

SENATE FINANCE COMMITTEE
February 28, 2012
9:08 a.m.

9:08:01 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:08 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lesil McGuire, Vice-Chair
Senator Johnny Ellis
Senator Dennis Egan
Senator Donny Olson
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Steve Ribuffo, Interim Director, Port of Anchorage; Emily Cotter, Director, Marketing and Public Affairs, Port of Anchorage; Jeff Ottesen, Director, Program Development, Department of Transportation and Public Facilities.

PRESENT VIA TELECONFERENCE

Dan Sullivan, Mayor, City of Anchorage, Anchorage; George Vakalis, Municipal Manager, Port of Anchorage, Anchorage.

SUMMARY

SB 170 VOCATIONAL ED. COUNSELING IN SCHOOLS

SB 170 was REPORTED out of committee with a "do pass" recommendation and with a previously published zero fiscal note: FN1 (EED).

OVERVIEW OF PORT PROJECTS:

Port of Anchorage
Arctic Port Study - Department of Transportation
& Public Facilities

Co-Chair Stedman stated that this would be the seventh hearing on the FY 13 capital budget and related projects.

#sb170

SENATE BILL NO. 170

"An Act requiring vocational education counseling in public schools."

[9:09:46 AM](#)

Senator Thomas explained that SB 170 introduced vocational counseling to 7th, 9th, and 11th graders. He offered that some students expected to get out of school and automatically get into a trade or vocation, but that they often had very little understanding of what it took to become successful in that particular trade. He explained that the bill did not create any redundancy in school services, but that it required schools to offer vocational counseling in the 7th, 9th, and 11th grades. He offered that evidence showed that when people had vocational counseling, they were more successful in school and life; the counseling also had a positive effect on the juvenile justice system. He concluded that the bill had no cost associated with it.

Co-Chair Stedman discussed a zero fiscal note in the packet.

Senator Olson inquired if the legislation had any support from the school districts. He observed that the bill did not fund any of the counseling and expressed concern that it represented an "unfunded mandate." Senator Thomas responded that all the districts that he had talked to had supported the bill and that the Department of Education and Early Development had the existing resources in place to implement the legislation.

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Senator Thomas MOVED to report SB 170 out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SB 170 was REPORTED out of committee with a "do pass" recommendation and with a previously published zero fiscal note: FN1 (EED).

^OVERVIEW OF PORT PROJECTS: PORT OF ANCHORAGE

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AT EASE

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RECONVENED

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DAN SULLIVAN, MAYOR, CITY OF ANCHORAGE, ANCHORAGE (via teleconference), stated that the Port of Anchorage (POA) was a vital asset for Alaska. He related that shortly before he had taken office in 2009, there were construction problems with the port installation and that his office had spent the last two years reviewing the construction; over that time, the project's costs had increased dramatically. He related that the new estimate of the needed funding had originally been \$1 billion, but that he had scaled the design down, which reduced the estimate to \$350 million. He mentioned that the governor had allocated \$200 million in his budget for the POA Intermodal Expansion Project, but that the port was seeking the full funding of \$350 million. He shared that there was a new relationship and agreement between the Municipality of Anchorage and the U.S. Maritime Administration (MARAD), which was the federal agency in charge of the construction project. The new memorandum of agreement with MARAD set a whole new level of oversight, which included an oversight committee, a technical committee, a quality control program, liability insurance, and a U.S. Army Corps of Engineers' third party review of the project. He opined that the POA Intermodal Expansion Project was back on the right track and that fiscal certainty was the last remaining hurdle for the project.

STEVE RIBUFFO, INTERIM DIRECTOR, PORT OF ANCHORAGE, presented an update of the POA Intermodal Expansion Project titled "POA Presentation"(copy on file).

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Mr. Ribuffo discussed slide 2 titled "Facts about the Port."

- The major point of entry for containerized cargo in Alaska
- Services support over 200 rural communities in the State
- Annually, 240,000 containers move through the Port
- Since 2000, an average 4 million tons of goods and materials pass through the Port's facilities annually
- 90% of merchandise goods for the Railbelt and interior Alaska.
- 100 million pounds of bypass mail items
- 52,000 vehicles processed annually on average
- 80% of the cement for concrete

Mr. Ribuffo addressed slide 3 titled "Cargo Distribution Map" and related that it illustrated the distribution of cargo from the POA via road, rail, barge, and plane. The distribution pattern supported over 200 rural communities with fuel and bypass mail deliveries.

Mr. Ribuffo spoke to slide 4 titled "Fuel Services & Military Support."

Fuel Services:

- 11 million barrels of fuel annually
- 2/3 of the jet fuel for Ted Stevens Anchorage International Airport
- 100% of the jet fuel for Joint Base Elmendorf-Richardson
- 2/3 of all fuel used by the military in Alaska

- 1.4 million barrels of fuel are shipped from POA to rural Alaska

Military Support:

- Designated a Department of Defense National Strategic Seaport
- One of only 19 ports in the nation to have this designation
- Supported over 30 deployments since 2005, including Stryker Brigade deployments to Iraq and Afghanistan

Mr. Ribuffo stated that the POA would be hosting the commissioning of the naval warship "Anchorage" in the spring of 2013.

Mr. Ribuffo spoke to slide 5 titled "Employment & Payroll."

- Regular Operations:
 - \$50 million aggregate annual payroll from Port Stakeholders
 - Ship days over 3,600 vehicles moving through port
 - Non-ship days over 600 vehicles
- Expansion Project:
 - Directly employs 150-200 tradesmen & women annually
 - Over 200 companies involved in project from 2005 - 2009

Mr. Ribuffo related that the POA was a major economic engine for Alaska that contributed over \$750 million per year to the economy, with higher estimates reaching over \$1 billion. The port not only played an important role in Alaska's economy, but it also accounted for 30 percent of the business from the Port of Tacoma. He observed that port operations created jobs for a variety of trade industries, including union members such as longshoreman, operating engineers, and teamsters.

Mr. Ribuffo discussed slide 6 titled "Port Stakeholders."

A "stakeholder" is a company that relies regularly on the port facilities to conduct routine business and/or leases port property.

- Horizon Lines
- Totem Ocean Trailer Express (TOTE)
- Alaska Basic Industries (ABI)
- Tesoro Alaska
- Crowley Marine Services
- Aircraft Service International Group (ASIG)
- Flint Hills Resources
- Alaska Railroad Corporation
- U.S. Army - Alaska and U.S. Transportation Command's Surface Deployment & Distribution Command (SDDC)
- Cook Inlet Tug and Barge

Mr. Ribuffo spoke to slide 7 titled "Annual Dock Tonnage" and stated that the POA averaged around 4 million tons of cargo per year. He explained that the "Dry Bulk Goods" category consisted predominately of commodities such as cement and steel. The "Petroleum Shoreside" category referred to petroleum products that passed through the port's valve yard on route to either an on-port storage facility or over the dock, and which were originally delivered to the port via pipeline or rail. The "Petroleum Dockside" category referred to petroleum products that passed through the port's valve yard while entering or leaving the port, and which were transported by a fuel tanker or barge. He noted that the break down between petroleum and the "Vans/Flats/Containers/Vehicles" category was about 50/50, but that recently petroleum business had represented about 52 percent of the port's cargo.

