

HOUSE FINANCE COMMITTEE  
January 28, 2003  
1:34 PM

TAPE HFC 03 - 2, Side A  
TAPE HFC 03 - 2, Side B  
TAPE HFC 03 - 3, Side A

CALL TO ORDER

Co-Chair Harris called the House Finance Committee meeting to order at 1:34 PM.

MEMBERS PRESENT

Representative John Harris, Co-Chair  
Representative Kevin Meyer, Vice-Chair  
Representative Eric Croft  
Representative Richard Foster  
Representative Mike Hawker  
Representative Reggie Joule  
Representative Carl Moses  
Representative Gary Stevens  
Representative Bill Stoltze

MEMBERS ABSENT

Representative Bill Williams, Co-Chair  
Representative Jim Whitaker

ALSO PRESENT

Edgar Blatchford, Commissioner, Department of Community and Economic Development; Pat Ladner, President and CEO, Alaska Aerospace Development Corporation (AADC), Department of Community and Economic Development; Ray Riutta, Executive Director, Alaska Seafood Marketing Institute; Patrick Gamble, President and CEO, Alaska Railroad Corporation; Bill O'Leary, Vice President, Finance, Alaska Railroad Corporation

PRESENT VIA TELECONFERENCE

None

GENERAL SUBJECT(S):

Agency Overviews: Alaska Aerospace Development Corp  
Alaska Seafood Marketing Institute  
Alaska Railroad Corporation

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 23rd Legislative Session, contact 465-

2156. After the 23rd Legislative Session they will be available through the Legislative Library at 465-3808.

LOG	SPEAKER	DISCUSSION
	<b>TAPE HFC 03 - SIDE A</b>	
001	Co-Chair Harris	Convened the meeting at 1:34 pm. Roll was called and a quorum was established.
		<b>ALASKA AEROSPACE DEVELOPMENT CORPORATION (AADC)</b>
004	PAT LADNER, PRESIDENT AND CEO, ALASKA AEROSPACE DEVELOPMENT CORPORATION	Thanked the Co-chairman for the opportunity to highlight the successful progress of his corporation since its inception in 1992. He explained that their central goal was to bring aerospace business and technology to Alaska, their primary means by creating a space port to launch rockets and satellites. He noted that, despite setbacks, Alaska has been competitive in the national defense market. He referred to the Kodiak launch complex as part of an extensive test program. He commended their program for its innovation and uniqueness.
331	Representative Croft	Asked for clarification about the failure of the Iridium enterprise.
	Mr. Ladner	Explained that this commercial satellite venture had encountered financial difficulties. He noted that the program had launched a portion of its constellation, then entered into bankruptcy and was acquired by another corporation. He noted that the U.S. Department of Defense subsequently rented a portion of the venture. He also stated that he had met with the company to discuss replenishment of the constellation.
500	Mr. Ladner	Referred to a visual presentation showing photographs of the launch site in Kodiak, including the launch pads, payload processing facilities, satellite orbiting systems, and methods for containing toxic chemicals.
625	Mr. Ladner	Described other photos of the launch facility and offices. He explained the facility's response to NASA requests. He highlighted the <ul style="list-style-type: none"> <li>• Mission control center;</li> </ul>

		<ul style="list-style-type: none"> <li>• Ppf water deluge system;</li> <li>• Payload processing facility;</li> <li>• Processing bays;</li> <li>• Air showers, lockers, etc.;</li> <li>• Launch pads with rotating service doors;</li> <li>• Overhead cranes for heavy equipment;</li> <li>• Transition bays; and</li> <li>• Sub orbital facilities.</li> </ul>
1200	Mr. Ladner	Explained the methods for launching rockets. He also pointed out that the facility had responded to the terrorist alerts of September 11.
1309	Mr. Ladner	Then showed tape of the actual launching of rockets from the facility.
1513	Mr. Ladner	Explained that maintaining missile defense interest in Kodiak was a priority. He showed an aerial view of the Kodiak Launch Complex, noting plans to build an additional launch pad in order to be able to launch two rockets simultaneously. He stated that such an endeavor would require approximately \$100 million in construction costs. He stressed that efforts would be made to ensure the maximum amount of business would go to Alaskan contractors.
1732	Mr. Ladner	Referred to a chart illustrating the increasing receipt of grants to support the program. He pointed out that, since 1992, their organization had received over \$80 million in grants for construction and equipment. The chart also illustrated launch revenues, each of which brings in approximately \$5 million, over and above its costs, to the State. He summarized that approximately \$100 million in total assets and revenue had been generated over ten years.
1937	Mr. Ladner	Noted that launches were scheduled for August and December. He showed an illustration of a system schematic, representing \$15 million worth of equipment in two locations. He stated that the next launch would occur in King Salmon, Alaska. He explained that a minimum of twelve people were needed to operate the two systems, and noted that training local personnel was a priority.
2159	Representative	Commended the level of technology

