

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

January 27, 2011

1:03 p.m.

MEMBERS PRESENT

SENATE TRANSPORTATION

Senator Albert Kookesh, Chair
Senator Joe Thomas, Vice Chair
Senator Dennis Egan
Senator Linda Menard

HOUSE TRANSPORTATION

Representative Peggy Wilson, Chair
Representative Lance Pruitt, Vice Chair
Representative Eric Feige
Representative Cathy Engstrom Munoz
Representative Max Gruenberg
Representative Pete Petersen

MEMBERS ABSENT

SENATE TRANSPORTATION

Senator Charlie Huggins

HOUSE TRANSPORTATION

Representative Craig Johnson

COMMITTEE CALENDAR

OVERVIEW: ALASKA RAILROAD CORPORATION

- HEARD

PRESENTATION: PORT OF ANCHORAGE

- HEARD

WITNESS REGISTER

CHRISTOPHER AADNESEN, President and CEO
Alaska Railroad Corporation
Anchorage, AK

POSITION STATEMENT: Delivered an overview of the Alaska Railroad Corporation.

TOM BROOKS, Chief Engineer
Alaska Railroad Corporation
Anchorage, AK

POSITION STATEMENT: Provided information related to the Alaska Railroad Corporation Overview.

GOVERNOR BILL SHEFFIELD, Director
Port of Anchorage
Anchorage, AK

POSITION STATEMENT: Delivered a presentation on the Port of Anchorage.

PREVIOUS COMMITTEE ACTION

No previous action to record

ACTION NARRATIVE

[1:03:15 PM](#)

CHAIR PEGGY WILSON called the joint meeting of the House and Senate Transportation Standing Committees to order at 1:03 p.m. Present at the call to order were Senators Egan, Thomas, and Kookesh; and Representatives Petersen, Gruenberg, Pruitt, and P. Wilson.

OVERVIEW: Alaska RAILROAD CORPORATION

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CHAIR PEGGY WILSON announced that the first order of business would be to hear an overview from the Alaska Railroad Corporation.

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CHRISTOPHER AADNESEN, President and CEO, Alaska Railroad Corporation, introduced himself.

REPRESENTATIVE GRUENBERG asked if Mr. Aadnesen would tell the committees about his extensive railroad background.

MR. AADNESEN stated he has thirty-eight years of railroad experience, starting with a survey crew with Western Pacific in 1973, and working up to general superintendent of transportation for that company before it became Union Pacific in 1980. He then worked for Union Pacific as manager of the southern region until 1988. Subsequently, he opened a consulting firm and did the due diligence for a corporation consortium that wanted to purchase one of the privatized trunk lines in Mexico. In 1997 he retired and in 2001 went back to work because of Enron. He became the CEO of the Estonian Railway in Eastern Europe and ran it for three years including helping the owners take it public. He then returned to the U.S. and worked for a large engineering firm, managing their rail practice before he applied for and got this job.

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REPRESENTATIVE FEIGE joined the committee.

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REPRESENTATIVE MUÑOZ joined the committee.

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MR. AADNESEN began the presentation by introducing his team. He then explained that construction on the Alaska Railroad began in 1914 and was finished in 1923. In January 1985 it was transferred to the state. He noted that the architect for this was Governor Sheffield. While the Alaska Railroad Corporation (ARRC) is a state-owned corporation, it is self-supporting and is a full-service railroad that serves ports and communities from the Gulf to the Interior.

MR. AADNESEN also explained that the railroad is different from other state agencies in that it is an independent agency, not covered by the state's Executive Budget Act. The board of directors has both financial and capital budget oversight, and has the ultimate authority over land sales, although legislative approval is required for certain corporate actions, such as sale or transfer of the railroad's interest in land. They are currently working on a land sale policy, which the board hopes to approve in March. Procurement procedures are substantially equivalent to state requirements, and they are also subject to the Executive Ethics Code. ARRC submits an annual report with audited financial statements to the state, and is required by law to adopt a long-range capital improvement plan each year, which it shares with the Legislature.

