

**ALASKA STATE LEGISLATURE  
JOINT MEETING  
SENATE TRANSPORTATION STANDING COMMITTEE  
HOUSE TRANSPORTATION STANDING COMMITTEE**

February 3, 2009

1:30 p.m.

**MEMBERS PRESENT**

SENATE TRANSPORTATION

Senator Albert Kookesh, Chair  
Senator Linda Menard, Vice Chair  
Senator Bettye Davis  
Senator Kevin Meyer  
Senator Joe Paskvan

HOUSE TRANSPORTATION

Representative Peggy Wilson, Chair  
Representative Craig Johnson, Vice Chair  
Representative Kyle Johansen  
Representative Cathy Engstrom Munoz  
Representative Mike Doogan

**MEMBERS ABSENT**

SENATE TRANSPORTATION

All Senate members present

HOUSE TRANSPORTATION

Representative John Harris  
Representative Max Gruenberg

**COMMITTEE CALENDAR**

Aviation Overview  
HEARD

Railroad Overview  
HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record.

## **WITNESS REGISTER**

CHRISTINE KLEIN, Deputy Commissioner of Aviation  
Department of Transportation & Public Facilities  
Anchorage AK

**POSITION STATEMENT:** Presented a PowerPoint overview of the Alaska Aviation System.

PATRICK GAMBLE, President, and Chief Executive Officer  
Alaska Railroad Corporation  
Anchorage AK

**POSITION STATEMENT:** Presented a PowerPoint overview of the Alaska Railroad Corporation.

## **ACTION NARRATIVE**

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**CHAIR PEGGY WILSON** called the joint meeting of the Senate and House Transportation Standing Committees to order at 1:30 p.m. Present at the call to order were Senators Paskvan and Kookesh and Representatives Doogan, Munoz, Johansen and Wilson.

Overview: Aviation

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Co-CHAIR WILSON announced the first order of business would be an overview of the aviation system by Christine Klein. She noted that Co-Chair Kookesh reminded her that the Senate committee would leave following the aviation overview. The House committee would continue and hear a railroad overview.

CHRISTINE KLEIN, Deputy Commissioner of Aviation, Department of Transportation and Public Facilities (DOTPF), asked that questions be held to the end of the presentation.

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CO-CHAIR WILSON recognized that Senator Meyer and Representative Johnson had joined the committee.

MS. KLEIN said her role is to oversee airports and aviation. She thanked members for holding a joint meeting. It's very helpful. She explained that the overview will cover three areas: 1) the status of the airports and aviation, 2) statewide rural airports and 3) the international airport system. Under the status of airports she will talk about strengths, some aviation concerns, her focus, and some opportunities for the future.

MS. KLEIN reported that the Alaska aviation system is the largest in the nation, and larger than the Russian federation with 258 state airports. 173 airports have gravel runways and 45 are paved. There are 22 certificated airports, meaning they have large numbers of enplanements and generally serve jet aircraft. 90 percent of Alaska communities are served by aircraft and more than 149 communities have only airport access. Alaska has 16 times more aircraft per capita than any other state and more than 10,000 pilots.

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Recently Northern Economics was contracted to look through the aviation system plan grant with the FAA to determine what aviation contributes economically to the state. It is substantial, accounting for 47,000 jobs: 2,000 directly maintain the airports, 25,000 are on site and directly support aviation and 20,000 result from the multiplier effect. This is basically 10 percent of the jobs in the state covering both rural areas and urban centers. The 2007 numbers show that \$2 billion in direct expenditures is due to the state's airports and \$1.4 billion is indirectly related to aviation for a total contribution to the state's economy of \$3.4 billion. For Alaska this represents about 8 percent of the gross state product while the national average is 5.6 percent. Aviation obviously is very important economically to Alaska.

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MS. KLEIN said that some of the concerns she wants to mention include the day-to-day operations of the airports that have a budget of \$28 million and bring in \$3.9 million in revenue. About 96 percent of the airports in Alaska have received federal funds for construction, which is good, but the state is responsible for maintenance and operation according to Federal Aviation Administration (FAA) guidelines. Other issues to keep an eye on include the national economy and the volatility of fuel prices. The latter is particularly important in rural Alaska.

MS. KLEIN focused on opportunities and pointed out that to have a strong economy, a strong transportation network is essential. Alaska has a strong network, but we need to maintain it to improve the economy in both rural areas and urban centers, she said. Other areas of opportunity include aviation career paths. This state has become a training ground for airport managers and some have gone on to manage large airports in other states. She emphasized the need to figure out how to retain some the brightest that train here.

Better funding and standards of maintenance for this largest aviation system is another area of opportunity. Since 1982 DOTPF has spent \$2.5 billion in federal funds to build airports statewide. As previously mentioned, 1 in 10 jobs in the state is aviation related and in Anchorage the ratio is 1 in 8.

