

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE AND
TOURISM

February 28, 2013
11:19 a.m.

MEMBERS PRESENT

Representative Shelley Hughes, Chair
Representative Bob Herron
Representative Pete Higgins
Representative Lance Pruitt
Representative Geran Tarr

MEMBERS ABSENT

Representative Lynn Gattis
Representative Craig Johnson
Representative Kurt Olson
Representative Harriet Drummond

COMMITTEE CALENDAR

PRESENTATIONS(S): ECONOMIC BENEFITS OF COMBINING INDUSTRIES

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

LORALI SIMON, Vice President
External Affairs
Usibelli Coal Mine, Inc. (UCM)
Fairbanks, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation entitled, "The Impact of Usibelli Coal Mine Inc. on Economic Development, Trade, and Tourism."

TOM BROOKS, Vice President
Engineering
Alaska Railroad Corporation (ARRC)
Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation entitled, "The Alaska Railroad 90 Years of Economic Development."

DALE WADE, Vice President
Business Development
Alaska Railroad Corporation (ARRC)
Anchorage, Alaska

POSITION STATEMENT: Participated in the PowerPoint presentation entitled, "The Alaska Railroad 90 Years of Economic Development."

RALPH SAMUELS, Vice President
Community & Government Relations
Holland America Line (HAL)
Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation entitled, "Overview on tourism & travel patterns for Alaska State Legislature," dated 2/28/13.

ACTION NARRATIVE

[11:19:58 AM](#)

CHAIR SHELLEY HUGHES called the House Special Committee on Economic Development, Trade and Tourism meeting to order at 11:19 a.m. Representatives Pruitt, Tarr, Herron, Higgins, and Hughes were present at the call to order.

PRESENTATIONS(s): ECONOMIC BENEFITS OF COMBINING INDUSTRIES

[11:20:43 AM](#)

CHAIR HUGHES announced that the only order of business would be presentations by representatives of the resource, tourism and transportation industries, followed by a panel discussion of the economic benefits of combining industries.

[11:21:16 AM](#)

LORALI SIMON, Vice President, External Affairs, Usibelli Coal Mine, Inc., provided a brief history of Usibelli Coal Mine (UCM) operations [slides 1 and 2]. She informed the committee that the U.S. has 25 percent of the world's coal reserves, and Alaska has 50 percent of the U.S. coal reserves, most of which are located on the North Slope and the remainder close to existing infrastructure. At the rate of current consumption by the

Railbelt, Alaska has about 1,000 years of coal reserves [slide 3]. Economic development is related to the price of energy, and residents need to be able to pay for their energy costs at home and for businesses, and she pointed out that Alaska is among the highest ratepayers because it is one of the lowest users of coal. However, rates in Wyoming and West Virginia are low because they generate over 90 percent of their power with coal. Ms. Simon urged the committee to remember that Alaska's coal is abundant and affordable [slide 4].

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CHAIR HUGHES asked why Alaska is not using its coal resources.

MS. SIMON opined the availability of cheap natural gas from Cook Inlet to the Southcentral population base precluded the development of coal resources. She returned to the presentation and said UCM has about 130 employees, 37 percent of which are second, third, or fourth generation employees [slide 5]. The positions available at UCM are varied, require different levels of education and previous experience, and pay wages that can support a family [slide 6]. Employment at UCM is year-around in a non-camp environment, and Healy has the highest per-capita income in the state; in fact, the average annual wage earned in the mining industry in Alaska is \$100,000 [slide 7]. Economic development includes new development and UCM is working to further develop the Wishbone Hill Mine located north of Palmer. This could become the only operating mine in the region, which is a traditional mining area. The project has been permitted since the '90s and leases and permits are up-to-date [slide 8]. The Wishbone Hill project could provide 75 to 125 full-time jobs in a community environment and bring work to local vendors and contractors in Southcentral [slide 9].

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CHAIR HUGHES asked whether there are any hurdles to overcome for the Wishbone Hill project, and if common misconceptions about a coal mining project interfere.

