

SENATE FINANCE COMMITTEE

May 5, 2022

9:05 a.m.

9:05:09 AM

CALL TO ORDER

Co-Chair Bishop called the Senate Finance Committee meeting to order at 9:05 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Lyman Hoffman  
Senator Donny Olson  
Senator Bill Wielechowski  
Senator David Wilson

MEMBERS ABSENT

Senator Natasha von Imhof

ALSO PRESENT

Senator Peter Micciche, Sponsor; Bill O'Leary, President and CEO, Alaska Railroad Corporation; Representative Grier Hopkins, Sponsor.

PRESENT VIA TELECONFERENCE

Brian Lindamood, Vice President, Chief Engineer, Alaska Railroad; Janette Bower, City Manager, Seward; Preston Carnahan, Director of Destination and Business Development, Royal Caribbean Group; Bonne Woldstad, Self, Fairbanks; Dan Britton, Interior Gas Utility, Fairbanks.

SUMMARY

SB 218 LEG. APPROVAL: AK RAILROAD REVENUE BONDS

SB 218 was HEARD and HELD in committee for further consideration.

HB 307 EXTEND BOND AUTH FOR INTERIOR ENERGY PROJ

HB 307 was HEARD and HELD in committee for further consideration.

#sb218

SENATE BILL NO. 218

"An Act authorizing the Alaska Railroad Corporation to issue revenue bonds to finance the replacement of the Alaska Railroad Corporation's passenger dock and related terminal facility in Seward, Alaska; and providing for an effective date."

9:06:01 AM

Co-Chair Bishop relayed it was the first hearing for SB 218. The committee's intent was to hear a bill introduction and sectional analysis, take invited and public testimony, and set the bill aside.

9:06:29 AM

SENATOR PETER MICCICHE, SPONSOR, addressed SB 218, which pertained to the Alaska Railroad passenger terminal in Seward. The bill would grant the railroad the legislative authority to issue bonds of no more than \$60 million to construct a new passenger terminal. He commented on the age of the current passenger terminal. He cited that the region expected 82 cruise ships in the 2022 season and emphasized the importance of the project for Southcentral Alaska. He explained that the cruise ships fed tourism-related businesses across the region from Anchorage and Fairbanks and down to the Seldovia area. He cited that the total cost of the project would be \$79 million, which was a recent figure. The railroad would use other funds in combination with the \$60 million proposed in the bill.

Senator Micciche informed that \$60 million was the lending cap for the project to come to fruition. The bonds would need to be paid entirely from passenger terminal revenues, without any state liability for the debts incurred by the railroad. In order to meet the 2024 need for replacement of facilities, it was imperative that the railroad coordinate public debt funding by mid-2022. He relayed that there were representatives from the Alaska Railroad available to answer questions.

Co-Chair Bishop acknowledged that Senator Olson and Senator Hoffman were present.

9:09:25 AM

BILL O'LEARY, PRESIDENT AND CEO, ALASKA RAILROAD CORPORATION, introduced himself. He thought the proposed project was exciting for the Alaska Railroad Corporation (ARC), the City of Seward, and the Southcentral and Interior visitor industry.

Mr. O'Leary discussed a presentation entitled "Investing in Alaska's Travel and Tourism Infrastructure: Seward Passenger Dock" (copy on file). He turned to slide 2, "ARRC Terminal Infrastructure in Seward":

- ARRC owns 3 docks in Seward
  - Passenger - cruise ship, other passenger, research and more
  - Freight - used primarily for non-passenger ships and barges
  - Loading - previously for coal; now used for tie-up & overflow
- Terminal Uplands - support for:
  - Freight logistics and storage
  - Marine and other commercial activities, including future visitor business opportunities
- Passenger Terminal (dock and building on dock)
  - Receives typically 220,000+ visitors annually (2019)
  - Accommodates just under 100 cruise ship calls per year
  - Important to ARRC rail service but also to visitor industry as a whole
  - 2/3 to 3/4 of cruise passengers to Southcentral Alaska come through Seward

Mr. O'Leary drew attention to the photograph on slide 2, which showed ARC's freight dock, passenger dock, and loading facility. He continued that ARC also had over 300 acres of railroad land in the area for additional development by the private sector. He discussed the passenger terminal, which had been built originally as a freight dock around 1966. The structure was a pile-supported pier dock that had been affected by saltwater and time.

