?

AIA's landing fees will remain in the low to moderate range when compared with other medium hub passenger airports and large hub cargo airports. The Airport will be able to continue a prudent capital improvements program at the same time as the terminal project. Alaska remains an extremely attractive market as evidenced by its high number of jet interstate passenger carriers: Alaska, America West, Delta, Northwest, Reno, United, and TWA. Every year for the past three years (including this year), Anchorage has gained a new passenger carrier for seasonal service: Reno, America West, and TWA. Cargo activity is expected to continue growing thanks to Alaska's strategic location and favorable business climate

How much money is in the International Airport Revenue Fund at this point?

At 6/30/97, there was approx. \$78 million in the IARF. Approx. \$36 million was in reserves required by the AIAS bond resolutions and operating agreement; approx. \$37 million was set aside to complete prior year capital appropriations that are in various stages of completion; and the remaining \$5 million was refunded back to the Airlines in the FY98 landing fee calculation.

How will reduction in the requested bond authorization from \$304 million to \$280 million affect this project?

If the Airport is successful in obtaining FAA funding, a reduction in bond authorization will have little effect on the project. If we are unsuccessful in securing additional federal funds we may need to request additional bonding authority or secure alternative, yet to be identified, funds.

What prioritization have you done to achieve a scaled back scenario if there was a 100 basis point rise in interest rates?

The Plan of Finance provides for a 100 basis point cushion in the sizing of the bond. No scale back scenario would be required for a 100 basis point rise.

What is the cost of the total CIP program for Fairbanks and Anchorage Airports over the next 10 years?

See Attachment #5 for the latest approved 6-year CIP.

Concerning the Finance Plan: How much is in there to pay to Investment Bankers, brokers, bond counsel and others?

\$4.7 million is estimated for all financing costs and bond insurance. See page 2 of the November 5, 1997 addendum to the Plan of Finance (in gray briefing booklet).

Please explain how the Passenger Facility Charge system works now, and then how it would work if we adopted it for the Anchorage Airport. How much would it reduce the bonding needed for this project?

I understand that Alaskans are already paying a Passenger Facility Charge but that it's going to Seattle and other Airports instead of Anchorage or Fairbanks? Please tell me how PFC works. How much money is presently going to outside Airports that could be coming here?

In recognition that airports' capital needs are far outpacing available federal AIP funds, Congress passed legislation in 1990 which allows airports to charge passengers using their facilities a \$3 passenger facility charge (PFC). A \$3 PFC is added to passenger's ticket price at the first 2 airports that the passenger boards a plane on a one-way trip and the first 2 and last 2 airports that a passenger boards a plane on a round trip. Thus, the maximum amount a passenger can get charged for PFC's on a one-way trip is \$6 and \$12 on a round trip.

Although, it is possible to estimate how much our airports could earn from PFC's per year if PFC's were implemented (AIA - approx. \$5.5 million and FIA approx. - \$1 million), information showing passengers' itineraries are not readily available from the FAA, the Airlines, or the airport's records which would allow AIA calculate the amount of money that is presently going to outside airports that could be remaining in Alaska..

If PFC's were implemented, the bonding requirement would not be reduced but the PFC revenues could be used to pay off some of the annual debt service each year reducing the amount that would be passed onto the Airlines in their rates and fees

Why is Governor Knowles ignoring Passenger Facilities Charges as part of the Finance Plan for this project and what did your financial consultant, Mr. King, say about the advisability of having PFC's?

Governor Knowles has stated that he will not support PFCs unless they are part of a publicly acceptable program that takes into consideration the unique nature of Alaska, particularly since many Alaskans have no alternative to air transportation . We are working with the FAA to develop a program that addresses the governor's concerns

Mr. King advised that if PFC's were adopted at AIA, the bond resolutions would be broad enough so PFC revenues could be used to pay some of the proposed debt payments.

Can you provide a list of unexpended CIP appropriations?

See as attachment #9 - AIAS Unexpended CIP Appropriations dated 6/30/97.

provide for greater public safety. This upgrade is included as a part of the proposed project.

- The current level of service provided to the traveling public particularly during the summer months is at a failure rating for ticketing and baggage claim. The terminal has less than 40% of the area needed for the ticket lobby to serve today's passenger traffic.
- As demand for facilities continues to grow, the need to accelerate design and construction to meet this unserved demand will increase. Accelerated schedules cost more and will disrupt the traveling public.
- Nobody can predict future interest rates with certainty, however we do know that interest rates are currently at a record low. Legislative approval this year will allow AIA to take advantage of any further reduction in the interest rate over the next year and pass those savings on to public and Airlines.
- If the proposed bond legislation is not approved this year, there will be insufficient funding available to advance the design beyond the schematic level. All work will have to be suspended in Fall 1998.

Q.3 Explain again what happens if an airline leaves Anchorage and other carriers have to accommodate this traffic. Doesn't this result in higher load factors, fewer landings, and reduced revenue?

Revenues will not decrease if an airline chooses to leave Anchorage. When an airline leaves the Anchorage market existing carriers and new carriers absorb this traffic by increasing their load factors and adding new flights. This has recently been observed with the departure of MarkAir when other carriers pick-up the unmet demand.

Q.4 How does the proposed terminal rent compare to other airports nationwide?

The 1995/1996 survey of the American Association of Airport Executives (AAAE) is the most current national data available. From the 1995/1996 survey the following information is available:

Annual Rate per Square Foot	1996 Large Hub (for reference)	1996 Medium Hub (AIA is medium hub)	1997 AIA Rent	1998 AIA Rent	2002 Proposed AIA Rent
Terminal Counter Space	\$57.90	\$45.52	\$32.64	\$32.46	\$39.71
Airline Office Space	\$47.86	\$38.30	\$32.64	\$32.46	\$39.71

9.5

What are the proposed future cargo projects? How much will they cost?

