

MINUTES
SENATE FINANCE COMMITTEE
March 05, 2002
9:12 AM

TAPES

SFC-02 # 27, Side A
SFC 02 # 27, Side B

CALL TO ORDER

Co-Chair Pete Kelly convened the meeting at approximately 9:12 AM.

PRESENT

Senator Dave Donley, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Jerry Ward, Vice-Chair
Senator Loren Leman
Senator Lyda Green
Senator Gary Wilken
Senator Lyman Hoffman
Senator Donald Olson

Also Attending: DON SMITH, Staff to Senator Cowdery; JOE SPRAGUE, Director, Alaska Sales, Alaska Airlines; PAT GAMBELL, President and Chief Executive Officer, Alaska Railroad Corporation; BILL O'LEARY, Chief Financial Officer, and Vice President, Alaska Railroad Corporation;

Attending via Teleconference: From an Off-Net Site: IRV BERTRAM, Associate General Council, Alaska Airlines; From Anchorage: DOUG GRIFFIN, Director, Alcohol Beverage Control Board;

SUMMARY INFORMATION

SCR 28-JOINT LEGIS SALMON INDUSTRY TASK FORCE

The bill moved from Committee without further discussion.

SB 215-COMMON CARRIER LIQUOR LICENSE

The Committee heard from the sponsor, Alaska Airlines and the Alcohol Beverage Control Board. An amendment was adopted and the bill moved from Committee.

#SCR28

CS FOR SENATE CONCURRENT RESOLUTION NO. 28(RES)
Establishing the Joint Legislative Salmon Industry Task Force.

This was the second hearing for this resolution in the Senate Finance Committee.

Co-Chair Kelly noted concerns voiced at the first hearing have been addressed.

Senator Lemman offered a motion to move CS SCR 28 (RES) from Committee with \$475,000 fiscal note from the Legislative Council.

There was no objection and the bill MOVED from Committee.

#SB215

CS FOR SENATE BILL NO. 215(TRA)
"An Act relating to licensing common carriers to dispense alcoholic beverages; and providing for an effective date."

This was the first hearing for this bill in the Senate Finance Committee.

DON SMITH, Staff to Senator Cowdery, testified the intent of this legislation is to streamline the licensing procedure for common carrier licenses, which includes airlines and the Alaska Railroad. He explained this bill consolidates the licensing to a single effective date, as there is currently confusion, especially with Alaska Airlines, which has over 100 licenses, many with different renewal dates.

Mr. Smith continued the bill would impose a \$700 fee for each of the first ten licenses and \$100 for each additional license. He projected this would annually produce approximately \$16,000, pointing out this is approximately eight times the amount charged in the State of Virginia.

AT EASE 9:15 AM / 9:16 AM

[Note: Audio equipment malfunction. Portion of the meeting is not recorded on master tape, but alternate recording is available although of poor quality.]

IRV BERTRAM, Associate General Council, Alaska Airlines, testified via teleconference from an off-net site about his legal credentials in Alaska. He stated he oversees the application process for the airlines as well as providing legal advice relating to acquiring

and financing aircraft.

Mr. Bertram informed that each time an aircraft is added to the company's fleet, the extensive application process of "posting, publishing and then waiting for the approval," must be undertaken. He furthered that the Alcohol Beverage Control (ABC) Board must also undertake a significant amount of work for each license issued or renewed. He noted the licenses are effective for two years, which results in some of the airline's licenses for 102 aircraft expiring each year. He informed the number of licenses required would increase as the company acquires new routes and new aircraft, all of which rotate into the state. He stated the advertising and public comment process is unnecessary for each license as there has never been objection to granting the airlines licenses.

Mr. Bertram also expressed the high fee imposed to obtain these licenses are "out of character with the fees that we pay in any other state." As a result, he said the airlines has requested this legislation to streamline the process once a common carrier acquires a standard license for its first vessel, to allow licenses for other vessels owned and operated by that carrier could be easily obtained. He also pointed out this bill reduces the license fees for multiple vessels.

Senator Olson noted this legislation would result in reduced revenues for the state. He asked how other states streamline the process of multiple common carrier liquor licenses.

Mr. Bertram replied that other states require the carrier to obtain a single license for the company, with copies obtained for each aircraft. He defined this as a fleet license. He listed the cost of the master license in the State of Washington is \$750, and the license cost for each aircraft is \$5.

DOUG GRIFFIN, Director, Alcohol Beverage Control Board, testified via teleconference from Anchorage and agreed the procedure of multiple common carrier liquor licenses in Alaska is more cumbersome and expensive. He stated the biannual license system has generally been successful in allowing renewal every other year, however it does create confusion when multiple licenses are involved.

Mr. Griffin explained this legislation would provide licenses for new vessels to be issued on the same cycle. He stressed this would benefit the ABC licensing staff as well as Alaska Airlines and another corporation: West Tours.

Mr. Griffin informed this legislation would result in lost revenue to the state of \$53,500 every other year. He noted the ABC Board currently generates approximately \$1.8 million annually from

license fees, penalties and fines.

Co-Chair Kelly asked for an explanation of language inserted in Section 2(c) of the Senate Transportation committee substitute on page 2, lines 1 through 5, which reads as follows.

Upon request of the common carrier and payment of the proportionate prorated applicable fee, the board shall change the license period of a license for a vehicle, boat, aircraft, or railroad buffet car to allow registration to occur in the biennial period of the balance of the licensee's common carrier licenses.