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CO-CHAIR WILSON noted that Senator Bunde had joined the meeting.

MS. KLEIN said the focus in the last year has been to develop an aviation system plan looking at safety, the sustainability of the system, and customer service. The plan is paid with FAA funding and DOTPF is using it to listen to customers, the public and industry to figure out what areas need improvement and how to make those improvements. An assessment of the economic contribution aviation has made to Alaska has been done before for the Anchorage airport, but not for the state's aviation industry as a whole.

She thanked legislators for passing the Capstone Loan Program last year to get equipment in aircraft that will reduce incidents and improve safety. Quite a few loans have been taken out, but not as many as they'd like. Also, DOTPF is working to improve the mapping systems in the state and looking at making safety videos for airport construction. Incurring safety violations brings FAA violations. She is also looking at ways to provide relevant training to airport employees, many of whom have had to train on the job.

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Senator Menard joined the meeting.

MS. KLEIN mentioned sustainability of the state's airports and again highlighted the report on the economic impact of aviation on the state economy. She and her staff are looking at ways to improve compliance with FAA grant assurances, land use and ways to reduce lease rates at airports, ways to fund minimum standards, maintenance backlogs, and training & apprentice programs. They have identified that Alaska has the largest aviation system in the nation and the least amount of funding. More information on that will be forthcoming.

In the area of customer service her focus is to listen better to customers and the industry. They are also trying to provide more information about the many construction program requirements for

airports and looking at ways to help people work through the department's requirements and find solutions through compromise.

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MS. KLEIN said she would next talk about current conditions, projects, challenges and the future of rural airports. She reported that Alaska has 256 state owned rural airports, which is more than the country of Russia; 173 are gravel, 45 are paved, 37 are seaplane based and there is 1 heliport on Diomede. 22 of the airports are certificated. DOTPF is trying to increase runway lengths as funding is available but 80 airports continue to have runways that are shorter than 3,500 feet. Alaska actually has more than 300 airports, but 30 to 40 are owned by BLM, municipalities, private individuals and other entities. Some of the challenges the department faces in operating the airports include the plethora of federal regulations, escalating construction costs, environmental issues and operational demands.

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MS. KLEIN displayed a slide showing construction cost challenges and noted that in rural Southwest Alaska in particular costs are extremely high. Environmental challenges include dust, which is a particular issue in many Northwest Arctic villages. The federal EPA and state DEC have both done monitoring and have found that particulate levels can be high. This is a health concern and can put funding at risk in those locations. Chemicals and dust palliatives help with the dust issue and the life of the runway, but they are costly. Flooding and coastal erosion present other environmental challenges, she said. The villages of Shishmaref, Kivalina, and Newtok are greatly affected by coastal erosion and their airports may have to be relocated. Another challenge is the maintenance funding to operate airports. She displayed a line graph showing that the maintenance and operations (M&O) budget increases have been small and haven't kept pace with the Anchorage CPI. Increased regulatory requirements to improve safety have been significant. Examples include longer runways and improved lighting. She pointed out that while the dollar isn't going as far, the \$28 million that is budgeted has done a very good job on the 256 airports.

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MS. KLEIN next touched on looking ahead with respect to the rural system. The infrastructure is largely in place and was built with federal funds, but the grant assurances require the state to provide maintenance or risk losing future federal

funding. For that reason she would suggest that in the future DOTPF will transition from an era of airport building to an era of maintenance and operation. Because maintenance funding is a state responsibility, a new model will be required in order to operate and maintain the rural airports. She reiterated that the current cost for those 256 airports has been \$28 million per year and the revenue is \$3.9 million per year. Primarily that is from leases, permits and fuel flowage, but it's relatively small compared to the international system. We want to be cognizant of the relative lack of options when we increase lease rates, she said.

DOTPF is looking at future funding needs for the statewide airport system. For primary airports, which are those having more than 10,000 enplanements a year, the capital program is \$427 million and for non-primary or smaller airports it is about \$900 million. Runway improvements account for the lion's share of the funds and include the sub base and materials for increasing the safety areas that FAA requires. The total funding needs for rural airports throughout the state approaches \$1.3 billion and the deferred maintenance program is \$980 million.

Since 1982 the state has received \$2.5 billion in capital funding primarily through earmarks and the federal Airports Improvement Program (AIP). General funds typically have been used for deferred maintenance and life-safety programs. The average annual improvement program from the FAA has been about \$200 million a year.

MS. KLEIN displayed a slide showing recent projects at some of the primary airports including Aniak, Bethel, Cordova, Deadhorse, Dillingham, Emmonak, Gustavus, Ketchikan, King Salmon, Kodiak and Kotzebue. She did not include a list of projects at the 62 non-primary airports, but would provide the information on request. For FY09, Congress passed continuing resolutions for the Airports Improvement Program that provides first and second quarter funding of \$54 million. Currently DOTPF is waiting for Congress to vote on a third quarter continuing resolution. With respect to the stimulus package, she said that the airport industry has been working to get \$3 billion nationwide. Alaska has identified about \$380 million in airport projects for the regular and the stimulus programs. Other areas that require attention and resources for the future are safety and security regulations for smaller airports. Large airports have dealt with this for years, and now the regulations are being extended to small airports. She would like to return to

talk more about how DOTPF intends to operate, maintain and sustain airports in the future.

