

SENATE FINANCE COMMITTEE
March 20, 2019
9:01 a.m.

9:01:38 AM

CALL TO ORDER

Co-Chair von Imhof called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Natasha von Imhof, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Lyman Hoffman
Senator Peter Micciche
Senator Donny Olson
Senator Mike Shower
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Senator Cathy Giessel; Senator John Coghill, Sponsor; Rynniva Moss, Staff, Senator John Coghill.

PRESENT VIA TELECONFERENCE

Jon Cook, Chair, Board of Directors, Alaska Railroad Corporation; Jim Kubitz, Vice President of Real Estate, Alaska Railroad; Peter Grunwaldt, Co-Owner, Alaska Tourism Development, LLC.

SUMMARY

SB 41 NUMBER OF SUPERIOR COURT JUDGES

SB 41 was REPORTED out of committee with a "do pass" recommendation and with one previously published fiscal impact note: FN 1(AJS).

SB 54 ALASKA RAILROAD CORP. LAND TRANSFERS

SB 54 was HEARD and HELD in committee for further consideration.

Co-Chair von Imhof indicated Senator Giessel and Senator Coghill were present in the room. She reviewed the agenda for the day.

#sb41

SENATE BILL NO. 41

"An Act relating to the number of superior court judges in the third judicial district; and providing for an effective date."

[9:02:24 AM](#)

Co-Chair von Imhof noted that the bill was previously heard in committee on March 8, 2019. In that meeting there was no public testimony and the fiscal note was reviewed. Her office received no amendments. Ms. Nancy Mead with the Alaska Court System was available for questions.

Senator Hoffman MOVED to report SB 41 out of Committee with individual recommendations and the accompanying fiscal note.

There being NO OBJECTION, it was so ordered.

SB 41 was REPORTED out of committee with a "do pass" recommendation and with one previously published fiscal impact note: FN 1(AJS).

#sb54

SENATE BILL NO. 54

"An Act approving the transfer of certain Alaska Railroad Corporation land; and providing for an effective date."

[9:03:30 AM](#)

Co-Chair von Imhof invited Senator Coghill and his staff to the testifier table.

SENATOR JOHN COGHILL, SPONSOR, thanked the committee for hearing his bill. He recounted that the previous year he had worked on legislation to enable the Alaska Railroad Corporation to sell and authorize the sale of certain pieces of property. The Healy area was one area that had been agreed on. He relayed that previously the legislature had made the railroad run through a gauntlet to get the bill. In the process, the property description was removed. He deferred to his staff, Rynniva Moss, for further details on SB 54.

RYNNIEVA MOSS, STAFF, SENATOR JOHN COGHILL, provided a brief history of how the bill was derived. She recalled that in 2017 the senator had introduced SB 86 [Legislation having to do with the Alaska Railroad Corporation, land, bonds, and finance]. She explained that the original version of the bill repealed the statute that required the railroad to obtain legislative approval for land sales. The bill left the Senate as a 3-year pilot project that would allow the corporation to sell property and return to the legislature to give reports of the status of the land sales. She indicated the first year's report could be found in members' packets. She continued that SB 86 died a very slow death in the House Labor and Commerce Committee.

Ms. Moss continued that the House and the Senate agreed that it was important to put public lands into private ownership and to encourage economic development. Therefore, they rolled SB 86 into HB 119 [Legislation passed in 2018] which dealt with public corporations. The legislature added 5 specific land sales that the railroad had already approved by resolution, and it also added 2 land sales that were by request of companies that already had land leases with the railroad. One of the leases was with Lynden Transport and the other lease was for a low-income housing project. Five of the sales were currently in the process and the report would provide the related status of the sales.

Ms. Moss reported that it was not until the last 2 or 3 days of session when SB 86 was rolled into HB 119. There was an error in the land description, which she admitted was her fault. She was under the impression the railroad was selling the existing lease it had. The railroad was selling the related lease as well as the rest of the block of land. She specified that there was a map in members' packets that showed "Parcel B" which was about 18 acres in

the original land sale, but it was not in the bill. No one caught the error at the time. Senate Bill 54 would correct the error.

Senator Wielechowski asked where Parcel B was on the map handout. Ms. Moss stated that the parcel was on the right-hand side of the map. Senator Wielechowski asked for additional clarity. Ms. Moss responded that the parcel was in the Healy area East of the Parks Highway. Senator Wielechowski requested a better map. Ms. Moss was happy to provide a better map.