Mr. Ribuffo explained slide 8 titled "Revenue & Operating Projections." He stated that the slide showed the POA's actual revenue and operating expenses in 2011, as well as

the projections for 2012 through 2021; the projections included revenue increases associated with the completion of the new berths, as well as anticipated revenue that would result from changes by existing tenants. He pointed out that the port had a stable customer base and an expanding facility that was near a population center.

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Co-Chair Stedman asked for an explanation of the revenue projections on slide 8 and inquired if a population growth in the Anchorage and Mat-Su areas accounted for the rising revenue. Mr. Ribuffo responded that the projected increases in revenue would be a result of negotiations with companies for either a presence on the POA or a growth in their business at the port; new businesses changes by current tenants would increase the amount of tonnage across the dock and would result in more revenues.

Co-Chair Stedman queried if slide 8 represented a stand-alone analysis or whether it also factored in Port McKenzie. Mr. Ribuffo responded that it was a stand-alone analysis for the POA.

Co-Chair Stedman inquired if another port being built "across the straits" would have an effect on the POA's revenue projections. Mr. Ribuffo responded that to the best of his knowledge, it would not have an effect. He explained that the POA had been an import port for a long time and that interest in the port came from "like" businesses or existing port businesses that were growing.

Co-Chair Hoffman observed that the POA had a healthy projected cash flow and queried what the anticipated use of the money was. Mr. Ribuffo replied that the port had traditionally put the annual profits back into the project as its funding contribution towards completing the construction and added that the port had done this "religiously" for the past five years.

Co-Chair Hoffman further inquired what the cash flow was used to purchase. Mr. Ribuffo responded that the port's money went into the construction pool for that particular season. He offered that it might be used for the installation of bulkhead sheet pile, movement of gravel, paving of surfaces, and likewise activities.

Co-Chair Hoffman asked if the POA would be doing additional construction through 2021 and noted that slide 8 showed a projected cash flow of about \$11 million in 2021. Mr. Ribuffo stated that if the POA received the \$350 million in funding that it was requesting, the estimated completion date was in 2019; after the construction was completed, the port would have to reconsider how its profits would be used. He mentioned that the POA had a facility that required a significant amount of maintenance and that in the future, the port might be investing in increasing the annual amount of work that went into repairing sheet pile and "the like"; leftover funds would stay in a bank as profit.

Co-Chair Stedman noted that the port's expenses were projected to grow at a rate of 2.75 percent, but that the revenue was projected to grow at 6 percent. He inquired why the port's expenses were only moving at the rate of inflation. Mr. Ribuffo responded that he did not have a definitive answer for the question, but that the revenue growths were based on expectations of new revenues to the port that would result from changes to the businesses at the port. He explained that the expenses would not grow as much as the revenues because the required lifecycle maintenance cost of the new area would be far lower than it was on the current pile-supported dock, which was part of the reason why the port wanted to do the construction project. He added that slide 8's projections represented an estimate based on the port's "best estimates at this time."

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Co-Chair Stedman requested a more detailed breakdown of the expected changes over time to the POA's revenue and expenses, as well as the projections on its operational cash flow. Mr. Ribuffo responded that he would provide the requested information.

Co-Chair Hoffman stated that a large expense to the operation of the port was dredging, which had been paid for by the Army Corps of Engineers. He inquired if the federal government would continue to pay for the dredging at the port, given the "tightening" of the federal budget. Mr. Ribuffo responded that the port had discussions with the Army Corps of Engineers regarding that issue and that the port did not anticipate any problems with the continuation of federal funding for maintenance dredging.

Co-Chair Stedman requested that the POA provide the committee with the expected costs of the dredging. He stated that the committee needed to know what exposure the state had in regards to dredging and observed that the state would not be building a port, which was structured so that dredging ceased if the federal government had a budgetary constraint. Mr. Ribuffo acknowledged the request.

Co-Chair Stedman referenced Co-Chair Hoffman's earlier question regarding net cash flows and stated that he assumed that there was no marginal debt regarding the port's net cash flow, "so it would be all equity construction going forward." Mr. Ribuffo replied that if additional capital construction was required, the port would have to consider its ability to fund the construction with either debt or profits. He added that the port did not anticipate any future construction beyond the completion of the current project. Co-Chair Stedman interjected that his understanding of the port's current project was that the state was the last player standing and that the municipality and the federal government were no longer involved. He concluded that the state of Alaska was responsible for finishing the port's project and inquired if this assumption was correct. Mr. Ribuffo responded in the affirmative.

Co-Chair Stedman queried how much debt the POA could handle with its operations. Mr. Ribuffo replied that there was a slide later in the presentation addressing the issue.

Mr. Ribuffo spoke to slide 9 titled "The Port is 50 years old and in a deteriorated condition." He stated that the cathodic protection system had exceeded its useful life and that there was severe corrosion throughout the facility. He mentioned that a 2011 memo had estimated that there were 1300 pilings that required repairs due to age and corrosion. He observed that since 2004, the port had only repaired 111 pilings, which was an average of 16 pilings a year and that it cost about \$1.6 million to replace that many pilings annually. He offered that assuming that the corrosion stopped completely and the port "quadrupled" its efforts, it would still take 15 years to complete the necessary repairs, which would not add increased seismic protection or provide any modernization of the port's facilities. He referenced Co-Chair Hoffman's earlier question regarding how the port's cash flow would be used

and stated that increasing the number of piles that were repaired per year was one of the activities that the money would be used for.

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Mr. Ribuffo discussed slide 10 titled "The Project will replace the current container facilities while providing modern, reliable and expanded infrastructure for our future." He explained that the POA Intermodal Expansion Project area was outlined in yellow on the slide and had been scaled back from its original scope. When completed, the new facilities would allow the port's current container ship tenants, TOTE and Horizon Lines, to move their ships off the old facility to the new, larger and more modern berthing spaces, which were built to a higher level of seismic stability and operational safety. He stated that the two barge berths would provide new economic and business opportunities for shippers in the region, as well as ready access to a rail line that extended the full length of the port. Additional benefits of the project included access to 65 acres of commercial or industrial land, with immediate access to intermodal connections and water-borne transportation. He related that the combination of increased berthing space and acreage would allow the port to better facilitate military deployments, accommodate larger vessels that had a deeper draft, and support resource development projects in the state and region. He added that perhaps most importantly, the new dock would be built to a higher degree of seismic stability, which would insure that the port would remain operational following an earthquake.

