

ALASKA STATE LEGISLATURE
SENATE TRANSPORTATION STANDING COMMITTEE

March 24, 2022

1:35 p.m.

MEMBERS PRESENT

Senator Robert Myers, Chair
Senator Mike Shower, Vice Chair
Senator Peter Micciche
Senator Jesse Kiehl

MEMBERS ABSENT

Senator Click Bishop

COMMITTEE CALENDAR

SENATE BILL NO. 170

"An Act relating to the Alaska marine highway system; establishing the Alaska Marine Highway Corporation; and providing for an effective date."

- HEARD & HELD

SENATE BILL NO. 231

"An Act providing that the Alaska Railroad Corporation is subject to the Executive Budget Act; providing that expenditures of the Alaska Railroad Corporation are subject to appropriation; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 170

SHORT TITLE: MARINE HIGHWAY CORPORATION

SPONSOR(s): TRANSPORTATION

01/21/22	(S)	READ THE FIRST TIME - REFERRALS
01/21/22	(S)	TRA, L&C, FIN
02/17/22	(S)	TRA AT 1:30 PM BELTZ 105 (TSBldg)
02/17/22	(S)	Heard & Held
02/17/22	(S)	MINUTE(TRA)
02/22/22	(S)	TRA AT 1:30 PM BELTZ 105 (TSBldg)

02/22/22 (S) Heard & Held
02/22/22 (S) MINUTE(TRA)
03/17/22 (S) TRA AT 1:30 PM BELTZ 105 (TSBldg)
03/17/22 (S) Heard & Held
03/17/22 (S) MINUTE(TRA)
03/22/22 (S) TRA AT 1:30 PM BELTZ 105 (TSBldg)
03/22/22 (S) Heard & Held
03/22/22 (S) MINUTE(TRA)
03/24/22 (S) TRA AT 1:30 PM BELTZ 105 (TSBldg)

BILL: SB 231

SHORT TITLE: AK RAILROAD CORP; EXEC BUDGET ACT

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

03/15/22 (S) READ THE FIRST TIME - REFERRALS
03/15/22 (S) TRA, FIN
03/24/22 (S) TRA AT 1:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

THERESA WOLSTAD, Staff
Senator Robert Myers
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided an overview of the issues related to the need for the proposed Alaska Marine Highway Corporation in SB 170 on behalf of the committee.

ROB CARPENTER, Deputy Commissioner
Department of Transportation and Public Facilities (DOTPF)
Juneau, Alaska

POSITION STATEMENT: Provided a PowerPoint on the Alaska Marine Highway System Service and Routes.

JOHN FALVEY, General Manager
Marine Highway System
Department of Transportation and Public Facilities (DOTPF)
Ketchikan, Alaska

POSITION STATEMENT: Answered questions about the Alaska Marine Highway System (AMHS) during the discussion of SB 170.

ANDY MILLS, Legislative Liaison
Office of the Commissioner
Department of Transportation and Public Facilities (DOTPF)
Juneau, Alaska

POSITION STATEMENT: Answered questions on the Alaska Marine Highway System during the discussion of SB 170.

MATT MCLAREN, Business Enterprise & Development Manager
Department of Transportation and Public Facilities (DOTPF)
Ketchikan, Alaska

POSITION STATEMENT: Answered questions on AMHS during the hearing on SB 170.

NEIL STEININGER, Director
Office of Management and Budget
Office of the Governor
Juneau, Alaska

POSITION STATEMENT: Presented SB 231 on behalf of the administration.

BILL O'LEARY, President and CEO
Alaska Railroad Corporation (ARRC)
Anchorage, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of SB 231.

ACTION NARRATIVE

[1:35:45 PM](#)

CHAIR ROBERT MYERS called the Senate Transportation Standing Committee meeting to order at 1:35 p.m. Present at the call to order were Senators Kiehl, Shower, Micciche, and Chair Myers.

SB 170-MARINE HIGHWAY CORPORATION

[1:36:15 PM](#)

CHAIR MYERS announced the consideration of SENATE BILL NO. 170 "An Act relating to the Alaska marine highway system; establishing the Alaska Marine Highway Corporation; and providing for an effective date."

[SB 170 was previously heard on 2/17/22, 2/22/22, 3/17/22, and 3/22/22.]

