

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

February 18, 2014

1:05 p.m.

MEMBERS PRESENT

SENATE TRANSPORTATION

Senator Dennis Egan, Chair
Senator Fred Dyson, Vice Chair
Senator Anna Fairclough
Senator Click Bishop

HOUSE TRANSPORTATION

Representative Peggy Wilson, Chair
Representative Doug Isaacson, Vice Chair
Representative Eric Feige
Representative Lynn Gattis
Representative Bob Lynn

MEMBERS ABSENT

SENATE TRANSPORTATION

Senator Hollis French

HOUSE TRANSPORTATION

Representative Craig Johnson
Representative Jonathan Kreiss-Tomkins

COMMITTEE CALENDAR

PRESENTATION: PORT OF ANCHORAGE BY MAYOR DAN SULLIVAN

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

DAN SULLIVAN, Mayor
Municipality of Anchorage
Anchorage, Alaska

POSITION STATEMENT: Provided a presentation on the status of the Port of Anchorage project.

LUCINDA MAHONEY, Chief Financial Officer
Port of Anchorage
Anchorage, Alaska

POSITION STATEMENT: Answered financial questions on the Port of Anchorage project.

ACTION NARRATIVE

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CHAIR DENNIS EGAN called the joint meeting of the Senate and House Transportation Standing Committees to order at 1:05 p.m. Present at the call to order were Senators Egan; Representatives Feige, Gattis, Isaacson and Chair P. Wilson.

Presentation: Port of Anchorage by Mayor Dan Sullivan

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CHAIR EGAN said on today's agenda was a presentation on the Port of Anchorage by Mayor Dan Sullivan.

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DAN SULLIVAN, Mayor, Municipality of Anchorage, Alaska, provided a brief history of the Port of Anchorage saying it had been in operation since 1961 and is the only port in the area to have survived the 1964 Good Friday Earthquake and has been the central operating port for the entire State of Alaska ever since.

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He said one reason it is important to point this out is that an incredible amount of goods pass through the Port, an estimated 90 percent of the merchandised goods, 4 million tons, going to 80 percent of Alaska's populated areas serving over 200 towns, villages and rural communities. It is the major point of entry for containerized cargo with over 240,000 containers moving through it annually. It is clearly a \$1 billion economic engine for the state with an aggregate payroll of \$50 million. In one given day when the big barges are in, over 36,000 vehicles move through the Port taking nearly 100 million pounds of goods from them and distributing it.

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He said the facility is on 220 acres of land that is both developed and available to be developed; it has two petroleum berths, three cargo berths, a dry barge berth, a floating dock for small vessels and the three petroleum pipelines. Two of these go to JBER and the Ted Stephens International Airport and one to the Tesoro Refinery on the Kenai Peninsula. He pointed out a small boat launch, "a little known gem," which serves a small commercial fishery. Next to it, Ship Creek is the area in which they had just undertaken a major development plan, the goal being to develop it as a waterfront community.

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SENATORS FAIRCLOUGH and DYSON joined the committee, as well as REPRESENTATIVE LYNN.

MAYOR SULLIVAN said some major corporations - Horizon, Totem Ocean Trailer Express (TOTE), Alaska Basic Industries (ABI), Tesoro, Crowley Marine Services, Flint Hills Resources, and more - do their business at the Port and are essential to its operations.

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REPRESENTATIVE ISAACSON asked how the reduction associated with Flint Hills would impact the Port.

MAYOR SULLIVAN answered that new field capacity is coming in with Delta Western, so rather than a negative impact he saw more of a neutral impact.

He said that two distinct types of vessels come into the Port of Anchorage: Horizon uses cranes to unload the containers onto trucks and chassis and TOTE uses roll-on/roll-off (RORO) vehicles that drive right on the ship, hook up to the containers, and drive off. So, one of the Port's challenges is having two separate capacities for two very different ways of unloading freight; that has to be taken into account in designing the Port for the future.