Mr. O'Leary pointed out the terminal facility used for passenger processing on the north end of the pier. He

explained that the dock was still safe for use but was nearing the end of its life. He emphasized that the dock was a key piece of infrastructure for the railroad and entire visitor industry in the region. The majority of cruise ship passengers that came to Southcentral Alaska in 2019 came over the dock. He discussed activities of cruise passengers that generated business.

Mr. O'Leary continued to address slide 2 and cited that there were 90 ship calls for 2022. He shared that the industry thought the area was well positioned for continued growth for the cross-gulf product that was increasing in popularity.

[9:13:21 AM](#)

Mr. O'Leary showed slide 3, "ARRC Invests in Seward Infrastructure":

- Alaska Railroad pursuing two near-term, large-scale capital projects in Seward with positive economic impacts statewide.
- Passenger Terminal
  - Estimated nearly \$80 million investment
  - Replace passenger dock by 2024
  - Replace terminal building by 2025
- Freight Terminal
  - Est. \$25 million investment; 80% funded by MARAD grant
  - Widen and lengthen freight dock by 2027
  - Improve upland transportation corridor by linking Port and Airport avenues.

Co-Chair Bishop asked about the freight terminal expense shown on slide 3 and asked if the \$25 million would be ARC matching funds.

Mr. O'Leary expanded that \$25 million was the total project cost, \$20 million of which would be funded by the MARAD grant while the remaining would be other funds.

Senator Wielechowski asked if the railroad ran the freight dock in Seward.

Mr. O'Leary answered "yes."

Senator Wielechowski asked about the capacity of the Seward freight dock in the event that the Anchorage freight dock suffered a catastrophic failure.

Mr. O'Leary relayed that the Seward freight dock was available if the Port of Alaska was unavailable, although it would not be optimal.

[9:15:51 AM](#)

Co-Chair Stedman relayed that the committee had been looking at several ports across the state and asked if Mr. O'Leary could provide information about tariffs for goods that crossed the dock. He referenced multiple container ports in Southeast, Kodiak, and the Aleutian Chain. He wanted to hear more information regarding further port expansions. He wanted to discuss expansions and have the presenter address growth in the industry and electrifying docks for cruise ship use. He mentioned carbon emissions issues with cruise ships, and the need for ships to use alternate power sources. He thought that the project was the beginning of a multi-year expansion that would be taking place around the coast of the state.

Senator Olson dovetailed on Senator Wielechowski's question regarding the hypothetical failure of the Anchorage port. He wondered about the military, which used the port for supplies and heavy equipment. He mentioned the war in Ukraine and additional needs.

Mr. O'Leary affirmed that the Seward dock did work with the military but thought the majority of traffic went to the Port of Alaska. He offered to get back to the committee with further information. He did not think there would be that much of an issue using the freight dock as described. He noted that the Vice President for Engineering for ARC was available to comment.

Senator Olson repeated the question about the Seward dock's capacity in the case that there was a catastrophic failure with the port in Anchorage. He referenced global conflict and asked how long it would take to revamp the dock to handle the additional load.

[9:20:33 AM](#)

BRIAN LINDAMOOD, VICE PRESIDENT, CHIEF ENGINEER, ALASKA RAILROAD (via teleconference), answered that the freight dock with expansion would be able to handle the same sort of ships that currently called on the Port of Anchorage. He cited that the cruise dock would be able to do the same. He noted that the two marine lines that served the port in Anchorage came at the same time.

Mr. Lindamood continued that the land transportation to and from Seward would be strained in the scenario described by Senator Olson, by a limit of available equipment and drivers. He thought it would be feasible if the matter was looked into and additional investment made.

Senator Olson asked what kind of time frame was involved for dock work being done to utilize the dock as described if there was an issue with the Port of Alaska.

Mr. Lindamood shared that the current schedule estimated completion of the cruise dock by 2024 and the freight dock by 2025 or 2026.

Senator Hoffman asked about the bonding capacity of the railroad.