Proposed air cargo projects have been identified in the 6-year CIP and the 10-year Letter Of Intent. The air cargo master plan is being updated which will contain additional information addressing project needs for the next 20 years.

Project	Cost
Parallel Taxiway East of Romeo	\$9,200,000
North Airpark Taxiway into Wetlands	3,000,000
Deicing Collection Facility	1,500,000
Engine Runup Pad/D&D Holding Area	2,100,000
North Airpark Tug Roads	5,400,000
West Airpark Parallel Taxiways	23,000,000
South Airport Tug Roads	2,000,000
Land Acquisition	1,000,000
Roads/Utilities Reconstruction Upgrade	5,500,000
North Airpark Access Road Construction	9,000,000
Runway Extension	6,200,000
Cargo Apron Reconstruction	6,000,000
Cargo Fueling Apron Expansion	4,500,000
Total	\$78,400,000

Note:

Based on 1996 Master Plan, Six Year CIP and the LOI request. Re-evaluation of projects and costs occurring with master plan update currently in progress. Some of these projects and others to be a part of FAA Letter of Intent funding. Projects do not include private cargo development projects underway or planned by airlines, private developers and others.

9.6

How do the proposed landing fees compare to Asian airports?

An International Landing Fees Report was requested from the Airport Council International in Geneva, Switzerland. This information will be forwarded as soon as it is received.

Q.7 Do the budget percentages given in the last set of answers apply to the total project cost of \$205.3 million?

Yes, the budget percentages previously provided and shown below apply to the \$205.3 million budget costs. The \$190.8 million 1997 project budget including escalation equals \$205.3 million exclusive of financing costs.

Program Contingency	10%
Planning, Environmental & Permitting	2%
Design/Engineering & Construction Admin.	10%
Project Administration	2%
Construction	<u>76%</u>
Total	100%

Q.8 What is the total by each funding source for the six-year CIP?

	AIA *	FIA	Total
Federal	\$ 62,930.0	\$ 14,915.7	\$ 77,845.7
IARF	<u>79,320.0</u>	<u>18,218.3</u>	<u>97,538.3</u>
Total	\$.0	\$.0	\$.0

* Does not include Terminal Project.

Q.9 How will the airport be able to afford future projects? Aren't we using up our bonding capacity?

Other than very large projects, such as this terminal project, AIAS traditionally uses internally generated cash and Federal AIP monies to finance its capital program. Although the Terminal Project will use up a significant share of our present bonding capacity, AIA's bonding capacity will increase with increased airport activity.

The financial model developed for the Terminal Project anticipates and provides for approximately \$13 million a year of IARF funds for future ANC capital projects. To provide a point of reference, ANC capital projects from FY91 to FY98 have averaged \$ 9,100.0 of IARF funds. FY98's capital budget requested \$ 7,451.0 in IARF funds. Any need to construct large projects in the future requiring bond financing would be in response to increased demand, which also means additional revenues and increased bond capacity.

Q.10 Why do we want to incur debt for 25 years, when another expansion may be needed in the year 2010 and 2015?

The Terminal Project has a useful life of more than 25 years. Structuring the debt costs over 25 years and using level debt service, the costs in each individual year are lower than they would be if the debt had a shorter term. Paying for it over 25 years will spread the payment of debt costs over the full group of beneficiaries of the project to the greatest extent possible. The current project is responding to currently deficiencies and projected needs through 2005 without "over-estimating" growth by building for 2015 at this time.

Q.11 Explain again how a 100-point basis change will affect the cost of the project.

A 100-point basis change will not affect the cost of the project, but will affect the total amount paid in debt service and interest over the life of the bonds.

We reviewed the effect of a 100 basis point change in interest rates in connection with the fiscal note calculations prepared by the Department of Revenue. The following information relates to both \$204 million and \$179 million bonding scenarios:

	\$179 million issue	\$204 million bond issue
February 1998 Insured Rates	Total Interest \$144 million	Total Interest \$164 million
Plus 100 basis points	Total Interest \$178 million	Total Interest \$203 million
Plus 200 basis points	Total Interest \$213 million	Total Interest \$242 million

Q.12 Will the FAA Control Tower need to move for the project or the future master plan?

The current location of the FAA Control Tower is acceptable for the term of the Master Plan for 2015. All the Master Plan alternatives and design concepts show the tower in its present location.

Q.13 Please provide a 25-year CIP plan.

There is no 25-year CIP plan. We have a 6-year CIP and the Letter of Intent, which provides recommendations for a 10-year program. AIA has a Terminal Master Plan that projects needs to 20 years and a similar Air Cargo Master Plan is being prepared.

Q.14 What is the schedule for the development of the new operating agreement?

AIA is in the process of hiring a consultant to help with the development of a new operating agreement. It is anticipated that the new operating agreement will become effective with the expiration of the current agreement.

Q.15. What is the cost of the AIA office space for the project and specifically the finish work cost associated with that office space?

AIA office construction and associated finish work is included in the estimated \$142 per square foot construction cost. This cost is exclusive of the cost of design and administration.

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

3132 CHANNEL DRIVE
JUNEAU, ALASKA 99801-7898

OFFICE OF THE COMMISSIONER

TEXT: (907) 465-3652
FAX: (907) 586-8335
PHONE: (907) 465-3900

March 19, 1998

The Honorable John Cowdery
Alaska State Legislature
State Capitol, Room 416
Juneau AK 99801

Dear Representative Cowdery:

The Department has been asked to respond to a number of committee questions regarding the Anchorage International Airport (AIA) redevelopment project. I want to provide you with a summary of key issues.