[1:36:45 PM](#)

THERESA WOLSTAD, Staff, Senator Robert Myers, Alaska State Legislature, Juneau, Alaska, reviewed the AMHS structure. She stated that the Alaska Marine Highway System (AMHS) is a line agency within the Department of Transportation and Public Facilities (DOTPF). A general manager directs the day-to-day operations of this system. While the existing governance model

presents interdepartmental coordination regarding public transportation across the state of Alaska, the current system is vulnerable to funding uncertainty, a lack of unified management authority, frequent turnover in senior leadership positions, short-term planning horizon, and exposure to political influence over operational decisions. One advantage of SB 170 is it creates a board of directors for the proposed corporation, which would not need to reorganize with each administration. This governance model would reduce substantial exposure to political influence, provide for stable leadership, and foster a long-term vision in strategic planning to develop reliable ferry services in Alaska. One purpose of AMHC is to provide predictability and stability of ferry service to Alaska communities. The proposed corporation would be granted the authority to set rates and establish routes, schedules, and types of services. The corporation would also have the authority to contract with other modes of transportation, enter into agreements to subcontract delivery of services, and enter into a minimal assurance agreement with the state to reflect the actual transportation needs of the state.

MS. WOLSTAD deferred to Mr. Carpenter to present a PowerPoint providing more detailed information.

[1:39:20 PM](#)

ROB CARPENTER, Deputy Commissioner, Department of Transportation and Public Facilities (DOTPF), Juneau, Alaska, began a PowerPoint on the Alaska Marine Highway System Service and Routes.

[1:40:33 PM](#)

MR. CARPENTER reviewed slide 2, depicting a map that showed the vessel routes for the ferries serving Southeast Alaska, including the Matanuska, Kennicott, LeConte, and Lituya. He noted that AMHS ferries serve communities from Bellingham to Haines and Skagway. The Matanuska and Kennicott travel to Bellingham every other Friday. The Kennicott travels from Bellingham to Haines and Skagway, Yakutat, and across the Gulf of Alaska. It is the only AMHS vessel that crosses the gulf. He characterized the LeConte as the workhorse of Southeast Alaska. He noted the Lituya travels between Ketchikan and Metlakatla.

[1:41:27 PM](#)

CHAIR MYERS related his understanding that the Columbia was either in layup or about to layup. He asked whether the Columbia was previously used for the cross-Gulf route, and if the vessel would resume that route.

MR. CARPENTER responded that the Columbia does not cross the Gulf of Alaska because she is not ocean certified. He deferred to Captain Falvey.

[1:42:13 PM](#)

JOHN FALVEY, General Manager, Marine Highway System, Department of Transportation and Public Facilities (DOTPF) Ketchikan, Alaska, agreed that the Columbia lacks an ocean-class hull, so it cannot cross the Gulf of Alaska without permission from the United States Coast Guard (USCG). The two ships that are ocean class vessels are the Tustumena and the Kennicott. He noted the new Tustumena replacement vessel (TRV) will also be rated as an ocean-class vessel.

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MR. CARPENTER added that the Tazlina, an Alaska Class Ferry (ACF), also serves Southeast Alaska. When the Columbia returns to service, she will serve Bellingham and assist the feeder vessels.

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MR. CARPENTER reviewed slide 3, AMHS Ports - Southeast. He stated that the "x" on the chart shows the ports that the vessels could serve. For instance, the Aurora could dock at Angoon although she typically serves Prince William Sound (PWS).

[1:44:03 PM](#)

CHAIR MYERS asked for the main reason that stops the vessels from going to all of the ports.

MR. CARPENTER deferred to Captain Falvey but he believed it was primarily due to the physical infrastructure.

[1:44:27 PM](#)

CAPTAIN FALVEY agreed it was the match up to the infrastructure, including the dolphins. Some vessels cannot use some of the docks.

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SENATOR MICCICHE asked for the financial reasons that AMHS was not serving the communities.

CAPTAIN FALVEY explained that AMHS has tended to operate the ships zonally. For example, the LeConte operates in Southeast Alaska, the Aurora stays in Prince William Sound (PWS), the Columbia typically runs in Southeast Alaska from Haines and

Skagway, and the Kennicott runs cross-Gulf. AMHS has modified the Whittier dock to accommodate the new Alaska Class Ferries (ACF). Thus, if an ACF operates in PWS, it will match up to all of the docks. He noted AMHS is currently working with Subcoastal Region Engineering to upgrade Pelican in Southeast Alaska and Chenega Bay in Southwest Alaska to accommodate ACFs. As the new vessels come in, AMHS will achieve consistent matchup in Alaska.

MR. CARPENTER added that some depth of water issues prevented some vessels from using some docks.

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MR. CARPENTER reviewed slide 4, Vessel Routes - Southwest, showing the vessel routes for the Aurora, and Tustumena from Bellingham to Dutch Harbor. The Kennicott cruises to Whittier on its cross-Gulf trip, and when the Tustumena travels to Chignik, Sand Point and other communities along the Aleutian Chain, the Kennicott will serve Chenega Bay, Homer, Kodiak, Old Harbor, and Ouzinkie.

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MR. CARPENTER reviewed slide 5, AMHS Ports - Southwest, consisting of a chart showing the ports that vessels can serve.

[1:47:21 PM](#)

CHAIR MYERS asked whether the Aurora stays in PWS because the vessel is not rated as an ocean-class vessel.