MS. SIMON advised that UCM is in the process of renewing a mining permit through the Department of Natural Resources (DNR). She said UCM is "following the law" and DNR has requested additional items - thus the timeline is uncertain - but the renewal could be issued this spring or summer. Regarding misconceptions, she opined residents in Southcentral are unfamiliar with an active mine and environmentalist groups

spread fear and anxiety in the community. Healy has the only operating coal mine in the state and it is an excellent example of how state laws and regulations protect public health and the environment. Although the mining operations would differ, UCM has an excellent reputation in the state. The coal industry has a positive economic impact on the state's economy and 408 jobs are a direct result of UCM operations [slide 10]. Looking at trade and exports, UCM produces about two million tons of coal each year and about one million tons are exported to Chile, South Korea, and Japan. This amount is expected to continue to decline due to the availability of low-cost natural gas and cheaper coal from elsewhere [slide 11].

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CHAIR HUGHES asked for the value of the exported coal.

MS. SIMON said sales contracts vary and she will provide the amount of taxes and royalties UCM pays to the state. One million tons of coal remains in the state and she noted that the new combined heat and power plant at the University of Alaska Fairbanks (UAF) will take advantage of least-cost fuel sources and will help reduce problems with air quality standards. The Healy Clean Coal Project (HCCP) will be a new customer within the next few years [slide 12]. Chile is the largest export customer followed by South Korea and Japan [slide 13]. Photos of the Seward Coal Terminal depicted the ship loading system adjacent to the cruise ship terminal [slides 14 and 15]. She pointed out the proximity of cruise ships, a small boat harbor, and campground facilities. Turning to tourism, Ms. Simon reminded the committee UCM has operated for 70 years at the edge of Denali National Park & Preserve along with other businesses, and she invited the committee to join a legislative tour of the mine this summer [slide 16].

CHAIR HUGHES encouraged members to tour the facility.

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TOM BROOKS, Vice President, Engineering, Alaska Railroad Corporation (ARRC), said ARRC has 625 year-around employees represented by five unions, and about 415,000 passengers were transported last year [slide 2].

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DALE WADE, Vice President, Business Development, Alaska Railroad Corporation (ARRC), informed the committee revenue from freight in 2013 is projected to be \$92 million, comprising 67 percent of total revenue. Passenger business represents 18 percent of revenue, and real estate revenue is almost \$17 million, or 12 percent of total revenue [slide 3].

MR. BROOKS provided a short history, noting that the Alaska Railroad was established in 1914 - construction was completed in 1923 - for the purpose of economic development. The railroad authority operated independently within the federal government until 1985 when it was purchased by the state for \$22.3 million. At that time there was an influx of state funds for operating capital, but since then ARRC has operated without any further state funding [slide 4 and 5].

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MR. WADE explained freight services transport oilfield supplies to Prudhoe Bay through Fairbanks; ship petroleum products north and south from the North Pole Refinery; ship military goods to and from Alaska; and ship coal daily out of the Usibelli Coal Mine, Inc. north and south from Healy. Other freight services utilize the Trailers on Flat Car (TOFC) system which is the ability to move goods on fully loaded trailers that are lifted onto the railcars and travel from Anchorage to Fairbanks. This system saves an enormous amount of truck traffic, fuel, and cost, and is the only economical way to move massive volumes. Containers on Flat Car (COFC) is the system to move containers off of barges and then by rail. In addition, about 2 million tons of gravel is moved for the mining industry from the [Matanuska-Susitna (Mat-Su) Valley] to road projects [slide 6].