Senator von Imhof relayed that Senator Bishop had joined the meeting.

Senator Micciche asked if someone from the Alaska Railroad Corporation was available to answer questions. Senator von Imhof replied that Mr. John Cook, a board member of Alaska Railroad Corporation, would be providing invited testimony shortly. Senator Micciche indicated he could wait.

Senator Hoffman relayed that in the past when the state transferred property it did not transfer subsurface rights. He asked if the state had subsurface rights and whether they were being transferred in the bill. Ms. Moss stated that the bill was only transferring surface rights, not subsurface rights.

Co-Chair von Imhof announced that the committee would hear from Mr. John Cook who was online.

[9:09:29 AM](#)

JON COOK, CHAIR, BOARD OF DIRECTORS, ALASKA RAILROAD CORPORATION, explained that SB 54 was needed to clean up an error from the prior year regarding a sale the railroad wanted to proceed with at Otto Lake near Healy that would be used for a hotel development. The railroad remained in support of the project and wanted to complete the sale to Premier Alaska Tours in the current year. The buyer wanted to begin construction activities in the present year. The railroad welcomed the legislature's support of SB 54.

Senator Micciche was curious about the status of the previous year's land sales. He referenced the transfer of lands to private ownership, particularly entities that had spent many years and millions of dollars developing the

properties. He asked for a status report of the properties Ms. Moss had referred to earlier in the meeting.

Mr. Cook reported that the railroad closed the vast majority of sales that were approved in the prior year. In the previous year the Alaska Railroad Corporation closed the sale of Tri-Valley Subdivision to Usibelli Coal Mine who would, in turn, sell it to the individual owners. The railroad also closed a portion of the Premier Alaska Tours sale at Otto Lake. Additionally, there was a residential subdivision that the railroad owned which had sat vacant for over 20 years. The railroad received authorization to sell the lots. He reported that out of the 10 lots that were put up for sale the previous year, 9 of the lots had sold. There was only 1 lot left from the original Phase I. The railroad would be putting another 14 lots up for sale soon. The 10 lots that sat vacant for over 20 years had over \$1 million invested in utilities.

Mr. Cook continued that there were 2 other parcels that had not closed but were anticipated to close in the current year. The first parcel was in Eklutna and was a land swap requiring permission from the state to do so. The final parcel was a sale of port land to the Port of Alaska and the Municipality of Anchorage. The final sale was anticipated to close in the current year. He asserted that all of the transactions that were approved by the legislature had either closed or would be closing by the end of the year. He noted that in the instance of China Landings, a multi-year phased project, the railroad had a very positive sell-out. It was new construction for single family homes or multi-family homes in the Fairbanks area. The project was well-received, and the railroad received at or above the asking price on all 9 lots sold in 2018.

Senator Micciche asked about the sale to Lynden. Mr. Cook responded that there was land that the Municipality of Anchorage needed for the Port of Alaska. The related transaction was in process. The Lynden and Neighbor Works transactions were put in without an agreement to sell.

[9:14:25 AM](#)

Co-Chair Stedman asked about potential setbacks for property being discussed. He asked for an update. Mr. Cook asked what type of setbacks Co-Chair Stedman was referencing. Co-Chair Stedman explained that when the state

transferred land with waterfront they typically had building setbacks for pedestrians or access easements. He used the example of a 50 foot setback, which would prevent a structure being erected 50 feet from the waterline of a lake. He provided an additional example. He wondered if any setback issues were attached to the sales.

Mr. Cook stated that with regard to the Chena Landings Subdivision there was a waterway setback of 25 feet from the mean-high water mark that was a no-build area. Additionally, the railroad granted a trail easement to go through the subdivision. The city and the Department of Transportation and Public Facilities (DOT) would eventually build a walking and biking trail. He could not speak to specific setbacks on Otto Lake. He thought other invited testifiers could address the area. He was aware that a replotting process had to be done with the Denali Borough. To the extent that there were actual setbacks noted on a plat or in purchase and sales agreements, he did not know any specifics. He indicated there were other people online that could speak to specifics regarding Otto Lake.

Co-Chair von Imhof listed others available online.

Co-Chair Stedman had more questions that he could ask after the other testifiers had a chance to speak.

[9:18:00 AM](#)

Senator Wielechowski referenced and read lines 12-14 on page 1 of the bill. He asked if there had been an appraisal done and queried about its findings. He asked if there had been a history of the land being leased previously. He asked about cash equivalents and whether the railroad had the ability to accept less than a property's fair market value.