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He described the Port of Anchorage as an important hub for distributing fuel including jet fuel, avgas, unleaded gas, and diesel. He said 100 percent of the jet fuel is used at Joint Base Elmendorf Richardson (JBER), the Ted Stevens Airport gets about 65 percent of its fuel from there, and 1.5 million gallons of fuel goes to Western Alaska.

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The Port operates in very extreme conditions with the second largest tides in North America, icy conditions and swift current moving those chunks of ice around within those massive tide changes. So, the daily operations are a tremendous logistical feat.

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MAYOR SULLIVAN stated that the U.S. Department of Defense has designated the Port of Anchorage as a strategic seaport, one of only 19 in the nation. It has had over 30 deployments since 2005 with over 18,000 pieces of military cargo passing through it in the past 7 years. As part of the Port expansion project, a direct haul road was built from JBER that does not have to intersect with any other road systems or railroad tracks.

He said the Port continues to seek new business; construction starts on the new Delta Western Tank Farm this year adding fuel storage capacity, and TOTE is starting a new "Just-in-Time project" on the North Extension Area. He noted the Port had been able to handle the huge pieces of equipment associated with the Fire Island Wind turbines and bases and the new generators that Matanuska Electric Association is installing outside of Eklutna. He anticipated more big energy projects going forward whether it's a dam or a pipeline.

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SENATOR BISHOP joined the committee.

MAYOR SULLIVAN said they just completed a draft 2023 Business Plan and wanted to make sure the next port expansion met its business needs. It includes some of the things they are doing now and additional things like barge services to rural Alaska and expanded petroleum products including possibly LNG and compressed natural gas (CNG).

The Port Intermodal Expansion Project (PIEP)

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MAYOR SULLIVAN said that during his transition period he heard rumors that the Port construction project was not going well. Major damage had been sustained during installation of the Port facilities and the design itself was called into question in terms of seismic stability. He said the Port had been band-aiding its 1400-plus corroded pilings that sit in a high tidal area with swift currents by repairing 25 in 2012 and 46 in 2013; 100 more will be done in 2014 and that will cost an estimated

\$3,000,000. But by the time you get to the 1400th pile the ones you started repairing are corroded again and that can't go on. Another major seismic event similar to 1964 could happen and while it withstood that, the experts now have concerns. Also, people who use the Port have said that any major damage to it would be catastrophic.

He said the PIEP spent about \$300,000,000 and accomplished some pretty good work including rail extensions, a floating dock, a gravel haul road, the creation of 65 acres of new land (important for staging large projects), road intersections, utility relocations, and drainage improvements, but unfortunately, a lot of bad work was done, as well.

MAYOR SULLIVAN explained that work was done in a "sheet pile design" where sheets were installed up the front, connected, and filled in with dirt to create the land mass. When he came into office, people were questioning whether that design was suitable for the seismic conditions at the Port. So, the Corps of Engineers commissioned CH2M HILL to look at the design and they concluded that it was not suitable. The original engineers, Peratrovich Nottingham & Drage (PND), contested and said that design had worked all over Alaska and in other places around the world and that it was the construction that went bad. So, he decided to get a third-party review by Simpson Gumpertz & Heger (SGH), a world renowned forensic engineering team, and they also concluded that the original design was not suitable for seismic conditions at the Port.

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With that conclusion, they are not going forward with the same design that the Port project started with; they will go back to a traditional pile-type system and replace the 1400 piles with the new design. The dry barge dock will stay, as all the engineers have agreed that it is functional and safe and doesn't have the same risk as the sheet pile areas.

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He said the Corps commissioned CH2M HILL to make recommendations on an alternative design and that was to first construct a new dock on the left; then TOTE would move to that new dock while work was started on the original dock area. Then Horizon would move to the north and the Port facility would be pushed out another 10 feet to a depth of 45 ft. When that is constructed, Horizon would move to that dock and work could get done on the left. Both facilities would be moved out to the 45 ft. depth

area and TOTE could ultimately move back to its original berthing area.