Mr. Griffin detailed the current biannual process whereby each license is renewed every other year. He stated Alaska Airlines has licenses for approximately 12 of its aircraft that expire in even numbered years and the balance expire in odd numbered years. He expressed this causes confusion in tracking which aircraft licenses are in what status. He explained this provision would allow Alaska Airlines to renew the 12 licenses for one year, rather than two, so those licenses would be converted to the same cycle as the majority of the fleet. This, he said, would result in all aircraft due for license renewal in the same year. He furthered, licenses for new aircraft acquired "mid-cycle" would be prorated so that they would eventually become on the same cycle as the remainder of the aircraft.

Co-Chair Kelly next referenced the fiscal note, which indicates a revenue reduction of \$37,000 rather than the \$53,500 the witness stated.

Mr. Griffin clarified additional review was conducted after that fiscal note was submitted resulting in the higher amount. He said a revised fiscal note had been submitted.

Co-Chair Kelly established the revised fiscal note had not yet been received.

Senator Olson asked the reason this process was not adopted when it was discussed a couple years ago.

Mr. Griffin responded statutory changes are required and enabling legislation at that time did not complete the legislative process before the end of that legislative session.

Co-Chair Donley noted the biannual fee contained in this legislation is \$700 and asked if this is the same amount as the existing fee.

Mr. Griffin affirmed.

Co-Chair Donley asked the date of the last increase.

Mr. Griffin responded none of the license fees have increased since approximately 1980. He qualified the fees doubled when the process changed from an annual renewal to biannual, although the overall cost did not increase and there was no net affect on revenue.

Co-Chair Kelly commented this legislation "brings us in line with other states" regarding licensing fees, which he noted are "far far less" than Alaska. He noted total license fees in the state of Illinois are \$2,000.

Mr. Griffin calculated Alaska Airlines currently pays \$700 every two years plus a \$200 application fee for each aircraft, averaging over \$45,000 per year. He noted the \$200 application fee would not change under this legislation.

Co-Chair Kelly clarified that although all 102 aircraft in the Alaska Airlines fleet does not constantly service Alaska, the state charges licensing fees for every one.

JOE SPRAGUE, Director, Alaska Sales, Alaska Airlines, affirmed and detailed the process of aircraft rotating routes through the state, although the number of planes operating in the state at a given time is considerably less than 102.

Co-Chair Kelly listed the approximate licensing fees of other states: Arizona, \$550; California, \$1600; Illinois, \$1200; Oregon, \$200; Virginia \$1800; Washington State \$1200.

AT EASE 9:33 AM / 9:41 AM

Co-Chair Kelly announced the revised fiscal note had arrived and he asked for an explanation of the differences.

Mr. Griffin explained a calculation error.

Amendment #1: This amendment increases the biennial fee for a common carrier dispensary license from \$700 to \$1,000 for each of the first ten licenses. This language is on page 1, lines 13 and 14 of the bill.

Co-Chair Donley moved for adoption noting inflation has increased although this fee has not since 1980. He expressed, "there would still be considerable savings" to the industry.

Senator Green requested comment from the industry.

Mr. Sprague relayed that Alaska Airlines has no objection to this

amendment.

The amendment was ADOPTED without objection.

Senator Olson commented other tourism businesses would be affected by this legislation and the amendment and asked if any representatives from the industry or the Alaska Railroad wanted to testify.

Co-Chair Kelly established no representatives of these businesses were present.

Senator Wilken offered a motion to moved CS SB 215 (FIN) from Committee with a new zero fiscal note from the Department of Revenue.

There was no objection and the bill MOVED from Committee.

AT EASE 9:44 AM

Co-Chair Donley chaired the remainder of the meeting.

The Alaska Railroad

PAT GAMBELL, President and Chief Executive Officer, Alaska Railroad Corporation, gave a summary of the activities of the Railroad in the year 2001. He read a statement as follows.

Presentation to the Senate Finance Committee
March 6, 2002

The Alaska Railroad spent 2001 demonstrating the kind of partnership the State, communities, and businesses can depend on to support growth and development across Alaska.

We enhanced safety, responsiveness, capacity, and fiscal stewardship. We brought new services online. We improved environmental protection measures, coordinated community planning, and commenced construction on many capital projects. In light of September 11, the Railroad also took steps to assess and address security risks along the Railbelt.

Customers and revenue: With total revenues of \$104.6 million and total expenses of \$97.5 million, the Alaska Railroad netted \$7.1 million in 2001. This was 9% better than forecast. Real estate once again proved to be a strong performer with gross revenues reaching \$10.5 million - up from \$9.28 million last year. Freight

revenue also set a record, reaching nearly \$80 million. Gravel was up and oil field freight exceeded expectations. A record number of fuel cars were hauled from North Pole, exceeding several daily, weekly and even monthly thresholds. Passenger revenue was up. Collectively, these revenue streams continue to provide the cash flow for our work force and our Railroad services.

Environmental measures: The Railroad significantly enhanced emergency and spill response through the purchase of new equipment, extensive employee training, and an overhaul of our spill response plan. Crafted to meet new state regulations, the plan has been filed with the Department of Environmental Conservation and is available for public review. ARRC also joined Alaska Chadux Corporation, a primary spill response co-op whose considerable experience in Alaska will contribute significantly to our spill response capability.

