

DATE: March 27, 2024
TO: Members of the House Transportation Committee
SUBJECT: Rail Extension Projects

To the Members of the House Transportation Committee:

On March 21, your committee held an initial hearing for House Bill 332, an act calling upon the Governor to request proposals to purchase the Alaska Railroad (ARRC). Sponsor testimony from Rep. Jesse Sumner and Rep. Kevin McCabe indicated that a primary driver behind the legislation is related to a desire to advance rail extension projects in the state; specifically, the Port MacKenzie Rail Extension (PMRE) and Northern Rail Extension (NRE).

As the legislature and Governor consider the future of the Alaska Railroad, it may be helpful to reiterate how ARRC is positioned to support these rail extension projects, and actions taken to date; the advantages available to a state-owned corporation; and the necessary roles for other partners.

ARRC shares in the belief that these extension projects are important to Alaska's future.

No organization in the state is better positioned to appreciate the benefits of unlocking resource development and improving transportation safety through rail infrastructure.

ARRC has taken a leadership role in championing these rail extensions among diverse stakeholders.

In the past year, ARRC has discussed paths to advance NRE and PMRE with the Governor's office; Alaska's congressional delegation; state lawmakers; the Mat-Su Borough; AIDEA; the military; the U.S. Department of Transportation; and private industry. We remain actively engaged in driving these conversations forward.

ARRC brings technical expertise and a proven track record of project management.

Phase One of NRE was delivered on time and under budget under ARRC project management. ARRC made similar timely progress on the construction of PMRE, completing roughly half of the project before state funding was suspended. In 2023, ARRC commissioned a renewed estimate of PMRE by an outside contractor and developed a three-year funding and construction plan to complete the project.

ARRC will assume responsibility for the operations and maintenance of new rail infrastructure.

In keeping with its statutory model, ARRC will operate and maintain the completed rail extensions, at fair market value to customers and at no expense to the state.

ARRC continues to pursue funding opportunities not available to private enterprise:

- **Federal competitive grants.** ARRC is preparing to submit competitive grant requests to the USDOT INFRA/MEGA program for both PMRE and Phase 2 of NRE. (ARRC has a strong track record in winning grants to support critical capital maintenance, with over \$72 million in competitive federal awards since 2018.) The grant applications are due May 6th.

- **Congressionally directed spending.** Between 2005 and 2008, over \$120 million in congressionally directed spending was awarded to Phase 1 of NRE. In 2024, ARRC is requesting \$50 million in congressionally directed spending to begin Phase 2 of NRE.
- **Tax-exempt bonds.** While ARRC may not issue bonds secured by the general credit of the railroad, the ability to issue tax-exempt debt is a valuable financial tool in advancing large projects with a confirmed revenue source. This is an avenue that ARRC is currently pursuing in its Seward Passenger Dock initiative; bonding for the \$137 million project would not be possible without a long-term customer usage agreement to secure the debt. Related to NRE and PMRE, ARRC previously explored this option with Canadian firm A2A, and continues to seek commercial partners to support rail extension projects.

In sum: ARRC can do a lot to support these projects. But ARRC cannot support these projects alone.

ARRC's model as a self-sustaining state-owned corporation brings many benefits. I expect the bill sponsors agree on the importance of reliable year-round rail transportation in Alaska, a service ARRC delivers and maintains at no expense to the state.

But “build it and they will come” is not a viable strategy for this model. As a self-sustaining state asset with significant operating and capital maintenance expenses, we cannot jeopardize the long-term health of our existing infrastructure by investing limited essential resources into economic development projects without confirmed revenue. Much as we support the goal of rail extensions, our first commitment must be to continuing to appropriately maintain the current infrastructure – a serious focus of ARRC planning and resources as over 50 aging main line bridges are slated for rehabilitation or replacement over the next decade, as just one of many examples.

State lawmakers have made clear a strong interest in both PMRE and NRE. ARRC has been consistent throughout all discussion that without a commercial customer, state funding will be necessary.

PMRE is estimated to cost \$240-300 million to complete, depending on when construction can begin. Phase 2 of the NRE, extending rail to and across the Tanana River Crossing at Salcha, will cost an estimated \$200 million; the full project to connect North Pole to Fort Greely is estimated at \$1.7 billion.

These are large projects with statewide benefits. The clearest way to signal that PMRE and NRE are priorities – and bring their benefits to reality – is with state funding. This remains true when pursuing federal funding opportunities, as ARRC plans in the below table:

2024 Federal Funding Opportunity	Project	Grant Funding	Minimum Non-Fed Match
Congressionally Directed Spending	NRE – Phase 2(a)	\$50 million	\$10 million
MPDG INFRA/MEGA Grant	NRE – Phase 2	\$200 million	\$40 million
MPDG INFRA/MEGA Grant	PMRE	\$275 million	\$55 million

Without a commitment of state matching funds, ARRC will not be able to submit federal funding requests for these statewide economic development projects. This requirement may be satisfied by contingent appropriations, ensuring that state funds are only committed if a grant is awarded.



Ultimately, ARRC remains committed to a leadership role in developing new rail infrastructure in Alaska. We welcome further discussion with legislators and other stakeholders across the state, and will continue to do our part to advance these important projects.

Sincerely,

A blue ink signature of the name "Bill O'Leary".

Bill O'Leary
President and CEO
Alaska Railroad Corporation