MR. CARPENTER answered yes. He stated that the LeConte and Aurora are 235-foot sister inland water ships that are not ocean-going.

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MR. CARPENTER reviewed slide 6, Current Fleet Status, which consisted of a map showing the vessels in service and those in the shipyard. The Aurora operates in PWS, the Matanuska runs from Bellingham to Haines and Skagway, the Lituya runs between Ketchikan and Annette Bay, and the Tazlina works the Northern Panhandle communities, including Angoon, Gustavus, Hoonah, Juneau, Haines, and Skagway. He stated that the LeConte was scheduled for layup in late March, the Hubbard is having crew quarters installed at Vigor shipyard, and the Columbia will soon be mechanically ready, but AMHS must address crew issues. He characterized the Kennicott as the fleet's workhorse, running most routes. He indicated the Tustumena would be in the yard for a capital improvement project for at least half of the summer.

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MR. CARPENTER reviewed slide 7, the Historical Revenues and Operating Costs, which consisted of bar graphs showing the AMHS Fare Box Recovery from 1992-2023. He noted that the salmon-colored bar reflects the generated revenue, dark blue represents the other fund sources, primarily unrestricted general funds (UGF), and the gold line depicts the fare box recovery. He noted the figures were adjusted for inflation. He pointed out that the budget was \$140 million in 1992, similar to the FY 2023 Governor's budget. He explained that the fare box declined significantly from 2006 through 2018. At the time, the budgets were higher, and AMHS was running more ships, but the revenue as a percentage of the budget was less. He directed attention to the lower right, which shows that the budget has been funded for the last two years with federal funds, but AMHS is still collecting the revenues, which will be deposited to the Marine Highway System Fund.

[1:50:56 PM](#)

ANDY MILLS, Legislative Liaison, Office of the Commissioner, Department of Transportation and Public Facilities (DOTPF), Juneau, Alaska, stated that later on in the presentation, he and Mr. Carpenter will reference slide 7 to show trends.

[1:51:17 PM](#)

SENATOR MICCICHE remarked that this slide shows some decisions that were counter to ones the department probably would like to have made by adding service and vessels when ridership was declining.

MR. CARPENTER agreed that his remarks were fair.

MR. MILLS noted that airline travel had impacted ferry service, but the reliability of vessels and other factors affect decisions people make when deciding whether to travel by ferry. He acknowledged that accessibility and cost affect those decisions.

[1:52:30 PM](#)

MR. CARPENTER reviewed slide 8, Statistical Information: Passengers. He referred to the 2006-2017 time period, noting that the department provided significantly more weeks of service, but there wasn't a corresponding spike in passenger traffic. Although AMHS was doing more with less crew, it may not have been the most efficient use of capacity. He indicated that the figures were not adjusted for inflation. He directed

attention to 2019, 2020, and 2021, years dramatically affected by COVID-19.

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CHAIR MYERS pointed out differences regionally, noting that AMHS had a decent increase in ridership in Southwest Alaska, but Southeast Alaska traffic remained flat.

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MR. CARPENTER reviewed slide 9, Statistical Information: Vehicles. He stated that the vehicle traffic has remained relatively consistent, partly because AMHS represents an extension of the highway system.

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CHAIR MYERS asked whether AMHS has considered adding vehicle space on new vessels, perhaps having a double car deck.

MR. CARPENTER indicated that the car decks on the TRV were expanded to accommodate growing vehicle traffic. He recalled AMHS considered not having any passenger quarters, but since this vessel travels to the Aleutian Chain, retaining passenger quarters were deemed appropriate. He deferred to Captain Falvey for additional comments.

CAPTAIN FALVEY stated that the Alaska Class Ferry (ACF) has considerably larger car decks than the LeConte and Aurora. He indicated that the plan would be to replace the LeConte and Aurora with ACFs with an additional car deck. Further, the Tustumena Replacement Vessel (TRV) will have considerably more vehicle capacity than the Tustumena.

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SENATOR KIEHL offered his view that the chart mirrors the economic activity in Southeast Alaska. He recapped that Southeast Alaska had two pulp mills and a robust commercial fish sector, but when the pulp mills closed, AMHS suffered a downturn in passenger traffic. It flattened out as the economy hit a plateau and began to recover. He directed attention to the northern end of the Southeast Alaska region, noting budget cuts from FY 2016 onward. He asked whether the statistical information could be overlaid with the size of the economy.

MR. CARPENTER agreed to do so.

[1:58:09 PM](#)

SENATOR MICCICHE stated that while the industry economy dropped, Alaska has seen dramatic growth in tourism and independent travelers. He asked whether AMHS has any idea which sector accounts for the primary sources of vehicle traffic.

MR. CARPENTER offered his view that the vehicle source was a combination of local, tourism, and commercial traffic.