Co-Chair Stedman stated that there had been concerns about icing issues. He explained that there were concerns regarding putting ships alongside the sheet metal walls without the ability to push the ice underneath the docks, which was a process that was currently being done. Mr. Ribuffo stated that it was impossible to push ice under the dock. He explained that ice froze around the piles and that during the winter, the piles and ice were frozen together. He related that the process used by tug boat companies to prepare the dock for winter arrivals was to use tractor engines to move the ice away from the dock. He related that the process for removing ice was well practiced and that ice had never been a problem for the port. He added that the port had never closed because of

ice and that with respect to port operations, ice had not been a problem in the five years he had been at the port.

Co-Chair Stedman pointed out that his question was whether icing would be problem in the future, once ships were being laid along the sheet metal wall. He mentioned that members of the maritime industry had indicated that the sheet metal wall could be substantially different than the current piling dock regarding how to deal with icing issues. Mr. Ribuffo stated that his understanding of studies that were conducted by the Army Corps of Engineers was that ice would not be a factor for ships that were docking along the bulkhead wall. Co-Chair Stedman requested that a copy of the Army Corps of Engineers' letter be provided to the committee.

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Co-Chair Hoffman pointed to the three construction blocks on slide 10. He noted the dates for construction inside the blocks and inquired if they were correct. Mr. Ribuffo responded in the affirmative. Co-Chair Hoffman queried what impact "jettying out like this" would have on silting at the most utilized portion of the dock and further inquired if the port anticipated any additional silting. He opined that the current type of construction would cause "eddying" and wondered if there had been any studies regarding how the construction could affect silting in the downward portion of the inlet. Mr. Ribuffo responded that Co-Chair Hoffman's analysis was correct and that the Army Corps of Engineers was currently conducting modeling to help determine the phasing for moving the container ships off of the current dock to the north end without there being an adverse impact on the day to day operations. He offered that by the time all the information was gathered, the port would be able to construct a good plan for phasing the container ships' movements in order to insure that any eddying or increased siltation, which might form under the new structure, would not be an impact to container ship operators or the petroleum ships that docked to the south of the current facility.

Co-Chair Hoffman asked if the vast portion of the additional reclamation would be done with piling as well. Mr. Ribuffo replied that the remainder of the POA, beyond the redefined construction project, would stay the same. Co-Chair Hoffman clarified that he was referring to

construction for the three parcels that were outlined in yellow on slide 10 and queried if the vast portion of that construction would be done using piling. Mr. Ribuffo responded that the construction would use an open cell sheep pile wall with fill behind it.

EMILY COTTER, DIRECTOR, MARKETING AND PUBLIC AFFAIRS, PORT OF ANCHORAGE, interjected that up to 65 acres of the fill had already been placed and was visible within some of the yellow outlined areas on the slide; the fill was currently being used for staging materials.

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Co-Chair Stedman stated that there was substantial maintenance on the current dock due to corrosion and age. He observed that the scaled down version of the project, which was outlined in yellow on slide 10, removed part of the current dock and inquired whether the port had plans to remove the rest of the current dock. Mr. Ribuffo responded that there were no plans to take out the remainder of the current dock, particularly in the south end where the petroleum business took place; this area would be maintained in its current structure.

Co-Chair Stedman wondered how the port would decrease its maintenance costs if it kept in place and maintained the old structure. Mr. Ribuffo responded that the port expected lower increases in maintenance costs on the new structure and would also keep the current level of maintenance on the old structure; the port would be increasing the amount of investment in doing pile repairs in order to sustain the facility. He concluded that in the end, the port would see the same level of profits that "we see now" and would still be able to operate without having to rely on tax payers.

Co-Chair Stedman asked for a more detailed breakdown of the POA's expenses. He pointed to the port's projected growth rate of expenses over 11 years and stated that if the port was making new additions and leaving its old infrastructure in place, it still had to maintain the old infrastructure. He questioned the projected growth rate of the port's expenses and requested additional information. Mr. Ribuffo acknowledged the request.

Co-Chair Hoffman inquired what type of feedback the POA had gotten from its stakeholders regarding the proposed scaled

back project. Mr. Ribuffo responded that the primary stakeholders that were affected by the project were TOTE and Horizon Lines. Initially, TOTE had expressed concerns, particularly with the design of the new facility that it would be moving into; the concerns had been addressed to TOTE's satisfactions. He added that Horizon Lines was looking forward to the opportunity to relocate to a modernized facility, which had larger container cranes and that the company might be changing the type of vessels that it brought to the port. He concluded that both of the port's primary stakeholders were in support of the project.

Co-Chair Hoffman inquired if the port's other stakeholders were in support of the project. Mr. Ribuffo responded that the rest of the stakeholders operated primarily on the south end of the port on the petroleum docks. He concluded that the stakeholders on the south end had been satisfied with the support and service that the port had provided so far and that he did not see that changing in the future.

Mr. Ribuffo discussed slide 11 titled "Expanded Opportunities."

Recent Customers:

- BP & ExxonMobile - Drill Pipe for the North Slope Operations
- U.S. Army - Alaska - Military Deployments
- Chugach Electric - Sub-station infrastructure
- Film Productions - Big Miracle
- Holland America - 7 to 9 summer port calls

New Customers:

- Tetrotech - CIRI Fire Island Wind Farm turbines & construction equipment
- A Refined Petroleum Storage Facility/Barge Operator
- A Container Barge Operator
- Alaska Basic Industries - Planned storage expansion

- USS Anchorage - Commissioning ceremony

Future Possibilities:

- Current Petroleum Tenant - Addition of a new product line
- Film Productions
- Resource development projects - Gasline, dam, etc.

Mr. Ribuffo stated that the "Recent Customers" category represented non-tenant customers, which had used the facility in the last 18 to 24 months. Under the "New Customers" category, the POA had listed businesses that had formally indicated intent to use port facilities. The port was unable to disclose the names of all of the new businesses due to the proprietary nature of the discussions; however, the port at least provided a generic description of how the customer would use the facility. The last section of the slide described potential opportunities in the future that lacked formal intent. He pointed to the addition of a new product line in the third category and stated that it was "80 percent a sure thing." He related that when the addition of the new product line came to fruition in the latter part of 2013, the port's tonnage would go back over 5 million tons per year. He noted that although the port had managed to provide for new customer use in the past, this was growing increasingly more difficult due to space constraints. He stated that due to the close relationship the port had with its primary lessees, it was able to accommodate transient customer requests. He shared that the port counted on short-term access to the leased land in order to accommodate larger shipping requests such as those of municipal light and power and that while there was not anything financial in it for the lessees, everyone understood the importance of making logistics operations at the port a success. He noted that although the project was not complete, the 65 acres of new laydown area had already been used to store transient cargo. He concluded that the port had a lot of new opportunities, but that it needed more finished space.