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MR. ADNESSEN further explained how the ARRC contributes to health care, business services, and retail payrolls in Alaska, as well as being the principle transport for heavy and/or bulk commodities to tidewater. It is also a major mover of jet fuel to the Ted Stevens Anchorage International Airport, a viable passenger alternative to long-distance driving, and supports the U.S. military with the transport of equipment to and from the "DoD Strategic Port" of Anchorage. The ARRC also has the potential to reduce pressure on the state road system, and to contribute significantly to the Alaska natural gas pipeline. It creates 3,000 jobs and \$150 million in payroll statewide. A break-down of ARRC revenue shows it is comprised of 67 percent freight, 17 percent passenger, and 15 percent real estate.

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MR. ADNESSEN stated that ARRC moved 6.3 million tons of freight in 2010 and they anticipate that to grow.

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CHAIR P. WILSON asked what the anticipated increase is for 2011.

MR. AADNESEN responded it is about 3.9 percent.

CHAIR P. WILSON asked if more shippers are using the railroad.

MR. AADNESEN replied the worldwide export coal market is very hot, partly because of the flooding in Australia. Usibelli has also identified that the demand for its coal will increase. Growth is expected for the next several years after which the price will probably drop, he said.

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SENATOR MENARD joined the committee.

MR. AADNESEN explained that slide 9 shows the mix of freight revenue. Petroleum is 28 percent and coal is 12 percent for export and 10 percent local. The ARRC also receives about 30 percent of its revenue from barge services with smaller percentages in gravel at 9 percent and 8 percent in TOFC/COFC. He explained that TOFC means trailers on flat cars, while COFC refers to containers on flat cars.

MR. AADNESEN stated that passenger business is something ARRC is proud of. Last year they moved 405,000 passengers compared to 471,000 in 2009. A 3.2 percent increase is anticipated in 2011.

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REPRESENTATIVE GRUENBERG asked if the ARRC has a plan for what to do if cruise ships stop coming.

MR. AADNESEN said the board has had many strategy sessions about that issue, but a plan has not yet been defined. He explained that he elected to come to Alaska and become familiar with the railroad, which he spent three months doing. Thus the planning and strategy has been postponed until February. However, a key strategy is to diversify income. If Flint Hills is lost it would be serious. A similar strategy will be directed to passenger service.

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Mr. AADNESEN explained that real estate is a very important part of the ARRC. The department includes property development, leases and permits, dockage and wharfage, facilities maintenance and management. The important thing is that 69 percent of corporate net income is derived from real estate.

In terms of capital funding sources, Mr. Aadnesen said that the ARRC uses its own earnings, it matches federal funds, and it funds federal aid improvements. Formula funds also come from the USDOT/Federal Transit Administration; ARRC is a 60 percent grantee. The federal funds that are allocated to ARRC do not affect the federal funding for other state transportation projects.

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In 2010, he stated, the railroad had a 4.3 million loss from train operations, but this was less than anticipated.

CHAIR KOOKESH asked if the loss was due to decreased passenger traffic.

MR. AADNESEN replied it was due to decreased passengers, as well as a loss in petroleum shipping. He also explained that ARRC's net earnings rely on real estate for stability and sustainability. They also have a fragile financial situation because they rely on a few large customers. Export of coal will be important in 2011, he stated. He forecast moderate passenger growth, as well as an increase in costs, especially in fuel and benefits, and an earnings budget of 18.2 million. He noted they do have contingency plans in case expected revenues do not materialize.

MR. ANDRESSEN explained that the 2011 capital budget provides a total of \$63.4 million in new spending. ARRC's own earnings

account for \$25 million, \$24 million from FTA funds, and \$13.6 million from FTA bond proceeds, and \$4.3 million from small grants. He noted the ARRC is currently in the sixth year of a seven year accelerated-track rehabilitation program focused between Anchorage and Fairbanks. Now it is focused on Anchorage to Seward track rehabilitation. The railroad has an unfunded federal mandate for Positive Train Control, he said. This is a safe-gap electronic measure that allows the train to be taken from the engineer's control if necessary.