	Stevens	demonstrated by the current system, and its marked improvement over the past. He noted that he represented the House of Representatives as a non-voting member of the Board of Directors for AADC. He directed the praise for the system improvement toward the tenacity and strength of Mr. Ladner.
2319	Mr. Ladner	Also commended his staff for the improvements. He noted that their primary concerns surrounded working with the federal government, as well as handling safety concerns that could significantly delay launches and cause financial losses in the short term.
2421	Representative Foster	Asked about the effects of extremely cold temperatures on launches.
2437	Mr. Ladner	Explained that colder temperatures did not prove insurmountable. He outlined some techniques for dealing with temperature extremes using blankets and heaters.
2543	Representative Foster	Inquired as to the toxicity of launch chemicals.
2611	Mr. Ladner	Explained that, although some chemicals were quite toxic, preventative measures were taken to avoid injuries. He noted the high degree of safety procedures followed during these launches.
2721	Representative Stoltze	Asked whether the corporation paid a dividend to the State Treasury.
2741	Mr. Ladner	Responded that the corporation hoped to pay such a dividend in the future.
2750	Representative Hawker	Noted that the license to operate a commercial space transportation facility was scheduled to expire in September of 2003.
2812	Mr. Ladner	Stated that this was not a concern, due to the high level of praise from the U.S. Department of Transportation and the FAA.
2852	Representative Hawker	Asked whether there were significant fees associated with the license renewal.
2907	Mr. Ladner	Stated that there were no fees.
2918	Co-Chair Harris	Thanked Mr. Ladner and concluded the discussion on this subject.
		ALASKA SEAFOOD MARKETING INSTITUTE (ASMI)
2953	RAY RIUTTA, EXECUTIVE DIRECTOR, ALASKA SEAFOOD MARKETING INSTITUTE	Stated that he had been in his position since August of 2002. He read a prepared written testimony outlining ASMI's mission and actions (see attached). The testimony covered:

		<ul style="list-style-type: none"> <li>• Marketing efforts;</li> <li>• Food service partnerships;</li> <li>• Education;</li> <li>• Funding;</li> <li>• USDA Market Access Program; and</li> <li>• Export and domestic marketing.</li> </ul>
3804	Mr. Riutta	Provided an estimate of their current standing in the market and the future outlook.
3929	Mr. Riutta	Referred to charts that illustrated base funding and revenue sources for 2003, as well as budget disbursements (also attached).
4041	Mr. Riutta	Pointed out the cost of Federal monies and its relationship to the current drop in fisheries tax revenues. He noted that \$1 million in Federal funds, which were available to ASMI, were not accessed due to a lack of matching funds.
4230	Mr. Riutta	Highlighted sales successes over the past year. He commended the ASMI staff and reiterated their priority of aggressively promoting Alaskan salmon.
4357	Co-Chair Harris	Asked Mr. Riutta to elaborate on the appropriations for ASMI listed in the Saltonstall-Kennedy Grant [part of the U.S. Commerce Department's Appropriations Bill, SB2778 last year] and asked whether it would require matching funds.
4424	Mr. Riutta	Responded that traditionally such an appropriation would require matching funds, but that it would depend on the report language. He noted that the bill language was not clear in this regard.
4502	Co-Chair Harris	Requested that Mr. Riutta report back to the Committee on this information. He also asked for clarification regarding the \$1 million in unclaimed federal funds to which Mr. Riutta earlier referred.
	Mr. Riutta	Explained that it was an Economic Development Administration (EDA) grant, put in place by Senator Stevens three years prior. The grant was for \$5 million to be expended over a three-year period. He explained that ASMI had intended to expend the funds in the current year. However, he noted that when they projected revenues over that time, it was discovered that matching funds would not be available in order to

