

SENATE FINANCE COMMITTEE
March 21, 2019
9:02 a.m.

[9:02:34 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:02 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

William D. Falsey, Municipal Manager, Municipality of Anchorage; Steve Ribuffo, Director, Port of Alaska; Senator Cathy Giessel; Senator Shelley Hughes; Senator Jesse Kiehl.

SUMMARY

^PORT OF ANCHORAGE: IMPORTANCE, STATUS UPDATE, and CHALLENGES

[9:04:02 AM](#)

WILLIAM D. FALSEY, MUNICIPAL MANAGER, MUNICIPALITY OF ANCHORAGE, discussed the presentation, "Port of Alaska Modernization Program History and Status" (copy on file).

[9:04:33 AM](#)

Mr. Falsey highlighted Slide 2, "Why Care about the Port?"

[9:04:38 AM](#)

Mr. Falsey looked at Slide 3, "Critical: Alaska's premier inbound cargo port":

- Half of state's inbound, marine freight
- Half of Port freight delivered outside of Anchorage
- DOD-designated National Strategic Defense Port

[9:05:08 AM](#)

Mr. Falsey addressed Slide 4, "Old: Time is running out":

- Half-century old docks are failing due to corrosion
- Docks will start closing in about 10 years regardless of seismic activity or anything else

[9:05:35 AM](#)

Mr. Falsey discussed Slide 5, "Short of Funds":

- First replacement facility is 100 percent designed: Petroleum /Cement Terminal

Total funding is not enough to complete shovel-ready construction

[9:05:54 AM](#)

Mr. Falsey highlighted Slide 6, "In the beginning (pre-" Port Expansion")." The slide showed a 2004 photograph that reflected two large areas of mud on either side of the cargo terminals. He said that it was known in 2004 that due to the mud on either side of the terminals that the facility would eventually need to be replaced.

[9:06:32 AM](#)

Mr. Falsey addressed Slide 7, "The Port of Anchorage Intermodal Expansion Project (PIEP) Vision." He said that the grand vision on the new land would have allowed for various updated facilities and terminals. He said that open cell sheet piles would have been used over standard construction techniques.

[9:07:02 AM](#)

Mr. Falsey looked at Slide 8, "Not standard "piles"."

Mr. Falsey highlighted Slide 9, "1976 construction of Terminal 3."

Mr. Falsey looked at Slide 10, "Open Cell Sheet Pile Construction."

[9:07:27 AM](#)

Mr. Falsey turned to slide 11, "The Port of Anchorage Intermodal Expansion Project (PIEP) Construction," which showed how the mud would be converted into new land: The Barge Births and Northern Extension, and the South Backlands. He relayed that this project ended in calamity due to sheet pile failure.

[9:07:36 AM](#)

Mr. Falsey highlighted Slide 13, "The Port of Anchorage when PIEP was Stopped." He stated that when the project stopped in 2012, the state had successfully converted the old mud into the seismically unstable South Backlands and Northern Extension and had not reached any of the facilities that needed to be replaced.

[9:07:57 AM](#)

Mr. Falsey discussed Slide 14, "Vision After 2013 Concept Design Study." The intent had been to salvage some of the work that had already been done by building a new cargo terminal at the North Extension.

[9:08:15 AM](#)

Mr. Falsey addressed slide 15, "2013 CH2MHill Concludes Design Not Suitable." He turned to Slide 16, "Dry Barge, Wet Barge, NE 1, NE 2." Slide 16 showed several designs that were generated to salvage some of the work that had already been done. Professional geoenvironmental engineers had reviewed the revision to determine seismic stability.

[9:08:38 AM](#)

Mr. Falsey addressed Slide 17, " 2013 CH2MHill Concludes Design Not Suitable":

- Dry barge berth can be used
- Wet barge berth has "major defects" and its "factor of safety" for "static global stability" is inadequate
- North Extension 1 has "even lower [factor of safety] for static global stability"
- North Extension 2 has "most dramatic construction defects" and is globally unstable

Mr. Falsey discussed Slide 18, "Dry Barge, Wet Barge, NE 1, NE 2." He lamented that the facility had not only be improperly constructed but was also dangerous. He relayed that the Dry Barge could be salvaged, but that the other three would need to be removed.

[9:09:31 AM](#)

Mr. Falsey highlighted Slide 19, "Anchorage Daily News." The slide contained a picture from the November 30, 2018 Anchorage earthquake. He noted that the land in the photo was the same land that was under the Dry Barge area, which offered cause for concern.