CAPTAIN FALVEY agreed that vehicle traffic was a combination. He elaborated that AMHS moves military families and locals in and out of Alaska and serves independent travelers. In 2014, AMHS had 11 ships running but did not have any significant changes in vehicle traffic. He acknowledged that AMHS ships had been under capacity for passenger travel, which improved, in part, by running fewer ships.

2:00:10 PM

MATT MCLAREN, AMHS Business Enterprise & Development Manager, Department of Transportation and Public Facilities (DOTPF), Ketchikan, Alaska, added that AMHS carries fish vans seasonally. He indicated that 60 percent of the traffic from Bellingham during the summer was due to non-resident travelers and 40 percent from residents. The type of traveler switches to 60 percent resident and 40 percent non-resident travel in the winter. He related that AMHS carries substantial numbers of recreational vehicles in Prince William Sound (PWS) and tourist traffic between Whittier and Valdez. He noted that rural Alaskan villages use the system to transport fish or support other industries. He offered his view that it was an even mix between resident and non-resident vehicular traffic statewide.

2:01:20 PM

MR. CARPENTER added that the military is a big AMHS customer. He stated that AMHS meets with the admiral of the US Coast Guard several times a year, assuring him that AMHS will be available to assist military customers moving to and from Kodiak and Bellingham.

2:01:54 PM

MR. CARPENTER reviewed slide 10, Forward Funded Budget Structure. This slide depicts a timeline for the budget cycle, including the schedule release in August 2021, covering October through September 30, 2022. He indicated that this allows people to book and have a reliable schedule. DOTPF is working on the budget for next year, which will be released in July or August, as shown in yellow on the slide. He indicated this came about

because the legislature appropriated \$64 million in bridge funding to allow AMHS to have a full 12 months of funding.

[2:03:39 PM](#)

CHAIR MYERS wondered whether a government shutdown would affect AMHS since it has six-month forward funding.

MR. CARPENTER agreed that AMHS was funded to September, with appropriations covering the calendar year.

[2:04:09 PM](#)

SENATOR SHOWER asked how the potential federal infrastructure funding of \$200 million affects planning.

MR. CARPENTER answered that the department proposes using the infrastructure funding for operations, which is in the operating budget for \$142 million. He stated that just because it is federal funding doesn't play into the decision-making other than the state must follow federal rules in the Notice of Funding Opportunity.

[2:05:01 PM](#)

SENATOR SHOWER asked for the cutoff date.

MR. CARPENTER indicated that the department should receive the Notice of Funding in April 2022 and apply for the grant shortly after that, but he was unsure of the actual timeline. He anticipated the state would potentially receive two years of federal infrastructure funding in December 2022 for FY 2022 and FY 2023. The department would need to plan how to spend the potential \$400 million.

SENATOR SHOWER wondered whether AMHS would need supplemental funding, but he acknowledged that Mr. Carpenter couldn't answer that question.

MR. CARPENTER reiterated that AMHS is funded through calendar 2022.

SENATOR SHOWER expressed an interest in the fallback position if something happened and the federal funds were delayed.

MR. CARPENTER offered to provide the committee with more details.

[2:07:27 PM](#)

SENATOR KIEHL stated that once the federal funds are received, AMHS will not need to worry about the sweep for the next five years because of the federal funding. He surmised that the federal funding would not be extended beyond five years. He indicated that AMHS would need to have the appropriate buffers and fiscal structure in place to continue to operate on a calendar year basis. He asked members to keep the benefits of AMHS having funding for the calendar year in mind for publishing the ferry schedule and making it possible for AMHS to provide reliable planning for its customers.

[2:08:26 PM](#)

MR. CARPENTER reviewed slide 11, Service Schedule Considerations.

- Considerations when drafting a service schedule:
 - Overhaul timing of vessels
 - Historical Ridership (demand) Historical Revenue (gross receipts)
 - Community events (solicited during draft schedule public comment)
 - Time, distance & speed
 - Crew change ports, schedules and work/rest requirements, (STCW) Standards of Training, Certification and Watch keeping
 - Dock configurations
 - SOLAS compliance
 - Tide and current restraints In-port times to account for seasonal loading and unloading times and weather challenges.

MR. CARPENTER highlighted the challenges in preparing the schedule. He reviewed the process as shown on the slide.

[2:11:17 PM](#)

CAPTAIN FALVEY added that AMHS must consider dock conflicts. He acknowledged that the union contracts present challenges because the crews change at certain locations and times, and the ships must be in the ports to allow that to happen, which can be challenging. He pointed out that not meeting the schedule could result in significant overtime, so AMHS must work through crew changes when it builds the schedule.

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CHAIR MYERS asked how the Bellingham run was affected, given Canada's decision to not allow ships to traverse its waters.