Community involvement and planning: Our people have worked hard this year to better coordinate railroad planning efforts with the communities we serve. ARRC was named as a participant in the Anchorage Metropolitan Area Transportation Study (AMATS) Technical Advisory Committee (TAC) and member of the Fairbanks Metropolitan Area Transportation Study (FMATS) TAC. We are working with several other groups, including the Anchorage and Fairbanks Chambers of Commerce, Anchorage Economic Development Corporation, Seward Centennial Committee, Resource Development Council, and the Alaska 20/20 effort to ensure the Railroad's vision complements and supports the overall plans and strategies developed by our State, municipalities and community groups.

The Alaska Railroad's continued commitment to safety paid further dividends in 2001.

Low Train Accident Rate - For the second consecutive year train accident rates fell well below the national average of 3.8 accidents per million train miles. ARRC's 1.5 accidents per million train miles in 2001 compares with 2000's 1.49 average. Both were well below our historical average of over 4 accidents per million train miles. Success can be attributed to significant investments in infrastructure and employee dedication.

[Note: Recording resumes on master audiocassette.]

Spill Contingency Plan - The Alaska Railroad submitted a

revised, improved Spill Contingency Plan to the Alaska Department of Environmental Conservation in the fall of 2001. After an extensive public comment and review process, we hope to have the plan finalized by mid-2002.

Track Improvements - The Maintenance of Way (MOW) department focused on track repair to improve safety. MOW replaced 30,600 crossties, 350 switch ties and 58,000 feet of worn rail. They built nearly 40,000 feet of new track, and resurfaced another 242 track miles. Surfacing is the equivalent of grading a road, accomplished by equipment that lifts the rails and redistributes ballast to smooth out the rail. About 1,800 cars of ballast rock were unloaded in the effort.

Traffic Flow - Other track improvements included major new sidings at Bear Creek (about 15 miles north of Healy) and Pittman (just north of Wasilla) which, along with improvements at existing sidings, helped smooth traffic flow along the track. This improved efficiency played an important part in increasing the number of units moved by 23% - to over 96,000 units - and increasing tonnage by 26%.

Reliability - During 2001, the mechanical department enhanced reliability of the Railroad's locomotive fleet. Their preventative maintenance efforts have resulted in an incredible jump from 65% reliability to 97% reliability, translating into better, safer customer service.

In 2001 transportation of commodities generated freight revenues of \$79.5 million, an average sustained growth of about nine percent per year over the past six years. Products moved by the Railroad include petroleum products, coal, gravel, oilfield and mining supplies, chemicals and some consumer goods.

Coal shipments, which move south from Usibelli Coal Mine in Healy to Seward for export to Korea and north to Fairbanks, were steady until December, when the Koreans began renegotiating their contract.

The Passenger Services and Marketing & Logistics departments merged in July 2001 to enhance coordination of marketing, transportation services, and sales efforts.

The new division saw passenger travel levels on the Alaska Railroad remain comparable to 2000. Passenger revenues were up slightly. Given the fact that tourism dropped across the state

in 2001, that the Railroad did not experience a significant passenger reduction was an accomplishment.

The Real Estate department continued as a strong performer exceeding 2001 projected revenue by \$300,000, generating \$10.5 million – thus breaking the \$10 million revenue mark for the first time. A number of activities along the Railbelt have contributed to the continuing growth of real estate income.

In order to more accurately reflect the scope of work conducted by the Capital Projects division, it was renamed Projects, Engineering, Technology & Signals (PETS) in July 2001.

The year 2001 was full of accomplishments. On the projects front, the Seward Dock, Whittier Underpass, South Anchorage Double Track, Anchorage Airport Rail Depot, Anchorage-Wasilla line changes, Southcentral Commuter Rail study, and Fairbanks-North Pole reconnaissance study all saw significant progress or completion. (Descriptions of the 2001 Program of Projects follow in the next section). The 2002 construction season promises to be at least as busy as we continue to invest in infrastructure in order to provide safer, more reliable service to customers.

The engineering staff managed many challenges this year posed by everything from meeting complex federal grant regulations to the rigors posed by Alaska's extreme weather. Our engineers are taking lead roles in working directly with communities to resolve road-rail, trail-rail, and rail-river conflicts.

The technology staff made significant progress on upgrading infrastructure. They commenced upon a three-year plan to upgrade Railroad computer systems, and they tapped new technology to move trains more efficiently through use of a computer aided dispatch system.

More sophisticated signalization was installed during the second of a five-year effort by the Railroad to more clearly mark road-rail crossings, and to install numerous powered switches. Both efforts, which will continue in 2002, improve safety and increase efficiency.

2001 Capital Improvements Program Review

Seward

Freight Dock - In 2001, the Railroad finished constructing a new freight dock located just east of the existing dock. The 640-by-200-foot bulkhead fill dock features a low maintenance ship fendering system, a mooring dolphin, and catwalk at the

seaward end. The \$7.7 million project was funded by FRA, FHWA and the Railroad.

Passenger Dock - In conjunction with the freight dock project in 2001, the Railroad began overhauling the existing dock to serve as a passenger-only facility. This will greatly improve safety and efficiency, and bring the existing facility into compliance with State and Federal regulations. Funded by FRA, FHWA and the Railroad, the project included \$2] million spent to improve the passenger dock, including connection to the city sewer service. Another \$3.5 million (80% FTA funds, 20% ARRC funds) is budgeted to complete the renovation in 2002-2004.

Roundhouse - The Seward roundhouse (engine house) was upgraded to accommodate maintenance and custodial services for cruise trains operating between Seward and Anchorage. The project included installation of potable water stations, upgrade of electrical systems, a new office facility, and a train-washing apparatus with wash water collection, cleaning and recirculation. Completed in 2001, the project was funded 80% by FTA and 20% by the Railroad.