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MS. KLEIN focused on the Alaska International Airport System (AIAS), which was established in 1961. She described the system as an enterprise fund that enables the two international airports in Fairbanks and Anchorage to operate like a business – taking in revenue, having checks and balances, and the ability to redistribute funds within the system. AIAS also provides diversionary locations to aircraft going long distances that are in the same system. She added that Cold Bay and Sitka are considered diversionary airports but they aren't operated within the system.

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Last October Anchorage had some very poor weather and 19 wide body jet aircraft diverted from Anchorage to Fairbanks, and because Fairbanks is part of the system the revenues weren't lost. Another advantage is that it enables aircraft to be treated consistently and pay the same rates at the two airports. Other strengths include strategic cargo location. With aircraft today these airports are within 10 hours of 90 percent of the industrialized world. It also provides a good fueling stop and increases the payload versus range model. You are able to carry more cargo if you carry less fuel. Another strength of AIAS is that it serves a diverse cargo market with over 23 different airlines, not one of which has more than a 12 percent market share. Such a diverse customer base is unusual, she noted.

MS. KLEIN directed attention to a bar graph to show that the growth in cargo operations has been steady. From 1998 to 2008 landings increased 2.8 percent and weight increased 4.2 percent. The concepts are different and it's actually the certificated maximum takeoff weight that determines airport revenue. Since 2006 there has been a 6 percent increase [in takeoffs] and 4 percent increase in weight. Another strength is the increase in international passenger enplanements in Fairbanks from the Japanese and European markets. That contributes \$4 million to the Fairbanks winter economy. Passenger numbers increased a small but steady amount between 1998 and 2008; since 2001 growth has been about 4.7 percent, serving 21 domestic and international destinations.

MS. KLEIN pointed out that the international system and the rural airports operate under very different models. While rural airports rely on general funds to operate, the AIAS has to

operate on the revenues it brings in. She directed attention to a pie chart that shows the diverse mix of revenue for the international airports. Much of the revenue comes from landing fees, cargo and passenger traffic and fuel flowage fees.

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MS. KLEIN said she wanted to go over FY08 activities because there are concerns to be aware of. Total landings for FY08, which was July 1, 2007 to June 30, 2008, were down about 5 percent. Cargo landings were down about 5 percent, passenger traffic was up and fuel flowage was down. Reduced fuel flowage was primarily due to the downturn in the economy. AIAS is number 1 in the nation and number 3 in the world in landed weight, but there are things to be cognizant of because the aviation industry is so very closely tied to both the national and the global economy. We tend to forget that, but the AIAS is on the front line when there are changes, she said.

MS. KLEIN highlighted the areas to watch closely: the national and global economic recession; the weakened aviation industry from bankruptcies, mergers and fewer flights; the fuel crisis; heavy debt from various aggressive capital programs; projected 13 percent decline in FY09 cargo landings; is down, projected 11 percent decline in Anchorage passenger traffic and 3 percent decline in Fairbanks passenger traffic. The International Aviation Transportation Association (IATA) report just yesterday said there was a 23 percent airfreight collapse in December. We saw those declines more quickly than other airports in the country and world, but the trend line was similar, she said.

MS. KLEIN reported that she recently finished renegotiated a new operating agreement that has a more equitable distribution of cost centers and revenue. International cargo will pay for what it uses and passenger airlines will pay for what they use. The previous 1980's model reflected more international traffic in Anchorage. We're also working to reduce the operating budget and have made a permanent reduction for the internationals to hopefully be more competitive, she said. She credited her staff at both airports for scaling back wherever possible and reducing their '08 and '09 budgets. They also reduced their capital program by about \$300 million over 5 years and returned to a system structure to be more competitive. Although many airports in the country haven't been able to sell bonds, AIAS had a successful bond sale on January 7 to refinance debt.

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Her staff and a third party who speaks Chinese are looking at the Asian market to get a sense of what's going on. She noted that a common concept in airport operating agreements is that signatories guarantee the operating costs regardless of the revenue. In Fairbanks the non-signatory airlines will pay a 25 percent premium. The AIAS rates are highly competitive with other states and the rest of the world. In fact, they're some of the lowest in the country. The infrastructure currently is adequate for their needs, particularly when they operate as a system.

MS. KLEIN directed attention to a slide showing ongoing projects. The \$99.2 million Fairbanks International Airport project is ahead of schedule, below budget and within scope. The \$207 million Anchorage International Airport project is on budget and schedule and includes both the A and B concourses. Upcoming projects have been scaled back in response to the difficulties in the aviation industry. They are looking at a \$200 million program over the next 5 years.