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He then explained the ARRC routes and project reports He highlighted the Northern Rail Extension, which is part of an eighty-mile line from North Pole to Delta Junction, and will be constructed in four phases. Phase one of four is a bridge at Salcha, across the Tanana River. The project is currently seeking approval from the Corps of Engineers, he said, and the design is 90 percent complete. A construction management/general contractor has been working with ARRC for about nine months to ensure that the design is constructible. He further stated the estimated cost of the bridge is about \$1.85 million, and that has escalated from the original estimate for a variety of reasons. This past summer there was a lot of river erosion that caused the river to move about 10-15 feet. Mr. Aadnesen stated that current funding for the project is \$44.2 million, but it expires in 2013. He said that additional funding is needed because the estimated shortfall is between \$20 million and \$60 million.

CHAIR P. WILSON asked what a side channel bridge is.

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TOM BROOKS, Chief Engineer, ARRC, explained that the Tanana River has a main channel and multiple side channels, and that the original design assumed they would span the main channel. He further stated that after the EIS process, they identified the side channels as being important locations for additional bridges.

CHAIR P. WILSON commented that traveling from Tok to Fairbanks was challenging, due to the braided river.

REPRESENTATIVE FEIGE asked which side of the river was being discussed.

MR. BROOKS replied the two side channels being discussed are on the south bank. These appear on a map on page 20 of the back-up material.

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MR. BROOKS then explained the ARRC is currently dialoging with the EPA to get wetlands permits and the Corps of Engineers has asked ARRC to respond. He said the ARRC is working with the military to see if it can put in the bridges. ARRC is taking a strong stance to avoid subversion of the EIS process by the EPA. Once permits are in hand the ARRC will go to the funding agencies, in particular the Federal Railroad Administration (FRA). The FRA wants to see a funding package to show the bridge can be completed.

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MR. AADNESEN added that the funding is needed by the summer of 2011 or the construction will be delayed and the federal funding will expire before the project is completed. This would force the ARRC board to stop the project.

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MR. AADNESEN then discussed the Port McKenzie Rail Extension Project, in which the ARRC is the project manager for construction of a 30-45 mile rail line to connect the port to the main line of the ARR. He explained that as port owner, the MatSu Borough (MSB) is project "sponsor," and the operating railroad, ARRC, is the project "applicant." In addition, he stated the Surface Transportation Board (STB) is the federal agency responsible for U.S. rail extensions, and it is working on the EIS. The ARRC is hoping to receive a positive ruling on that by the end of February. In addition, the STB has to approve one of three options for the route. He noted that the Legislature had previously appropriated funds for the EIS and to begin design and construction. At this point the governor's budget for the project is \$20 million for this year.

CHAIR P. WILSON noted that the committee will hear a presentation on the Port McKenzie project next week.

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REPRESENTATIVE GARA joined the committees via teleconference.

MR. AADNESEN then spoke about ARRC statewide issues, and defined the continued existence of the North Pole Refinery as critical to the state's energy picture and a mainstay of ARRC revenue.

MR. AANDRESEN went on to discuss issues relating to the the sale of ARRC lands. He stated the board is in the process of developing a Board Rule to guide its decisions regarding state land sales. In compliance with HB 357 (passed in 2010), the draft Board Rule is currently available for review and is on the agenda for the February 16, 2011, ARRC board meeting. The ARRC is collecting feedback from leaseholders for the board to consider the rule and decide what to suggest to the Legislature as ongoing policy.

CHAIR P. WILSON asked if the Legislature has to okay all land sales by the ARRC.

MR. AADNESEN responded that the state land was transferred to the ARRC in 1985, and any transfer or sale of the transferred land goes to the Legislature for final disposition.