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Co-Chair Stedman requested copies of the port's correspondence with its "New Customers" category that was on slide 11. He stated that if there was a problem with disclosure, the committee would cross that bridge when it came to it. He wanted to give the committee the opportunity to see documentation regarding who was actually interested in the port and of what magnitude the interest was. Mr. Ribuffo acknowledged the request.

Senator Olson additionally requested how much the port's "New Customers" category planned on spending in the area and how much business they would be putting through the port. He observed that the Finance Committee was more interested in the financial aspects than it was in what the names of the businesses were. Mr. Ribuffo inquired if Senator Olson wanted the financial information included with port's response back to committee that described the businesses. Co-Chair Stedman responded in the affirmative and further requested information regarding a timeline, if there was one, of when the potential customers needed the facility or an indication if the interest was more general. Mr. Ribuffo replied that the same question had been asked the prior year and that several of the companies had agreed to provide the requested information, as well as their names; furthermore, he appreciated that the committee had kept the confidentiality of the companies and offered that the same agreement could probably be reached again.

Mr. Ribuffo explained slide 12 titled "Funding."

The project has been funded through a combination of port, state and federal funds.

\$331 million received to date:

Federal Funds - \$138.7 million

State Funds - \$ 121.3 million

Port of Anchorage Funds - \$ 71.0 million

- The Port also qualifies for a \$75 million line of credit and is currently allowed to draw up to \$51 million. Currently it has drawn \$40 million of this credit line.

- The Port has also put \$31 million towards the project from savings and revenues since 2001.

Mr. Ribuffo related that the POA had \$29 million in uncommitted appropriations and could draw another \$11 million on its line of credit. If needed, the port currently had access to up to \$40 million.

Mr. Ribuffo began to speak to slide 13 titled "State Funds Received" and noted that the state funding received for the project to date was \$121 million. Co-Chair Stedman requested a clarification on slide 12. He observed that a line of credit was often used for short-term financing versus using long-term debt financing. He inquired if the port's line of credit was an actual line of credit or whether it was the amount that the facility could be put in debt. Mr. Ribuffo stated that the municipal manager might provide a better answer, but that his understanding was that line a credit was issued from a bank and could be drawn from, up to a certain limit; the borrower would pay interest on the drawn amount, which got "rolled over" in periods of 120 to 180 days. He related that the port had drawn \$40 million on its line of credit and continued to roll it over and pay the interest on it. He concluded that when the port was finished with the construction, it would begin to start paying the line of credit back.

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Co-Chair Hoffman stated that his questions did not reflect a lack of support of the project, but that he believed the committee needed to be well versed on all the aspects of the POA because it was "Alaska's port." He queried if there had ever been a dividend to the Municipality of Anchorage from the port, given the surpluses and the funds from the federal and state governments. Mr. Ribuffo responded that the municipality paid an annual fee instead of taxes in order to help city government; the fee was somewhere between \$500,000 to \$750,000 per year, but it depended on what the port's revenues had been. He related that the port also paid what were called "intergovernmental charges" for those services that the municipality provided to the enterprises and utilities for services that the port did not have the staff to perform.

Co-Chair Hoffman requested that the POA provide a copy of its dividends for the last ten years to the Municipality of

Anchorage. Co-Chair Stedman asked the port to provide the requested information.

Co-Chair Stedman inquired why the port had a short-term line of credit instead of long-term debt.

GEORGE VAKALIS, MUNICIPAL MANAGER, PORT OF ANCHORAGE (via teleconference), replied that the port had received "a pretty good deal" regarding the interest on its line of credit and that it was more cost effective to use the short-term line of credit at the current time.

Co-Chair Stedman queried if a line of credit was as "easily callable" as a long-term bond. Mr. Vakalis responded that he was unsure about it being easily callable, but that the line of credit was still good as long as the port continued to make its payments; furthermore, the port did not have any difficulty making the payments.

Co-Chair Stedman inquired when the port expected to switch its short-term credit into long-term debt and offered that it did not appear that the port had the ability to pay the line of credit off, given the hundreds of millions of dollars in upcoming capital costs. Mr. Vakalis responded that the port was currently working with its chief financial officer in order to figure out the best way to finance the debt.

Mr. Ribuffo discussed slide 14 titled "Federal Funds Received" and related that the project had received a total of \$138.7 million in federal funds. He stated that federal funding had been the project's primary source of funding in its early years; however, the port had not seen any federal funding in the past two years. He shared that the port was now also pursuing funding at the federal level through competitive grants, but that it was clear that future federal funding would be at lower levels than it had been in the past.

Co-Chair Stedman directed the presentation back to slide 13 and asked for an explanation of the slide.

Mr. Ribuffo continued to discuss slide 13 and stated that it listed the state funds that the project had received, as well as the Senate bills that had appropriated those funds.

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Co-Chair Stedman stated that over the last several years, the committee had been very supportive of moving the POA Intermodal Expansion Project forward. He offered that the committee's support could be seen on slide 13's "year after year" of funding increments and observed that the federal government and the municipality had pretty much backed out of the financing part of the project. Mr. Ribuffo replied that the port was aware of, and appreciated "very much," the state's support regarding the project.

Co-Chair Stedman requested the port to provide the committee with its timeline, otherwise known as "burn rate," for the funds needed to complete the project as it was proposed. Mr. Ribuffo acknowledged the request.

Mr. Ribuffo explained slide 15 titled "Funds Expended on Project" and explained that it listed the total funds that had been expended on the project since its inception. He stated that to date, \$301 million had been spent and/or obligated on the areas listed on the slide. He noted that the POA Intermodal Expansion Project involved many activities that were not happening on the north end. In the years that preceded 2007, when the port was able to start the north end, a lot of rework was done to make the port more accessible; improvements included the addition of a rail line for trucking operations, the construction of a haul road that connected the port to the military base in Anchorage, and the 65 acres of added fill. The haul road was being used not only for gravel hauling for the project, but also for military deployments. He offered that a lot of good things had been accomplished since the beginning of the project, but that it went unnoticed sometimes.