[9:09:38 AM](#)

Mr. Falsey looked at Slides 20 and 21, "Dry Barge, Wet Barge, NE 1, NE 2."

[9:09:46 AM](#)

Mr. Falsey highlighted Slide 22, "Modernization - Not Expansion, Just Replace what we have." He said that this concept moved away from any delusions of grandeur to the idea of modernizing the port as it exists.

[9:10:08 AM](#)

Mr. Falsey addressed Slide 23, "2014 Charrette Stakeholder Representation":

- Municipality of Anchorage (MOA)
 - Geotechnical Advisory Commission (GAC)
- Port of Alaska (POA)
- Totem Ocean Trailer Express (TOTE)
- Horizon Lines (Now Matson)

- ABI Cement
- Southwest Alaska Pilots Association
- Cook Inlet Tug and Barge
- US Army Corps of Engineers Alaska District (USACE)
- Alaska Railroad Corporation (ARRC)
- CH2M HILL/HDR Program Team

[9:10:38 AM](#)

Mr. Falsey looked at Slide 24, "Modernization-NOT Expansion (Just replace what we have)." He stressed that the 2014 concept set the project on the path that it was currently on, with a new significant cost to modernize the facility by attending to the leftover problem created by the old and failed federal project. He added that replacement of the cargo terminals, while keeping them in operation, would be a challenge.

[9:11:01 AM](#)

Co-Chair von Imhof looked at Slide 17. She understood that the Dry barge berth could be used, but the other areas were unstable. She asked what would be done with the unusable areas under the 2014 concept design study for modernization.

[9:12:40 AM](#)

Mr. Falsey replied that parts that could not be repaired would be removed and paired back to be structurally stable. Those areas would not be used for new facilities.

[9:13:29 AM](#)

Co-Chair Stedman queried possible future demolition and the accompanying cost.

[9:13:42 AM](#)

Mr. Falsey looked at Slide 25, "Post-2015 Direction and Changes":

- Begin with design and \$128 million
- Prioritize construction of useful facilities - deferring second portion of North Extension Stabilization
- Advance Design

- Secure Funding

Mr. Falsey said that the priority would be the construction of useful facilities and the stabilization portion of the Norther Extension would be deferred. He noted that there was not yet funding for the program. He shared that the start would be to carve off the "nose" of the Northern Extension and then the rest would be removed over time. He said that the core mission was to advance the design of the useful facilitates. The first of those facilities was the Petroleum Cement Terminal, which had to be moved south in order to make room for all the cargo construction. He stressed that the project was not one big project but, rather, a series of small projects - the only portion of which was ready now was the Petroleum Cement Terminal. He said that the city had inherited the problem and now had to determine where the money would come from for the necessary changes.

[9:15:29 AM](#)

Co-Chair Stedman addressed the history of the project as it had been discussed in committee. He expressed concern that money was being wasted on demolishing structures the state had made previous appropriations to build.

[9:16:21 AM](#)

Mr. Falsey agreed that there was a significant demolition cost. He related that now, each phase of the project was expected to pay for itself. He said that the demolition cost would be approximately \$250 million and would largely be recouped in federal dollars. He admitted that expenses for demolitions had a tangential relationship to past appropriations - but requests for new money to fix problems created by past appropriations would not be submitted. He stressed that the problems at the port were largely the fault of the federal government and sights were set on the Untied State Maritime Administration for recompense.

[9:17:23 AM](#)

Co-Chair Stedman asked about past appropriations to the project: \$10 million in 2007, \$15 million in 2009, \$30 million in 2010, \$30 million in 2012. He asked whether any of those appropriations were targeted for demolition.

[9:18:09 AM](#)

Mr. Falsey responded that some of the funds was used for design and was not a significant fraction of the overall expense. He insisted that the priority had been to use the appropriations for functional facilities. None of the remaining \$128 million had been slated to go towards the demolition of the Northern Extension.

[9:18:41 AM](#)

Co-Chair Stedman requested documentation of how state dollars had been spent for the project since 2006.

[9:18:43 AM](#)

Mr. Falsey agreed to provide the information.

[9:20:14 AM](#)

Co-Chair von Imhof looked at Slide 5. She noted that the project was sort on fund by \$110 million. She wondered who had done the cost base analysis for the slide, and how much federal funding was expected.