		expend those federal funds. He stated that ASMI was currently requesting an extension into the next year from the EDA for those funds. It would still require a \$1 million match to obtain the funds.
4514	Representative Stevens	Noted that there was a \$20 million appropriation in Senator Stevens' bill for salmon promotion, with some funds directed toward ASMI. He expressed his concern about the overall structure relating ASMI to the corresponding agency on a federal level, and asked Mr. Riutta how he envisioned this coordination occurring.
4654	Mr. Riutta	Responded that much would depend on the report language indicating the details of the relationship. He estimated that the federal agency would function as a Board to oversee grants applications and administer and disburse those funds. He stated that he did not expect that the Board would be involved in actual marketing efforts.
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4601	Representative Stevens	//
4546	Representative Stoltze	Questioned if it was better to spend state money to leverage federal funds.
4527	Mr. Riutta	Stressed the importance of the Task Force.
4452	Co-Chair Harris	Observed that there are a couple of pieces of legislation regarding the Salmon Task Force.
4429	Representative Stevens	Noted that less than only half of \$900 thousand dollars from the original appropriation has been used and did not anticipate the need for an additional appropriation in the current year.
4322	Representative Hawker	Asked for additional information regarding the tax
4289	Mr. Riutta	Fisherman pay 1 percent and .3 percent processor tax is based on purchases at the purchase price.
4216	Representative Hawker	Observed that there was a decrease in the fleet to processor assessment.
4288	Mr. Riutta	Pointed out that the processor tax is based on all processing and balances out the salmon only tax.
4135	Mr. Riutta	In response to a question by Representative Foster, noted that the Agency is considering cruise lines

		purchases. They are working hard to educate the public regarding health benefits and environmental friendly aspects.
4016	Mr. Riutta	Salmon industry operations are often mom and pop operations that go back generations.
3953	Representative Foster	Referred to the first chart demonstrating a 66 percent drop in salmon prices.
3921	Representative Stevens	Observed that when times are good the income is higher but that when times are bad and revenues are reduced is the time when marketing is most needed. There have not been general fund moneys for ASMI in a number of years.
3819	Representative Joule	Questioned the percentage of the state's fisheries are marketed by ASMI.
3725	Mr. Riutta	Stressed that ASMI works to market all of Alaska's fisheries.
3702	Representative Hawker	Asked if cost recovery catch is exempt from the 1 percent tax.
3637	Mr. Riutta	Agreed that the tax is exempt. The Salmon Task Force has discussed initiating a tax but ASMI has no opinion.
		<u>ALASKA RAILROAD CORPORATION (ARRC)</u>
3558	PATRICK GAMBLE, PRESIDENT & CEO, ALASKA RAILROAD CORPORATION	Provided members with a Special Report to the Legislature and Administration from the Alaska Railroad Corporation (copy on file). He noted that they are linked by the Board of Governors and are not part of the state General Fund. Employees have a separate retirement system but are expected to confirm to state ethics rules.
3104	Mr. Gamble	He stressed that they are the only full time freight and passenger operation in the U.S. There is also a marine element.
2908	Mr. Gamble	Observed that there is a compromise with the operation of both freight and passenger operations, which do not optimize the bottom line. However, the ARRC also has the mission to foster the development of Alaska's economy.
2659	Mr. Gamble	The ARRC is a \$5.5 million dollar operation in FY03. Total operations include real estate. Most of the ARRC real estate granted by the state is fee simple. The intent is to lease the land. The ARRC made \$11. million dollars in FY02.
2604	Mr. Gamble	The federal program is a key component. The FTA primary passenger FRA is

		predominantly for freight. The ARRC receives considerable funds from both. Based on passengers over rail miles, which are guaranteed by law.
2455	Mr. Gamble	\$20 - \$30 million dollars from the FTA. If the corporation were up to par the federal income would probably be sufficient for their operations. However, due to the need for repairs the cost is insufficient.
2313	Mr. Gamble	Most of the federal component goes back to support the main line or up grades such as the ones at Denali or Anchorage. The Corporation pays the maintenance fees.
2213	Mr. Gamble	Observed that excess funds can be used for roof repair, other repairs, salary, equipment and the 20 percent match for FTA funds. The Corporation must decide on the balance.
2107	Mr. Gamble	Observed that FY02 was a flat revenue year. Expenses increased due to union wage increases and other contracts that were signed in the past year. Insurance and matching 401 expenses also increased.
2012	Mr. Gamble	Noted that the Corporation as worked on safety as the highest priority.
1982 8	Mr. Gamble	Operation ratios must improve if revenues are going to remain flat. Initiatives to cut cost and increase efficiencies have been addressed. Over \$1 million dollars have been saved by efficiencies.
1829	Mr. Gamble	Stressed the need to look to the Future. The Corporation is conscious that there the state is on the cusp of all future development. The line has to be sturdy and safe to move large volumes. The track has been prioritized to contribute to a major reduction in mainline derailments.
1653	Mr. Gamble	A bridge program and a strong line is an invitation to bring on the pipeline. Passengers are run over the same lines, which allows the ability to grab technology and operate multiply trains and track work crews.
1532	Mr. Gamble	The Corporation anticipates passenger grows and commuter trains.
1448	Mr. Gamble	Spoke to expansion and noted that there may be an opportunity to push out into new territory.
1421	Mr. Gamble	The ARRC is shaping its own future. Safety will remain the number one