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MR. WADE further explained that shipping bulk petroleum from the Flint Hills refinery is declining, shipping local coal is increasing slightly, shipping coal for export is declining, and shipping gravel is declining [slide 7]. Freight Facts for 2012: 57,250 railcars moved 5.6 million tons and accounted for 67 percent of revenue. He pointed out that by ARRC's connection to the Lower 48 a railcar can be loaded in Florida and moved to Fairbanks without further handling. This is a through-system involving Lower 48, railroads, barge service from Seattle to Whittier, and rail further north on ARRC [slide 8]. Intrastate business largely consists of scrap material, jet fuel, and construction materials [slide 9]. Alaska Railbelt Marine is a

unique connection with Alaska Marine Lines that uses highly efficient barges to transport railcars and containers [slide 10]. There is also an international freight connection with the Canadian National Railroad to transport goods from the central U.S. or across Canada to Prince Rupert, British Columbia, and then by barge to Whittier for the connection to ARRC [slide 11]. Passenger services run daily May through September and weekends in winter [slide 12]. Regularly scheduled year-around service is also important to rural communities [slide 13]. The summer tourism business is very important: ARRC transports visitors to Denali National Park & Preserve, south on the *Glacier Discovery* to Whittier, and on the *Coastal Classic* from Anchorage to Seward [slide 14]. A partnership with the U.S. Forest Service allows ARRC to provide service from Anchorage into the Chugach National Forest [slide 15]. Passenger volumes are increasing by about 7 percent per year [slide 16]. Finally, real estate is an aspect of ARRC that is critical to other businesses in the state. The corporation owns about 36,000 acres, much of which is highly-valued land in Anchorage, Fairbanks, and Seward, used to support transportation services [slide 17].

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MR. BROOKS stated that ARRC is working with the Department of Transportation & Public Facilities and others on the Alaska State Rail Plan, which is due to be completed this year, and is interested in the Alaska Transportation Infrastructure Fund. Last year ARRC was authorized to extend its real estate lease period to 95 years which will be beneficial in the long-term [slide 18]. In response to Chair Hughes, he said the rail plan extends 20 years. Regarding federal issues, Mr. Brooks relayed ARRC's struggle to maintain formula funds from the Federal Transit Administration, U.S. Department of Transportation; in fact, funds were reduced from \$36 million to \$27 million. In addition, a deadline is approaching for an unfunded federal mandate for Positive Train Control (PTC), which is an overriding safety system to reduce the possibility of human error. This system is an improvement in safety, but an expense that ARRC cannot afford [slide 19].

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CHAIR HUGHES asked how the PTC system works.

MR. BROOKS explained that a computer system automatically slows the train if the engineer makes an untoward action.

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REPRESENTATIVE PRUITT observed PTC is estimated to cost \$5 million per year in maintenance. He asked about the gap between the deadline, the construction costs of \$15 million, and implementation.

MR. BROOKS said using a combination of internally-generated funds and Federal Transit Administration funds, ARRC is beginning improvements in its dispatch system and in telemetry between remote locations and the dispatch office. The system is expected to be completed in 2018. In further response to Representative Pruitt, he said the industry expects an extension of the deadline to 2018; however, possible penalties would be financial and operating reductions.

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MR. WADE, in response to Representative Pruitt, said it is essential that ARRC meet the federal mandate because the corporation is charged to support the people of Alaska and that includes passenger service. In addition, passenger service for tourism is a very significant economic driver for the state, and discontinuation of passenger service does not make financial sense. Therefore, ARRC will proceed with PTC compliance.

MR. BROOKS turned attention to projects funded by the legislature. The Northern Rail Extension project proposes to extend ARRC one-third of the distance from Fairbanks to Delta Junction. The project is divided into four phases, and partial funding has been authorized for Phase 1, which is a bridge at Salcha over the Tanana River with access to military training areas. Completion of the bridge is expected in mid-summer 2014. Phase 2 extends the railroad to the bridge [slides 21 and 22]. In response to Chair Hughes, he explained the bridge will provide rail and vehicle access.

REPRESENTATIVE HIGGINS expressed his interest in eventually obtaining public access across the bridge.

REPRESENTATIVE PRUITT observed the project received funding from the military thus there may be an expectation of exclusivity.

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MR. BROOKS, in response to Representative Higgins, said the U.S. Department of Defense contributed \$104.2 million and the state

contributed \$84 million to the project [slide 23]. He cautioned that the military is very concerned about civilian access across the bridge to its training area. Through efforts by ARRC to employ local labor, the project is 70 percent Alaskan hire [slide 24]. The Port MacKenzie Rail Extension is underway, and segments of the project are out to bid with funding from the state through the Mat-Su Borough [slide 25]. Port MacKenzie will be the fourth port served by ARRC and will provide a large staging area [slide 26]. Further, the large staging area allows for an industrial loop for the trains which will move bulk commodities more efficiently [slide 27].