Whittier

Whittier Intermodal Planning Study - The Railroad commissioned an Intermodal Planning Study on improving passenger-related amenities to facilitate tourism growth in Whittier. Goals include better passenger and pedestrian safety, increased passenger service, segregated passenger and freight operations and construction of new passenger and maintenance facilities. Due for completion in 2002, the \$282,500 study and conceptual design is funded 80% by FTA and 20% by the Railroad.

Pedestrian Underpass - Part of the Whittier master plan called for a pedestrian underpass that would provide safe passage across the rail yard, which lies between the town and the waterfront. Construction on the 300-foot-long, 10-foot-diameter underpass began in spring 2001. Funded 80% by FTA and 20% by the Railroad, the \$2.285 million project will be completed in spring 2002.

Equipment Maintenance Facility - Design was accomplished on a new equipment maintenance building in Whittier to be located in the southeast corner of the railyard. The 4,793-square-foot building will store and maintain heavy equipment, such as graders and bulldozers. Funded 80% by the FTA and 20% by the Railroad, the \$2.225 million project will be constructed in 2002.

Barge Dock - Design was also completed on a project to accommodate unloading from the side of the Railroad's existing barge dock. Construction of two 34-by-60-foot elevated platforms is scheduled to begin in spring 2002. Funded 100% by the Railroad, the \$1.6 million project will significantly improve safety and efficiency of barge operations.

Anchorage

Anchorage Airport Rail Station - Construction is well underway on a new rail terminal at the Ted Stevens Anchorage International Airport. The \$28 million project includes construction of an elevated track leading to a 17,300-square-foot depot building. Funded 100% by FRA, the project is scheduled for completion by October 2002.

Anchorage Airport Spur/South Leg of the Wye - Construction began on a new "south leg of the wye," at the Airport Spur junction, which will allow southbound travel from the new airport rail station. The project improves the spur leading from Minnesota Drive to the airport. Funded by FRA, the \$970,000 project will be complete by summer 2002.

South Anchorage Double Track - Construction began on a project to add about five miles of new mainline track between 1²⁰ Avenue (near Klatt Road) and the Minnesota Drive overpass, within the Railroad's right-of-way. The second track will improve efficiency and safety along the currently congested mainline through Anchorage. Funded 80% by FTA and 20% by the Railroad the \$1 1.5 million project, which includes signalization, will be complete in winter 2003.

North Ship Creek Rail Yard Expansion - The Railroad began excavating about 770,000 cubic yards from the North Ship Creek bluff to make room for new and

realigned Anchorage Yard tracks. Much of the material was used to fill about 8.5 acres of Railroad-owned tideland at the Port of Anchorage to permit construction of the Williams fuel facility loop track. Funded by the Railroad, phase one of the yard expansion project will be complete in 2003.

Anchorage Yard Passenger Car Shop - Preliminary design began on a new passenger car shop in the Anchorage Yard. The facility will accommodate the Railroad's expanded fleet of passenger trains. Funded 80% by FTA and 20% by the Railroad, the \$2.32 million design and engineering effort will be complete in 2002.

Ship Creek Intermodal Planning got underway to conceptualize a Ship Creek area intermodal transportation hub that provides bus and rail facilities, pedestrian improvements, new rail platforms, bus/van stops, retail development, airport accommodations and visitor information. In 2002, the Railroad plans to pursue preliminary concept work, organize public and agency scoping meetings, and conduct pre-NEPA studies and documentation. The \$4.5 million budget for the concept stage is funded 80% by FTA and 20% by the Railroad.

Anchorage Ship Creek Pedestrian Amenities - Design was complete and construction began on a pedestrian plaza at the corner of Ship Creek Avenue and C Streets. Funded by the Municipality of Anchorage and the Railroad, the \$254,000 plaza project will be complete in spring 2002.

Anchorage to the Mat-Su Valley

Anchorage to Wasilla Track Realignment - Efforts to straighten the track from Anchorage to Wasilla got underway in 2001, with the stretch from the Anchorage Yard through Elmendorf completed. When the entire project is done, the project will increase train speed, and improve efficiency and safety along this stretch. Funded by FRA, the \$54 million Anchorage to Eagle River phase started construction in 2001 and should be complete in 2004. Funded 80% by FTA and 20% by the Railroad, the \$23.8 million Eagle River to Wasilla phase

should enter construction in 2002, with completion in 2004.

Commuter Study - The Railroad commissioned the Southcentral Rail Network Commuter Study and Operation Plan in 2000. Completed in 2001 the study creates a blueprint for potential further actions by local and state officials to establish a viable and operational commuter rail system. The \$200,000 project was 80% funded by the FTA and 20% by ARRC. The plan, along with public comments, has been forwarded to FTA.

Interior Alaska

Denali National Park Rail Station - Design and engineering are underway to improve the passenger depot and surrounding facilities at Denali National Park. Construction of the \$4.5 million project begins in spring 2002, with completion expected in 2004. Funding is 80% FTA and 20% Railroad.

Fairbanks Intermodal Facility and Depot - Preliminary design and engineering was completed on an intermodal facility and depot in Fairbanks. Proposed plans are to locate the new facility on a 32-acre site adjacent to the Railroad operations yard, near the intersection of Johansen Expressway and Danby Road. Funded 80% by FTA and 20% by the Railroad, the \$11.5 million project will begin construction in 2002, with completion in 2003.