[9:21:02 AM](#)

Mr. Falsey asked Co-Chair von Imhof to repeat the question.

[9:21:06 AM](#)

Co-Chair von Imhof pointed to the upper right corner of the slide that listed current funding sources and the total. She understood that the total funding amount for the project was \$157,796,015 - plus the figure in the lower right-hand corner of \$110,693,123.

Mr. Falsey responded that the numbers in the upper right corner were the different funding sources for the \$157 million and the chart below that reflected the cost of completing the Petroleum Cement Terminal. He said that the chart was showing that there would not be enough money to complete what had already been designed.

[9:22:41 AM](#)

Co-Chair von Imhof asked whether work had begun on the Petroleum Cement Terminal phase of the project.

[9:22:44 AM](#)

Mr. Falsey replied in the affirmative. He said that transitional dredging had been done to change the undersea surface, stabilization of the South Backlands had been done, and a south floating dock had been relocated. He added that all necessary permitting and design work had been completed. He said that the port was on the cusp of starting the actual construction work and had the funds to build the trestle out to the future platform, but not to build the platform itself.

[9:23:29 AM](#)

Co-Chair von Imhof asked whether assurances had been given that federal dollars would be made available to finish the project.

Mr. Falsey said that there was not guarantee of federal dollars to finish the Petroleum Cement Terminal. He said that if each portion of the project was supposed to pay for itself it was expected that the federal money received through litigation would be used to clean up the Northern Extension. It was not expected that there would be funds left over to build the Petroleum Cement Terminal. He said that there were no assurances that federal grants would be received.

[9:24:53 AM](#)

Co-Chair von Imhof spoke to a February 18, 2019 article in the Anchorage Daily News that discussed the port's hopes to have tariffs on cement and fuel. She asked whether the port commission, or the Anchorage Assembly, had conducted a study on how the tariff would impact potential users.

Mr. Falsey said that the process was in its infancy. He said that the tariffs had to be changed in order to ensure a future for the port. He warned that if tariffs were the only revenue generator for the port it would affect all users on the docks.

[9:26:53 AM](#)

Senator Bishop appreciated the tariff conversation.

[9:27:29 AM](#)

Senator Wilson expressed concern that users would just move to different ports if the Port of Anchorage tariffs became too prohibitive.

Mr. Falsey said that he would provide further information on the tariffs. He noted that use of other ports would be logistically unattractive to users.

[9:28:57 AM](#)

Co-Chair Stedman queried the ownership of the port.

Mr. Falsey replied that the port was owned by the Municipality of Anchorage.

[9:29:04 AM](#)

Senator Micciche noted that he was the president of the management team of the Coast Guard's Cook Inlet Harbor Safety Committee. He mentioned that port director was also a member.

[9:29:31 AM](#)

Co-Chair Stedman asked whether there were ways other than roads to get materials to the Railbelt.

[9:29:45 AM](#)

Mr. Falsey replied that trains could be an option. He said that trains were not an attractive alternative because of the additional cost, congestion on highways, and transit times. He a cost benefit analysis was currently being updated. He said that implementation of a tariff would not move significant volumes away from the port.

[9:30:31 AM](#)

Co-Chair Stedman asked how the committee could analyze how much the facility would cost when the target cost was constantly moving.

[9:31:05 AM](#)

Mr. Falsey responded that the plan consisted of a series of projects and that \$2 billion was the number being used as a result of the information at hand. He said that he hoped that the cost would be less overall. He reiterated that the only portion of the project that was shovel ready was the Petroleum Cement Terminal, which was at 100 percent design, the other portions were at 30 percent design level.

[9:31:52 AM](#)

Co-Chair von Imhof spoke to the economic analysis being done on a potential tariff. She wondered whether, if the economic analysis proved that cargo would bypass Anchorage, there was a threshold for the tariff.

Mr. Falsey responded that if the unmet need for the terminal was \$200 million, assuming current volumes, it begged the question of what kind of debt service coverage ratio would be necessary to borrow \$200 million. He said that the assumed demand was critical; if other facilities were going to be used the port would be forced to consider raising the tariff. He hoped that users would help the municipality to understand the level of elasticity in the tariff level but that the municipality had no other option but to generate revenues off the facility enough to meet the debt service needs.