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REPRESENTATIVE TARR surmised after construction of the extension to Port MacKenzie it would become the shipping facility for coal from the north. She asked whether that would affect the existing facility at Seward, especially with the reduction in coal exports.

MR. WADE understood coal exports will increase. The intent is to serve the businesses of Alaska, and in the future both ports will be needed.

REPRESENTATIVE TARR asked whether the port at Seward will suffer economic losses as a result of this project.

MR. WADE deferred the question to UCM.

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MR. BROOKS stated ARRC is often questioned about new lines east to Canada, west to Nome, and north to Prudhoe Bay.

REPRESENTATIVE HIGGINS recalled in 2005 the Alaska Canada Rail Link was begun. He asked about its recent activities.

MR. BROOKS said ARRC has a strategic planner engaged in talks with Canadian counterparts.

MR. WADE added that G Seven Generations Ltd. (G7G), Vancouver, British Columbia, has requested funds for a feasibility study on a railroad to deliver oil from tar sands to the Trans-Alaska Pipeline System (TAPS) at Delta Junction. A railway across Canada would be a very expensive project. In response to Representative Higgins, it would be a distance of 300 miles for ARRC and 1,200 miles for the Canadian railroad.

MR. BROOKS, in further response to Representative Higgins, said the rail gauge is the same. Returning attention to the presentation, his experience is that it is very difficult to assemble a corridor for transportation, and he urged for work to be done on corridors through the state rail plan. Also, it is important that existing corridors for highway and rail are preserved and protected [slide 28].

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MR. WADE advised ARRC works closely with intermodal, interstate and international business in support of economic development. Proposals to move natural gas, liquefied natural gas (LNG), and refined and crude oil, in addition to the proposed Susitna-Watana Hydro project are under discussion. Two recently completed wind power projects provided major work for ARRC. Anticipated this summer is the Matanuska Electric Association Inc. (MEA) project which will entail moving "ten of the largest engines that we will ever carry on the railroad to date" [slide 29]. He concluded that ARRC is expert at moving mega, heavy-lift projects.

REPRESENTATIVE TARR requested updates on the flooding near Talkeetna and on plans for commuter rail.

MR. WADE acknowledged the interest in commuter rail for many reasons; however, the depot in Anchorage is not a good drop-off location. He suggested a transit authority is needed to develop complete connections for commuter traffic between Anchorage and the [Mat-Su Valley].

CHAIR HUGHES asked whether a commuter rail line would be economic.

MR. WADE said a transit authority could receive subsidies.

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RALPH SAMUELS, Vice President, Community & Government Relations, Holland America Line (HAL), informed the committee his comments will only address the travel patterns along the Railbelt, as travel patterns in Southeast are completely different. Typically, a ship will disembark at Seward or Whittier, and passengers travel by coach or rail to Anchorage, Talkeetna, or Fairbanks to fly in or out, or connect with other transportation [slide 1]. About 60 percent of summer visitors arrive by ship,

most others arrive by air, and a very small percentage drive. After arrival, travel vacation packages are available to purchase, as well as car and motorhome rentals, or outgoing flights [slide 2]. Holland America Line (HAL) owns coaches, lodging, and railcars, and supports local products for food and beverages; in fact, in addition to produce, HAL purchased 265,000 pounds of silver salmon, 123,000 pounds of king salmon, 113,000 pounds of halibut, and 226,000 pounds of king crab and other seafood [slide 3]. Marketing data has shown that visitors want to see wildlife, glaciers, and Mt. McKinley [slide 4]. Although purported to own all kinds of tourism businesses, Mr. Samuels stressed that HAL is a transportation company that owns coaches, railcars, and ships and - with the exception of Dawson - local vendors provide tour activities [slide 5]. The economic impact of tourism to the state is almost \$4 billion, and 8 percent or 9 percent of jobs in the state are directly related to the tourist industry [slide 6]. An example of the revenue to local governments is that bed taxes collected during the season pay for three-quarters of services in the Denali Borough [slide 7]. He offered to provide further details on revenue to local governments paid by the tour industry. Total revenue paid to the state in 2011-12 was \$107 million [slide 8].