Contracts Process

Questions have been asked as to the details of the contract packages for the construction of the facility. We have not been definite with our answers as the magnitude and composition of the final contract package will not be finally determined until design has been initiated. However, we have a preliminary listing (enclosed) of the contracts as we now see them. I emphasize that this is subject to change as design progresses. The procedure we will use to develop final packages is to complete a detailed critical path schedule of the entire project. This will allow us to identify long lead time materials and closely examine the potential contract interfaces. We will then balance the need to spread the work versus the risk the state will assume at contract interfaces. As an example, we would not want the start of a major critical path item to be dependent on the completion of a small \$200,000 contract for work which is also on the critical path. We would probably add the \$200,000 to the major contract to reduce risk of untimely completion. Where there is sufficient project float we will consider smaller contracts to help spread the work. Even though some of the major contracts will be fairly large we will insure that there are sufficient Alaska based contractors capable of bonding and accomplishing the work to provide a competitive environment. If not, we will reduce the scope of the contract dependent on the degree of risk. Many smaller Alaskan contractors will have the opportunity to work on the larger contracts as subcontractors. In this type of construction it is normal for a prime contractor to subcontract a considerable portion of the project. I see this project providing considerable opportunity for many Alaskan contractors both large and small.

On going Activity

In addition to responding to the questions you have raised, over the last 10 days my staff has been providing information to your consultants and making themselves available to answering their questions. Although their review time on your behalf has been short, we hope that they have discussed the project with airlines,

particularly the 13 affirmative votes. This plan has had months of review by the airlines; they have asked hundreds of questions and the plan before you reflects their business plan needs as well as the needs of the traveling public. As the funders of the project, we believe that the voice of the majority of the passenger carriers must be considered when reviewing this project.

In addition to the Q & A process, DOT&PF has prepared and submitted to FAA a Letter of Intent for federal funding of projects at the Airport. As indicated to the airlines and the Legislature, DOT&PF and AIA are committed to pursuing federal funds to assist in reducing the size of the revenue bond requirements of the project. The LOI review process runs until July of this year when a determination on eligible projects will be made.

Concurrent with the LOI is the need to meet the NEPA requirements for the project and an Environmental Assessment is being prepared with a schedule goal of completion in June. The NEPA process involves a very active public process and members of the Terminal Planning Team have been actively involving the community in the review of the plan which is before you.

The Planning Process

When AIA and DOT&PF began the planning process in the fall of 1996 there were no preconceived notions as to the scale and shape of this project. A team of highly qualified professionals in aviation planning, program management and design were competitively selected to conduct a needs assessment, prepare a terminal master plan and formulate an implementation plan including cost, schedule and plan of finance. As repeatedly stated by the Chair of the Airlines Affairs Committee who has experience at airports across the U.S., the planning process at AIA has been thorough and professional and the solutions carefully developed. There has been excellent coordination with the airlines every step in the process. To achieve this level of quality the planning team has had to be both flexible and focused and responsive to the thousands of issues that must be considered.

Those who do not support the project may claim that the planning process has been expensive and lacked management oversight. In fact, our planning process represents approximately 1% of the cost of the entire project which is an appropriate investment when considering the level of investment the airlines are prepared to make. The management of DOT&PF on the planning effort has been exceptional with detailed tasking of all consultants efforts and revising scope and schedule to meet the requests of the airlines.

We have assembled an excellent team to plan and implement the project. Dave Eberle, the program manager, has extensive experience developing projects much larger than is being proposed here. He brought the \$350 million Bradley Lake Hydroelectric project and the \$130 million Northern Intertie project in on time and considerably under budget.

Planning Assumptions

The planning assumptions which are the basis of the plan before you are standard aviation planning requirements for airports. We all recognize the deficiencies which exist at AIA today. The forecast growth into the future is consistent with the airport's past growth and the FAA forecasts of increased air travel by the public into

the future. The space planning assumptions for planning the terminal are based on an average peak hour level of activity in the summer months when the numbers of aircraft on the ground greatly exceed our current capacity and ability to process the public is at its lowest level and close to failing.

These planning assumptions have been carefully prepared, due diligence has been performed by peer review and the airlines have carefully considered options which have been refined to the plan before you. The project is being implemented with a consideration for controlled growth to the year 2005 and future expansion will occur only if the key trigger points of forecast/need are met and approved by the airlines.

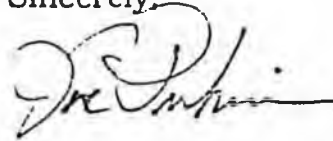
Plan of Finance

Concerns over future capacity for funding growth at the airport have been considered by the airlines and DOT&PF. Ongoing CIP projects are calculated into the plan of finance for the terminal project. Even with the increased levels of landing fee necessary to support the bond debt along with terminal rents and concession revenues, AIA is very attractive to airlines as a place to do business.

Future major projects which require additional debt will only be proposed if the level of activity and revenues at the airport can support the projects, if the airlines approve the projects, and the Legislature approves the projects.

Representative Cowdery, thank you for your support of this important airport redevelopment project. It is important that this project proceed as soon as possible to meet the needs of the airlines as well as the public and take advantage of potentially record low interest rates this year, thereby keeping the cost of the project to the airlines and public as low as possible.