MAYOR SULLIVAN said everyone knows that money will be a challenge for this project going forward, so he asked them to scale down the facility by eliminating the \$280,000,000 north dock, because it does nothing to improve the existing facilities. So, instead of one of the shippers moving to the new facility in the north they would move up and down the face of the Port as the different phases are built. This makes the project affordable and scalable. Having newly designed pilings and moving out to the 45 ft. depth level is very important because that is what the U.S. Department of Defense requires for a strategic port. He noted that new ships are being built bigger and with deeper drafts and as a business model, he wants to make sure the Port can handle them.

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SENATOR DYSON asked if barges go aground there at low water.

MAYOR SULLIVAN answered yes.

SENATOR DYSON said for many years the Corps of Engineers had been dredging further out for about \$25 million/year, and he has heard that might go away. He asked how fast he expects the silting to fill in, how much dredging will be needed, and what it will cost.

MAYOR SULLIVAN answered that dredging the Port of Anchorage is the number one expenditure of the Corps in Alaska and it is in the \$20-plus million range. They have made the commitment knowing the strategic importance of the Port, not only economically to Alaska but to the U.S. Department of Defense and that it will continue to be a priority. Additionally, moving out into the better current flow at the 45 ft. depth will solve some of the siltation problem.

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SENATOR DYSON asked for historical data on the silt build up, because it is always changing.

MAYOR SULLIVAN agreed that it is changing and that he had been told silt in Cook Inlet is very dynamic. The face of the dock is one thing but they are now encountering siltation in the channel ships come in that is causing it to narrow.

SENATOR DYSON said commercial gold had been struck on every stream in Cook Inlet and he had some miner friends who would be glad to dredge it for free.

REPRESENTATIVE FEIGE commented that the original sheet pile design had a smooth face and was self-scouring which greatly reduced dredging costs and he asked if the new design could be modified to preserve calm water behind the wharf face (leading to silting in around the pilings which isn't necessarily bad) to keep the dredging costs down.

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MAYOR SULLIVAN said the engineers told him two things with the design will help with the siltation problem: scaling the north end to where it's almost parallel with the Port front creates a good flow almost the same as the sheet pile design and he had also been told that the area behind the face could be filled in, which would create more work area.

SENATOR FAIRCLOUGH asked if the Port operates as an enterprise agency.

MAYOR SULLIVAN answered yes.

SENATOR FAIRCLOUGH asked if under that operation model there is a retained earnings account for the Port.

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LUCINDA MAHONEY, Chief Financial Officer, Port of Anchorage, Anchorage, Alaska, answered yes.

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SENATOR FAIRCLOUGH asked when they last looked at port and docking fees.

MS. MAHONEY answered that the fees get looked at every year during the budget cycle; increasing the rates is an option for 2014.

SENATOR FAIRCLOUGH remarked that it had been a decade since the fees had been raised.

MS. MAHONEY said she didn't know but could find out.

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MAYOR SULLIVAN said different rates had been adjusted, the cement rates for one. One thing that is preferable to the

stakeholders about this design is that TOTE would have had to move its ship further to the north under the old design, which would have put them even further away from their base operations. In their business time is money so every minute longer that it takes a truck to roll on and roll off over the course of thousands of trips adds up to real money.

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MAYOR SULLIVAN said before he came on board, the Port project had been managed by the Maritime Administration (MARAD), a subset of the U.S. Department of Transportation (USDOT) that had no experience in this area. By contrast, if the Corps of Engineers had managed it, they probably would have avoided these problems. Because of the problems with the Port, an audit was done of MARAD'S work, and while it's very rare for a department to issue something as terse as this about something within their department, it essentially said MARAD failed in every single aspect of their project management duties. They didn't conduct planning, didn't follow federal contracting or establish a good risk management program; there was no quality assurance, nobody directly on the ground directly managing the project, no benchmarks or timelines. One of their claims was that they delegated, but it turns out the contract arrangement did not allow delegation.

MAYOR SULLIVAN said that going forward the Municipality of Anchorage is taking over all management duties and he had just completed a request for proposal (RFP) for a new project management team that will work directly for the Municipality.