CAPTAIN FALVEY answered that it did not impact AMHS.

[2:12:55 PM](#)

SENATOR KIEHL remarked that AMHS couldn't use Prince Rupert.

CHAIR MYERS recalled that cruise ships could not use Canadian ports or sail within a certain distance of the coastline.

CAPTAIN FALVEY interjected that AMHS has Rights-of-Passage agreements with Canada.

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MR. CARPENTER reviewed slide 12, Operating Plan 2021-2022, which depicts a fiscal year timeline schedule from 2021-2022 showing the vessel makeup. He directed attention to the left axis, which lists the vessels. For example, the Kennicott ran from July 2021 to January 2022, went into overhaul in January, is scheduled to come out of the overhaul on April 21, 2022, and will resume service for the remainder of the year. He noted that the Columbia has been in layup since October. He offered to review each vessel.

CHAIR MYERS asked him to continue.

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MR. CARPENTER said the operating plan drives the more detailed scheduling.

[2:15:00 PM](#)

MR. CARPENTER reviewed slide 13, Operating Plan 2022-2023 (DRAFT), which shows the tentative operating plan. He noted that the Columbia would go into a federal CIP mid-September to repair the pitch propeller system. The TRV construction is scheduled to begin in December 2022. The Hubbard crew quarters will be completed on October 1 and will go into overhaul, then probably operate in Northern Lynn Canal in November 2022.

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MR. CARPENTER reviewed slide 14, Spider Graph - Example Schedule for Summer 2022, Southwest-Prince William Sound, Week 1. He said this provides a visual of every ship and port for each week. For example, the ports are shown on the left axis, and the Tustumena is shown in blue. The Tustumena will depart Kodiak en route to Seldovia, Homer, and other ports. The red line shows the Aurora in PWS traveling to Cordova on Monday, then on to Whittier, Valdez, and Tatitlek, and back to Whittier and Cordova. He noted

that is the circuit the Aurora will make each week. Meanwhile, the Kennicott runs to Whittier, then Yakutat, and crosses the Gulf of Alaska to Juneau.

MR. CARPENTER turned to slide 15, Spider Graph - Example Schedule shows the Kennicott in Juneau on Wednesday, then traveling to Ketchikan on Thursday, Bellingham on Saturday, then it reverses. The red bar indicates the LeConte in Juneau, traveling to Angoon, Hoonah, Juneau, then north to Haines, and Skagway, then repeats that circuit. He directed attention to the green line, which shows the Matanuska run from Bellingham to Skagway. Captain Falvey mentioned that the scheduling must consider the vessels to avoid port scheduling conflicts.

[2:18:53 PM](#)

MR. CARPENTER reviewed slide 16, Spider Graph - Complex Schedule, Southeast Summer 2014 July to mid-September, Week 1 and 3. He noted that this occurred with a big spike on the graph when both fast ferries and most vessels were running. He envisioned that this had taken substantial time to map out.

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CHAIR MYERS asked about configurations of car deck space on ships depending on whether it was a cross-Gulf sailing or staying within Southeast Alaska.

MR. CARPENTER deferred to Captain Falvey.

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CAPTAIN FALVEY stated that it would depend on the specific stops and how the vessel needs to be loaded because the Kennicott travels to Yakutat and on to Whittier.

[2:21:05 PM](#)

SENATOR MICCICHE referred to the genesis of the ferry system from 1949 until 2008. He stated that when demonstrated, a well-run system with new vessels provides a very different picture than the current struggling, underfunded system with older ships. For example, the private ferry ran in 1949 but failed because it could not attract year-round customers. It began running after the Territory of Alaska purchased the vessel in 1951. In the first year, AMHS made a \$277 profit, but by 1952 the system began losing \$43,000 annually. He suggested that members read the history since it provides a relevant perspective of AMHS.

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MR. CARPENTER referred to a video on YouTube about the ferry system in the 1970s in which some of the same issues were mentioned.

[2:23:38 PM](#)

CHAIR MYERS held SB 170 in committee.

SB 231-AK RAILROAD CORP; EXEC BUDGET ACT

[2:23:42 PM](#)

CHAIR MYERS announced the consideration of SENATE BILL NO. 231 "An Act providing that the Alaska Railroad Corporation is subject to the Executive Budget Act; providing that expenditures of the Alaska Railroad Corporation are subject to appropriation; and providing for an effective date."

[2:24:04 PM](#)

NEIL STEININGER, Director, Office of Management and Budget, Office of the Governor, Juneau, Alaska, stated that the governor introduced SB 231 to ensure that the expenditure of state funds was subject to legislative appropriation. This bill would require the Alaska Railroad Corporation (ARRC) to comply with the Executive Budget Act, similar to other corporations and state agencies. ARRC is a public corporation within the Department of Commerce, Community, and Economic Development but currently is not included in the department's annual operating budget.

