

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

February 25, 2014
11:17 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Craig Johnson
Representative Kurt Olson
Representative Harriet Drummond

COMMITTEE CALENDAR

PRESENTATION: MATANUSKA-SUSITNA BOROUGH

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

LARRY DEVILBISS, Mayor
Matanuska-Susitna Borough
Palmer, Alaska

POSITION STATEMENT: Introduced a presentation on Point MacKenzie and the Matanuska-Susitna Borough.

DONALD DYER, Director
Economic Development
Matanuska-Susitna Borough
Palmer, Alaska

POSITION STATEMENT: Provided a presentation on Point MacKenzie and the Matanuska-Susitna Borough.

ACTION NARRATIVE

[11:17:43 AM](#)

CHAIR SHELLEY HUGHES called the House Special Committee on Economic Development, Trade, and Tourism meeting to order at 11:17 a.m. Representatives Herron, Gattis, Higgins, and Hughes were present at the call to order. Representatives Tarr and Pruitt arrived as the meeting was in progress.

[11:18:22 AM](#)

PRESENTATION: MATANUSKA-SUSITNA BOROUGH

CHAIR HUGHES announced that the only order of business would be a presentation by Don Dyer, Director, Economic Development, and Larry Devilbiss, Mayor, Matanuska-Susitna Borough.

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LARRY DEVILBISS, Mayor, Matanuska-Susitna Borough, informed the committee 2014 is the fiftieth anniversary of the Matanuska-Susitna Borough (Mat-Su Borough). He said the following presentation will reveal many new events underway at Point MacKenzie and in the Mat-Su Borough.

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DONALD DYER, Director, Economic Development, Matanuska-Susitna Borough, provided a PowerPoint presentation entitled; "Point MacKenzie Enterprise Zone." He began with a quote from John Schuetz, Principal, RSH Group, who said, "The Mat-Su Borough is today what Orange County California was in the 1950's." He reviewed the state's 2013 revenue sources, Alaska's dependence on oil production and federal spending, and the decline of oil production in Alaska. In general, the U.S. should be energy independent by 2020; however, declining world demand will push oil prices down. California has overtaken Alaska in oil production, and other threats to Alaska's prosperity include federal spending cuts and the downward pressure on the value of the U.S. dollar. The danger for Alaska from the devaluation of the dollar is that leaving Alaska's dollars sitting in the bank will mean that when Alaska invests in its infrastructure, it will pay a lot more, and therefore, the state should invest in hard assets now. In addition, Mr. Dyer warned that interest rates will rise.

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REPRESENTATIVE HIGGINS agreed with Mr. Dyer's lack of confidence in the economy and asked for the time frame during which the state should invest in infrastructure.

MR. DYER said, "The end of quantitative easing is being scheduled now," which will lead to higher interest rates. The devaluation of the dollar has been delayed because developing economies and Europe had a debt crisis of their own which weakened their currencies. The devaluation of the dollar began in 2010-2011 with the possibility that oil prices would be re-denominated in euros. In fact, others have predicted the rise of the renminbi, which is the Chinese currency. Mr. Dyer pointed out that regions of Alaska must unite and diversify Alaska's economy away from oil and toward other sectors. Alaska's first opportunity to do so is that customers desire the products Alaska has to offer.

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A short video was shown.

[11:28:10 AM](#)

MR. DYER credited World Trade Center Alaska (WTCAL) for helping the Mat-Su Borough contact potential overseas customers and investors. He urged for changes to the Alaska economic model from having Alaska as the customer model, because 726,000 Alaskans comprise a customer base that is too small for many industries. Instead, Alaska should "think like a country" and focus on Asia as a customer. In fact, security for a million Alaskans could come from supplying food or goods to 50 million Asian consumers while reserving 2 percent for Alaskans. Aberdeen Asset Management provided a map which illustrated the location of the 4.2 billion people living in Asia, showing that 1.3 billion live in China and 1.2 billion live in India. Another chart indicated that there will be very little growth of the middle class - defined as those who have between \$10 and \$100 per day of disposable income - in North America and Europe from 2009 to 2030. There will be moderate growth during that time period in South America and Africa; however, in developing Asia, growth in the middle class will be from 500 million in 2009 to 1.7 billion in 2020, and to 3.2 billion in 2030. Mr. Dyer advised the growth of the middle class is driving consumerism in Asia. Furthermore, in China, 400 million people will move from rural areas to urban areas in the next 10 years. Economic growth in Emerging Asia is 6.7 percent [per year], in

China it is 7.8 percent, in India it is 4.9 percent, in the U.S. it is 2.7 percent, and in the Eurozone, it is a decline of minus 0.4 percent. He recommended that the committee review a presentation available on the internet entitled, "The Merits of Investing in Asia," ["Asia by the Numbers" by Aberdeen Asset Management].