Mr. O'Leary explained that the railroad had not identified a maximum for bonding capacity, and stated it was very comfortable with the up to \$60 million proposed in the bill. He continued that generally the railroad was a low-debt operation. He cited that there was roughly \$8 million in debt that had recourse and \$ 30 million of debt secured by federal monies that would be paid off in the next year.

Senator Hoffman asked about if any ARC land was used as collateral for the bonds.

Mr. O'Leary answered "no." He noted that the railroad had some debt that was secured by lease revenues from some of the lands, but he believed it would be paid off shortly.

Senator Hoffman asked how much land the railroad had.

Mr. O'Leary cited that the railroad had about 36,000 acres total, half of which was used for operations through right-of-way, yards and facilities, and the remainder available for lease or permitting.

[9:24:22 AM](#)

Co-Chair Stedman directed a question to Mr. Lindamood. He mentioned the Port of Whittier and thought it would be nice to get a briefing from the railroad on the capacity. He thought if the state was going to considering putting hundreds of millions into a port, it should be the correct port. He wondered if there should be investment in multiple ports. He considered modifications whereby Seward or Whittier would need to handle additional goods and wondered what capital goods would be needed. He pondered rail capacity out of Whittier and mentioned road issues in Seward. He wanted more information on railroad upgrades and thought there was a much larger subject matter to consider than merely the topic of the bill. He was concerned about the global position of the three ports.

Mr. O'Leary relayed that ARC would be happy to discuss the issues mentioned by Co-Chair Stedman.

[9:26:45 AM](#)

Co-Chair Bishop asked if there was hydro-rail capacity in Whittier.

Mr. O'Leary affirmed that there was a rail barge system that worked in conjunction with Lynden Companies.

Co-Chair Bishop asked if Seward had roll-on and roll-off hydro-train capacity.

Mr. O'Leary answered in the negative.

Co-Chair Bishop thought it was a two-step process for Seward, where goods would have to be handled twice.

Senator Wielechowski asked if the railroad had an opinion as to whether the state should be funding the Port of Alaska in Anchorage, and if so to what degree.

Mr. O'Leary emphasized that the Port of Alaska was a very important port for the railroad. He continued that ARC did an extraordinary amount of business with the port and shared customers. He commented on a positive working relationship and that ARC was supportive of ensuring the infrastructure was available for customers.

Co-Chair Bishop referenced committee conversation about redundancy. He asked which ports in Alaska had the highest volume of casing and frack sands going to the North Slope.

Mr. O'Leary knew the railroad's Seward freight dock had been very active in receiving frack sand over the previous two years. He thought the activity had worked well and anticipated additional cargoes coming.

Co-Chair Bishop asked which docks the materials came across.

Mr. O'Leary guessed that the materials came to the Whittier dock but agreed to get back to the committee with a precise answer.

[9:29:37 AM](#)

Mr. O'Leary turned to slide 4, "ARRC Seward Passenger Terminal":

- Passenger Dock Status
  - Built in 1966
  - 736' x 200'
  - Terminal Building on dock
  - Nearing End of Useful Life
- ARRC project to rebuild pier and building
- \$79 million project on tight timeframe to be ready for 2024 cruise season.
- Sources: \$60 million in ARRC revenue bonds (no recourse to state), \$19 million in ARRC cash
- \$62 million for dock, \$17 million for building
- Continuing to look for other options to optimize financing - federal grants or other mechanisms

Mr. O'Leary commented that the railroad had a plan to rebuild the pier and building, modernizing both to meet current and future demands. The new dock would be longer and the building would provide an opportunity to handle "triple ship days" where three ships might call on the port at the same times. He commented on the aggressive timeline. He thought it was critical to understand that the revenue bonds would be supported by dock revenues, and there was no liability or recourse for the state. He reminded that issuance of public debt required legislative authorization.

Co-Chair Bishop referenced the timeframe of the project and asked if the railroad had all the materials secured.

Mr. Lindamood answered "no," and informed that ARC intended to do a long-lead items purchase over the upcoming summer.

Co-Chair Bishop had learned that steel procurement was two years out and wondered how much steel was in the project. He questioned the cost estimates and wondered if Mr. Lindamood was still confident in the numbers because of project escalation costs.