MS. KLEIN said we are competitive and responsive and will continue to cut costs where possible to match the earned revenue and traffic. They have maintained their rates and fees and have a new operating agreement that reduced landing fees about 10 cents per 1,000 pounds of certificated maximum gross takeoff weight. Also they have a new and good operating agreement that was developed in partnership with the airlines. She offered to answer questions.

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REPRESENTATIVE MUÑOZ asked her understanding of how much Alaska aviation could be eligible for in the stimulus.

MS. KLEIN replied it's unclear but federal funding in the past has averaged about \$200 million a year and she envisions it will be about that amount.

REPRESENTATIVE MUÑOZ asked if the 30 or so non-state-owned airports would be eligible for those funds.

MS. KLEIN said yes.

REPRESENTATIVE JOHANSEN noted that he sent her a letter regarding landing fees and asked when he could expect a response.

MS. KLEIN recapped that his question addressed the capital program excess revenues and whether or not projects had been approved and were within budget and the revenues coming in. Her response will be forthcoming shortly. "I think you'll be pleased with it." Costs have been reduced and they have looked closely at ways to reduce debt to keep rates and fees as low as possible. Again she mentioned the successful bond sale to refinance old bond debt. They are also looking at how they use excess revenue to drive down rates and fees. But they do have to meet the rather strict bond covenants. Total bond debt is about \$700 million.

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SENATOR PASKVAN referred to the drop in airfreight last December and asked if the shippers have indicated how long the trend might continue and if she has an opinion.

MS. KLEIN clarified it's the certified weight of the aircraft that's measured. She said that they've been tracking cargo numbers each month for several years and they saw fuel drop off in November and December 2007. That change indicated that cargo airlines already were improving their capacity and efficiency by making fewer flights and loading more heavily. Since June the monthly numbers have ranged down 17 to 20 percent from the prior year, but the trend line hasn't changed.

SENATOR PASKVAN asked if she has an opinion about how long that trend will continue or if the carriers have expressed an opinion.

MS. KLEIN replied she anticipates it will continue for a year. The aviation industry has indicated that it will be at least 9 months.

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REPRESENTATIVE JOHNSON noted that Northern Economics recently reported to the fisheries committee and touted a certain number of jobs. He questioned whether a job might be counted twice if an airline flies fish.

MS. KLEIN replied she'd have to look at the particular report to say for sure but it could be since an aviation job could be tied to fisheries.

REPRESENTATIVE JOHNSON suggested that neither report is dependable.

MS. KLEIN replied she couldn't comment since she hadn't seen the report.

REPRESENTATIVE JOHNSON asked if she's having difficulty with other departments with respect to mapping. He is interested in how the Legislature can use the most accurate mapping procedure such that everyone can utilize it without causing infighting among departments.

MS. KLEIN responded that the safety mapping program was recently transferred from the Division of Military and Veterans' Affairs to aviation because it matches the mission of aviation and she will learn more as time progresses.

REPRESENTATIVE JOHNSON offered his assistance.

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REPRESENTATIVE JOHNSON asked if she said that charges are based on weight at take off.

MS. KLEIN recapped that landing fees are based on take off weight. They're looking at changing that to landed weight but as far as revenue is concerned, the difference is minimal.

REPRESENTATIVE JOHNSON asked if it's an actual weight.

MS. KLEIN replied it is not.

REPRESENTATIVE JOHNSON said his point is that he doesn't want to double dip and charge for fuel twice. His other concern relates to the fact that he isn't interested in operating a for profit airport so if there's excess cash it ought to go back to his constituents in the form of reduced landing charges and other things. "I'm a little concerned about us having excess cash in the government agency," he said.

MS. KLEIN explained that it's not the same as excess revenue in a business because the revenue coming in is dictated by a negotiated operating agreement between the airlines and the airport. Some of the revenue that's collected is related to the debt service and a certain amount of money has to be available for operations in advance of the fees that will be collected.

REPRESENTATIVE JOHNSON informed her that in business, "cash" is different than what she described.

MS. KLEIN assured him she would change the wording in the presentation.

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REPRESENTATIVE DOOGAN asked for details on what was taken out when the capital improvement program for the international airports was reduced by \$300 million over 5 years.

MS. KLEIN explained that the reduction came primarily from the additional runway at the Anchorage international airport. The other projects were fairly minor but would have impacted rates and fees.

REPRESENTATIVE DOOGAN asked if that was referred to as the third 10,000 foot runway.

MS. KLEIN acknowledged it was.

REPRESENTATIVE DOOGAN asked what "returned to system structure" looks like on a day-to-day basis at the two international airports.