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MR. DYER directed attention to a graph provided by WTCAK which indicated that Alaska's total exports in 2012 were almost \$5 billion, with exports to China at \$1.3 billion, making China Alaska's number one trading partner, followed by Japan and South Korea.

REPRESENTATIVE TARR asked what product is most exported.

MR. DYER answered that seafood is the highest export, followed by natural resources. In further response to Representative Tarr, he said a very few value-added food products and some value-added forestry products are exported.

REPRESENTATIVE TARR referred to the natural gas pipeline proposal and inquired about manufacturing and marketing opportunities should Alaska have a long-term, low-cost fuel source.

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MR. DYER noted that exports to China have increased since 2000, which indicates that Alaska can invest in abundance because Asian consumers are going to drive the future economy of the world, and the population in Asia will consume and purchase products from Alaska. To expand Alaska's connection to world markets, Anchorage will host the International Economic Development Council Annual Conference in 2015; 1,300 members and 300 site selectors will be in attendance. This is a special event that will benefit all of Alaska and planning is already underway. In response to Chair Hughes, he said there will be statewide participation in the conference; for example, site selectors will tour from Southeast to Nome and Prudhoe Bay. Also, the Mat-Su Borough and WTCAK have been sponsoring International Trade Bootcamps to prepare businesses for international trade opportunities. Mr. Dyer turned attention to Point MacKenzie and explained that at this time there are four important economic drivers in the Port MacKenzie area of the Mat-Su Borough: Port MacKenzie; Port MacKenzie Rail Extension;

Knik Arm Bridge (KABATA); and the Alaska Stand Alone Pipeline (ASAP) project. The Port MacKenzie area is 14 square miles with staging areas and lease lots available for large projects. It is located across from the Port of Anchorage. The Port MacKenzie dock is large enough and deep enough to accept Panamax vessels, which are the largest vessels in the world. The port is self-scouring, meaning that no dredging is necessary. In response to Chair Hughes, he noted that the JP Azure, the largest ship ever docked in Upper Cook Inlet, could not have docked in the Port of Anchorage. Even at extreme low tides, Port MacKenzie maintains 65 feet of draft.

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REPRESENTATIVE TARR inquired as to whether the Port of Anchorage will have sufficient draft for large vessels after the port project is completed.

MR. DYER responded that the Port of Anchorage will always have a sedimentation issue because of the flow of Knik Arm waters.

MAYOR DEVILBISS pointed out that the Port of Anchorage will always be the state's "goods intake," and Port MacKenzie will primarily be a bulk export location.

REPRESENTATIVE PRUITT stressed that the two ports are not in competition, but complement each other.

[11:41:08 AM](#)

A short video was shown.

MR. DYER related that in 2012, 8,000 tons of scrap metal were shipped to South Korea. The port has the ability to bring in large cargo to support projects throughout the state, such as bulk imports of logs and bags of cement. Another advantage of the port is that there are big "lease lots" available. He informed the committee that Phase 3, which will add more capacity to the port, is in the permitting stage. He then directed attention to the Port MacKenzie Rail Extension, the purpose of which is to link the main Alaska Railroad Corporation (ARRC) line to tidewater in order to bring goods in and commodities out. The permitting processes are complete, except for one pending legal challenge, and the goal is to have the project finished and run trains to the port by the fall of 2016.

[11:45:05 AM](#)

A short video was shown.

MR. DYER assured the committee that during construction salmon migration, hiking trails, and forestry issues were all accommodated. He projected a slide of rail being laid at Houston which is at the northern end of the project. The request for funding this year is for \$60 million, and for \$41 million in 2016, which will finish the project in time to import the pipe needed for the ASAP pipeline project. He advised that the rail expansion project has broad support across Alaska because business and municipalities understand the importance of the flow of goods from the Interior.

[11:47:50 AM](#)

A short video was shown.