Mr. Ribuffo discussed slide 16 titled "Funding." He stated that in order to successfully move forward, plan more efficiently, and be able to exploit economies of scale to better control costs, the port needed to have complete funding for the project up front. He related that in its annual request to the legislature, the Municipality of Anchorage's highest priority was to secure \$350 million for the POA Intermodal Expansion Project; the requested amount was based on a 2011 cost estimate and included an added contingency. He shared that it was the POA's intent to construct the project with \$350 million of state funds and not have to return to the legislature for more funding. He observed that full, upfront funding would allow the port to

create multi-year bids and would also allow the creation of efficiencies that did not currently exist; upfront funding would eliminate the need to pay for the constant mobilization and demobilization of construction contractors, would allow the contractors to purchase material at the best available prices, and would eliminate the risk of further increasing the project costs that were caused by a lack of funding and inefficiencies that were created by constantly changing the contractor of record.

Co-Chair Stedman observed that the legislature had not expected to fully fund the project for completion, but had basically inherited the project because the other participants were no longer able to come to the table and/or had other constraints; he opined that it should not go unnoticed how the state became the backer of the project. Mr. Ribuffo responded that it had not gone unnoticed.

Senator McGuire pointed out that if the state was going to invest its money, it should do so with a focus on success and efficiency. She opined that rather than short funding the project, the state could create project efficiencies by funding the full amount.

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Co-Chair Hoffman inquired if there was official documentation or assurances, which stated that the Municipality of Anchorage would not seek additional funding in future years if the requested \$350 million was provided. Mr. Ribuffo replied that the assurance consisted of Mayor Sullivan's, as well as his own, commitment to the committee. He related that he did not intend to go anywhere until the project was completed, but deferred to the municipal manager for a follow-up response.

Co-Chair Hoffman stated that he had been at the finance table for close to 20 years, during which time he had probably seen "ten managers and ten mayors come forward." He shared that he was concerned about what the stances of future managers and mayors would be. He reiterated his support of the project, but offered that assurances should come from the municipality and not just the mayor.

Co-Chair Stedman noted that if the project had been fully funded a few years ago, the requests would have been "pushing" \$1 billion. He offered that clearly the project

had been out of control and that it would have been a lot harder to get it back on track with full funding versus the incremental funding. He observed that there was some risk exposure to sending \$350 million down the table. Mr. Ribuffo related that subsequent slides discussed the ways the port had reorganized to take more control of the project than it had in the past.

Co-Chair Hoffman pointed out that he agreed with Senator McGuire that providing the funding upfront would be the most efficient method of funding because it would result in a savings to the state of millions of dollars. He clarified that his concern had been about assurances regarding Mr. Ribuffo's statement.

Co-Chair Stedman requested that Mayor Sullivan provide a response to Co-Chair Hoffman's question regarding assurances in the packet of other responses that would be submitted to the committee.

Mr. Ribuffo discussed slide 17 titled "Project History."

- 1999: The Port's 10-year Master Plan recommends an expansion program to meet future needs.
- 2003: The Port partners with the U.S. Maritime Administration (MARAD) to implement the program.
- 2005: The preferred alternative is selected (current project design) and the permitting process begins.
- 2006: Terminal Road Rail Extension and Coast Guard floating dock completed.
- 2007: The project receives final permits.
- 2008: North and South Backlands filled and Port/Tidewater Rd. improvements completed. Bulkhead construction in the northern phase begins.
- 2009: Dry Barge Berth bulkhead and mooring complete. Bulkhead construction continues. The port is made aware of problems in the spring of 2009.
- 2010: Bulkhead construction halted when the extent of the damage was revealed.

- 2011: Work focused on completing sheet pile inspections to establish the integrity

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Mr. Ribuffo addressed slide 18 titled "Old Paradigm." He related that the slide was a flow chart that depicted how the project had been managed in the past and that it showed the relationships and responsibilities of each project partner. He stated that the POA was responsible for securing funding and coordinating construction phasing with its operation needs. MARAD was the lead federal agency for the project and was responsible for contracting and procurement, oversight, quality assurance and control, as well as managing the project's funding. MARAD used to hire the Integrated Concepts and Research Corporation (ICRC) to manage and develop the project; ICRC, in turn, relied on a variety of subcontractors to design and construct the project. He concluded that the arrangement between the involved partners was based on the 2003 memorandum of understanding between MARAD and the Municipality of Anchorage, which had some serious problems.

Mr. Ribuffo highlighted slide 19 titled "New Paradigm."

Old Paradigm Problems:

- No direct authority over project contractors by Port/Muni.
- No on-site MARAD representative at Port.
- No direct liability or bonding protection for Port/Muni.
- No Port directed construction oversight authority.

New Paradigm Solutions:

- New agreement establishing oversight committee.
- On-site MARAD representative.
- A performance bond has been established for Port/Muni.

- On-site construction observers reporting directly to Port.
- Direct involvement in quality control & assurance program and monitoring.
- Established a technical review committee.

Mr. Ribuffo related that major changes were enacted in order to address the old paradigm's problems and insure the local control of the project.

Co-Chair Stedman inquired what the port's construction bond covered. Mr. Ribuffo replied that the bond covered all construction activities that were conducted after the establishment of the new memorandum of understanding.

Senator Thomas queried whether the POA had a "strong voice" or the contractual authority to direct the contractors and change the ongoing activities. Mr. Ribuffo responded that ICRC was the contractor through May 31, 2012. He related that the memorandum of understanding that the port had signed would fundamentally turn the project over to the municipality to manage from June 1 onward. He concluded that the relationships would be codified in new contracts going forward.

Mr. Ribuffo discussed slide 20 titled "Enacted Solutions."

Enacted Solutions:

In September, 2011, the Municipality of Anchorage signed a new Memorandum of Agreement with MARAD. The new agreement provides increased accountability from all parties and ensures local control of the project moving forward.

The 2011 agreement:

- Formalized the Project Oversight and Management Organization giving the Port & Muni a decision making role in all aspects of the project.
- Ensures that MARAD will place a full-time representative at the Port.

- Increases liability and performance bond coverage for the Muni
- Transfers all contracting and procurement responsibilities from MARAD to the Muni or their designee by May 31, 2012.

Mr. Ribuffo stated that the new agreement ensured the local control of the project in the future and represented a new direction for the project.

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Mr. Ribuffo explained slide 21 titled "Establishing Control."

Establishing Control:

Additional measures have been taken to ensure the success and accountability of future construction.

- The U.S. Army Corps of Engineers is conducting an independent design review and an analysis of the work completed to date.
- The U.S. Department of Transportation's Office of the Inspector General is conducting an audit of MARAD's contracting and procurement methods in its port development program using the Port of Anchorage as a case study.
- MARAD has engaged AECOM, a nationally known company, to conduct a "root cause" analysis of work performed prior to 2010.

Mr. Ribuffo stated that the U.S. Army Corps of Engineers had engaged CH2M Hill in the review and analysis work, which was expected to be made public in late April or May of the current year.

Mr. Ribuffo thanked the committee for its time and reiterated that the POA Intermodal Expansion Project was the highest priority for the Municipality of Anchorage. He concluded that the new measures and a commitment for full funding would enable the project to move forward

successfully with local control and increased accountability.

