

**ALASKA STATE LEGISLATURE  
SENATE TRANSPORTATION STANDING COMMITTEE**

March 16, 2006

2:06 p.m.

**MEMBERS PRESENT**

Senator Charlie Huggins, Chair  
Senator John Cowdery, Vice Chair  
Senator Gene Therriault  
Senator Hollis French

**MEMBERS ABSENT**

Senator Albert Kookesh

**COMMITTEE CALENDAR**

SENATE BILL NO. 308

"An Act authorizing the Alaska Railroad Corporation to issue revenue bonds to finance rail transportation projects that qualify for federal financial participation; and providing for an effective date."

MOVED SB 308 OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: SB 308

SHORT TITLE: ALASKA RAILROAD REVENUE BONDS

SPONSOR(S): TRANSPORTATION

03/09/06	(S)	READ THE FIRST TIME - REFERRALS
03/09/06	(S)	TRA, FIN
03/16/06	(S)	TRA AT 1:30 PM BUTROVICH 205

**WITNESS REGISTER**

PATRICK GAMBLE, President and CEO  
Alaska Railroad Corporation  
Department of Commerce, Community & Economic Development  
PO Box 110800  
Juneau, AK 99811-0800

**POSITION STATEMENT:** Supported SB 308.

BILL O'LEARY, Vice President & CFO  
Finance  
Alaska Railroad Corporation

Department of Commerce, Community & Economic Development  
PO Box 110800  
Juneau, AK 99811-0800  
**POSITION STATEMENT:** Supported SB 308.

**ACTION NARRATIVE**

**CHAIR CHARLIE HUGGINS** called the Senate Transportation Standing Committee meeting to order at [2:06:15 PM](#). Present at the call to order were Senators Therriault, Cowdery and Chair Huggins. Senator French was in route and Senator Kookesh was excused.

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**SB 308-ALASKA RAILROAD REVENUE BONDS**

CHAIR CHARLIE HUGGINS announced SB 308 to be up for consideration.

PAT GAMBLE, President and CEO, Alaska Railroad Corporation (ARR) introduced BILL O'LEARY, Vice President, Finance, and CFO, and said they would be testifying on the Railroad transfer statutes that would be required in the event it would use its bonding authority. He said HB 491 was the companion bill.

CHAIR HUGGINS asked about the status of the House Bill.

MR. GAMBLE replied that it was moving forward and would soon be in Finance. He briefed the committee using a PowerPoint and began by saying that the bonds are actually called capital grant receipt revenue bonds and they are not to exceed \$165 million. Federal money has come to the Railroad consistently every year for maintenance that was deferred between the rebuilding of the railroad after WWII up and through the 80s until it was sold to the state. When the feds knew they were going to sell the railroad, they deferred a lot of capital improvements, so the safety record wasn't good at the time of transfer. The main line failed in a number of ways that caused derailments - as high as 60 to 80 per year.

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In 1996, the president of the Railroad, Governor Sheffield, and Senator Ted Stevens went to Washington D.C. and gained entitlements for Federal Transit Administration (FTA) funds (funds that go to any railroad that carries passenger). Those weren't enough at the time and Senator Stevens got further increases. About \$220 million has been put into the mainline of the Railroad in refurbishment since 1996.

MR. GAMBLE said that FTA funds have expanded to \$30 million per year and today they were asking for the ability to use a portion of these funds to pay off the debt service on the bonding. He explained how they would use the money:

Without neutering the rest of our capital program, because we're only going to use upwards of 50 percent to pay off the debt service and accelerate the work that's been done since 1996 to finish off the refurbishment of the mainline of Alaska Railroad, principally between Anchorage and Fairbanks, because that's where the gross tonnage really occurs.

He said the refurbishment could be completed 7 to 10 years sooner instead of not knowing what dollars it would get every year and then reacting on short notice and not really putting those dollars to work until middle of the year when the grant process was finally complete. The Railroad could actually front load the dollars, do the bond issuances and then have a stable predictable work program, year-by-year-by-year all the way out into the future to completion. The change would be significant.

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He related that the railroad wheels become worn after going over rails where they come together and one of the features of this refurbishment is that the rail would be welded all the way from Anchorage to Fairbanks. Concrete ties would be used for curves of 6 degrees or more, because they don't flex and would add stability in a way wooden ties couldn't.

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SENATOR FRENCH joined the meeting.

SENATOR COWDERY asked if the concrete ties would be the same as those used for high-speed trains in Europe and Asia - in an S pattern that would mitigate side-by-side motion.