MR. DYER gave many examples of the material and equipment that must be imported to support a growing number of projects in the state including roads to resources in Western Alaska, the Susitna-Watana Hydro project, and the proposed gas pipelines. A study in 2008 indicated that the cost savings related to use of the Port MacKenzie Rail Extension to support gas pipeline construction is estimated to be from \$122 million to \$176 million. Furthermore, after the infrastructure in the Interior is built, the extraction and export of natural resources can begin. He returned to the land area of the port, and noted that there will be a 100-car rail loop which will enable a train of coal from Healy to unload and return in one day. Several companies have made commitments to, or have shown interest in, shipping freight to Port MacKenzie. The Mat-Su Borough, WTCAK, and ARRC are working together to market the port and the opportunities created by the port along the rail line. Although controversial, KATABA is a boon to economic development throughout the state and would benefit Anchorage specifically by transporting over 20,870 people to Anchorage from the Mat-Su Borough per day to work. There are also commuters coming to the Goose Creek Correctional Center, and the potential for 5,000 more new jobs at Port MacKenzie. After KATABA, consumer access to Anchorage from Knik-Fairview, Big Lake, Houston, and Willow will improve.

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MAYOR DEVILBISS added that the above mentioned towns are in the fastest growing region of the Mat-Su Borough.

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A short video was shown.

MR. DYER related that the next project is the Alaska Gasline Development Corporation (AGDC) ASAP which would terminate at the Fairbanks Natural Gas (FNG) liquefied natural gas (LNG) processing facility. At this facility, trucks are loaded with LNG to supply Fairbanks and other pipelines that are, or will be, in operation to supply natural gas to the Mat-Su Borough, Anchorage, and the Matanuska Electric Association, Inc. power plant. Mr. Dyer further explained that ASAP extends from the North Slope to the LNG plant, which is 12 miles north of Port MacKenzie, and the proposal has generated interest from a Japanese company, Resources Energy Inc. (REI) which has entered into agreements with AGDC regarding building LNG facilities at Port MacKenzie and on the Kenai Peninsula. So, Port MacKenzie could support the imported materials for pipeline construction. By the rail extension, materials could be transported north, and KABATA would supply transportation for the workforce to support the projects and the industry that would follow. He stressed that the value of all of the aforementioned components, when in place, would exceed the value of each individual project; in fact, if the Mat-Su has natural gas, it has low-cost energy and can create low-cost electricity. He cautioned that long supply chains block industry in Alaska, and the transportation link by rail and bridge will collapse the supply chains, and along with low-cost energy, will allow for an entire economy to be encapsulated within 400 miles. Other highlights of the Mat-Su Borough economy include the Goose Creek Correctional Facility, with 1,500 inmates and 371 jobs, and the Alsop Town Site.

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MAYOR DEVILBISS informed the committee the Alsop Town Site is borough-owned land adjacent to the port. The plot is five square miles and its development into the infrastructure needed for the correctional facility workers will begin this summer. In response to Chair Hughes, he said the unofficial name of the townsite came from the access road named after an early homesteader.

REPRESENTATIVE PRUITT asked for the vision of a townsite sited so close to the prison.

MAYOR DEVILBISS stated that as the transportation infrastructure is developed, the prison will not be the primary entrance into the community. Also, the developers want to see two connected floatplane lakes create a seaplane base.

REPRESENTATIVE GATTIS recalled her experience on a citizen's advisory group prior to the construction of the prison, and noted that prisons can become anchors for future growth. For example, Hiland Mountain Correctional Center has not had the impact that the community expected, and she opined there have been good relationships with the correctional farm as well.

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REPRESENTATIVE TARR surmised the original homestead will be developed into multi-use areas, and asked if the development will remain part of the Mat-Su Borough.

MAYOR DEVILBISS said he was unsure. It is anticipated that the townsite will become an incorporated town at some point. However, the land now belongs to the Mat-Su Borough with private land and old homesteads nearby.

REPRESENTATIVE PRUITT anticipated there will be interest in individual residential housing after KABATA.

MAYOR DEVILBISS confirmed that there is a lot of privately owned land in the area and speculators have been buying land on Burma Road at the end of the KABATA project. He cautioned that to prevent the area from "turning into a strip mall," the Mat-Su Borough created the townsite for higher density development.

CHAIR HUGHES questioned whether passenger rail service from the townsite to Fairbanks is a possibility.

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MAYOR DEVILBISS affirmed that the Mat-Su Borough is working with ARRC to initiate transit service on the rail from Wasilla to Anchorage, thus after the rail link is finished that will be an option from the port.