Sincerely,



Joseph L. Perkins, P.E.
Commissioner

Enclosure

cc: House Special Committee on International Trade & Tourism

Preliminary Construction Contracting Plan

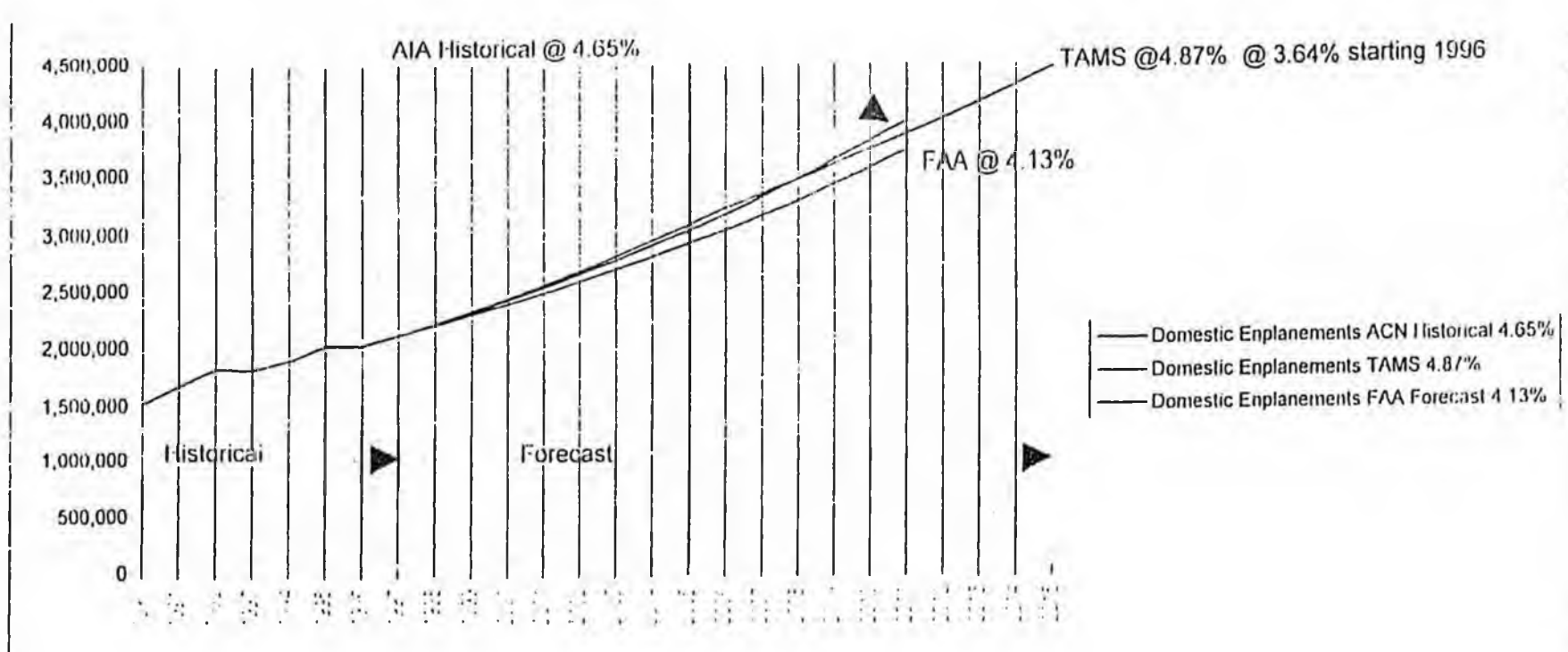
<u>Contract Bid Package</u>	<u>Est. Value</u>	<u>Award Date</u>
1. Delta Relocation Work	\$ 300,000.00	Spring 1998
2. Office/Tenant Relocation	\$ 1,500,000.00	Spring 1998
3. Demo Concourse "C" / Phase 1 Utilities	\$ 2,500,000.00	Winter 1998/99
4. Site Prep. / Phase 2 Utilities / Bridge Extension	\$ 15,000,000.00	Spring 1999
5. Terminal "C" Replacement	\$ 60,000,000.00	Fall 1999
6. West Terminal / Core Terminal Renovation	\$ 22,000,000.00	Fall 2001
7. East Terminal Renovation	\$ 13,000,000.00	Fall 2002
8. Firestation / East Apron	\$ 2,000,000.00	Summer 1999
9. Remote Fueling Apron	\$ 12,000,000.00	Summer 1999
10. "C" Apron / Gates / RON Apron	\$ 13,000,000.00	Summer 2000
11. AIA Access Roads / Post Mark Drive Intersection	\$ 11,000,000.00	Summer 2000
12. Parking / Landscaping / 1% Art	\$ 4,700,000.00	Summer 2002
Total	\$ 157,000,000.00	