MR. GAMBLE replied no; they have a little bit of a bow to them. The concrete tie manufacturing process is patented in the U.S. where only two companies make them. The specs are quite difficult to meet. If a tie is made wrong, forces from the railroad cars will transfer through the rebar to the concrete and actually break the tie up. If the Railroad created enough demand for the ties, a manufacturing plant would be brought into Alaska. Ties could then be backhauled to the West Coast.

CHAIR HUGGINS asked if the Railroad would haul pipe for the gasline, because it would be too heavy for roads.

MR. GAMBLE replied that was correct. He said the engineering detail is beginning to come out - 40 ft. sticks of inch-and-an-eighth, 52-inch pipe - 1 ft. weighs a little less than 620 lbs. You don't just lay them one against the other; you actually pack them. Depending on how you pack them, four to six could probably fit on a flatcar.

SENATOR COWDERY asked if the Railroad could handle 80 ft. joints.

MR. GAMBLE replied yes, but probably only two or three at a time.

SENATOR COWDERY said that is why he supported extending the railroad to Canada.

MR. GAMBLE responded that the department's bridge program goes hand-in-hand with the line refurbishment and it is still robust. The stated goal of the Railroad is to be ready whenever the pipeline requires it. He showed the committee a chart of accident rates, project information and a summary of how money was spent. An accompanying map showed work progression on an annual basis.

The Railroad has to replace its wooden ties every 35 years and it is now using Global Positioning System (GPS) to avoid collisions and it is developing a program that actually shuts a train down if it detects it is too close to another vehicle on the line. The Alaska Railroad will probably be the first in the United States to have that system working (in about 1.5 years).

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CHAIR HUGGINS asked if he anticipated getting some work done in 2006.

MR. GAMBLE replied yes if they get approval for the bonds. The actual bond issuances would happen over the period of several years. Each issue has to be approved by the Board individually.

SENATOR COWDERY asked if these bonds are like Garvy bonds.

MR. GAMBLE explained the difference between these and Garvy bonds is that the Railroad would know exactly what it would get every year. It is based on a formula for passenger track miles,

not appropriations. That formula escalates by a factor every single year.

SENATOR THERRIAULT reminded him that all entitlements are still subject to appropriation from Congress.

MR. GAMBLE admitted that was true, but the ARR entitlements are linked to all passenger railroad entitlements in the United States and if ARR's entitlement were stopped, the whole formula would have to change - and the likelihood of that happening was small. These are 12-year bonds and they are looking for one more cycle.

SENATOR FRENCH said this looks like a totally safe investment, but asked what risk there was in reference to the chart called "Why Now."

MR. GAMBLE replied what little risk there is would be taken by those who would be buying the bonds, because the full faith and credit of the Alaska Railroad and the State of Alaska would not be backing them. The interest rate should be favorable and market indications are such that bonds are very low risk.

MR. GAMBLE continued explaining his chart. He concluded saying, "So, we still have a very robust capital program with over 50 percent of our capital dollars still at discretion to spend on other things."

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CHAIR HUGGINS asked him to explain why the Railroad is going through this process.

MR. GAMBLE replied that the State Railroad transfer statute demands it.

CHAIR HUGGINS asked him to explain language on page 2, lines 6-9.

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MR. O'LEARY answered that language was suggested by the department's Bond Council and it was designed to permit the Railroad to refinance the debt that would come from issuing these bonds. Language on line 7 says, similar to refinancing a mortgage, you could actually raise the amount of the principal in a refinancing transaction.

SENATOR FRENCH asked if the understanding was that overall, they would save money because they would be refinancing at a lower rate.

MR. O'LEARY replied, "Absolutely."

MR. GAMBLE pointed out that the Railroad may not need to issue the total amount stated in the bill. For example, getting a couple of FTA appropriations would significantly impact the total needed to finish the project.

CHAIR HUGGINS asked what the alternative was if this bill doesn't pass.

MR. GAMBLE replied that the Railroad would take the same amount of money it was talking about using for the debt service on a year-to-year basis and would continue to put a portion of that into the main line. However, it would take as much as 10 additional years to get the refurbishment to where it was going.

CHAIR HUGGINS asked what the state's liability was in case of default.

MR. O'LEARY replied that there was no liability to the state nor to the ARR.

CHAIR HUGGINS found no further testimony or questions.

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SENATOR COWDERY moved to report SB 308 and from committee with individual recommendations and zero fiscal note. There being no objection, it was so ordered.

There being no further business to come before the committee, Chair Huggins adjourned the meeting at [2:32:37 PM](#).