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Next Mr. Aadnesen discussed the Seward coal loading facility, which is operated by Aurora, a subsidiary of Usibelli Coal. The ARRC acquired the facility with federal funds in 2003, he said, and since then ARRC has spent \$1.34 million on safety, efficiency and environmental improvements. He stated the ARRC is continuing efforts toward mitigation of dust emissions; it is currently a co-defendant with Usibelli Coal in a Clean Water Act lawsuit, and if they lose the suit there will be no more export of coal from Alaska.

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MR. AADNESEN explained that vegetation management is an ongoing problem for the railroad. They have been unable to spray until receiving a permit in 2010, when they sprayed from Seward to Indian. He stated that the ARRC applied for a permit to include the Anchorage rail yard. Because they were unable to spray in the past, he said, the federal government fined ARRC about \$.5 million in fines due to its lack of weed control. He explained those fines are currently in abeyance because they are now making progress on weed control.

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MR. AADNESEN made concluding remarks and asked for questions.

REPRESENTATIVE FEIGE mentioned Usibelli's desire to open a mine in the Wishbone Hills area and that one impact of that would be 100 coal trucks per day along the highway. He asked if there is a possibility to build a spur line following the existing ARRC right-of-way.

MR. AADNESEN responded that the ARRC would like to do that, and it does have the right-of-way. This would actually be two trains per week rather than 100 trucks per day, but it's dependent on the Usibelli analysis, which hasn't been forthcoming.

SENATOR THOMAS asked if the 15 percent revenue from real estate (slide 7) is gross or net.

MR. AADNESEN responded it is net.

SENATOR THOMAS asked if the ARRC has a cost-benefit analysis of building the Delta to MacKenzie project

MR. AADNESEN replied the Tanana River project has no benefit in the near future. It's purely a cost project, but because of the ARRC charter they are happy to participate.

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SENATOR THOMAS noted that the ARRC was a crucial link for the state transportation system, but he would like to talk about bridges that might be more cost effective.

MR. AADNESEN responded he would be happy to meet with the Senator.

CHAIR P. WILSON called an at-ease from 2:02 p.m. to 2:07 p.m.

PRESENTATION: PORT OF ANCHORAGE

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CHAIR PEGGY WILSON reconvened the hearing and announced the next order of business would be to hear a presentation from the Port of Anchorage.

GOVERNOR BILL SHEFFIELD, Director of the Port of Anchorage, introduced himself.

CHAIR P. WILSON asked if he would go over the challenges facing the expansion project.

MR. SHEFFIELD said yes.

MR. SHEFFIELD described the Port of Anchorage as vital to the state's economy.

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He said that an average of 120,000 containers come into the port annually, including food, automobiles, gasoline, and heating oil. He noted that the port is about 4 percent busier this year than last.

MR. SHEFFIELD reviewed the cargo received annually at the port, which includes the following:

- Eleven million of barrels of fuel.
- Eighty percent of the jet fuel for the Ted Stevens Anchorage International Airport.
- 100 percent of the jet fuel for Elmendorf Air Force Base.
- Ninety percent of the fuel used by vehicles, water craft and general aviation in the Railbelt.

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MR. SHEFFIELD explained that the Port of Anchorage has been designated by the Department of Defense (DoD) as a National Strategic Seaport; only 19 ports in the U.S. have this designation.

REPRESENTATIVE GRUENBERG asked what it means to be a National Strategic Seaport.

MR. SHEFFIELD explained that 25 acres of the port are guaranteed to be available to store military equipment and supplies. He further noted that the port serves all five military bases in Alaska.

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MR. SHEFFIELD gave a review of 2010 operations, as follows:

- The port received over 500 ship calls in 2010, which is a 30 percent increase from 2009.
- The port welcomed the first major cruise ship.
- Five hundred jobs were created that relate to the expansion project.
- Port stakeholders and the expansion project spent \$70 million on annual payroll.