Anchorage International Airport

Terminal Redevelopment Project

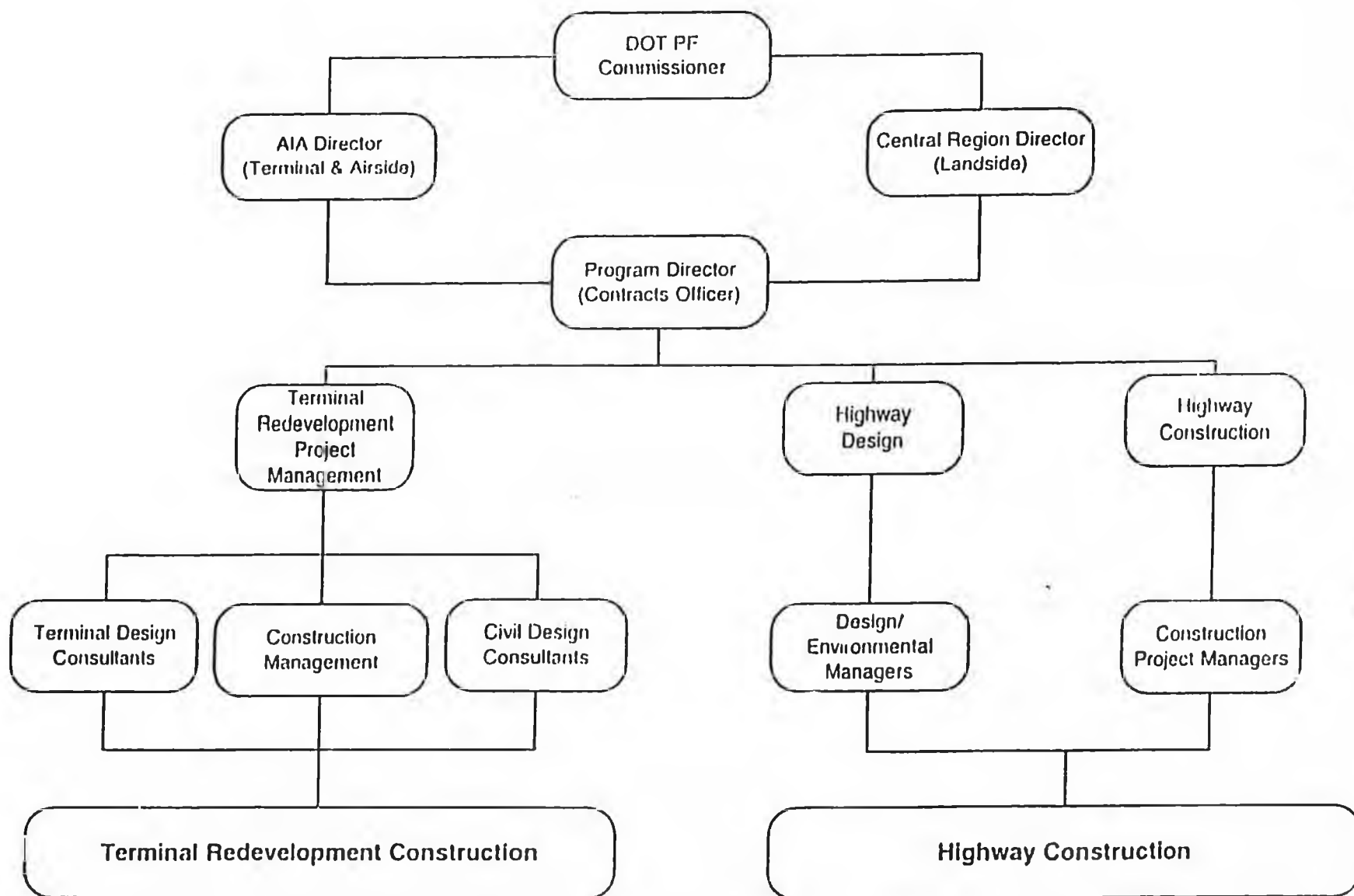
Supplemental Information

ANCHORAGE INTERNATIONAL AIRPORT ENPLANEMENT FORECAST



**Note: The last terminal expansion was in 1983 which added A Concourse.
Since that time, fifteen years ago, passenger traffic has increased over 60%.**

Gateway Alaska Organization Structure



Plan of Finance: Key Points

- Provides funds for 2001 Completion of Concourse C
- Keeps Fees and Charges Smooth – Match Bond Payments with "In-Service Date" of New Facility
- Finances with Tax-Exempt Bonds - Lowest Interest Rates in 20/30 Years
- Uses Cost-Effective Bond Insurance to Lower Interest Rates
- Timing – Capture Current Interest Rates to the Greatest Extent Possible
- Timing Advantages

Federal Tax Law is favorable to airport financing
Interest Rates are at historical lows
Bond Insurance is competitively priced
Issuance of Alaska bonds remains light, making AIAS Bonds attractive
Enplanement Performance of Airport is favorable
Cargo Performance of Airport is favorable
Underlying Credits of Airlines are favorable
Financing from Strength is lowest cost
Financing from weakness would be highest cost

SJR

12

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. SJR 12

Revision Date _____ Dept. Affected _____
 Title Construction of Alaska Highway BRU _____
 Component _____
 Sponsor Senate Transportation Committee
 Requester Senate Transportation Committee Component Serial No. _____

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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

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

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1091 Designated Program Receipts						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

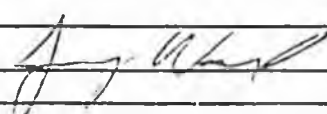
Estimate of any current year (FY97) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This resolution has no fiscal impact on state departments.

Prepared by Senate Transportation Committee
 Division _____
 Approved by Senator Jerry Ward, Chairman 
 Agency _____

Phone 465-4940
 Date _____
 Date 2-12-97

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ALASKA STATE LEGISLATURE

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Memorandum

TO: Senator Jerry Ward, Chair
Senate Transportation Committee

FROM: Senator Randy Phillips *RTP*

DATE: February 17, 1997

RE: Senate Joint Resolution No. 12
Relating to reconstruction and paving of the Alaska Highway

I support the passage of Senate Joint Resolution No. 12 which requests the United States Congress to appropriate \$94 million to complete the Shakwak project, the reconstruction of the primary surface link between Southeast Alaska and the rest of the state.

In 1977 the United States and Canada entered into an agreement to reconstruct the Haines Highway and that portion of the Alaska Highway between Haines Junction and the Alaska-Yukon border near Beaver Creek. The agreement calls for the United States to provide the funding and for Canada to provide the rights of way and administer the construction contracts. Canada has guaranteed access to U.S. citizens and guaranteed that the highway will remain toll free.

The Shakwak project includes 325 miles of highway, of which 221 miles have either been completed or funded. It is currently estimated that \$94 million additional will be needed to complete the remaining 104 miles of highway. Congress is currently considering reauthorization of highway funding and it is important that this project be brought to their attention.