[9:33:20 AM](#)

Co-Chair von Imhof noted that there were some states that had a statewide focused sales tax for specific projects, which had worked to various degrees of success. She remarked that there was discussion of a public/private partnership. She noted that the tariff idea, was not the only idea. Rather, there were different port ownership structures that had worked successfully. She asked Mr. Falsey to comment the issue.

Mr. Falsey stated that the port had been approached by Macquarie Infrastructure Corporation. He said that the municipality had proactively approached all users to ask whether they were interested in a public/private partnership. He said that no hard offers had been received. He stressed that he was open to any alternative that kept the port in operation into the future. He stated that the public/private partnership had many advantages but would not change the underlying economics. He said that a

public/private partnership could result in a tariff and even a tollbooth.

[9:36:49 AM](#)

Senator Bishop asked about the design construction on the shovel-ready project from the piling standpoint.

Mr. Falsey stated that the design was for plain platforms, supported by cylindrical piles.

[9:37:28 AM](#)

Senator Wilson agreed with Co-Chair von Imhof about different ways of funding. He lamented the large amount of money that had already been spent on the project. He suggested that if the municipality could not fund the project it could move to a port authority model.

[9:38:35 AM](#)

Mr. Falsey reiterated that he was open to all options. He stressed that the municipality was not asking for \$ billion, only \$200 million for the Petroleum Cement Terminal.

[9:39:32 AM](#)

Co-Chair Stedman interjected that the whole port was under discussion and not only the one terminal.

[9:39:39 AM](#)

Senator Wilson asked how projections were being made without an economic analysis.

Mr. Falsey stated that what had been projected was the amount of revenue that would need to be taken off the cost of the terminal to cover the amount of money that would be necessary to finish building the terminal. He repeated that he was open to finding a solution other than a tariff.

[9:41:23 AM](#)

Senator Micciche felt that the presenters were sitting before the committee prematurely. He was concerned that the municipality had not reached out to the user groups of the

port facility in a way that demonstrated that users had been adequately involved in the process.

[9:43:35 AM](#)

Mr. Falsey admitted that there was no plan for an overall rebuild the port. He insisted that the municipality was actively reaching out to users and important conversations were occurring. He believed that this portion of the project was ready to implement.

[9:45:18 AM](#)

Co-Chair von Imhof shared that she had invited the presenters because the port served the entire state and was an important piece of infrastructure. She hoped that potential solutions could be reached. She hoped that the municipality did not believe that a tariff was the only option. She urged the presenters to keep investigating other potential options for keeping the port operating. She warned against attempting any construction without first securing funding.

[9:48:03 AM](#)

Senator Olson felt that the conversation was in danger of becoming tense. He called for civility throughout the remainder of the presentation.

[9:49:05 AM](#)

Co-Chair Stedman acknowledged the strong differing of opinions at the table. He said that talking about a statewide sales tax to generate revenue for a particular port would be met with differing opinions. He warned against underestimating the indigestion caused by appropriating hundreds of millions of dollars for a shortsighted project, only to have the municipality come back and ask for more partial funding.

[9:51:17 AM](#)

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Mr. Falsey stated that he appreciated the direct questions. He stressed that the facility was critical to the entire state and that the appropriations made to-date had been used on the necessary permitting and testing work to get projects done. He turned to Slide 26, "The Path We Are On Now," which showed an aerial image of the Anchorage Port Modernization Program. He said that the first thing that needed to be done was to move the Petroleum Cement Terminal to the and the south floating dock further south. He discussed the plan to move the terminal. Slides 27 and 28 showed the project as it would evolve over the next two seasons.

[9:54:01 AM](#)

Mr. Falsey highlighted Slide 27, "Two Seasons: PCT2020 Construction Scope":

- Access trestle up to top of deck, no piping or utilities
- Platform piles
- Temporary bracing of platform piles
- Temporary impressed current cathodic protection

Mr. Falsey addressed slide 28, "Season 2: PCT2021 Construction Scope":

- Complete platform
- Mooring and breasting dolphins
- Petroleum piping and utilities
- Hose tower and control building
- Impressed current cathodic protection

Mr. Falsey highlighted slide 29, "Short of Funds":

- First replacement facility is 100 percent designed: Petroleum/Cement Terminal

- Total funding is not enough to complete shovel-ready construction

[9:54:52 AM](#)

Co-Chair Stedman interjected that the committee had two choice for funding any Capital project: reducing the permanent fund dividend payout or using already depleted

savings. He stated that there was no reoccurring revenue for Capital projects; all reoccurring revenue was being used for the Operating Budget.