Mr. Cook explained that an appraisal on the parcel had been obtained a year previously. He affirmed that the sale of the property was for an amount in excess of the appraised value. A portion of the sale amount was paid for the fee-simple land and the remainder, which was being discussed, was a prepaid 95-year lease. In the event that the legislation was not passed, the railroad had a back-up plan. He confirmed that the railroad had the entire amount paid upfront at the time of the sale closure in the previous fall. The sale amount was paid in cash and a

portion of the amount remained as a deposit for a prepaid lease or the fee-simple purchase. The railroad had obtained full funds in cash.

Senator Wielechowski asked for the appraisal and sale amounts. Mr. Cook estimated the appraisal to be \$250,000 and the sale amount to be \$400,000. There was a tenant that had a portion of the property. Premier Alaska Tours had to work with the entity to obtain their rights prior to closing with the railroad. A portion of the property had been leased to a tourism entity.

Co-Chair von Imhof had jotted down some of the questions to bring up with other testifiers. She invited Mr. Kubitz to address the questions regarding setbacks and sales prices.

[9:21:25 AM](#)

JIM KUBITZ, VICE PRESIDENT OF REAL ESTATE, ALASKA RAILROAD (via teleconference), addressed the question about setbacks in the Healy area. He indicated that it was a local determination depending on the borough regulations. The borough would have a regulation defining the land use setbacks. The appraisal on the property was \$270,00 and the sale price was \$400,000.

Senator Wielechowski asked about the tenants on the property and wondered what terms the railroad had with the tenants. He also asked if the sale of Parcel B exceeded the lease with the tenants. Mr. Kubitz asked for clarification about what piece of land the senator was referring to. Senator Wielechowski was talking about the piece of land in the bill currently before the committee.

Mr. Kubitz reported that the railroad had a tenant on the property on Otto Lake which was part of the property that was transferred and sold already to Premier Alaska Tours. The railroad had a long-term lease on the property, but Premier Alaska Tours bought out the business and the sale was consummated. The piece of property in question was not under lease previously. It was naked land adjacent to the development site.

Co-Chair Stedman referenced setbacks and realized Otto Lake was a lake body rather than a tidewater body. He was concerned that the railroad was moving forward with land sales and having a zero waterfront setback. The legislature

was trying to work with the Alaska Railroad to enhance their real estate portfolio and liquidate properties as warranted. He spoke of different setbacks on different waterfront properties and the possibility of setbacks diminishing values. He wondered how values of properties were enhanced with 100 foot setbacks. He wanted to highlight the discrepancy in setbacks between properties owned by the Alaska Railroad, the Department of Natural Resources, and the University of Alaska. He thought it was an important issue to consider. He was in agreement with how the railroad was handling its properties and setbacks. He continued to stress that setbacks were hurting land values.

[9:27:00 AM](#)

Senator Micciche thought the question of setbacks was interesting. He referenced the Kenai Peninsula Borough doing an anadromous streams act that put a 50 foot setback on all properties. If a property owner wanted a dock on a piece of tidewater property it might be difficult to obtain permitting. It might be that the property owner would not be able to install a dock - the reason for their purchase. He thought it was difficult to purchase tidewater property. He agreed with Co-Chair Stedman and stated that the issue affected his district significantly. He wondered if there was a permitting system under which a property owner could utilize the setback area for an installation even if it was not permanent.

Mr. Kubitz stated that decisions were made by borough or city land use entities. He knew there was a 25 foot setback on the Chena River. A local decision would have to be made whether they could use the 25 foot setback.

Senator Bishop added to Co-Chair Stedman's comments about DNR land. He wanted to see the land more accessible for purchase in order to get the highest and best value for land sales.

Co-Chair Stedman, in response to the Chena River, relayed the difference between a building setback and an access easement. A building setback did not allow for a public access easement. He mentioned pedestrian, utility, and powerline easements. He stated there was no interest to eliminate public access to the waterfront, rather his concern had to do with the amount of setback. He argued

that that large setbacks of 50 to 100 feet affected property values.

Co-Chair von Imhof reminded members about the bill in front of them that added a small amount of land to the bill that was passed in the prior year in order to complete the sale of a property in and around Healy. She reported that the buyer of the property was available to testify.