MS. KLEIN explained that the system initially was established with an executive director and comptroller to oversee the revenue and expenditures. Also there were checks and balances to ensure balanced spending and fair rates and fees. Due to "winds of the time," the system was changed in 1992 and the executive director was moved into the Anchorage International Airport. Currently she is recruiting a system director to operate a standard system like others in the country with multiple airports sharing revenue, resources and capacity. For some time both Anchorage and Fairbanks have each had their own airport manager. At present she is overseeing the international airport system in addition to her normal day-to-day duties, and she will continue to do so until the system director is selected and in place.

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REPRESENTATIVE DOOGAN summarized that there is an airport manager in both Fairbanks and Anchorage and each is responsible for the day-to-day operations of the particular airport.

MS. KLEIN agreed; they focus on safe and efficient operations. The system director's goals and priorities will be on the system as a whole including policies, relationships with the airlines and the communities.

CHAIR WILSON asked if the federal funds for airports that she referenced, included the extra bump from homeland security.

MS. KLEIN replied the numbers on the slide did not include Transportation Security Administration (TSA) funds. So far those funds have been used for law enforcement at the certificated airports. They are trying to get TSA to reimburse for significant security requirements for baggage screening. At the Anchorage airport, and with the C concourse, the un-reimbursed cost for security screening was about \$20 million. Hopefully that will be covered in the stimulus program, she said.

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Co-Chair Wilson thanked Ms. Klein for the presentation.

The committee took an at-ease from 2:32 p.m. to 2:37 p.m.

Overview: The Alaska Railroad

[2:37:24 PM](#)

CHAIR WILSON brought the House Transportation Committee meeting back to order. Representatives Doogan, Muñoz, Johansen, and Johnson were present. Senator Menard was also in attendance. Chair Wilson announced that the final order of business would be an overview by Pat Gamble, President, and CEO of the Alaska Railroad.

PATRICK GAMBLE, President and CEO, Alaska Railroad Corporation (ARRC), began his PowerPoint overview of the Alaska Railroad Corporation (ARRC) by explaining that he has been with the ARRC for eight years. He referred members to a copy of the 2008 ARRC annual legislative report in their packets. He commented that the report is not yet audited, which should happen in the next month or so. He highlighted that the overall economic downturn has affected the ARRC. He explained the ARRC's tendency to focus on its biggest customer, Flint Hills Resources' Alaska North Pole Refinery (Flint Hills). At its peak the ARRC moved a billion gallons of jet fuel to the airport, which is now down to 600 to 700 million gallons and represents an overall 14 percent reduction from 2007. He explained that since that is a high margin project, it directly affects the ARRC's "bottom line." He described the current situation as a scenario in which a 100-car train is reduced to 85 cars, yet the expenses and crew costs remain the same but the amount of product moved is less. He related that the ARRC has worked to offset reductions in overall freight by developing other business. He pointed out other reductions in business such as cargo shipped by trailers reduced

by 12 percent. He related some positive notes for the ARRC, such as that the ARRC transported more gravel this year. He noted that one area that the ARRC is most happy about is export coal. He explained that when the Korean market dried up, export coal took a hit. However, he noted that the ARRC has partnered more closely with Usibelli Coal Mine, Inc. in Seward in the operation of the Seward coal terminal. Thus, the ARRC has observed an increase in spot market coal. He commented that spot market coal is typically short notice, but commands a higher price. He related that brokers will send a ship to Seward on short notice and the ARRC will bring in trainloads of coal to fill the ship. While the ship arrivals are unpredictable and it is difficult to manage during the summer with increased passenger travel, the ARRC worked for several years to meet their needs, which has proven to be profitable. He noted the ARRC is still looking for long-term coal projects, with some interest generated in Chile, Japan, and China. He further noted that these customers have received sample coal. Thus, the spot market movement to those customers is up. If the spot market trends continue, the ARRC will achieve nearly the financial levels of the full-term contract year through the spot coal market deliveries. He said he hopes the ARRC can secure a long-term coal contract that would span 5 to 10 years. In doing so, the ARRC could enhance its capital investment in Seward, which would allow a faster turnaround of coal for the ships, and would also increase the ARRC's overall profitability.

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MR. GAMBLE reiterated that coal was good for the ARRC this year and he hopes the trend will continue next year. He shifted to discuss passenger revenue, which he said was possibly the fourth consecutive record year for passengers. He surmised this is due to rates and volume. He opined that it is not likely to happen this year, given that pre-bookings are down about 10 to 11 percent. He surmised that late bookings can happen, and did in 2003. He commented that the ARRC is not as optimistic this year and expects to see a leveling off of passengers. He surmised that the in-state customers and retired travelers are expected to remain steady.