[9:55:28 AM](#)

Mr. Falsey appreciated the conundrum. He thought that further conversations should be about the best way to mitigate the cost of the port being shifted to Alaskans.

[9:55:56 AM](#)

Mr. Falsey addressed Slide 30, "2016 State Legislative Program."

Mr. Falsey highlighted Slide 31, "Priority Capital Request."

[9:56:11 AM](#)

Co-Chair von Imhof looked at Slide 26. She asked whether user groups needed all the capacity shown on the slide. She wondered whether it would be better to use one terminal more efficiently.

[9:57:35 AM](#)

Mr. Falsey replied that the users liked the design built did not want to pay for it. He believed that if users had to pay for it the design could be significantly downsized. He said that conversations on which parts of the project were critical would be occurring.

[9:59:20 AM](#)

Co-Chair von Imhof hoped that further discussions moving forward should involve a public/private collaboration for financing and ownership of the project.

[10:00:28 AM](#)

Senator Micciche though that a more comprehensive plan, using all the available alternative ports, should be considered.

[10:02:05 AM](#)

Mr. Falsey addressed Slide 32, "Designated Legislative Grant Program."

[10:02:14 AM](#)

Mr. Falsey looked at Slide 33. He shared that the port had applied for two federal grants and would pursue all possible federal funding.

Mr. Falsey highlighted Slide 34, "Public/Private Partnership?: RFP." The slide listed information for the bidding process.

[10:02:57 AM](#)

Mr. Falsey addressed Slide 35, "Port of Alaska Modernization Program Financial Advisory Services."

[10:03:04 AM](#)

Mr. Falsey highlighted Slide 36, "Public-Private Partnerships."

- Use if one or more P3's, likely combined with some public sector capital, is an alternative financing strategy to consider depending on the MOA's risk preferences and priorities.
- Unless "guarantees" can be secured to support use of public finance; pursuing a P3 Strategy may not necessarily impact the timeline of the PAMP or cost end users any more than using revenue bonds to fund one or more phases of the program.

[10:03:09 AM](#)

Mr. Falsey discussed slide 37. The slide showed the different users of the port. He said that conversations with users on how to fund the port projects had been comprehensive.

Mr. Falsey highlighted slide 38, "Tariff Update."

[10:03:22 AM](#)

Mr. Falsey looked at slide 39, "Goals For Setting Tariff Rates for Port":

Rates set to achieve revenue requirement, meaning...

1. meet its debt service coverage ratio of 1.3 or the ratio set by lender.
2. meet its fiscal policy for operating reserves set at a minimum of 60 and maximum of 90 days coverage of operating expenses following GFOA best practices.
3. meet its fiscal policy for capital reserves set a 2 percent of plant in service for coverage of unexpected events (earthquake, fire or catastrophic failure of facilities).
4. meet is fiscal policy for debt reserves when revenue bonds are issued for capital improvements consistent with bond covenants.
5. each project pays for itself.

[10:04:05 AM](#)

Co-Chair Stedman requesting further information on the tariff structure and impact.

Mr. Falsey showed Slide 39, "Goal For Setting Tariff Rates for Port":

Rates set to achieve revenue requirement, meaning...

1. meet its debt service coverage ratio of 1.3 or the ratio set by lender.
2. meet its fiscal policy for operating reserves set at a minimum of 60 and maximum of 90 days coverage of operating expenses following GFOA best practices.
3. meet its fiscal policy for capital reserves set a 2% of plant in service for coverage of unexpected events (earthquake, fire or catastrophic failure of facilities).
4. meet is fiscal policy for debt reserves when revenue bonds are issued for capital improvements consistent with bond covenants.
5. each project pays for itself.

[10:05:37 AM](#)

Co-Chair Stedman interjected that if a member asked a question that was better answered on the previous slide, the committee could hold questions so the presenter could stay in sequence.

[10:06:00 AM](#)

Mr. Falsey highlighted Slide 40, "The 'All in' PCT Price Tag 95 percent Design." The slide contained the revised cost estimate for the Petroleum Cement Terminal of \$223,117,951; minus pro-rate portion of prior cash on hand and state grants of \$20,895,331 - resulting in an outstanding need of \$200 million.

[10:06:28 AM](#)

Mr. Falsey addressed slide 41, "Municipality of Anchorage Port of Alaska." The slide contained the Port of Alaska tariff rate projections based on Parish Blessing and Associates analysis on borrowing of \$200 million. He discussed the increase on the petroleum and cement tariffs over the next 6 years.