Fairbanks/North Pole Rail Relocation Study - The Railroad commissioned a reconnaissance study on relocating the track in Fairbanks and North Pole to eliminate up to 48 rail/road crossings within the two communities. Public meetings to discuss proposed phased options are ongoing in 2002. Funded by FRA, the \$250,000 conceptual study will be complete in 2002. Project construction will depend on the options selected and funding availability.

Systemwide Service & Equipment

Passenger Locomotives and Car Upgrades - Major upgrades to passenger locomotives and cars began in 1999 and continue as funding becomes available. Typical upgrade projects include the repainting and interior restoration of coaches, refurbishment of

power generation cars, rehabilitation of railcar trucks, and a \$2.325 million effort in 2001 to rebuild three passenger locomotives About \$800,000 is budgeted in 2002, funded 80% by FTA and 20% by the Railroad.

Passenger Reservation System - In 2001, the Alaska Railroad acquired and installed a computer-based passenger reservations management system that provides integrated, flexible, cost-effective, and automated means of supporting and managing passenger travel. Funded 80% by FTA and 20% by the Railroad, the \$820,000 project can accommodate current and projected needs, and capitalizes on consumer demand for Internet information and transactions System modifications and personnel training will continue in 2002.

Avalanche Program - In 2001, the Railroad initiated a three-year program to improve existing avalanche risk management tools and create new control systems. The \$2.5 million project involves integrated capital projects to upgrade: (a) state-of-the-art detection and data acquisition and management systems, (b) explosive delivery systems, (c) equipment, and (d) joint operations with the Alaska Department of Transportation & Public Facilities. The Avalanche Program is funded in part by a congressional earmark through the U.S. Forest Service.

Yard and Terminal Plans - During 2001, the Railroad commissioned TransSystems and California-based Woodside Consulting Group to update the yard and terminal plans. This built on a 1999 Woodside comprehensive plan to improve efficiency, capacity and safety within Anchorage and Fairbanks yards, as well as the main track between the two terminals. Out of this analysis came a prioritized list of capital projects to be undertaken through the year 2005. The plan update is funded by the Railroad and is expected to be complete in 2002.

Systemwide Infrastructure

Siding Improvements - In 2001, the Railroad continued a five-year Siding Access Plan to place remote control power switches and heaters at about 40 sidings between Seward and Fairbanks, to extend

13 existing sidings and to build seven new sidings. In 2001, FRA grant funds were used to build two new sidings. One was at Pittman - MP 166, just north of Wasilla. The other was at Bear Creek, MP 274, about 15 miles north of Healy.

Bridge Program - The Alaska Railroad's 500-plus miles of mainline track includes 169 bridges that cross barriers ranging from trickling streams to plunging gulches. Funded by FRA, the Railroad's 2001 Bridge Program included major maintenance, overhaul and replacement projects needed to maintain Railroad integrity, safety and efficiency.

Senator Ward was pleased that passenger travel has not decreased since September 11, 2001. He asked for the cause of the projected reduction in freight travel.

Mr. Gamble replied the revenue reduction in the year 2003 would primarily be due to gravel transport. He stated it is difficult to predict beyond 2003 because "our customers hold some of that information fairly close to the vest". He qualified such a reduction was projected for the year 2001; however, funding for Department of Transportation and Public Facilities construction projects were approved, resulting in "a pretty good gravel year".

Senator Ward asked if the Department of Transportation and Public Facilities is unable to make predictions of gravel usage for the year 2003.

Mr. Gamble clarified the Department of Transportation and Public Facilities is only one of the railroad's customers.

Senator Ward asked if the freight revenue increase projected following 2003 is attributed to commodities other than gravel.

BILL O'LEARY, Chief Financial Officer, and Vice President, Alaska Railroad Corporation, affirmed. He explained the corporation also projects a decrease in 2003 of revenues from its interline service, i.e., barge service. He attributed this projection to an anticipated reduction of "pipe shipping" for production and drilling on the North Slope. He noted a "slight rebound" in gravel transport, as well as a rebound in the interline service, is expected in the year 2004.

Mr. Gamble added these projections are based on historical analysis and trends. He explained if performance has been following a trend, the corporation makes conservative projections continuing that trend, with details incorporated as more information becomes

available.

Senator Ward found this interesting because projections in the construction industry indicate no decline in the need and use of gravel. He asked if the Corporation projections are based on specific large projects.

Mr. Gamble replied this projection was made in December 2001 using the best available information at the time.

Senator Ward asked whether there have been passenger decreases since the events of September 19, 2001.

Mr. Gamble informed the Railroad does not normally haul many passengers after mid-September.

Senator Ward asked about reservations for future travel.

Mr. Gamble responded that bookings have increased significantly from one year ago. He clarified these reservations are for Alaskan passengers traveling between Anchorage and Fairbanks and that data is not yet available for cruise ship passengers traveling on the Alaska Railroad as part of their package vacation.

Senator Lemman asked if the approximately eight miles of new rail is primarily associated with the realignment between the Ship Creek depot, Eagle River and the South Anchorage "double track".

Mr. Gamble detailed there are two major projects involving new track, one being the Ship Creek, Eagle River and South Anchorage project. He noted the Corporation is also replacing 70-pound rail with heavier 115-pound rail and is in the final stages of this process.

Senator Lemman asked if the Corporation has also been installing continuous rail, which rides smoother.

Mr. Gamble affirmed and described the continuously welded rail that is used extensively in most of the country but has been too cost prohibitive for the Alaska Railroad until recently. He told of the use of this product in Alaska in areas where communities have grown close to the Railroad right-of-way to reduce sound and eliminate "the clack, clack, clack".