MR. GAMBLE remarked that since his tenure, the ARRC is embarking on its second five-year plan, with the first one completed in 2007. He explained that the ARRC has a rolling five year set of goals, which are monitored and reported to its employees. He related that it is a stoplight chart, that red indicates no progress, yellow means okay, and green indicates progress. He acknowledged that 2008 was a tough year for the ARRC. Mr. Gamble

pointed out the ARRC reduced its expenses by implementing a hiring freeze in the latter part of 2007, which he anticipated would continue into 2009. He commented that he personally controls hiring all new employees. He then said:

Looking a little bit under the tent in 2009, as we built the 2009 budget, not only do we have the hiring freeze, but for management I've instituted a pay freeze. And so, labor contracts will go as per normal. Management's pay will freeze. We have really strengthened our control over the expense side, not knowing exactly how our budget is going to come out in 2009. So, we've really tightened up. We've actually brought home a pretty decent budget, but a lot of it depends on Flint Hills, and as long as that's up in the air, the shift in good to bad is so fast and so dramatic, that if we were to lose Flint Hills that we're being very, very conservative as we go into our 2009 year.

MR. GAMBLE pointed out that its capital program, Collision Avoidance, is designed to automatically prevent any two pieces of equipment on the rail from colliding, whether it is trains or work equipment. He related this is a developmental project that has been in place for 12 years, and that the Congress has mandated that all passenger and hazardous material carrying railroads must have a program in place by 2016. Thus, the ARRC is well ahead of the rest of the lower-48, he opined. He acknowledged that the project is costly, although much has already been spent in Alaska. He also mentioned that the ARRC is currently undergoing operational testing with the Federal Railroad Administration (FRA).

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MR. GAMBLE explained that the ARRC is an independent agency, owned by the State of Alaska, governed by a seven member Board of Directors (BOD). However, the ARRC is a "for profit" organization, he noted. He stated that while the law requires the ARRC to be sustainable, the ARRC BOD wants the ARRC to be profitable in "running its trains." He explained that its employees are railroad employees, and its defined benefit programs are paid from earnings before net earnings are computed. He related that the ARRC generated about \$138 million in operating revenue in 2008, which is up 5 percent overall, despite that it is down about \$4.8 million from the Flint Hills Alaska North Pole Refinery. He highlighted that benefit costs were up 34 percent over 2007, noting that the cost of benefits



in its defined benefits program are significant. He said that the ARRC can currently cover its costs, but he said he was not sure how long the ARRC will be able to sustain such substantial increases without jeopardizing its profits. He informed members that the ARRC's profits are reinvested in its capital program since dividends are not distributed. He noted that fuel costs increased \$12 million over the budgeted amount. He explained that fuel costs went from \$2.50 per gallon for its locomotives to \$4 per gallon.

MR. GAMBLE further explained that the ARRC does not pay the same price as consumers do at the pump since it purchases fuel through hedge funds. Currently, fuel costs are at \$1.30 per gallon, he stated. He opined that it is tough to "build a budget" with fluctuating fuel costs.

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MR. GAMBLE offered the ARRC's 2008 year-end figures. He detailed that net earnings were projected at \$16 million in 2008, but were down to \$13 million. He related that its capital program in 2008 was \$93 million, of which \$42 million was derived from bonds, with \$23 million derived from formula funds. He related that the ARRC's total assets increased in 2008. He said he anticipates that after audit, the ARRC's assets would be \$850 million. He projected that 2009 revenues would increase by 3 percent, in part because the Flint Hills is forecast is estimated to increase from its 2008 levels. Thus, the ARRC is encouraged by the Flint Hills forecast numbers, he stated. He related that the refinery provides regular forecasts, which continually change. He mentioned that the ARRC has two premium class passenger cars coming on line this summer, which will help to increase revenue, as well as anticipated reductions to fuel cost.

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MR. GAMBLE explained the ARRC's status on labor contracts. He stated that currently the ARRC is negotiating one labor contract and will soon start another. He said he anticipate that overall, labor contract raises will go up as planned. Expenses will rise by several million dollars, he said. He pointed out that approximately 52 percent of the ARRC expenses are labor related. He reiterated that management still will be frozen, which he anticipated would save an additional \$400 thousand. He turned to page 6 of his PowerPoint, titled "Five-Year Forecast - Capital Budget", and stated that the ARRC is in year 4 of 5 of its project to rebuild the line from Anchorage to Fairbanks, funded



by bonds. He related that program is within budget and should be completed by 2012.

MR. GAMBLE highlighted an increase in the number of moose killed by trains, which has increased from 29 to 60 moose killed last year. He explained personnel actions he has taken. He related that the ARRC took steps by reducing its management team by 29 percent through layoffs, and that it also realized vacancies through attrition and by keeping those positions vacant. He further related that some 80 people were affected when the ARRC reorganized and shifted 80 personnel, including 10 non-voluntary layoffs.

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REPRESENTATIVE JOHNSON asked for clarification on the diesel fuel prices.

MR. GAMBLE reiterated that the ARRC must "use diesel to move diesel." Thus, the ARRC negotiates its price from the refinery. Therefore, the ARRC does not pay for fuel at the regular pump price.