MR. DYER pointed out the townsite will create housing for the employees at the prison; in addition, there are development plans for the land near the prison and the wastewater treatment plant under construction. In response to Chair Hughes, he said the development plans are the tomato project.

MAYOR DEVILBISS added that the townsite already has water and sewer infrastructure ready to build.

MR. DYER urged the committee to tour the wastewater treatment plant. He returned attention to the FNG pipeline from Beluga which supplies natural gas to Fairbanks and its take-off pipeline that currently supplies the Mat-Su Borough and Anchorage, and to the future MEA power plant. Central Alaska Energy will be building a tank farm at Port MacKenzie to supply low-cost fuel to the Interior. This project is being funded by a loan from the Alaska Industrial Development and Export Authority (AIDEA).

MAYOR DEVILBISS mentioned that Central Alaska Energy will be importing low-sulfur fuel, and therefore is not in competition with the Flint Hills Resources refinery.

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MR. DYER returned to the presentation, and said Chugach Electric power lines supply electricity from the power plant by Beluga, and a large intertie project is planned from [Bradley Lake Hydro] in Homer, passing through Port MacKenzie to the intertie and to Fairbanks. Not widely known is the Arctic fiber optic project being built by Quintillion Networks and partly funded by Futaris, Inc., [a subsidiary of Calista Corporation]. The project will bring fiber optic cable from Tokyo through the Arctic to Europe; this important project will bring state-of-the-art fiber to Alaska with take-off points along Alaska's northern coast, and provide competitive-speed internet connections. In response to Chair Hughes, he clarified that the fiber will travel through the Port MacKenzie area on its way to Anchorage. Other companies that have locations at Port MacKenzie include WestPac Logistics LLC, which provides freight-forwarding, and Alutiiq, which manufactures homes in its factory at Port MacKenzie and barges or trucks them to remote areas.

MAYOR DEVILBISS, as an aside, stated that manufacturing has been ongoing for ten years. He related that the Point MacKenzie area also has an agriculture area, which is 15,000 acres set aside by the state in the '80s. Most of the land is in production; in fact, the only hay reserves in the state are there, and transportation to Port MacKenzie will bring products closer to markets.

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MR. DYER further explained that another important project is to create a processing center for agricultural goods from throughout Alaska which could then be shipped to markets in Asia or transported to Anchorage for flights to Asia. He then directed attention to the possibilities for value-added industries, and described the process for mining copper, stressing that the mineral's value to the state comes from the extraction taxes on concentrates that leave Alaska; however, when the ore progresses through processing steps until it becomes a choke, or a semiconductor, the value increases 800,000 percent. The value of the copper ore when it is shipped from Alaska is \$950 per metric ton (MT), in addition to the transportation and mining payrolls. Mining and shipping concentrates overseas has been the model for Alaska, because the state has been prevented from processing its raw materials by its distance from materials, its distance from markets, high energy costs, and a weak workforce due to a shortage of industry. Improved access to natural gas and transportation links will collapse the supply chains and reduce the cost of energy so that Alaska can compete. Rail transportation will shorten the distance to materials and markets, allowing Alaska to retain its youth for a workforce and capitalizing on the fact that Asian markets are 30 percent closer to Alaska than to the U.S. West Coast. Mr. Dyer stated that 2,400 cargo aircraft per month refuel at Ted Stevens Anchorage International Airport and return to Asia mostly empty. This is an opportunity for industry to save on shipping, as the peony growers are doing. In addition, 4,000 ships transit through the Aleutian Islands each year. Mr. Dyer then presented a scenario in which copper concentrates are not shipped out but are smelted into ingots in Alaska. This raises the value of the copper from \$950 to \$3,500 per metric ton (MT), in addition to creating jobs, industry, and infrastructure. Further, if the copper is refined in Alaska, the value increases to \$6,520 per MT. If the refined copper is made into wire, the value increases to \$40,093 per MT. If the wire is made into chokes, the value increases to \$8,401,606 per MT. The final step would be building circuit boards and installing them into devices, which would bring high tech industry to Alaska, creating jobs and changing lives.

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MR. DYER concluded that there are many products made from copper such as wind turbines and cable, and copper is just one example of the many minerals that are produced in Alaska. His hope is that the presentation has shown what can be done at Port

MacKenzie and in the Port MacKenzie Enterprise Zone that is critical to creating wealth and prosperity in Alaska.

[12:29:19 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development, Trade, and Tourism meeting was adjourned at 12:29 p.m.