Senator Lemman informed of some of his constituents concerned about small transfers of property in downtown Anchorage and asked the status of these matters.

Mr. Gamble responded that because there are "many such issues" the

specifics of the projects must be addressed individually to avoid generalizing. He commented some are more contentious and difficult than others, but assured the Corporation has "a fairly good success rate with those kind of issues". He offered to detail specific projects with Senator Leman at a later time.

Senator Leman next referenced pending legislation to increase the leasing period from 35 to 55 years for the Alaska Railroad. He asked if there are any specific proposed projects that would be affected by this legislation in the near future.

Mr. Gamble knew of no specific projects, but qualified that companies occasionally request such negotiations be held confidential in their early stages. However, he told of one project that did not occur because of the 35-year lease limit, which may have been approved if the longer 55-year lease provision were in place.

Senator Hoffman asked if the Anchorage airport rail station would be completed on October 2, 2002 as scheduled. He also wanted to know the "target user groups" for this facility.

Mr. Gamble answered the projected completion date is fairly accurate and the facility could be finished earlier. He told of "intensive discussions" with the cruise industry and airport officials to determine implementation of new federal security regulations. He stressed this would determine passenger and baggage transfer and he detailed the passengers disembarking cruise ships and traveling north, along with those passengers returning from Fairbanks and boarding planes. He stated the cruise industry would begin using the terminal in the summer of 2003. He predicted that once people get used to the idea that the service is available, the demand would increase from other user groups.

Mr. Gamble also noted the plans to construct a new convention center in Anchorage, with one proposed location in the Ship Creek area. He stated if this location were selected, another route would be added to the railroad service between Ship Creek and the airport.

Senator Hoffman asked the primary function of the planned Ship Creek Plaza.

Mr. Gamble described the proposed pedestrian park setting of approximately one acre across the street from the company headquarters. He stated this would be part of the overall Ship Creek development designed to entice more pedestrian traffic into the area.

Senator Wilken spoke to the state's fiscal situation, commenting "some have even been so bold as to think we're going to fix it from taking money away from the working families and the small business people of Alaska," which concerned him. He hoped the Alaska Railroad would consider contributing a "franchise fee" to the general fund in the future. He pointed out the Railroad would transfer 400,000 visitors in 2002 and calculated the Railroad could pay the state \$10 for each passenger for a total of \$4 million. He noted if "the lady from Kansas" paid this amount to the state, it would be money that the people he represents would not have to pay. He asserted the Board of Directors should discuss the matter as he predicted that in the future, the Legislature would expect a contribution from the Railroad.

Mr. Gamble responded he would present the matter to the Board, and that he predicted the Board would direct him to research the issue.

Senator Olson referred to talk of construction of a natural gas pipeline with involvement of the Alaska Railroad, with its tax-exempt status and right-of-way access. He wanted to know if this matter has been seriously discussed.

Mr. Gamble replied the only serious discussions have been about the possibility of utilizing the Alaska Railroad's ability to sell tax-free revenue bonds to finance the project. He said other conversations have occurred about other options but that the bond issue is the only topic to receive formal attention.

Senator Ward commented that if the Railroad bonds occurred, "this would be quite a contribution to the state." He asked if the plan would be that the Alaska Railroad would issue the bonds and that another entity, such as the Alaska Housing Finance Corporation (AHFC) would manage them.

Mr. Gamble affirmed and stressed that bond management is not a "competency of the Railroad" and that outside expertise would be advisable.

Senator Wilken asked the status of the Suneel contract regarding transportation of coal from the Usibelli Coal Mine in Healy, Alaska.

Mr. Gamble informed, "Unfortunately, the news so far is not good." He told of the corporate reorganization of the Korean customer, resulting in five smaller corporations rather than one, each attempting to earn a profit individually. He stated these corporations are considering purchasing coal from Indonesia at a lower price than they currently receive in Alaska. He was unsure whether this is a "negotiating tactic", or whether the decision has

been made. He informed the Railroad is continuing to transport coal that has already been sold, but would stop unless the contract is renewed.

Co-Chair Donley commented that second to the permanent fund, the Alaska Railroad is one of the state's largest assets and that "when you have assets you hope for a return on your investment". He noted the Railroad is not paying returns to the state treasury. He pointed out the Railroad receives "considerable" federal funding for infrastructure and track upgrades, the Railroad pays no state taxes, earns revenue from real estate holdings, which offsets an operating loss for passenger transportation. He remarked if not for the real estate revenue, the Railroad would operate at a loss.

Co-Chair Donley expressed the public might question why the state owns a railroad if it pays no dividend to the state. He asked the witness' suggestion of an appropriate response.

Mr. Gamble stated the issue is "a very large dynamic". He noted the Railroad does not require state subsidy and therefore does not contribute to the state's fiscal problem. He also asserted there is a positive "economic trickle effect", although a study indicating the extent of this has never been undertaken. He exemplified airline fuel transported from the fuel refinery in North Pole by rail to the Ted Stevens Anchorage International Airport, pointing out that an adequate amount could not be transported via truck. He compared the economic impacts of services such as this and the subsequent jobs resulting from these activities and determined this is a better method than providing a dividend to the state.