Co-Chair Hoffman stated that he had visited a ship in the POA the prior summer. He recalled that at the time of his visit, there had been discussions regarding the utilization of the port for tourism. He noted that the presentation did not address tourism being utilized by the port and inquired whether that aspect was still under consideration. Mr. Ribuffo directed the committee's attention to slide 11, which showed that the Holland America Line had been bringing the MS Amsterdam since 2010; the Amsterdam was expected to return in the current season with seven port calls. He observed that the port also occasionally received the smaller, condominium high-end cruises and that it expected at least one such cruise to return this year. Because of the geographic structure of the port and through negotiations with the U.S. Coast Guard, accommodations were made for controlling traffic to securely move passengers and their luggage on and off of the port. He observed that the port had a cooperative relationship with its stakeholders and the Coast Guard. He concluded that the port did not make a lot of money off of cruise ships; however, it liked having tourism on its resume, as well as having the cruise ships being visible from downtown Anchorage.

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Co-Chair Hoffman queried what the anticipated annual revenue from cruise ship activity would be. Mr. Ribuffo replied that he did not have a specific number to give the committee, but that the port's sources of revenue, as they pertained to cruise ships, came from the state's head tax, as well as from fees charged for support at the dock.

Co-Chair Stedman requested that Mr. Ribuffo return to the committee with a response to Co-Chair Hoffman's question regarding cruise ship income. He noted that there was a lot of impact from visitors going into the communities.

Senator McGuire noted that Alaska's Film Tax Credit had spurred new economic development in the state, particularly in the city of Anchorage and inquired how the movie "Big Miracle," as well as the tax credit had impacted the Port of Anchorage. Mr. Ribuffo responded that Big Miracle was a first time experience for the port on how to deal with a

Hollywood production company. He related that the film company had spent three months looking at different locations on the port and had ended up filming one scene on the location. He offered that a film scene that was three minutes in length represented two and a half days of leased real estate for the port and mentioned that the scene in the movie was filmed on the project's 65 acres of fill. He stated that the port had leased 3 or 4 acres to the film for staging vehicles and trailers for the cast. He observed that the film did not generate a lot of money for the port, but that it was an enjoyable and cooperative experience.

Senator McGuire requested that the port provide the exact revenue figures that the film generated for the port. She noted that even if the generated revenue was a small amount, the committee needed to get a feel for what the future growth opportunities for the state were. She offered that certain areas had growth opportunities that might currently be measured in small amounts, but that those areas could represent increased opportunities in the future. Mr. Ribuffo responded that he would provide the requested information for the committee, but opined that the revenue figures that the film generated for the Anchorage area would be more interesting.

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Senator Thomas asked for a clarification on slide 21 and queried if any state funding would be expended on the three activities listed on the slide. Mr. Ribuffo replied that the dollars to fund those studies had already been spent.

Senator Ellis extended his thanks to Mr. Ribuffo and Ms. Cotter for their efforts and related that he represented a district and a constituency that were significantly affected by activities at the port. He commented that Mr. Ribuffo was often present at local meetings within his district and stated that the port's engagement and communication with the community was appreciated. Mr. Ribuffo responded that he had only missed one meeting in the last two years because it had coincided with his wedding anniversary, but that communication "puts a lot of fears aside."

Senator Olson inquired how the POA's corrosion maintenance practices and technologies compared to those of other ports along the West Coast and opined that corrosion in these

warmer-water ports would be much more of a factor. Mr. Ribuffo stated that Cook Inlet was one of the most corrosive environments in the world because its waters were brackish, constantly moving, and filled sediment. He stated that the portion of the port that was currently under construction utilized a galvanized-steel open cell sheet pile and related that other ports had not used galvanized steel. The galvanized steel was more expensive and would also have cathodic protection attached to it. He opined that the new process would extend the life of the steel to 75 or 100 years. He related that cathodic protection did exist on the old port and that it still existed on parts of the port, but that it was beyond its useful life in other areas. He concluded that the port was trying to keep up with putting sleeves on the pilings that support the old dock in order to extend its life.

Co-Chair Stedman expressed his appreciation to the POA for its efforts.

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RECONVENED

^OVERVIEW OF PORT PROJECTS: ARCTIC PORT STUDY, DEPARTMENT OF TRANSPORTATION and PUBLIC FACILITIES

JEFF OTTESEN, DIRECTOR, PROGRAM DEVELOPMENT, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, began a presentation titled "Arctic Port(s) Study Update"(copy on file). He stated that the Arctic Port Study covered a coastline of about 1,000 miles with three seas, two oceans, and three separate oil and gas provinces that were undergoing lease sales. He shared that the Arctic region had tremendously large resource deposits of minerals, coal, gas, and oil, as well as an extremely limited roadside network that did not allow any one port to serve as a redistribution point to other locations. He offered that it would take more than one port to serve the region and stated that the study was being referred to as the "ports study" instead of "port study."

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Mr. Ottesen discussed slide 1 titled "Study History."

- January 2008 Port and Harbor Conference sparked wide interest in focusing attention on Alaska's ports
- November 2010 Port and Harbor Conference built on this and identified a long list of ongoing and new needs including an Arctic port.
- May 2012 Arctic Port Kickoff Meeting (charette) was held with numerous stakeholders
- December 2012 Army Corps of Engineers and Alaska DOT&PF execute \$3 million Alaska Deep-Draft Arctic Ports Study Feasibility Study Cost Sharing Agreement.

Mr. Ottesen discussed the first bullet point and recalled that in the 80s, the state had become less involved in port and harbor needs; since that time, communities, community leaders, and other stakeholders had asked the state to get back to a more active role with its ports and harbors. He addressed the third bullet point and stated that the Department of Transportation and Public Facilities (DOT) had matched funding with the Army Corps of Engineers to hold a two-day meeting; the meeting's purpose was to bring numerous stakeholders together in order to begin the dialogue of what an Arctic should look like, what needs it would serve, as well as the opportunities and limitations of building such a port.

Co-Chair Stedman requested a definition of the geographical parameters of the Arctic Port Study. Mr. Ottesen responded that there were multiple definitions of "Arctic" with regard to Arctic ports. He offered that Congress referred to the Arctic as everything north of, and including, the Aleutian Islands. He stated that there was language put in the study's 2012 appropriation that asked the study to identify ports north of Nunivak Island. He observed that there was one definition from the legislature and another from Congress, but that the study was essentially using the Nunivak Island definition. He noted that there had been discussion about extending the Nunivak Island boundary as far south as the Kuskokwim River Delta. He concluded that the range of the study extended northward past the Seward Peninsula and around to the common Canadian border in the Yukon.