REPRESENTATIVE JOHNSON inquired as to whether the labor contracts are new contracts or negotiated contracts.

MR. GAMBLE answered that the contracts are not new. However, he clarified that the contracts are based on the last year's contract with items that the ARRC would like to negotiate. In further response to Representative Johnson, Mr. Gamble responded that the contract currently under negotiation is listed as 121 in the slide titled, "Alaska Railroad Quick Facts". He explained that figure changes for the crews in the United Transportation Union and the figure is actually closer to 195 when fully staffed. He further explained that the American Train Dispatchers Department consists of 10 employees, who are the controllers that authorize the trains to start, stop, or move to a railway siding. Overall, he mentioned that the ARRC membership consists of 5 unions, and of the 715 employees, 550 belong to one of these unions.

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REPRESENTATIVE DOOGAN asked for clarification on the ARRC's BOD mandate that the ARRC must be profitable by running its trains.

MR. GAMBLE answered that the ARRC's sources of revenue are many. He explained that the federal formula funds are given to transit railroads and noted that the ARRC qualifies as a transit

railroad. He related that railroads review train performance, which is called an operating ratio, dividing operating revenues, such as revenues earned from customers by operating trains; and operating expenses such as crew and fuel costs. Dividing the expenses by the revenues determines a ratio. He opined that the lower the ratio, the better. The operating ratio shows how effective the train operation is as opposed to other sources of revenues. Therefore, the ARRC's BOD does not want the ARRC to count federal dollars as revenue to inflate the profitability of the train operation. He opined it is challenging to make the train operation profitable. Typically, passenger and freight service is not operated together in lower-48 railroads, he said. He stated that the freight trains produce more revenue than passenger service, which is labor intensive. Some train operating ratios in the lower-48 have operating ratios of .75 to .85, whereas on a good date the ratio for the ARRC is .95, he noted. In response to Chair Wilson, Mr. Gamble answered that the ARRC was endowed with 36,000 acres, with approximately half leasable. Land rentals from real estate are separate from the operating ratio for train operations, he stated.

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MR. GAMBLE, in response to Representative Johansen, explained that legislation that passed last year for land conveyances were separate real estate issues. He mentioned that the 2012 project was to rebuild the actual main line track. In further response to Representative Johansen, Mr. Gamble answered that land conveyances have not yet been completed. He mentioned the difficulty of land conveyances since many parties are involved in land conveyances, plus each case is different. He related that constituents in Healy, for example, that would like to purchase their property. Additionally, crossing issues arise, and each one is worked independently by an ARRC committee. He noted that the ARRC works with the DOT&PF on crossing issues and on land conveyance issues. He offered to respond to Representative Johansen specifically with updates.

REPRESENTATIVE JOHANSEN asked for an update on the 48 acres at Eklutna.

MR. GAMBLE answered that the proposal is going well. He explained that the ARRC worked to resolve the quarry issue, at Eklutna, which was an Alaska Native Claims Settlement Act (ANCSA) Alaska Native Regional Corporation and Alaska Native Village Corporation issue combined. He related that the ARRC and Eklutna, Inc. share property and ideas. He advised that the ARCC reached an agreement and the village is satisfied to have the

quarry. He also mentioned that the ARRC also is partnering with Eklutna, Inc. on a second phase of a Birchwood gravel project to move several hundred thousand tons of gravel, including sharing costs to build a rail to move gravel out. Additionally, a third item is to attempt to swap land to allow Eklutna, Inc. to develop houses on a contiguous piece of property. In turn, the ARRC will obtain property in another area that will serve its interests.

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REPRESENTATIVE JOHANSEN referred to a handout titled "Alaska Railroad 2009 Program of Projects. He inquired as to whether the ARRC could provide information later on the Seward Freight Dock Expansion and the Whittier Master Planning projects. He asked specifically for information on the volume of freight and the change in activity in the two ports.

MR. GAMBLE answered that the ARRC is anticipating the gas pipeline so the ARRC is extending the current dock. While the ARRC has the property, it does not have room to bring in the train to transport the additional pipe that is anticipated. He related that the ARRC would like to ready that property in a lay down yard because of the anticipation of a huge quantity of incoming pipe. He opined that the project is within the confines of the yard. The ARRC will clean the yard off, level it, and create a lay down yard. He offered to provide a map to Representative Johansen.

CHAIR WILSON inquired as to whether the ARRC is concerned that endangered species actions being taken might impact port operations.

MR. GAMBLE stated it is of secondary concern since the ARRC has rail access into Whittier, Seward, and the Port of Anchorage. Thus, anything that might hinder the business activity in these ports would secondarily hinder the railroad. He offered that he will continue to monitor the issue of any actions taken to add endangered species to ascertain any future impact.