Mr. Falsey discussed slide 42, "Anchorage Daily News: Study, Much higher import fees needed to pay for Anchorage port work."

[10:07:42 AM](#)

Co-Chair von Imhof understood that cement and fuel were two very different commodities. She thought that \$.03 or \$.04 cents could make a big difference in the per gallon price. She asked whether the port had explored different federal programs that specifically target ports and railways. She wondered whether the program could qualify for funds under the federal Community Reinvestment Act.

[10:09:21 AM](#)

Mr. Falsey replied that the he would provide information about the federal monies that the port had applied for and get back to the committee.

[10:09:46 AM](#)

Senator Wilson asked whether the state's credit rating affected any of the projections.

[10:09:54 AM](#)

Mr. Falsey did not believe so.

[10:10:35 AM](#)

Senator Bishop queried the number of years expected to phase in the proposed tariff increases.

Mr. Falsey said 6 years.

[10:12:08 AM](#)

Senator Shower asked about military use of the port and whether options for funding sources through the military had been explored.

[10:12:40 AM](#)

Mr. Falsey replied in the affirmative. He felt that the federal delegation was aware of the importance of the port as a national strategic defense seaport. He said that the Department of Defense did not have a program that offered financial support to fund the critical infrastructure of the port. He felt that if the port was to incur the \$300 million in additional cost to support the official seaport designation the federal government should play a role in funding the facility.

[10:14:10 AM](#)

Senator Hoffman asked who had the authority to set the tariff timeline of 6 years. He wondered about the impact of the tariff on the international airport cargo system.

[10:14:37 AM](#)

Mr. Falsey replied that the Anchorage Assembly had the authority to set the tariff. He described the assembly's process. He asserted that Alaska would pay for the project somehow, someday; the hope was to find the least damaging way to fund the project.

[10:16:47 AM](#)

Senator Micciche wondered whether there was a way to get contractual commitments from the private sector. He felt that private industry was continually seeking more efficient ways to do business.

[10:17:42 AM](#)

Mr. Falsey replied that a preferential user agreement had been discussed that would guarantee a volume of use, which

was in place for cargo. He stated that such an agreement was not yet in place for cement and fuel users. He suspected that no one would be ready to sign such an agreement at the tariff rates previously published.

[10:19:01 AM](#)

Co-Chair Stedman asked about the enterprise fund. He queried why the municipality did not have a sustaining structure in an enterprise fund for the port.

[10:19:42 AM](#)

Mr. Falsey responded that there were 2 enterprises and 3 utilities in the municipality. He said that the self-sustaining enterprise fund spun off \$10 million in revenue per year and paid a small dividend to the municipality yearly. He lamented that what the fund had never done was collect enough money to rebuild the port once it reached the end of its useful life. He felt that the port had likely been predicated on the notion that federal or oil dollars would fill the financial void.

Co-Chair Stedman probed the tariff changes against an artificially low base rate. He requested a tariff comparison of the municipalities number and what other Alaskan's were paying in shipping tariffs. He thought that the disparity in energy costs throughout the state would inform the comparison.

[10:22:41 AM](#)

Mr. Falsey agreed to provide the information. He shared that Anchorage was beginning to investigate significant tariff adjustments because it was being forced to raise the funds to rebuild the port. He suspected that none of the other facilities in the state were facing the same issue.

[10:23:29 AM](#)

Co-Chair Stedman thought that more investigation should be done into the comparison.

[10:23:52 AM](#)

Co-Chair von Imhof asked about the realistic timeframe for a workable plan based on state holder engagement, port

ownership and management, and a realistic financial plan of the different funding sources.

[10:24:50 AM](#)

Mr. Falsey replied that information for the Petroleum Cement Terminal could be available in 2019. He felt that by summer 2019, the port commission process would have advanced and the financial plan for that terminal would be finalized. The plan for the remainder of the facilities at the port remained under discussion. He thought that cleaving the projects into its various components was a smart way to move forward.

[10:25:45 AM](#)

Senator Wilson understood that the port had no request for funds for FY 20.

[10:25:54 AM](#)

Mr. Falsey replied no. He said that in FY 19 the port had received \$20 million in grants and had expected the same funding in FY 20. He stated that because the port had enough money to build half of the Petroleum Cement Terminal, it was looking for assistance to finish the remainder of the facility.