Mr. Lindamood stated that the estimate ARC was working from was four to five months old. He stated that ARC was carrying a bit of contingency. He continued that assuming inflationary pressures began to return to historic levels soon, he thought it was okay, but he believed Co-Chair Bishop's question was well-timed. He thought inflation was among the top three risks to the project.

[9:34:59 AM](#)

Mr. O'Leary continued to address slide 4 and commented that the construction time frame was the reason behind requesting legislative authorization in the current session.

Co-Chair Bishop asked if the photo on slide 4 was an artist's rendition or an actual photo.

Mr. O'Leary affirmed that the graphic was a photo.

Mr. O'Leary spoke to slide 5, "ARRC Seward Passenger Terminal":

Project and Investment have Time-sensitive Requirements

- Aging Facility must be replaced ASAP
  - Need new facility for 2024 season
  - Timeline requires start in 2022
- \$60 million ARRC bonds
  - Requires legislation
  - Legislative action needed this session
- Royal Caribbean Group
  - Key strategic partner
  - Anchor tenant with a long-term arrangement for asset use.

Mr. O'Leary emphasized that the fiscal stability of having the Royal Caribbean Group (RCG) as a long-term anchor tenant would aid in financing the project.

Mr. O'Leary summarized that the project fit nicely within the railroad's wheelhouse and would help to keep it self-sustaining. He thought the project fit ARC's mission of economic development for the state.

Co-Chair Stedman wanted to hear from RCG about the carbon emission issue, and the challenges facing the industry with regard to ships and getting them plugged in to shoreside power. He thought the project was good but wondered if it should be larger in scope.

[9:38:01 AM](#)

Senator Wilson asked Mr. O'Leary what the railroad could do for the Matanuska-Susitna (Mat-Su) area. He mentioned Infrastructure Investment and Jobs Act (IIJA) funding and pondered freight capacity of the railroad and the future of the railroad. He mentioned a snow machine path in his district and expansions in the Interior.

Mr. O'Leary emphasized the equal importance of freight, passenger, and real estate activities. He noted that freight activities had been growing and noted that barge service out of Whittier had been extraordinarily busy the previous six months and was expected to continue. He stated there was still capacity on the rail. There was high density during the summer months.

He referenced the Port MacKenzie rail extension, which was a Mat-Su Borough project that the railroad had been integrally involved in. He shared an estimate that there was \$175 million to \$190 million needed to complete the rail extension. He mentioned greater momentum in 2014 and 2015 and that prospective customers had been quieter since the amount of work had died down. He noted that the railroad had worked cooperatively with the Mat-Su Borough and the Fairbanks North Star Borough and one of the utilities in Fairbanks to pursue grant opportunities to benefit the Interior Energy Project but could complete a portion of the project.

Mr. O'Leary continued to address Senator Wilson's question. He summarized that the railroad believed in infrastructure and thought infrastructure was lacking in the state but did not have the capacity to move forward with projects that could not make a "business case." He identified that ARC's cash flow would not support either rail extension project without identified customers or without having external funding.

[9:42:20 AM](#)

Senator Wilson asked if the railroad was actively seeking funds from federal infrastructure packages to help fund projects.

Mr. O'Leary informed that the railroad was still "unpacking" the infrastructure bill. He continued that ARC was finding that there were lots of opportunities. He continued that the railroad was resource-constrained in the ability to go after many of the grants, and it was doing its best to expand its capability. He thought the funds could be great for the railroad and for the state.

Co-Chair Bishop asked Mr. O'Leary to expound on how ARC was resource-constrained in going after IJJA grants.

Mr. O'Leary thought being a grant writer or grant administrator was a good position to be in currently, because there was a lot of grant monies available. He thought it was challenging to find resources and mentioned difficulty filling positions.

Co-Chair Bishop mentioned that there were two infrastructure grants out at the moment for \$4 billion for ports, rail, and passenger service.