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CHAIR HUGHES questioned the figures paid for corporate income tax between 2008-09 and 2011-12 that were shown on slide 8.

MR. SAMUELS will confirm the accuracy of these figures. In further response to Chair Hughes, he said he could not speak to changes in Alaska Marine Highway System (AMHS) traffic. Various partnerships are part of the tourism business and HAL partners with the national parks, state parks, and cultural organizations for informational programs for visitors and employee training [slide 9]. Turning to visitor flow, he advised that 150,000 of HAL guests ride the railroad at some point. In addition, HAL has 260 coaches on the road, owns 20 railcars, and has 10 more railcars available for use. Most railcars hold between 72 and 88 people, and it would take more than 50 coaches to take the place of the railcars [slide 11]. Mr. Samuels encouraged the committee to take a tour to Talkeetna and Denali this summer.

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REPRESENTATIVE HIGGINS asked whether the bed tax is a deterrent to tourism.

MR. SAMUELS cautioned against targeted taxes that drive up the cost of doing business. To answer the question of what government can do for business, he pointed out that ships and airlines can change locations easily unless there is an investment in infrastructure. Holland America Line has about \$500 million in assets in Alaska, and policies of the state that encourage land assets are advisable.

CHAIR HUGHES asked whether ARRC, UCM, and HAL have formal contacts on a regular basis.

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MR. SAMUELS assured the committee HAL and ARRC have day-to-day contact and a great relationship. Also, HAL has an employee facility in Healy so there is interaction with the local company.

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MR. WADE agreed that ARRC, HAL, and UCM are interwoven because of operational issues.

CHAIR HUGHES specified her question on contact between the companies was directed to whether they share long-term planning.

MR. WADE said yes. Many contracts have 10-year terms.

CHAIR HUGHES returned to the subject of a commuter line that could bring tourists to Palmer; she pointed out that the tracks to Palmer were removed.

MR. WADE stated that the Fair Train fills up quickly, thus there is demand for transportation from Anchorage to the Mat-Su Valley.

REPRESENTATIVE HERRON expressed his interest in an infrastructure tour from Seward to Healy.

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CHAIR HUGHES asked about the value of a rail line to the proposed Wishbone Hill Mine project.

MS. SIMON observed that there is not an existing track to that area and UCM chose the trucking option, the most viable option in the near term, to transport coal out to Port MacKenzie. In

response to an earlier question from Representative Tarr, she said UCM will not abandon its Seward coal facility, but will use Port MacKenzie as a supplemental port if the rail line is completed.

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REPRESENTATIVE TARR questioned whether developing Port MacKenzie is a good use of state funds when there are existing facilities at Seward.

MS. SIMON, speaking as a Matanuska-Susitna Valley resident, opined that state investment in Port MacKenzie is "key." From a business perspective, she said UCM already supplies 100 percent of Alaska's need for coal, thus the only way to expand its business is to increase exports, but the facility at Seward is already near capacity. International coal markets are expected to increase and lead to an increase in exports.

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CHAIR HUGHES inquired as to what actions the committee should take to benefit industry.

MS. SIMON urged for a stable regulatory environment; constant changes in regulations create difficulties for business.

MR. WADE relayed two items: ARRC requires state support for the growth and health of its customers and financial support for the difficulties ahead in 2013 and 2014.

MR. SAMUELS encouraged more infrastructure development, such as the South Denali Visitor Center. He cautioned again against targeted taxes, and urged the committee to be aware of the upcoming PTC issue for ARRC.

MR. BROOKS restated the importance of preserving existing transportation corridors.

[12:46:42 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development, Trade and Tourism meeting was adjourned at 12:46 p.m.