[10:26:47 AM](#)

Senator Bishop asked whether the city had considered a time-limited sales tax.

[10:26:57 AM](#)

Mr. Falsey replied no. He said that such a tax would be a mismatch in burden; 85 percent of the state benefited from the port, half of the cargo received left Anchorage and went to other areas of the state. If a local tax were to be imposed, the residents for the municipality would be paying for a new port that benefitted the entire state.

[10:28:13 AM](#)

Co-Chair Stedman understood that it would be difficult for the Municipality of Anchorage to pass a sales tax to fund the Port of Anchorage because other areas of Alaska had

goods and services come across the port. He wondered how a statewide sales tax would be beneficial to Southeast Alaska, who did not benefit from the Port of Anchorage.

Mr. Falsey said that a statewide sales tax was not under discussion.

[10:28:59 AM](#)

Co-Chair Stedman recalled that it had been mentioned earlier in the meeting.

[10:29:22 AM](#)

Mr. Falsey rebutted that he had not mentioned a statewide sales tax.

Co-Chair Stedman thought that the record would speak for itself.

[10:29:45 AM](#)

Senator Micciche asked whether maintenance on the port had been deferred in the hope that additional funding would be appropriated by the legislature.

[10:31:05 AM](#)

STEVE RIBUFFO, DIRECTOR, PORT OF ALASKA, said that the port had not been deferring maintenance. He said that the port budgeted for, and executed on an annual basis, all the required marine terminal facility maintenance needed to keep it capable of supporting operational loads.

[10:32:43 AM](#)

Mr. Falsey highlighted Slide 43, "Municipality of Anchorage Port of Alaska." The slide showed the expenses and revenues related to Port of Alaska tariff rate projections based on Parish Blessing and Associates analysis on borrowing \$200 million.

Mr. Falsey discussed Slide 44, "Journal of Commerce." The slide showed an article with the headline, "Users say fuel tariff hikes would impact cargo operations at airport."

[10:32:48 AM](#)

Co-Chair von Imhof asked whether the port currently paid for its own daily operations and was there ever a surplus. She wondered whether other expenses could be offset by left over funds.

[10:33:23 AM](#)

Mr. Falsey replied that the port did pay for itself, with money left over. He said that \$11 million of the port's equity had just been used for keeping the program alive, and that the equity could continue being used going forward. He added that the funds from the equity would not be enough to fund the entire project.

[10:33:49 AM](#)

Senator Wilson asked about dividends that the port paid to the municipality. He wondered whether the dividends would continue, given the ports financial struggles.

[10:34:08 AM](#)

Mr. Falsey relayed that "everything is on the table." He shared that the general government of the municipality was not looking to get rich off the port, only to keep the port in operation.

[10:34:48 AM](#)

Senator Wilson queried whether the municipality was looking to end the distribution of dividends, effective immediately.

[10:34:56 AM](#)

Mr. Falsey said no. He related that a vote had not been taken to end the dividend process immediately; the approximately \$1.5 million in the dividend account would not be enough get the project through the first phase of construction. He warned that turning the dividend off would decrease funding for municipal government by \$1.5 million, which would result in a rise in property taxes.

[10:35:30 AM](#)

Senator Wilson likened the Alaska Permanent Fund Dividend to the port dividend and wondered why the port would pay

dividends if it did not have money to cover operating expenses.

[10:36:03 AM](#)

Mr. Falsey clarified that what the port paid the municipality was the equivalent of the property tax share that they would bear if they were in private ownership.

[10:36:51 AM](#)

Co-Chair Stedman thought that the dividend structure was "bizarre."

[10:37:06 AM](#)

Co-Chair von Imhof wondered whether new users for the cement dock had been identified.

[10:37:34 AM](#)

Mr. Falsey said that one company had made overtures about building land site facilitates and could become a new user of the cement terminal, but that nothing meaningful had so far been established.

[10:38:30 AM](#)

Mr. Falsey highlighted Slide 45, "Anchorage Daily News." The slide showed a headline, "Cost doubles to \$2 billion to fix port."