[9:44:33 AM](#)

JANETTE BOWER, CITY MANAGER, SEWARD (via teleconference), believed the proposed project was vital to the City of Seward. She expanded that the closure of the dock facility would eliminate cruise ship dollars from local business and city and borough. The closure would also affect the marine industry. She noted that the dock and cruise ship terminal were used year-round, and many community events were held in the terminal. She discussed the positive relationship between the city and the railroad. She asserted that the

RCG had proven their commitment to the city as an anchor tenant and past activities. She spoke to the positive economic impact the project would bring to Seward and the state.

Ms. Bower addressed earlier comments and noted that Seward had been contemplating electrification of the docks and wanted to partner with the railroad. She expanded that the city was doing a major electric upgrade project of its systems. She noted that the city owned and operated its electricity in Seward, and it was aware of what was needed to be in compliance. She addressed the hypothetical event of catastrophic failure of the port in Anchorage. She noted some tenants in Anchorage had looked at Seward as a possible option. She mentioned that the United States Coast Guard had received \$13.5 million for housing in Seward, which indicated growth. She asserted that the port was active and had a lot of capacity.

Senator Wielechowski asked if the City of Seward was contributing financially to the construction of the project proposed in the bill.

Ms. Bower answered "no."

Co-Chair Bishop asked if the City of Seward was still overrun with feral rabbits.

Ms. Bower had not seen any rabbits.

[9:48:33 AM](#)

PRESTON CARNAHAN, DIRECTOR OF DESTINATION AND BUSINESS DEVELOPMENT, ROYAL CARIBBEAN GROUP (via teleconference), explained that RCG had 60 ships globally, and would have 10 in Alaska this year. He mentioned that access to a modern and capable dock in Seward was critical to RCG's ability to bring passengers to the Interior. Additionally, the Southeast Alaska communities relied heavily on RCG's ability to continue calling into Seward, as the ships stopped in Southeast communities on the way. He discussed working with ARC and the City of Seward. He affirmed that RCG would be the main user of the new facility and planned to be there for decades in the future.

[9:50:37 AM](#)

Co-Chair Stedman referenced environmental "winds of change" that were approaching and mentioned carbon emissions. He mentioned communities he represented and significant docks in Ketchikan, Sitka, and Hoonah. He wanted an update regarding the carbon emissions issue, and the industry's plan to electrify the docks that ships tied up to. He thought the plan was a win-win for everyone.

Mr. Carnahan relayed that one of the drivers for the project in Seward was a larger dock that would allow for larger ships. The ships were on average 15 to 20 percent more efficient than past generations and would cut carbon emissions. He mentioned dock electrification, and noted that the larger ships were capable and had the necessary hardware to plug in. He mentioned the impact of the number of passengers and ship size relative to the community assets. He cited that RCG took the available electricity into account, which was often from hydropower. He thought it might not currently make sense to plug in ships given the current infrastructure. He considered that RCG needed to work with communities to assess the power grid and whether there were projects to upgrade the infrastructure. He noted that RCG was equipping its ships to be able to plug in where it was available.

Co-Chair Stedman commented that he thought Ketchikan was gearing up and moving forward to power ships in the summer and locals would use the power in the winter. He noted that the electricity was from hydropower. He thought it was true that electrification of four to five ships was not possible, but he thought the more docks that could benefit from electrical expansion was a benefit to everyone.

[9:54:18 AM](#)

Co-Chair Bishop OPENED public testimony.

BONNE WOLDSTAD, SELF, FAIRBANKS (via teleconference), spoke in support of SB 218. She supported maintenance of state infrastructure. She mentioned comments by Senator Wielechowski, Co-Chair Stedman, and Senator Olson relating to a backup for the Port of Alaska. She wanted to see some form of commitment from the Alaska Railroad to recognize prior existing rights as documented under Section 1203 of the Alaska Railroad Transfer Act (ARTA) and the return of full rights to adjacent property owners. She acknowledged

that the bill would not be the correct mechanism to address the matter, but encouraged the committee to work to solve issues between ARC and property owners.

[9:55:41 AM](#)

Co-Chair Bishop CLOSED public testimony.

SB 218 was HEARD and HELD in committee for further consideration.

#hb307

HOUSE BILL NO. 307

"An Act relating to the financing and issuance of bonds for a liquefied natural gas production system and natural gas distribution system; and providing for an effective date."