MEMORANDUM

DATE: February 5, 1997
TO: Senator Jerry Ward
FROM: Lydia Jones *[Signature]*
RE: SJR 12 - CONSTRUCTION OF AK HIGHWAY
Senator Randy Phillips, Sponsor

I spoke with Randy Phillips today regarding SJR 12. He called to inquire when the resolution was scheduled for hearing in Senate Transportation. Randy needs to have the finalized resolution in hand by March 15 when a delegation will be meeting with Canadian officials; he would like to present the resolution to them at that meeting.

I told him that the resolution is scheduled for hearing on Tuesday, February 18. He voiced some concern that the resolution may be held up in Senate Transportation and he would not be able to present the resolution to the Canadian officials on March 15. I told him that I would convey his concerns to you and advise you of the time frame under which he is working.

laj

2/5 spoke w/ Jerry.

COPY

0-LS0290E
Utermohle
1/30/97

SENATE JOINT RESOLUTION NO.
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTIETH LEGISLATURE - FIRST SESSION

BY THE SENATE TRANSPORTATION COMMITTEE BY REQUEST

Introduced:
Referred:

A RESOLUTION

1 Relating to reconstruction and paving of the Alaska Highway.

2 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 WHEREAS the United States and Canada entered into an agreement to reconstruct and
4 pave the Alaska Highway from the Alaska-Canada border to Haines Junction, Yukon
5 Territory, Canada, and the Haines Cutoff Highway from Haines Junction, Yukon Territory,
6 Canada, to the Alaska-Canada border near Haines, Alaska, known as the Shakwak project, as
7 authorized in the Federal-Aid Highway Act of 1973; and

8 WHEREAS the Congress authorized \$59,000,000 in 1973 for the project and has
9 appropriated \$47,000,000 to the Federal Highway Administration for actual construction by
10 Canada; and

11 WHEREAS the Congress further authorized \$20,000,000 a year for fiscal years 1993 -
12 1996 under the Intermodal Surface Transportation Efficiency Act of 1991, which has been
13 fully appropriated; and

14 WHEREAS, in the last 16 years, the state has provided \$37,000,000 of state federal-
15 aid highway apportionments to assist in meeting the obligations of the agreement; and

16 WHEREAS the estimated amount necessary to complete the entire project was in the
17 order of \$260,000,000 in United States dollars; and

1 WHEREAS the state prefers a system of federal administration with state concurrence,
2 rather than state administration, of this construction project;

3 BE IT RESOLVED that the Alaska State Legislature respectfully requests the United
4 States government and the Canadian government to honor their agreement and provide the
5 additional funds necessary through direct federal appropriations to complete the remaining
6 portions of the Shakwak project; and be it

7 FURTHER RESOLVED that the United States Congress is respectfully requested to
8 immediately appropriate an additional \$94,000,000 to allow work on additional project
9 segments to proceed to a bituminous surface treatment standard; and be it

10 FURTHER RESOLVED that the Alaska State Legislature endorses federal
11 administration, with state concurrence, for the Shakwak project.

12 COPIES of this resolution shall be sent to the Right Honourable Jean Chretien, Prime
13 Minister of Canada; the Honourable Diane Marleau, Minister of Public Works and
14 Government Services, Canada; the Honourable Audrey McLaughlin, Member of Parliament,
15 House of Commons, Canada; the Honourable Piers McDonald, Government Leader, Yukon
16 Territory, Canada; the Honourable Robert Bruce, Speaker, Legislative Assembly, Yukon
17 Territory, Canada; the Honourable Dave Keenan, Minister of Community and Transportation
18 Services, Yukon Territory, Canada; the Honorable Bill Clinton, President of the United States;
19 the Honorable Al Gore, Jr., Vice-President of the United States and President of the U.S.
20 Senate; the Honorable Newt Gingrich, Speaker of the U.S. House of Representatives; the
21 Honorable Rodney E. Slater, Secretary-designee of the U.S. Department of Transportation; and
22 to the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the
23 Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.

*1. Transport Service +
2. Hon. Robert Bruce, Speaker, Legislative Assembly, Yukon Territory
3. Hon. Piers McDonald*



ALASKA STATE LEGISLATURE

SENATOR RANDY PHILLIPS
SENATE DISTRICT L

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The Shakwak project includes 325 miles of highway, of which 221 miles have either been completed or funded. It is currently estimated that \$94 million additional will be needed to complete the remaining 104 miles of highway. Congress is currently considering reauthorization of highway funding and it is important that this project be brought to their attention.

SHAKWAK HIGHWAY PROJECT

Project History

The original construction of the Alaska Highway and Haines Road was undertaken by the U.S. Army and the U.S. Public Roads Administration during 1942 and 1943, as part of the supply line to the State of Alaska during World War II. At the end of the war, responsibility for maintenance and improvements to these highways (North West Highway System) was passed to Canada.

Canadian efforts, since takeover, have been directed at the more southerly, well travelled portions of the Alaska Highway.

In 1955, initial discussions were held regarding the possible upgrading of the Haines Road and Alaska Highway from Haines Junction, Yukon, to the Alaska/Yukon border near Beaver Creek, Yukon. In 1970, Congress requested that a feasibility study be made for paving the Haines Road and the portion of the Alaska Highway described, to provide an all-weather roadway between Southeast and Interior Alaska. These discussions culminated in an agreement, dated February 11, 1977, between the Canadian and United States Governments. The agreement, in general, provided that Canada would arrange for the reconstruction of the highway, to a jointly agreed asphalt concrete pavement standard, using funds appropriated for that purpose by the Congress of the United States. Canada, in part, would provide the highway right-of-way and maintain the highway.