Mr. Gamble hypothesized if rather than investing in the purchase of the Alaska Railroad 17 years ago, the state had invested the same amount of money in a "conservative fund" the state would have earned approximately \$44 million interest. He furthered the state could have utilized ten-percent of those earnings, which would be equal to the \$4 million average annual net earnings of the Railroad and resulted in "a wash". He explained the net earnings are currently used to pay operation expenses and payroll. Therefore, he asserted that if the Railroad were required to pay the state a \$4 million annual dividend, it would be unable to undertake internal capital projects, provide pay increases, or provide matching funds to secure federal appropriations, i.e., "the things that keep the Railroad healthy and viable".

Mr. Gamble admitted that including indirect overhead expenses, the operating ratio of the "train operations" is almost 100 percent, or "about a one-for-one dollar earned-dollar spent". However, he asserted the Railroad operations allow other companies, including, construction, gravel, coal and fuel, to transport their products.

He stressed these products "bring in outside money to the state; it isn't recirculating state money inside, there's a lot of it brought in outside".

Mr. Gamble also informed that the Railroad solicits additional business resulting in increased net earnings, which benefits the state through the "economic trickle down effect". He summarized the Railroad benefits the state "by being that railroad entity that does thing that nobody else in the state can do economically to provide for our customers."

Mr. Gamble stated that interest earnings from the real estate holdings provide the Railroad with net earnings, which he emphasized "is exactly how the framers of the legislation intended for it to be." He remarked this income allows the Railroad to be profitable and to be a "stand-alone entity". He elaborated the Railroad does not depend on the state for financial assistance and yet has expanded to meet the needs of additional customers.

Mr. Gamble underscored "passenger responsibility" explaining that in the Lower 48, commuter lines are subsidized, but freight lines receive no federal subsidies and are leveraged by considerable debt. In contrast, he stated, the Alaska Railroad is not leveraged by significant debt. He noted the only debt was acquired recently with the purchase of new engines, and that the new engines have improved efficiency. He gave a history of railroads in the contiguous United States informing that because railroad companies were unable to earn a profit transporting passengers, they converted to freight only transport. He predicted this would never occur in Alaska and because of this, the Alaska Railroad would "sub-optimize our capability to earn as much as we can earn," as expected by the state.

Mr. Gamble surmised if the Railroad only transported freight and increased net earnings to allow it to buy down capital investment needs and provide all pay raises and "fix leaky roofs", etc., until all needs were accomplished, and if net earnings remained, he agreed a return should be paid to the state. However, he predicted it would be considerable time before that point is reached given the future investments that are still necessary.

Mr. Gamble cautioned that if federal subsidies were discontinued, there would be increased demand to utilize "internal" assets and net earnings to maintain existing services. He intended to position the Railroad so it could adapt in the event federal assistance ended.

Co-Chair Donley asked if market surveys indicate strong resistance against increases to passenger fares and freight charges. He

commented that it is difficult to understand why the Corporation could not charge rates necessary to earn a profit from rail operations.

Mr. Gamble responded the Alaska Railroad is competitive and told of the passengers traveling with three cruise companies riding the train to Denali National Park. He stated that if the rates offered by the Railroad for independent travelers were increased, the cruise industries would advertise lower rates for their unreserved seats. As a result, he warned, the Railroad could lose customers to other cars on the same train.

Co-Chair Donley countered this would depend on how contracts with the cruise industries are negotiated.

Mr. Gamble informed the contracts were negotiated for 12 to 13 years and it would be some time before they could be renegotiated.

Co-Chair Donley compared this situation to airport landing fees.

Co-Chair Donley referenced the legislation that provided for the state's purchase of the Railroad and asked the status of provisions in that legislation relating to review of the possible sale of the Railroad.

Mr. Gamble understood the intent of the provision focused on the first ten years after the purchase of the Railroad was completed, as it was thought it could be possible to sell the Railroad to a private entity. However, he assumed the State would not grant a private buyer 36,000 acres of Alaska land nor extend the tax exemption. Under these circumstances, he did not foresee how a private entity could succeed. He stressed that because the Railroad has a low debt ratio and significant cash flow, it would be attractive to a private corporation. He warned, however, that if this were to occur and the Railroad proved unprofitable, the parent corporation would "pull cash from the company", sell assets and "pull out and leave it," at which time the Railroad would become a "ward of the State".

Senator Ward clarified the sales provision in the original legislation was for the first five years after the purchase of the Railroad by the State. He remarked this provision was "a very large part" of the legislation and that it secured the seven votes necessary to pass the Legislature. He noted the provision was amended at a later date.

Senator Ward remarked that although the Railroad is owned by the State, the public does not know whether the corporation is operated "like a railroad" or used "as a tool to go on junkets". He noted

this is a "natural conflict" that would always be present, and that the framers of the enabling legislation were aware of this.

Senator Ward informed his grandfather retired from working for the Alaska Railroad and that his family had ridden the trains. He was "bothered" that tourists travel on the Railroad and have better access and better passenger cars to ride than residents traveling between different locations.

Senator Ward applauded U.S. Senator Frank Murkowski for his efforts to extend the Railroad to the Lower 48 through Canada, which he said was a major reason the State purchased the Railroad. Senator Ward recalled he served on the Senate Finance Committee at the time the purchase was considered and that his was the deciding vote, which was based on assurances that the Railroad would be linked to Canada. He asked the status of these efforts. He also mentioned the Governor's proposed bonding measures.

Mr. Gamble stressed, "access in Alaska is primary in terms of development in Alaska" and the Railroad has historically provided access. He stated that expanding the rail system to the Canadian border would continue to provide for the State in terms of development and growth. He assured if the State makes the political decision to issue bonds to undertake this effort, "our best technical advice would be called upon" to enable that decision.