Co-Chair Hoffman inquired if the boundary was north of Nunivak Island or whether it included Nunivak Island. Mr.

Ottesen responded that the boundary included Nunivak Island and everything north of it.

Co-Chair Stedman noted that he would have expected the request to be for the outside of the Kuskokwim.

Mr. Ottesen addressed slide 2 titled "2012 Funding Purpose."

- "Study and identify potential Arctic deepwater port sites. A deepwater Arctic port would be a long-term vital asset to national security and to the State's economy.
- It would provide a new, northernmost port for the US Coast Guard to protect and patrol the state's Arctic waters. Such vessels require a minimum of -35 feet."

Co-Chair Stedman queried if the port would include any military use, particularly the Navy, or whether the Coast Guard would primarily use the facility for spill response, enforcement, patrols, etc. Mr. Ottesen responded that when DOT had held the charette conference the previous May, the Navy, the National Oceanic and Atmospheric Administration (NOAA), and the Coast Guard had all been invited and had participated. He stated that the NOAA patrol craft were about the same size as the Coast Guard patrol craft and that any port that would accommodate the Coast Guard would also accommodate NOAA; both organizations had indicated that they did not currently intend to place vessels in an Arctic port on a permanent basis, but that they would use a port for resupplying, refueling, etc. He mentioned that the Navy was more reluctant to attend the conference, but that it had sent an officer "almost at the last minute." He concluded that the Navy had been cryptic regarding its interest in the port and noted that the Navy had much larger vessels, which would change the type of port that was needed.

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Co-Chair Stedman observed that there seemed to be acceleration in the shipping over the north side of Siberia with both Norway and Russia, as well as some of the issues regarding China. He inquired if there was increased interest within the Coast Guard to get measures in place to deal with increased traffic flows, as well as other issues in the Arctic. Mr. Ottesen responded that the interest was

there and that the traffic in the Arctic was growing. He observed that several natural gas condensate super-tankers had transited through the Bering Straits the prior year on their way to markets in Asia and stated that very large vessels were going through the Arctic on a routine basis. He related that nations that did not even have a stake hold in the Arctic were currently building icebreaker ships and stated that the Arctic was the new gold rush because of its resources and opportunities for transport. He shared that there were tremendous cost savings in moving vessels across the Arctic. Co-Chair Stedman clarified that the resource rush in the Arctic involved oil and not actual gold. Mr. Ottesen replied in the affirmative.

Senator Olson inquired what type of icebreaker construction was going on in other countries and further queried if any of them would be polar class. He noted that the USCGC Healy was barely able to break through four feet of ice on its way to Nome recently, and wondered whether the icebreakers coming out of Brazil would be able to safely transit through U.S. waters. Mr. Ottesen replied that he had heard about the icebreakers being constructed in other countries anecdotally from a Coast Guard officer's presentation and that the class of the ships was not divulged; however, he had the impression that the icebreakers were being made for the purpose of entering and operating within Arctic waters. He indicated that he would look into the matter of what type of icebreakers were being constructed.

Mr. Ottesen discussed slide 3 titled "Army Corps Partnership Schedule."

- Use multi-criteria decision analysis technique to screen potential sites
- Identify Potential Sites Final List by September 2012.
- Evaluate Public-Private Partnership (P3) finance mechanism
- 2013-2014 Site Specific Feasibility Phase

Mr. Ottesen related that the partnership schedule with the Army Corps of Engineers would have the study produce a short list of port sites by the end of the year. He shared that there was a meeting with the Army Corps of Engineers and its experts the following day and that it would be the first

meeting where the multi-criteria decision analysis technique would be used. He discussed the second bullet point and stated that the study hoped to have a draft report finished by the end of 2012. He spoke to the last bullet point and related that the specific feasibility phase would start to examine port sites in great detail.

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Mr. Ottesen explained slide 4 titled "Ports Vital to Many Needs."

- Sovereignty/Homeland Protection
- Resource protection
- Offshore oil and gas exploration/development
- Search and rescue/Incident response
- Onshore resources export
- Community supply and economic activities
- Fisheries

Mr. Ottesen observed that there were many different reasons to build an Arctic port and that each reason generated a specific set of criteria for what that particular port might look like. He spoke to the first bullet point and stated that the Coast Guard currently flew a C-130 as its primary mechanism for asserting sovereignty in the Arctic regions of Alaska; the aircrafts left anchorage about every other week on a one-day over flight. He related a story about going on one of the over flights and shared that the Coast Guard was pretty limited in its ability to operate in the region. He noted that if the Coast Guard were to operate in the Arctic region with helicopters, which it would soon need to, two helicopters would be needed on standby and that because there was no place to hangar the helicopters in the region, the aircraft were sent on day trips. He relayed how expensive it was to fly a helicopter from Kodiak up to Barrow, Kotzebue, or Nome and stated that the helicopters would overnight in those locations only if the weather was good. He noted that the Coast Guard needed two helicopters because one had to serve as the rescue unit for the crew of the other aircraft if it went down.

Mr. Ottesen shared that another need in the region was resource protection activities such as oil and gas spill response and fisheries patrols. He observed that the region's first year of oil and gas exploration was scheduled to occur in the summer of the current year and that the drillship was currently on its way to the Chukchi Sea; other leases were scheduled to occur year by year thereafter. He offered that there would be as many as two dozen ships operating in the Chukchi Sea this summer and that given that there were multiple leases, there would be a large number of vessels operating in the Arctic region in the future; the vessels would need to be refueled, re-crewed, and re-provisioned with food and parts. He concluded that dealing with the vessels would involve a tremendous amount of logistics and that the opportunity to provide services in the region was currently very limited. He relayed that onshore resources export from coal and other minerals required large bulk carriers that used a different kind of vessel; a port for these carriers and vessels would have different needs than a port that was constructed as a community provisioning port. He referenced an energy crisis in Nome the previous winter and shared that communities needed to be re-provisioned and resupplied. He noted that Kotzebue operated a shallow-water port and that it could benefit from a deeper-water port. He stated that the coastal communities relied on precarious mechanisms for shipping and that there should be more reliability to shipping, as well as more opportunity for the communities to be sustainable. He shared that as the ice moved north, fisheries also moved north and that the increased fisheries activity in the region created an opportunity and a set of needs.

Mr. Ottesen addressed slide 5 titled "Port Needs Vary."

- Different needs, require different port characteristics:
 - Mining export: very deep draft, proximity to resource
 - Oil and gas services: intermediate depth, proximity to on-shore services, and off-shore leases
- Potentially, no one port site ideal for all needs

Mr. Ottesen reiterated that the port needs associated with the different purposes were quite distinct. He concluded that all of the varying criteria for the different port purposes was the reason it would be likely that no one part site would be ideal for all of the needs.