[9:55:48 AM](#)

Co-Chair Bishop relayed that it was the first hearing for HB 307. The committee would hear a bill introduction and sectional analysis and would take invited and public testimony.

[9:56:21 AM](#)

REPRESENTATIVE GRIER HOPKINS, SPONSOR, relayed that HB 307 was a simple bill that would start a long-term comprehensive solution to a difficult problem that had been worked on in Fairbanks for a decade. He spoke from a Sponsor Statement (copy on file):

In 2009, the U.S. Environmental Protection Agency (EPA) designated the more populated portions of the Fairbanks North Star Borough (FNSB) as a nonattainment area for air quality related to PM2.5. Since that time, the communities of Fairbanks and North Pole, State of Alaska, and Interior Gas Utility (IGU) have been actively engaged in expanding the availability and use of natural gas through the implementation of the Interior Energy Project (IEP), a project designed to bring lower-cost energy to as many Interior residents and businesses as possible, as quickly as possible.

A key to reducing PM2.5 air pollution in the long term is expanding the availability of affordable, clean burning natural gas. A critical component of the IEP is financing for the development of a unified public gas utility with competitive rates. SB 23 (chapter 26 SLA 13) was passed by the 28th Alaska Legislature in 2013 giving the Alaska Industrial Development Authority (AIDEA) the ability to provide financing tools for the development of the IEP.

Among the financial tools granted to AIDEA for the IEP was the ability to issue up to \$150 million in conduit revenue bonds to help develop an integrated natural gas supply chain, including expansion of natural gas liquefaction facilities in the Matanuska-Susitna Borough and expansion of natural gas mains and service lines in the FNSB. Authorization under SB 23 for issuing these bonds was originally scheduled to expire June 30, 2018. Through the passage of HB 119 (chapter 64 SLA 18) in 2018, the Alaska Legislature extended access to AIDEA bonding an additional five years to June 30, 2023.

Given market conditions and turmoil related to the COVID-19 pandemic, IGU has paused the final investment decision on its Titan liquid natural gas (LNG) plant expansion project located in the Mat-Su Borough, which will necessitate access to AIDEA bonds. Bonds of \$136 million of the original \$150 million authorized may be issued to provide up to the \$275 million financing cap authorized under SB23.

HB 307 extends the authorization for AIDEA to issue IEP-related bonds for an additional five years to June 30, 2028.

Representative Hopkins cited that there were letters of support from the Alaska Industrial Development and Export Authority (AIDEA), the City of Fairbanks, the Fairbanks Economic Development Corporation, and the Fairbanks NorthStar Borough (copy on file).

Senator Wilson thought the Titan Facility was good to have in the borough and he would love to see its expansion. He asked about how the additional bonding capacity would be

used. He referenced the capacity of the railroad and moving gas containers.

Representative Hopkins understood that the funds would just be for the facility. For specific plans, he deferred to the Interior Gas Utility.

[10:00:35 AM](#)

DAN BRITTON, INTERIOR GAS UTILITY, FAIRBANKS (via teleconference), stated that the current plans did not include any specific investment for rail infrastructure as the Interior Gas Utility (IGU) worked towards expansion of liquefaction. He continued that IGU continued to look for opportunities to do so, but the bonding authorization had not identified a specific investment in rail.

Co-Chair Bishop asked if Mr. Britton had anything to add.

Mr. Britton noted that in 2022, it was estimated that an additional 600 customers would be converting to natural gas. The funds would be used for expanding availability of gas, through the distribution system expansion and installation of new services as customers were interested.

Co-Chair Bishop referenced the anticipated 600-unit expansion and asked if it was above or below estimates.

Mr. Britton stated the number was slightly above the pro-forma for the current year of approximately 457 customers. He continued that IGU had reached over 300 approved-for-construction service lines already and it was well ahead of the previous year's progress.

[10:02:29 AM](#)

Co-Chair Bishop OPENED public testimony.

[10:02:40 AM](#)

Co-Chair Bishop CLOSED public testimony.

Co-Chair Bishop relayed that the amendment deadline was Friday, May 6 at 5 o'clock p.m.

HB 307 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

10:03:12 AM

The meeting was adjourned at 10:03 a.m.