[2:25:21 PM](#)

SENATOR KIEHL stated that ARRC had operated this way for a long time. He related his understanding that the audit did not make any significant findings. He asked the reason for making this change.

MR. STEININGER responded that this bill does not address specific audit findings. It considers whether state funds should be expended without legislative appropriation control. He noted that there were limited instances without legislative appropriation control. He highlighted that the only one he could recall was grants the Alaska Mental Health Trust Authority (AMHTA) received. He noted that these grants were required by an Alaska Supreme Court case. He explained that in this case there is not any indication of how ARRC spends money outside the Executive Budget Act or legislative appropriation control or why they shouldn't be subject to that scrutiny. The legislature and Alaskans have the right to review the budget process and changes

to the operational spending plans to provide accountability and transparency.

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SENATOR KIEHL pointed out that other state corporations expend funds the legislature does not appropriate, such as the Alaska Industrial Development and Export Authority (AIDEA). The legislature does not oversee any of AIDEA's investments or authorize most of the Alaska Housing Finance Corporation's housing investments even though they are state corporations. He asked whether the state should initiate comparable reforms for those corporations.

MR. STEININGER responded that the operating costs for those corporations are in the annual operating budget. The loans or investments made are from funds capitalized via legislative appropriation, so the legislature had appropriation control. The legislature has appropriation control over the funds via a section in the operating budget that grants broad authority over AHFC's programs and subjects them to scrutiny. However, ARRC does not appear in the appropriation bill. The public should be able to access the Office of Management Budget or Legislative Finance websites and review ARRC's expenditures and legislative approval for them.

[2:30:16 PM](#)

CHAIR MYERS referred to Section 5 of SB 231, which would require ARRC to report on the use of its assets.

MR. STEININGER responded that the administration would like ARRC to provide an accounting of the existing assets and how they will be used. The administration included reporting requirements that would benefit ARRC's transition to fall under the Executive Budget Act. He opined it would be helpful to the legislature during the appropriation approval process. He characterized becoming familiar with ARRC as potentially a steep learning curve for committees.

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CHAIR MYERS asked whether the other corporations prepare similar reports.

MR. STEININGER acknowledged that he was not familiar with every report work required, but many of them have annual financial and other reporting requirements.

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SENATOR MICCICHE asked how long ARRC had not been subject to the Executive Budget Act (EBA).

MR. STEININGER responded that he was unsure when the federal government transferred ARRC to the state.

CHAIR MYERS noted that Mr. O'Leary would be testifying later.

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SENATOR MICCICHE stated that for the last 40 years, ARRC had not been subject to EBA. He wondered what problem arose because if it was valid, the legislature might support SB 231; otherwise, it seemed arbitrary.

MR. STEININGER explained that the governor's office received constituent questions that led policymakers to review ARRC's operations more closely. After noting ARRC was not in the budget but the corporation expends public funds, the administration took steps to resolve it in SB 231.

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SENATOR MICCICHE offered his belief that the state establishes corporations to provide them with the flexibility to employ private sector principles and let experts run organizations in a manner that is typically far more efficient than public sector organizations. He said it seems like this bill is moving ARRC backward. He said he would listen, but it seems strange that ARRC had operated without it being an issue for so long. He wondered if OMB was having problems obtaining answers from ARRC.

MR. STEININGER responded that he was not aware of OMB having issues obtaining any answers from ARRC. However, it might be because ARRC does not fall under the EBA, so OMB does not have an opportunity to ask questions. Since ARRC is exempt from the Executive Budget Act, OMB does not receive any financial or operational plans that OMB receives from every other state corporation or state entity, which could lead to questions. Throughout the interim, OMB works with corporations and other entities to prepare the following year's budget, which leads to questions about operations and management that could lead to interventions.

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BILL O'LEARY, President and CEO, Alaska Railroad Corporation (ARRC), Anchorage, Alaska, stated that the Alaska Railroad Board has not met since this bill was introduced, so he cannot offer

the board's position on the bill. He offered to highlight any impacts of SB 231 on the railroad.

MR. O'LEARY highlighted an essential distinction between ARRC and other state corporations. He stated that the railroad is an operating entity, not an investment company or one that provides mortgages, such as AIDEA and AHFC. It operates in a very competitive, dynamic marketplace. The model selected for the Alaska Railroad came from a series of studies. He provided a brief history, noting that the federal government owned the railroad until the early 1980s, when the state purchased it. At that time, the 13th legislature considered what model to use for the railroad. Before state ownership, the railroad had significant financial issues and was in deep disrepair. Some members felt that many of the railroad's problems stemmed from the railroad being subject to the federal budget process. He characterized the railroad as being "starved" by the federal process. Many studies, including the Harvard Business Review and the University of Alaska's Institute of Social and Economic Research (ISER), considered the best model for the railroad and determined that the railroad should operate similarly to a private corporation with oversight.