The Shakwak Highway Reconstruction Project covers 325 miles (520 kilometres) of which 50 miles (80 kilometres) are located in northwestern British Columbia, the remainder being in the Yukon Territory. The Project derives its name from the Shakwak Trench through which a significant portion of the highway runs.

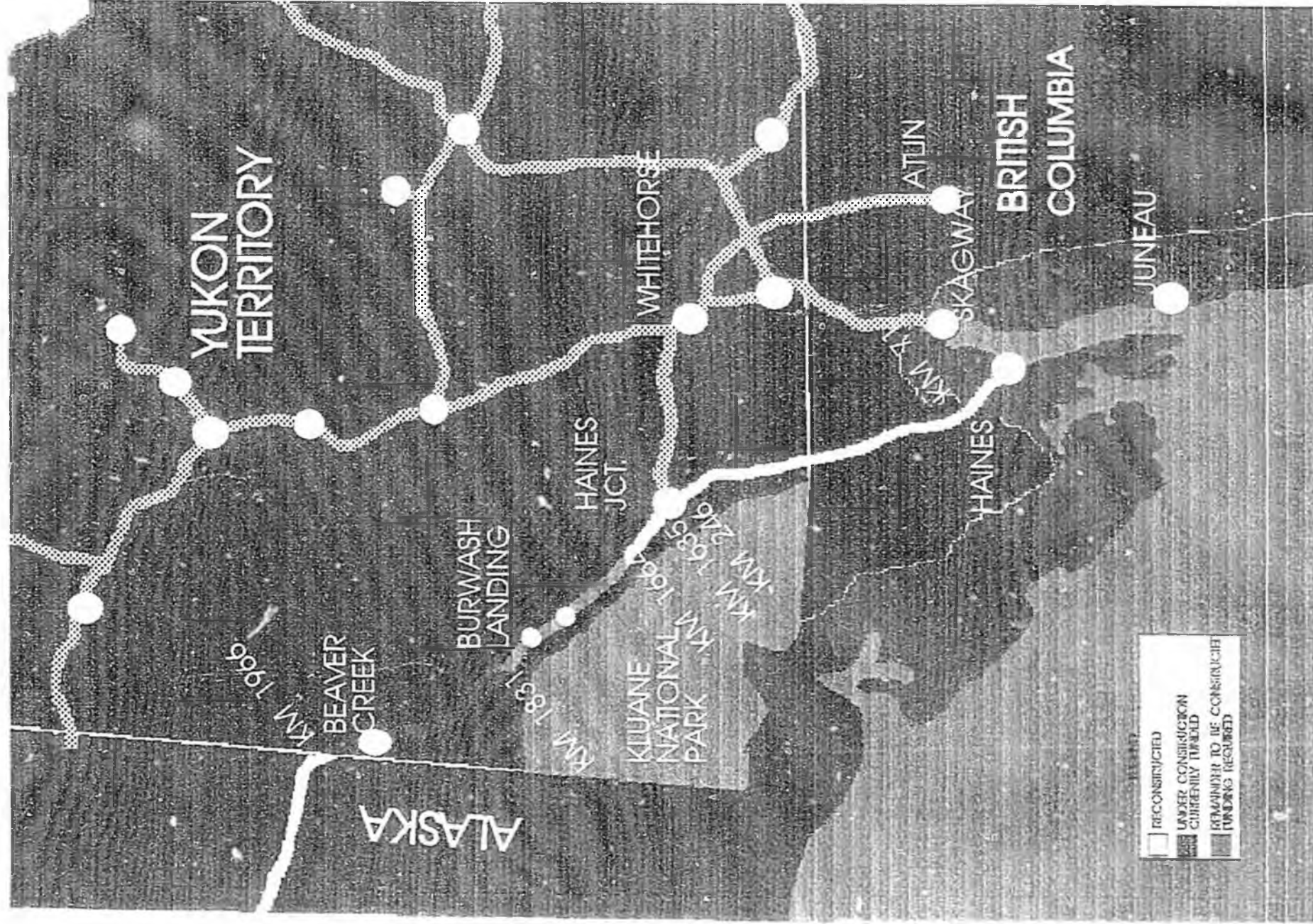
The Project was proposed by the United States Government, to provide for the predominately American users of the highway (80 to 85%), and has been funded by the United States Government through the Federal Highways Administration, and during the 1980's through the State of Alaska. The design and construction until 1992 was managed by Public Works Canada. Transfer of responsibilities for the Alaska Highway to the Government of the Yukon in 1992 also provided for the transfer of responsibility for management of site work on the project.

Current Status

In the initial allotment the 115 miles (185 kilometres) of the Haines Road, as well as 18.5 miles (30 kilometres) of the Alaska Highway, immediately north of Haines Junction, have been reconstructed to a Bituminous Surface Treatment (BST) standard. The cost of the work was \$74.7 million (US \$). The current available funding of \$89.6 million (US\$) largely through ISTEA for 1992 to 1996 is anticipated to reconstruct 84 miles (135 kilometres) of the northern end of the project to a BST standard and construct a new bridge over the White River. So far 37 miles (59 kilometres) of this work has been completed and surfaced. A further 14 miles (23 kilometres) is ready for surfacing this summer and 21 miles (33 kilometres) is presently under construction. Contracts for reconstruction of another 12 miles (20 kilometres) and the new bridge over the White River will be let later this year.

It is anticipated that an additional \$94 million (US\$) will be required to reconstruct the remaining 104 miles (167 kilometres) of the project to BST standard, including four major bridge replacements across the Slims, Duke, Donjek, and Beaver Rivers. An additional stage to provide asphalt concrete in order to complete the agreement could be undertaken at some future date.