Mr. Gamble expressed, "I happen to believe there is a strong 'build it and they will come' element to this particular initiative." He assured this has always occurred along railbelts in the United States and in Alaska. He pointed out 70 percent of Alaskans live along the Alaska Railbelt and that they live there because of the Railbelt.

Mr. Gamble cautioned of the initial capital investment and the increased operating costs that would be incurred that must be accounted for. He reiterated the real estate holdings allow the Railroad to remain profitable and would be an important component to an expansion. He assumed additional land grants would accompany this expansion, but emphasized real estate could not fully support the Corporation. Therefore, he stated, trains must operate on the new track in order to generate revenue.

SFC 02 # 27, Side B 10:35 AM

Mr. Gamble continued that the additional operating expenses would accrue beginning the day the new track was completed. He stated if the Railroad failed to make a profit in the first year the new

track was operational because too few or no trains were operating on the new track, there would be "significant expenses" that must be paid before revenue is generated again. He remarked the question is how long would it take to recover.

Mr. Gamble noted Alaska trains as well as trains from Canada and the Lower 48 must utilize the new track, thus requiring the purchase of additional engines and cars. Therefore, he stressed the capital investment would not only include construction and track, but also new trains to operate on the line.

Mr. Gamble asserted that if potential customers in Canada and the Lower 48 could "see our commitment" they would "start coming out of the woodwork" and offering ideas and suggestions. He stated these potential customers investigate resources within the new route, such as minerals and opportunities for tourism activities. He commented, "There is where business begins to grow and develop and the State becomes richer for it."

Mr. Gamble informed he personally supports the expansion, but cautioned the need to understand the "whole dynamic".

Senator Ward informed the land component "was very much a part of the purchase". He relayed testimony heard by the earlier Senate Finance Committee emphasized the necessity for a land grant because a railroad without a land base would not be profitable. He commented, "some feel" the state is subsidizing some companies and tourism at the expense of Alaskans through this method.

Senator Ward asked the additional amount of acreage necessary to offset the future operating costs. He clarified the capital costs would be paid "in the form of strategic minerals" that would be sold. He did not expect an answer at this time but requested the witness consider the matter. He noted this issue was discussed at the time of the original purchase of the Railroad and tabled because it was argued that twenty years would pass before the land was developed to a point where income could be derived from it. However, he stressed, twenty years has passed and no progress has been made. He expressed the issue should be planned "generation to generation" rather than "week to week".

Mr. Gamble offered to continue the discussion at a later time. He stated that although he had not researched the issue in detail, the matter of determining which land is valuable has been considered. He shared that historically land that is determined to be valuable is land that could be developed. He furthered the land granted to railroad companies in the contiguous United States was located along the railroad right-of-ways, and was valuable because of the access the rail lines provided. Therefore, he noted the location of

the land is as important as the number of acres that would be granted for the new project.

Co-Chair Donley spoke to a study conducted by the Railroad that determined the cost of commuter service between Anchorage and the Matanuska Valley would be approximately \$40 round trip. He furthered the study also surveyed the amount travelers would be willing to pay for the service, which amounted to approximately \$8. He understood federal funds based on anticipation of commuter service but he asserted, "I want to send a very very strong message here that the State is not in the position to subsidize \$32 per round trip for passenger service between the Mat Valley and Anchorage."

Senator Green recalled six years ago federal railroad transportation representatives first addressed the subject of a commuter rail program. She stressed this suggestion was offered from a higher governmental level, to reduce traffic and parking needs primarily at airports. She surmised this proposal was more appropriate for large cities, although she was told the Anchorage plan would include the Mat-Su area and Girdwood. She stressed this request did not originate in Palmer, Wasilla or Girdwood.

Co-Chair Donley asserted support for a passenger rail system also came from "anti-road groups in the Anchorage area" and "has been the baby of the Center for the Environment and Conservation Voters for the last five years; this has been their mantra." He continued this has delayed road construction and necessary infrastructure. He pointed out that a light rail system has not been successful in any community in the nation with a population less than two million. He wanted to ensure that the Railroad "didn't fall into this trap" and suggest there would be state subsidies for a light rail system. He warned against providing "false hope" for such a project that would come at the expense of road projects.

Senator Green clarified that Mr. Gamble has stressed that the Railroad would not undertake a project that "the communities are not willing to buy into". She remarked, "Believe me, there is no mass outcry in the Mat-Su Valley to come in and raise Borough or city or local taxes" for this effort.

Co-Chair Donley reiterated the idea was raised by "radical environmental groups in the Anchorage area," who do not want to address transportation projects in Anchorage and instead "make the roads as bad as possible so people can't drive essentially." As a result of this effort, he again stated, transportation projects have been blocked for over a decade, partially using the "myth of light rail and passenger rail."

Senator Ward added the same groups also attempted to remove the land grant provision from the original legislation to purchase the Railroad. He stated this opposition to the land grant was because that land would be developed.

Co-Chair Donley furthered his concern is that once a proposal, such as a light rail or passenger system, is determined unviable it should not be utilized to prevent other viable projects from proceeding.

Mr. Gamble attested the message was received "loud and clear". He affirmed Senator Green's statement that the Railroad would not support projects opposed by communities.

Mr. Gamble spoke to expanded service, which Co-Chair Donley indicated he would support, and Mr. Gamble expressed would be considered as the Railroad continues to develop. He clarified this is different than commuter travel.

ADJOURNMENT

Co-Chair Pete Kelly adjourned the meeting at 10:50 AM