		priority. The railroad is seasonal. Therefore, they must be available to hit hard from the first day of the season.
1306	Mr. Gamble	They are participating in regional transportation planning groups. Maximizing velocity and capacity is the key. Transportation is the common denominator for economic development.
1120	Mr. Gamble	Pointed out the need to continue working with federal regulations and programs. The reauthorization of T21 dollars will occur in the next year, which is the source of their federal funds.
955	Mr. Gamble	Referred to "Hot Topics" contained in their handout.
921	Representative Meyer	Spoke to page 14 and observed that the forecast anticipates increases. He questioned what the estimates were based on.
818	Mr. Gamble	Explained that the estimates were conservative numbers based on current customers. New development was not incorporated into the estimates. He pointed out that it is difficult to estimate more than two years. They have not had the opportunity to testify to the Governor's office in regards to future issues.
633	Representative Meyer	Referred to page 16, capital expenses.
548	Mr. Gamble	He observed that that they would not be able to meet the capital estimates, but that they would need to be spread into future years.
407	Bill O'Leary, Vice President, Finance, Alaska Railroad Corporation	Explained that FTA and FRA monies are used for larger projects. There are specific requirements for the expenditures of these funds.
402	Representative Meyer	Spoke to a rail line between Fairbanks and Anchorage or a commuter line between Anchorage and Wasilla.
343	Mr. Gamble	Do not know when there would be a serious look at commuting between Wasilla and Anchorage. The Corporation plans to prepare for the eventuality. IF the cost could be down to an hour the demand would increase.
155	Mr. Gamble	Discussed the Sheep Creek development. The design phase has begun. The city is looking at an alternative site for the convention center.
	TAPE HFC 03 - 3, Side A	

14	Representative Meyer	Expressed appreciation for the Corporation.
035	Representative Croft	Referred to page 15. He observed that the operating cost of the railroad doesn't meet the depreciation.
115	Mr. Gamble	Noted that the operation costs match the income without the depreciation due to the operation of both freight and passenger services.
157	Representative Croft	Questioned if it is realistic to expect income to cover depreciation. //
222	Mr. Gamble	The key is to get the ration down // to If the operational ratio is not
301	Representative Croft	Questioned the Fort Greely and Canadian rail extension costs
327	Mr. Gamble	Did not have cost estimates. The number of bridges and tunnels would spike costs. He observed that \$3 to \$5 million dollars would be a medium estimate.
531	Representative Croft	Questioned if federal funds would be available.
547	Mr. Gamble	Agreed that federal dollars would be important to the project. He hoped to leverage DOT dollars as well.
615	Mr. Gamble	In response to a question by Representative Croft, Mr. Gamble noted that the right of way is a federal problem. The state is dependent on federal action.
729	Representative Croft	Questioned if there was anything that could be done on the state level.
745	Mr. Gamble	Pointed out that remote areas are difficult. The Corporation permits property for long-term. It does not qualify for ///
946	Representative Foster	Spoke to access and noted that the Governor mentioned a railroad to Nome. He asked the number of moose killed.
1042	Mr. Gamble	Did not know the number of moose killed but observed that the number is negligible.
1162	Co-Chair Harris	Referred to the Seward coal-loading question.
1138	Mr. Gamble	Explained that a fully loaded coal train has difficulty getting over the pass at Seward. Once a train is over the hill part of the train is coasting and the other have is pushing. Dividing the train in half, which is very costly, solves this. The solution is to use distributed power. Remote control radio is used to carry a heavier train over the hill to

		Seward. The Corporation does not currently have a Korean contract but are under discussions. He is hopeful that a contract can be negotiated.
	<u>ADJOURNMENT</u>	The meeting was adjourned at 3:27 PM