Senator Wielechowski referenced page 1, line 13 that stated the Alaska Railroad Corporation could accept a cash equivalent. He wanted to clarify that the language did not give the railroad the ability to accept less than the cash equivalent of the fair market value. Mr. Kubitz answered in the affirmative, the railroad could not accept anything less than fair market value.

Co-Chair von Imhoff invited the next testifier to the table.

[9:32:18 AM](#)

PETER GRUNWALDT, CO-OWNER, ALASKA TOURISM DEVELOPMENT, LLC (via teleconference), was a managing member of Alaska Tourism Development which was a real estate and investment holding company, and Premier Alaska Tours was its operating company. He relayed that the bill in front of the committee was simply correcting a clerical error from the previous year that the company had authorization or at least approval from the Board of Directors of the Alaska Railroad Corporation.

Mr. Grunwaldt explained that the company had moved forward with an appraisal for the purchase of a 47-acre piece of property on Otto Lake just North of Denali National Park. The intention of the company was to build a hotel for its summer tourist operations, a boat house, a motor coach maintenance facility, and some employee housing. The 17 acres specifically being discussed currently was included in the appraisal and was essentially prepaid at the time the company closed on the 26 acres. The land, Parcel B, was not contiguous with the lake and had not been previously leased by the railroad. It had been a buffer area for a view shed and was set to be an area for a motor coach maintenance facility and some employee housing away from the development that would be visible to the hotel. The company was looking forward to starting construction in the

summer. However, without the ability to own the property, it was more challenging to obtain bank financing or develop partnerships. He appreciated the committee's support of the bill.

Co-Chair von Imhof noted that the governor had discussed the importance of unleashing entrepreneurship and diversifying the state's revenue. Tourism had been highlighted as a bright spot in Alaska's economy and continued to be a significant employer. The state was forecasted to have record visitors in Alaska in the coming summer via ground and water. She suggested that having the featured element of Denali National Park was world-renowned.

Senator Bishop asked how many new jobs the construction would bring when the project was at capacity. Mr. Grunwaldt stated that Premier Alaska Tours was an operating company with motor coaches and rail cars. The company's summer tours operation employed 650 people. The company tried as much as possible to hire local Alaskans, as it was very proud to be a locally owned and operated company. The company delivered Alaskan service, Alaskan food, and anything else made in Alaska. The operation the company currently ran was experiencing a bottle neck in Denali National Park. There were not enough rooms, and in order for the company to grow its business and continue to fill seats on its train cars and busses, more capacity was needed in Denali National Park.

Mr. Grunwaldt continued that when visitors came to Alaska there were two places they wanted to visit: Glacier Bay National Park and Denali National Park. The company was concerned in the long-term that if it did not do something to provide more accommodations in Denali National Park, it would not be able to continue selling tours that were 7-9 night tours that also included visits to several other places in Alaska. He noted the planned hotel would have 300 rooms and employ an additional 200 people that would work in various areas including housekeeping and management. The company was also considering a maintenance facility that would help with winter operations. Currently, the company did not have an ability to keep coaches warm in the winter. The company was bringing in several tourists, including tourists from China, to view the Northern Lights in the winter. The company was considering a winter presence for

the long-term. On the maintenance side, it would be very helpful to be able to warm-start and work on coaches.

Senator Bishop thanked Mr. Grunwaldt for creating additional jobs for Alaska's economy.

[9:37:15 AM](#)

Co-Chair von Imhof OPENED public testimony.

[9:37:31 AM](#)

Co-Chair von Imhof CLOSED public testimony. She asked whether the will of the committee was to move the bill forward.

[9:37:48 AM](#)

AT EASE

[9:38:46 AM](#)

RECONVENED

Co-Chair von Imhof asked Senator Shower to review the fiscal note.

Senator Shower discussed Fiscal Note 1 from the Department of Commerce, Community and Economic Development with an appropriation of the Alaska Railroad Corporation, an allocation of Alaska Railroad, and an OMB component number of zero. He read from the analysis on the second page of the fiscal note:

"The Alaska Railroad Corporation is a public corporation established under AS 42.40.010. The Corporation operates independently and is not a part of the Governor's FY2020 proposed operating budget."

Co-Chair von Imhof indicated that in lieu of waiting for some additional information to come back, including a larger map, she would set the bill aside. She asked members to let her office know if there were any concerns or amendments regarding the bill. She reviewed the agenda for the following day.

SB 54 was HEARD and HELD in committee for further consideration.

ADJOURNMENT

9:39:56 AM

The meeting was adjourned at 9:39 a.m.