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Mr. Ottesen discussed slide 6 titled "Natural Harbor Sites Scarce."

- Few natural harbors with wind and wave protection
 - Marine structures must withstand significant ice forces
- Water depth is generally shallow in Arctic shore areas
 - Dredging will likely be necessary, on-going

Mr. Ottesen explained slide 7 titled "Linking Need to Funding."

- Funding should relate to overall purpose:
 - Sovereignty/Homeland - federal
 - Resource protection - federal and state
 - Search and rescue - federal and state
 - Off-shore resources - federal
 - On-shore resources - state/private
 - Community/Economic development - state/local
 - Fisheries - state/local

Mr. Ottesen noted that most of the different purposes for ports had a federal connection and were the responsibility of the federal government; however the federal government was not "in a mood right now" to give funding.

Mr. Ottesen discussed slide 8 titled "Funding Issue."

- Little National Economic Benefit as measured by federal rules
 - Corps, other federal agencies reluctant to participate
- Despite strong federal nexus, federal funding in doubt
- Public Private Partnership (P3) tool being evaluated

Mr. Ottesen related that the Army Corps of Engineers had indicated that there was a long list of ports around the nation that had a very high "national economic benefit" and that those ports would be funded before an Arctic port.

Mr. Ottesen explained slide 9 titled "P3s-Public Private Partnerships."

- Increasingly common means to achieve public goods, typically infrastructure
- General characteristics:
 - Contract between public-sector and private party for a public service or good
 - Substantial private sector role; typically design, finance, build and operations involved
 - Costs borne by users rather than public
 - Requires robust economics to cover risks
 - Private entity often a new special purpose company

Mr. Ottesen discussed slide 10 titled "Why the Trend to P3s?"

- Someone else's money involved
- Off books of government spending or debt
- Brings private sector expertise and management skills
- Possible tax advantages to private investors
- Aligns risk and reward to single entity

- What's old is new again
 - Early American toll roads, continental railroad were P3s by another name
- Canada currently uses P3s at far greater level
 - British Columbia requires P3 consideration for all public projects

Mr. Ottesen discussed the third bullet point and stated that the benefit of private sector expertise and management was commonly overlooked in the U.S., but that it was the primary driver for why other nations were turning to P3s. He pointed out that Canada used P3s at about 10 times the rate of U.S., but that because Canada had one-tenth of the U.S.'s population, it was actually using P3s at 100 times the rate that the of U.S. on a per capita basis.

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Mr. Ottesen explained slide 11 titled "Fitting P3s to Alaska."

- Many Alaska projects require government help
 - Thin economics due to low user base
 - High costs due to environment, geography
 - Other ways to tap into private expertise
- the Alaska Industrial Development and Export Authority (AIDEA) has long been in business to assist beneficial quasi-public projects
 - Skagway ore terminal
 - Red Dog road and terminal
 - Ketchikan Shipyard and Drydock

Mr. Ottesen stated that AIDEA, in some respects, had characteristics of a P3 and that DOT had been talking to AIDEA about being the department's financing partner in the future.

Mr. Ottesen spoke to slide 12 titled "Related Efforts."

- Congressional Delegation working on several fronts to help: icebreakers, hydrographic surveys, federal port funds, international interest
- Statewide digital mapping effort will focus on northwest Alaska this year to update onshore mapping information in Arctic port study area
 - (Some mapping costs eligible as state match)

Mr. Ottesen discussed slide 13 titled "2013 Appropriation Request."

- Governor's capital budget request:
 - #54074 \$1 million GF to continue the Arctic Ports Study
 - Matched by \$0.5 million federal funds
 - Based on the 2012 effort, carry on the site specific port feasibility investigation

Mr. Ottesen spoke to slide 14 titled "Canada's Northern Strategy."

- Sovereignty
 - Deepwater port, vessels and year round military base
- Environment
 - Monitor and protect on- and off-shore resources
- Social and Economic Development
 - Improve circumstances of residents
 - Enable resource development for jobs and tax base
- Governance

- Working for sustainable local governance

Mr. Ottesen reported that Canada planned on building an Arctic port that was staffed with a year-round military base and that Canada saw the Arctic as an important part of its future.

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Mr. Ottesen discussed slide 15 titled "Key Take-Aways."

- Multiple ports likely necessary to serve many needs
- No single governmental entity likely to cover full costs of arctic port: federal, state or local.
- Resource user(s), may bring economies of scale to help finance.
 - Today's push for minerals and energy could expand opportunities
 - Some form of private participation seems desirable (AIDEA, P3s or ?).
- Need to shift federal focus to national security need versus economic purpose

Senator McGuire requested that AIDEA be involved in funding discussions regarding an Arctic port. She recalled having mentioned in prior comments that the state might have to invest through AIDEA in order to get its own icebreaker. She offered that Alaska had more at stake than any other place in the U.S. regarding the Arctic. She requested that conversations with AIDEA be added to slide 8's potential funding tools and opined that there were all kinds of creative options that could be explored. She mentioned that she had been conducting conversations with the Canadian Government through her leadership role in the Pacific Northwest Economic Region (PNWER) and that these discussions had covered the successes of the NORAD model. She encouraged DOT to continue to reach out to the Canadian Government for potential partnerships. Mr. Ottesen responded that he had failed to mention how much DOT had been involved with AIDEA. He related that the department and AIDEA had recently met together in Vancouver with the P3 board, which managed the P3s for the government in

British Columbia. He pointed out that the department was currently holding meetings with AIDEA on Umiat, Ambler, and other projects regarding the potential use of P3s.

Co-Chair Hoffman commented that AIDEA had a dynamic and energetic chairman. He thought that the state was moving in the right direction regarding the Arctic issue, but that it was moving too slow and was not proactive enough in leading the U.S. to becoming an Arctic nation. He addressed one of Mr. Ottesen's opening comments that had indicated that the state was turning around and redirecting its efforts regarding port and harbor development; he offered that maybe DOT should abandon its efforts to get the City of Bethel to take over the regional port that serviced the Kuskokwim and Yukon Rivers.

Senator Thomas stated that if the state moved forward, it should be looking at locations that had some available infrastructure. He was unsure if it was a good idea to construct a port in "the middle of nowhere," when there were towns on the western coast of the state that already had port facilities, airports, roads, etc. He thought that existing roads and other forms of transportation could be extended to connect areas so that the state would be creating an Arctic port out of something that already existed, rather than trying to create something out of nothing.

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Co-Chair Stedman thanked DOT for keeping the committee informed and observed that the state of Alaska was clearly a little more energetic about an Arctic port than the federal government was; however, the committee would attempt to work through that issue with the federal government. He discussed the following meeting's agenda.

ADJOURNMENT

[10:54:24 AM](#)

The meeting was adjourned at 10:54 AM.