SHAKWAK PROJECT LOCATION





Office of the Minister
Box 2703, Whitehorse, Yukon Y1A 2C6

Our File:
Your File:

December 6, 1996

Senator Randy Phillips
Senate District L
State Capitol
Juneau, Alaska 99801

Dear Senator Phillips:

Re: Shakwak Project

No doubt you will recall the resolution on continued funding for the Shakwak Project which was passed by the Senate Transportation Committee in early May. Your support in preparing this resolution is very much appreciated.

I understand that there was insufficient time to put the resolution before the Legislature prior to adjournment last spring. As Alaska's support for completion of the project is very important, I would appreciate anything further that you can do to advance this resolution when the Legislature reconvenes in 1997.

I would very much like the opportunity to discuss this matter with you and your colleagues in the next few months. I expect to be in Juneau in this period and will make arrangements to meet with you at that time.

Yours truly,

Dave Keenan
Minister
Community and Transportation Services

- c: Mr. Joe Perkins, Commissioner, DOTPF
Mr. Tony Knowles, Governor, State of Alaska
Ms. Drue Pearce, President, Alaska State Senate
Ms. Gail Phillips, Speaker, Alaska House of Representatives



Office of the Minister
Box 2703, Whitehorse, Yukon Y1A 2C6
20 March 1996

Mr. Joe Perkins
Commissioner
State of Alaska
Department of Transportation
and Public Utilities
3132 Channel Drive
Juneau, Alaska 99801-7898

Dear Mr. Perkins:

RE: Funding for Completion of Shakwak Project

As you know, 1996 will be the final year of major reconstruction under the current Shakwak funding appropriation of \$89.6 million (US). The bulk of this funding (\$80 million) was approved under the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). As ISTEA will expire in 1997, the planning and deliberation for the next surface transportation authorization bill will be active in 1996.

Excellent progress has been made on reconstruction of the northern section of the Alaska Highway in the Yukon over the past 4 years with a corresponding increase in the level of service and safety for travellers between Alaska and the lower Forty-Eight. Completion of the remaining 100 miles and replacement of four major bridges will require an additional appropriation of \$94 million (US).

Alaska support in 1990 gave new life to the Shakwak Project. In April of that year the Alaska State Legislature passed a resolution supporting completion of the project. A reiteration of this support and a resolution requesting the Alaska congressional delegation to seek the necessary funding to finally complete the Shakwak Project would be very helpful at this time.

The Yukon Government is committed to continued maintenance of the Haines Road and North Alaska Highway. Our average maintenance costs are about \$5.3 million (Cdn)/year. In addition, we are continuing with a major reconstruction program on the southern portions of the Alaska Highway. In British Columbia and the Yukon the Canadian and Yukon Governments have spent \$95 million (Cdn) on reconstruction over the past four years. This reconstruction, like Shakwak, provides a substantial benefit to tourism and commercial traffic bound for Alaska.

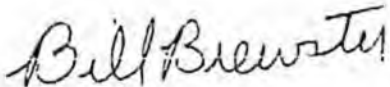


KLONDIKE
GOLD RUSH
CENTENNIAL

In closing, I acknowledge the Alaskan support for the Shakwak Project over the years and I appreciate any further help you can give towards getting the project completed.

I have enclosed an updated briefing note indicating the current status of the project.

Yours truly,



Bill Brewster
Minister
Community and Transportation Services

/ps

Enclosures

- c: Mr. Tony Knowles, Governor, State of Alaska
- Ms. Drue Pearce, President, Alaska State Senate
- Ms. Gail Phillips, Speaker, Alaska House of Representatives



Alaska Campground Owners' Association

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Kenai Peninsula Region
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 Kenai

Executive Administrator
Ron Merrill, CMAA
 Horta Management Group

April 30, 1996

Dear Legislator:

By way of this letter, the Alaska Campground Owners' Association (ACOA) extends its thanks and most sincere support of Senate Joint Resolution No. 42 as regards the reconstruction and paving of the Alaska Highway, particularly the area known as the Shakwak project, as authorized in the Federal-Aid Highway Act of 1973.

ACOA is a non-profit organization of independent and mostly family-owned and operated businesses along Alaska's highways who work hard to make a living serving our many highway travelers, and we continue to hear of the deteriorating conditions on the Alaska Highway and the effects these conditions have on both man and machine.

Year after year, we are seeing drastic decreases in tourism funding which will in itself have long-term negative effects on the number of visitors to Alaska, not the least of which is decreased tourism-related tax revenues to our state government. Now, we have allowed highway access to our great state to deteriorate to a point where word of mouth will further reduce highway traffic into Alaska.

Please continue to take the U.S. and Canadian governments to task on their responsibility to honor their agreement and provide the funds necessary to complete the remaining portions of the Shakwak project. We fully support Senate Joint Resolution No. 42. Our livelihoods depend on it!

Sincerely,

Rick Barrier
 Rick Barrier, President
 Alaska Campground Owners' Association



OTTAWA, February 11, 1977.

Note No. GMU-156


PA
2142-1-2
Wdh

Excellency,

I have the honour to refer to your Note No. 11 of January 11, 1977, concerning bilateral cooperation in the reconstruction of Canadian portions of the Alaska Highway.

I am pleased to inform you that the Government of Canada accepts the proposals set out in your Note and agrees that your Note, together with its Annex, and this reply, which is authentic in English and French, shall constitute an agreement between our two Governments which shall enter into force on today's date. ✓

Accept, Excellency, the renewed assurances of my highest consideration.


Secretary of State
for External Affairs

His Excellency Thomas O. Enders,
Ambassador of the United States of America,
Ottawa.

Handwritten initials and scribbles at the bottom left of the page.