Mr. Falsey looked at Slide 46, "PCT Cost Extrapolation across the Program":

Analogous Method

- Apply percentage increase of PCT to all remaining projects
- Least precise method due to variations between project components

Selective Parametric Method

- Adjust major cost driving elements based on PCT unit costs
- Provides a reasonable "order of magnitude" estimate with limited effort and information

Deterministic Method

- Requires updates to the preliminary designs based on lessons learned from PCT
- Most precise method to determine costs
- Quantify the revised design and estimate using cost information learned from PCT construction

All estimates are highly sensitive to funding availability (escalation) and marine mammal restrictions or requirements

Mr. Falsey addressed Slide 47, "Total Program Costs Extrapolated from 65 percent PCT Construction Cost Estimate."

[10:40:51 AM](#)

Mr. Falsey highlighted Slide 48, "Major Cost Drivers":

1. Risk Contingency

- \$298M included in the cost estimate (15 percent of total program cost)
- Marine Mammal Impacts -construction means and methods

2. Escalation

- \$202M included in the cost estimate (10 percent of total program cost)
- 3 percent annual rate used in the cost estimate
- Directly influenced by funding availability

3. Design requirements

- Seismic design criteria
- 75-year Design Life
- Tenant Requests

Mr. Falsey expounded on the cost drivers listed on the slide.

[10:41:12 AM](#)

Mr. Falsey addressed Slide 49, "Anchorage Port Modernization Program." He said that the cement terminal was seismically robust and had a long design life, but that not many tenant requirements had affected the projected cost. He reiterated that no other part of the overall

modernization project was design ready. He asserted that all current design assumptions were subject to change.

[10:42:48 AM](#)

Co-Chair Stedman asked about how the proposed tariff would affect the shipping of cement around the state.

[10:43:54 AM](#)

Senator Hoffman thought that Bethel received most of its goods directly from Seattle, bypassing Anchorage. He spoke of using bonds to build infrastructure in Anchorage. He assumed wondered whether the municipality could use bonds for the project that could be paid back by revenue generated from the tariff.

[10:46:24 AM](#)

Mr. Falsey replied that the proposal was not for a general obligation bond, but rather to issue revenue bonds. Those would be 40-year bonds, financed by tariff revenue.

[10:46:51 AM](#)

Senator Hoffman requested further information on the revenue bonds.

[10:46:55 AM](#)

Mr. Falsey agreed to provide that information.

Co-Chair Stedman said that the committee needed some way of comparing the cost of moving cement from the source to various parts of Alaska.

[10:48:25 AM](#)

Co-Chair von Imhof understood that many commodities would travel through the suite of docks. She asked about using a lower, and broader, excise tax; one that was implemented when the whole project, in phases, began and extended over 30 years.

[10:49:25 AM](#)

Mr. Falsey said that the proposal had been investigated, but it had been found that there would be cross-subsidization; somebody would be helping to shoulder somebody else's costs.

[10:50:41 AM](#)

Co-Chair von Imhof understood that the municipality did not know what the different phases would look like, or cost, so an excise tax to cover the entire project would pose some risk. She expressed consternation with the notions of "winners and losers" when it came to who benefitted from the port, versus how it was financed.

[10:51:52 AM](#)

Mr. Falsey clarified that if the tariff was raised across the board, the cargo users would be paying for some of the cement dock, which they would not use, or vice versa. He thought this could cause an unnecessary market distortion.

[10:52:20 AM](#)

Co-Chair Stedman announced that there were several minutes left in the meeting, some of which would be used for closing statements from the presenters.

[10:52:34 AM](#)

Mr. Falsey looked at Slide 50, "MARAD Lawsuit." He lamented that a resolution of the lawsuit on the state's behalf would not pay for the entire project.

[10:53:43 AM](#)

Senator Wilson asked Mr. Falsey to discuss the lawsuit.

[10:53:53 AM](#)

Mr. Falsey replied that the thrust of the lawsuit was that the previous port expansion project was managed by the federal government in the form of Maritime Administration. He said that what the Maritime Administration did was to take the cash that was on hand and "set it on fire and leave us with a giant mess." He said that the mess would cost the state hundreds of millions of dollars. The federal government held that the state was owed no money.

[10:56:17 AM](#)

Mr. Falsey highlighted Slide 51, Port of Alaska Modernization Program (PAMP)." The slide listed the details, projected costs, and percentage of the overall modernization program for the following:

- Port Intermodal Expansion Project
- Proposed Replacement Docks
- Resiliency Premium
- Department of Defense - Department Strategic Port Premium
- Total PAMP

Co-Chair Stedman discussed housekeeping.

#

ADJOURNMENT

[10:59:30 AM](#)

The meeting was adjourned at 10:59 a.m.