REPRESENTATIVE JOHNSON asked whether the ARRC's infrastructure is "up to snuff" with respect to gearing up for a natural gas pipeline or will infrastructure need to be upgraded in order to ship pipe to Fairbanks.

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MR. GAMBLE related that the ARRC must do some things in order to offload ships, primarily at the port level. Additionally, the

ARRC could do some things that would create transit efficiencies. He said that the determination of whether these projects are necessary or just "nice to have" will happen at the time that logistics models are run. The run will examine the velocity of goods and services being transported and examine the transportation cost of truck versus the slower rail transportation. He related that the ARRC is currently holding discussions with Denali - the Alaska Gas Pipeline and TransCanada Alaska Company, LLC. He related that some information won't be available until the open season is through, at which time the logistics personnel will be involved. He offered that in the meantime the ARRC is "testing each other out." He highlighted that the ARRC wants to be responsive to the project needs as far in advance as possible. He related that the ARRC must make some changes at the ports in order to be effective.

REPRESENTATIVE JOHNSON inquired as to whether any line straightening or bridge work outside the port area that will need to be done.

MR. GAMBLE responded that by the time the natural gas pipeline construction begins, that the ARRC will have already funded what little is left. He offered that the ARRC has spent seven years on their line, has had a huge bridge program, which will continue over the next several years. He detailed that the work will continue south towards Seward on the on the light-volume area, whereas work on the northern area that transports the larger gross weights in the form of coal and gravel has already been done. He said he's gone on record saying, "We're ready. We're ready for a pipeline. We can move pipe now." However, he noted that the ARRC can move pipe more efficiently once a few projects at the port are finished.

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CHAIR WILSON asked for clarification of the Flint Hills Refinery and whether the ARRC will need state funds in the future.

MR. GAMBLE stated that when Governor Palin reported that it was in the best interests of the state to keep the Flint Hills Refinery (FHR) open, it triggered actions and focus. He explained that the ARRC is trying to review the value chain from the FHR perspective to determine what it can and cannot do in its current situation. He related that the ARRC wants to anticipate the corporate decision making possibilities. He stated the possibility exists that the FHR could either reduce its refinery operations or could shut down the refinery and move to a terminal only operation. He speculated that if the State of

Alaska (SOA) wanted to keep the FHR operational, that it would need to analyze any viable options to keep it profitable on a self-sustaining basis, outside of providing a huge subsidy for the FHR's operation. He said:

Really, it's a business case. It's just a simple matter, well, simple. It's just a matter of sitting down and running the business case on each one of the good ideas that people have. Yeah, the railroad should own it. Okay. What are the conditions? What are the costs? What are the revenues? How does the railroad make money if it no longer has a customer to charge to move petroleum, for example? That's where we make our money. If it's all state petroleum and state railcars, and state refinery, how do we make our money?

MR. GAMBLE, in response to Chair Wilson, answered that about 40 percent of its overall business is from FHR. He stated that one value to the SOA that FHR doesn't calculate is jobs. He highlighted that particularly in light of the downturn in the national economy, that keeping jobs is a priority. He opined that allowing the loss of 700 jobs may not be good politically. Thus, the SOA will have a value compilation that is different than FHR's value compilation. However, he opined it may turn out that keeping FHR profitable may be in the best interests of Alaskans. He said, "We don't know that until we run the numbers." He surmised that FHR, Department of Natural Resources (DNR), and the ARRC are all performing that analysis currently. He offered that DNR has brokered several meetings thus far. He related that the constitution mandates that the legislature will make the final decision of what is best for all Alaskans. He expressed confidence that the ARRC will provide the legislature information with a factual basis to the legislature as opposed to speculation. He said he anticipates that it will take the three parties until about February or March to complete their analysis.

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MR. GAMBLE mentioned that the fact that the current gas prices allow FHR to make money, which they would acknowledge, whereas when oil was at \$140 a barrel, FHR lost money. He surmised that the current oil prices will give FHR breathing room, as well as for other companies.

CHAIR WILSON inquired as to whether Mr. Gamble could identify the direction any assistance needs to go, such as to FHR or the ARRC.

MR. GAMBLE, in response to Chair Wilson, answered that currently he could not. He suggested that the examining the boundaries of the problem could help. He explained that the ARRC is required to operate on a sustainable basis, independent of the general fund. He opined that it would not be a good idea to change that structure. He characterized the current ARRC model as a good model that is proven. He mentioned that several similar boundaries exist. He stressed that any figures that the ARRC presents will "not be tied to politics." He related that the state is currently under scrutiny as an "Energy State." He speculated that political ramifications could happen if the FHR closes and the United States must import its energy from the desert. He opined that would result in political debates. He speculated that may be the reason why some people are suggesting that it's in the state's best interest to keep the FHR operational.

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There being no further business before the committee, the joint meeting between the House Transportation Standing Committee and the Senate Transportation Standing Committee was adjourned at 3:17 p.m.