MR. SHEFFIELD then discussed the Intermodal Expansion Project, which adds 130 acres to the existing port. He showed pictures of the project, including a corroded piling, which led to beginning the project.

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He explained that phasing plan draft two shows the dry barge berth, wet barge berth, the north extension of 23 acres and next

to it an extension of 12.8 acres. The present schedule calls for lighting in 2015. It's built in phases to make it possible to continue to operate during construction. He described it as remodeling an old house while holding down a job and feeding a family. When the project is complete, two fueling docks will be able to serve more than one ship at a time. The entire project is scheduled to be completed by 2015.

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MR. SHEFFIELD then reviewed agencies involved in the port expansion project; because federal dollars are involved, the U.S. DOT Maritime Administration (MARAD) is the lead federal agency. The project manager is Integrated Concepts & Research Corporation (ICRC), which is responsible for development, project management, design, construction, and permitting. The Port of Anchorage is the project owner; at present, the port uses its revenue to cover operating costs and puts what is left into the expansion project. To date they have received \$279 million, most of which was spent on upgrades for the old port.

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He stated the expansion project cost is currently \$1 billion, which is much higher than originally estimated. Reasons for this cost increase include:

- Design changes included increasing the tail wall length; adding two facilities that will remain in operation following an earthquake or other catastrophic event.
- The cost of using galvanized steel rather than regular steel increased the cost by about 30 percent.
- Beluga Whale and Marine Mammal Mitigation. They have to shut down the port for two hours before and after low tide, and also when a whale gets within their zone, which is 1.25 miles from where they are working. The cost of mitigation is about \$10 million per year.

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MR. SHEFFIELD explained the expansion project is moving forward with clear changes in place, as there was faulty work uncovered from the past. The port requires a review of the new contract between MARAD and ICRC, which must provide clear accountability and absolute protection from faulty construction and oversight. The port requires additional financial protection to assure the work is completed on time with proper workmanship. He said the port is developing an oversight committee consisting of the port MARAD, ICRC, appointees from the city, and the U.S. Army Corps of Engineers to allow the port to react quickly and appropriately to issues as the project moves forward.

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In closing, Mr. Sheffield said if the gas line is built, it will require support from the Port of Anchorage, at least in terms of providing storage space for pipe.

REPRESENTATIVE PETERSEN asked if the port has found a solution to the silting problems created by new piling.

MR. SHEFFIELD referred to the phasing map to describe why silting occurred and what has been done to solve it, including dredging 10 feet deeper than originally planned in the spot where silt accumulates. He said that plan B is to use a tug to shoot water down to move the silt.

REPRESENTATIVE FEIGE asked about the impact of the shoaling issue.

MR. SHEFFIELD said the impact now is that the ships have had to change course; they need 1.25 miles to turn, which isn't a problem when there is no ice, but in winter it could be. The shoal has been there for some time and the Corps says it's a \$2 million study and they want a 50 percent share. Port MacKenzie should share in that, he said. Every year the shoal is mapped to monitor how much it's moving.

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REPRESENTATIVE FEIGE asked if it is true that the shoal is wandering.

MR. SHEFFIELD responded that it is moving south. He noted that he has committed \$500,000 on behalf of the port for the impact study.

REPRESENTATIVE MUÑOZ asked if the Municipality of Anchorage has made a financial commitment to the Port of Anchorage project.

MR. SHEFFIELD referenced the funding slide, which shows Port of Anchorage funds at \$49 million, and a \$75 million line of credit which is supported by the Municipality of Anchorage.

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SENATOR MENARD asked Mr. Sheffield if he thought that Port MacKenzie will complement the Port of Anchorage.

MR. SHEFFIELD replied Port MacKenzie isn't competition to the Port of Anchorage, because it will be an export port and the Port of Anchorage is an import port.

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There being no further business to come before the committees, Chair Peggy Wilson adjourned the House and Senate Transportation Committees at 2:52 p.m.