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MR. O'LEARY stated that this would allow the railroad to be nimble enough to consider opportunities from dissatisfied customers and the marketplace and solve the issues. He said he was unsure how that would work under the Executive Budget Act.

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MR. O'LEARY provided several examples. He related that 2020 was a financial bloodbath regarding ARRC's passenger service. ARRC has three primary revenue sources: passenger services, freight, and real estate activity. In 2020, the railroad moved about six percent of the passengers it moved in 2019. He noted the railroad operates on a calendar year, so it was very challenging to build the 2021 budget. It did so by consulting with its customers and groups and considering the general economic situation. ARRC's seven-member board appointed by the governor approved the budget. Shortly after that, things changed. It became clear in March and April 2021 that the plans for passenger service were markedly inadequate. With the advent of vaccines and Europe still closed, many independent travelers traveled to Alaska, but the railroad could not move them without making significant changes. ARRC management worked with the Alaska Railroad Corporation's Board of Directors to quickly

develop a revised plan that allowed them to add sixty new train starts to support the additional travelers.

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MR. O'LEARY indicated that ARRC had significant freight growth during this time. He estimated that ARRC had a \$20 million opportunity, but to capture it would require spending \$10 million, which was not included in the original budget.

[2:44:52 PM](#)

MR. O'LEARY characterized the 2021 tourism growth as an opportunity to be nimble and move quickly. He stated that it was similar to ARRC's work with the military. He said the railroad frequently moves military equipment between Fort Wainwright and the Port of Anchorage. He indicated that the notice is often unsuitable for a long-range budget plan. However, ARRC can look at the opportunity and work with its military partners. It is not an appropriate answer in terms of national defense to tell the military that ARRC cannot accommodate them because it lacks the budget to do so. He indicated that these are the types of concerns that ARRC has about SB 231.

MR. O'LEARY related examples on ARRC's capital side. He related that customers might approach the railroad with a proposition to move pipe if ARRC is willing to partner in purchasing specialized equipment to offload the pipe. In such cases, ARRC can put together a business case and call a board meeting to acquire the authority to purchase the equipment expeditiously due to the nature of the railroad's model. He expressed concern that the Executive Budget Act may not allow the railroad to move at the speed necessary to accommodate its customers.

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MR. O'LEARY indicated that there were other impacts related to ARRC's outstanding debt, and the railroad is not entirely sure how SB 231 would impact federal law, but these were the immediate first blush impacts that came to mind.

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CHAIR MYERS asked what impacts SB 231 would have on ARRC's labor contracts and negotiations.

MR. O'LEARY responded that the railroad was trying to understand the impacts, partly due to its unfamiliarity with the Executive Budget Act. He related that roughly 75 percent of railroad employees are members of one of its five unions. He explained the process, such that ARRC negotiates with its unions, reaches

an agreement, and brings it to their board for approval. The unions bring the agreement to its membership for ratification, which becomes incorporated into the budget. He stated that it does not run on a static timeframe. For instance, negotiations may take three days, which recently happened, while it might take one union six years to ratify its contract. He acknowledged that it could be challenging, but they plan for it through their budgetary process.

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SENATOR SHOWER stated that it did not seem that SB 231 would take away the railroad's authority to operate once the legislature appropriated the funding. He asked whether SB 231 would prevent the railroad from making decisions like the ones he just illustrated. He envisioned that if the legislature had approved funding, the railroad could make subsequent decisions without going back to the legislature since it would have the board's authority to make decisions. He wondered if there would be any issues.

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MR. O'LEARY acknowledged that he was not completely familiar with the Executive Budget Act. He related his understanding that the railroad's operating expense budget would be set at a specific amount, for example, \$150 million, and ARRC would expend funds based on the plan the railroad put together. However, if the railroad had an opportunity to capture \$20 million but needed to expend \$10 million, he was unsure the railroad could do so. He surmised that there might be mechanisms between Legislative Budget and Audit and OMB. Still, those mechanisms may not provide sufficient speed needed for ARRC to take advantage of the opportunities.

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SENATOR SHOWER recalled that some Whittier constituents have complained about dealing with the railroad concerning its property. He related his understanding that ARRC assumes that the land is theirs and they won't negotiate. He wondered if SB 231 might alleviate some of the concerns because the railroad would need to be more accommodating to people, entities, or municipalities. Some people might like SB 231 to influence how the railroad operates in Alaska. He indicated that some people had expressed concern about how ARRC has handled its property in Alaska. He said he was interested in having ARRC working better within that context rather than having to tell constituents that the state doesn't have any oversight over the railroad.