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CH2M HILL was the winning respondent; they are by far the best proposer. The final step in that process is for the Assembly to give approval. He explained that years ago VECO had done some work on the Port project, basically verifying that the design would be suitable. So, when CH2M HILL bought VECO they bought any liabilities that went with it. Some Assembly members have concerns about that and their lawyers and purchasing people have all investigated this top to bottom and found no legal prohibition against CH2M HILL bidding or winning the bid, and it has satisfied all rules and requirements. As a cautionary measure, the Assembly asked to have the bid process reviewed by the Bidding Review Board and they said it was done properly and that CH2M HILL was not only qualified to bid, but certainly was the proper winning respondent.

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The Port had contributed over \$80 million to this project to date (slide 31): the PEIP had received \$439 million and \$302 million of that was transferred to MARAD; there were miscellaneous expenditures of \$7 million (MARAD paid contractors), and \$130 million is unobligated (mainly because in 2012, Senate Bill 160 put \$48.5 million into the project and a GO bond for port energy added another \$50 million). So, they have enough money to move forward with first phases of construction, but more is needed to continue. Contributions totaled \$300,087,562; \$140 million of that came from the federal government.

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REPRESENTATIVE LYNN asked if there is any liability on the part of MARAD for what they did not do and why they are getting money back.

MAYOR SULLIVAN answered that they are not getting money back; it's just what they had already spent to date on the project.

REPRESENTATIVE LYNN asked if they spent a major share of it on improper things.

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MAYOR SULLIVAN said he would show the answer to that question in two slides. He said there is a good partnership between the Port and the state and federal government going forward, but the challenge will be the future decline in federal funding.

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REPRESENTATIVE ISAACSON asked if there are will be any penalties for using federal funds for work that wasn't finished and if those funds could be applied to the new alternative project.

MAYOR SULLIVAN answered that he had not heard any concern about penalties; money was spent and work was done.

REPRESENTATIVE ISAACSON said he was thinking more along the lines of since the Port was changing the plan they might penalize them. That occurs in some transportation funds.

MAYOR SULLIVAN said it's not a challenge at this point.

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MAYOR SULLIVAN said a new management team is on board and reporting to him; they will get new environmental assessments done, new permitting and hopefully start construction. No stone

will be left unturned for funding at the federal level, but only \$30-40 million will be available through grants and those are very competitive. He would continue working on getting state funding and saw an opportunity through the Anchorage Metropolitan Area Transportation Solutions (AMATS). Locally they have the ability to incur a little more debt, but not as much as years ago. P3 partnerships had been discussed and folks at the Alaska Industrial Development and Energy Authority (AIDEA) had talked about the potential for a public private partnership. The challenge in that would be having a good revenue stream to pay back plus make a profit. That would probably engender some sort of rate increases, so a study of rates would have to be done.

REPRESENTATIVE ISAACSON asked how much future financing he is looking for.

MAYOR SULLIVAN answered with the \$130 million they have in hand, probably \$250-300 million more would be enough to finish the project, but the final design isn't done. TIFIA loans/credits are available that credits work that has already been done in the calculation for an amount to qualify for.

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MAYOR SULLIVAN said they had filed a suit against the designer and some of the contractors: Integrated Concepts and Research Corporation (ICRC) was the general contractor, PND was the designer, and CH2M HILL as VECO did some of the verification work on the design and seismic work. Future litigation was being considered against MARAD that spent \$300 million without getting to a finished project.

REPRESENTATIVE LYNN asked where they are in the process of resolving the litigation.

MAYOR SULLIVAN said the litigation with MARAD had not been filed yet and they are one year into the lawsuit with the contractors and designers. Briefs had been filed and oral arguments, but he didn't know what the attorneys see as a timeline for resolution.

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REPRESENTATIVE LYNN asked what oversight the state did. Did no one locally know until it was too late?

MAYOR SULLIVAN answered that there was a whole series of communications from contractors and PND engineers over the course of 2008-10 with grave concerns about what was going on in the construction aspect.

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CHAIR EGAN thanked the Mayor for his presentation and adjourned the Joint Senate and House Transportation Committee meeting at 1:52 p.m.