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MR. O'LEARY responded that the railroad runs heavy, noisy, smelly equipment through people's back yards. He stated that the vast majority of issues the railroad faces relate to land because the railroad bisects part of the state. He reported that ARRC owns 36,000 acres of land, of which 18,000 acres are associated with ARRC's right-of-way. Although significant discussions have arisen over the use and ownership of the right-of-way, it is likely beyond the scope of today's discussion. He stated that ARRC walks a fine line when working with communities and individuals because the railroad is charged with the need to be self-sustaining and an agent for economic development. While he would not state that ARRC does it perfectly every time, the railroad held successful discussions with Whittier about leasing its land for economic development activities related to a new passenger cruise dock. The dock will be on railroad-owned land and has gone before the board and was approved by the Whittier City Council. He acknowledged that the railroad sometimes "butts heads" with people, but ARRC's goal is to be reasonable and fair while trying to walk that fine line.

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MR. STEININGER offered to respond to Senator Shower's questions about processes for flexibility to discuss inherent operational challenges in the annual budget cycle. He highlighted that other state agencies with similarly dynamic operations are subject to the Executive Budget Act, including the Alaska International Airport System. He stated that OMB employs some tools to provide it with the ability to respond to emerging events and changing operational conditions. He noted that Mr. O'Leary referred to the Legislative Budget and Audit process through revised programs, an option an entity could use to access additional receipts from a public corporation that weren't otherwise appropriated. OMB can send notice to the committee, and within 45 days or sooner, the agency could begin expending the funds if the committee grants it. Further, the budget might build in some contingency funding to address some of those concerns in the EBA.

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CHAIR MYERS recalled that about 12 years ago, ARRC increased the rent on the land leased by the Fairbanks Ice Park, so the park had to leave. The railroad argued that it was statutorily required to get the market rate for its land. He asked whether anyone had leased the land in the last dozen years.

MR. O'LEARY responded that he was referring to the Chena Landings Subdivision. He recalled that the legislature passed a bill in 2018 that allowed the railroad to subdivide the land and it has sold a significant number of housing lots.

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CHAIR MYERS recalled that the Alaska Railroad owns the waterfront in Nenana. He related his understanding that the city leased the railroad's land and built up some infrastructure. The City of Nenana was subleasing some portions to Crowley Shipping. The barge lines ended operating in about 2016. He stated that the City of Nenana indicated that the Alaska Railroad had not lowered its lease payments.

MR. O'LEARY responded that he was unaware of any changes to the lease rate. He stated that some of the financial difficulties that the City of Nenana has faced may have affected collecting revenue. He said the Alaska Railroad discussed some solutions with the city last year. He acknowledged that the City of Nenana was interested in owning those lands. Although he was unsure of the status, he recalled that the Alaska Railroad ordered an appraisal. He further recalled that the City of Nenana was considering grant funding to pay any arrearage and perhaps purchase the lands.

[3:00:31 PM](#)

SENATOR KIEHL stated that he was unsure why the governor introduced the bill since the governor appoints the whole board.

MR. O'LEARY understood the concept of wanting ARRC to look like other state corporations. He offered his view that ARRC is different. He said he previously served as the financial controller for the Alaska International Airport System (AIAS) for several years. He characterized it as a facility, which is different than an operating entity, which would be more like being an airline and an airport. He stated that there are differences with ARRC due to the competitive marketplace and the need for rapid responses. He noted that ARRC shares everything other than highly proprietary information with the legislature if asked to do so. He stated that ARRC sends a copy of ARRC's board-approved operating and capital budgets and five-year plans to the legislature and the state. The Alaska Railroad has an annual financial audit by an external private certified public accountancy firm that will be released on March 31, 2022. ARRC provides updates for briefings to the legislature when requested. He stated that substantial accountability is vested with ARRC's seven-member Board of Directors.

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SENATOR KIEHL related that the Alaska Railroad Corporation (ARRC) had been given authority to bond and build a rail line to Port McKenzie and for a Kenai Gasification Project. He asked why it had not done so.

MR. O'LEARY answered that the Alaska Railroad Corporation (ARRC) walks a fine line between self-sustaining and an economic development agent. He related that the Alaska Railroad worked closely with both groups to get the bonding authority put in place, understanding that there would need to be a source of repayment for those funds. He characterized it as making a business case for the projects. However, the business case has not materialized that would permit ARRC to issue the bonds, which would need to be repaid.

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SENATOR KIEHL remarked that the state could not force the Alaska Railroad to make decisions that would lead to insolvency. He stated that he knows very little about the federal Railroad Act. He asked whether the Department of Law vetted this bill to determine if there were any potential conflicts with the federal law.

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MR. STEININGER deferred to the Department of Law.

[3:06:32 PM](#)

CHAIR MYERS held SB 231 in committee.

[3:06:41 PM](#)

There being no further business to come before the committee, Chair Myers adjourned the Senate Transportation Standing Committee meeting at 3:06 p.m.