

**ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE**

February 16, 2023

1:02 p.m.

MEMBERS PRESENT

Representative Kevin McCabe, Chair
Representative Sarah Vance, Vice Chair
Representative Tom McKay
Representative Craig Johnson
Representative Jesse Sumner
Representative Genevieve Mina

MEMBERS ABSENT

Representative Louise Stutes

COMMITTEE CALENDAR

PRESENTATION(S): OVERVIEW: ALASKA RAILROAD CORPORATION

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

BILL O'LEARY, President, CEO
Alaska Railroad Corporation
Anchorage, Alaska

POSITION STATEMENT: Gave a PowerPoint presentation on the Alaska Railroad Corporation.

ACTION NARRATIVE

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CHAIR KEVIN MCCABE called the House Transportation Standing Committee meeting to order at 1:02 p.m. Representatives Vance, Mina, McKay, and McCabe were present at the call to order. Representatives C. Johnson and Sumner arrived as the meeting was in progress.

PRESENTATION(S): Overview: Alaska Railroad Corporation

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CHAIR MCCABE announced that the only order of business would be the Alaska Railroad Corporation presentation.

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BILL O'LEARY, President and CEO, Alaska Railroad Corporation (ARRC), gave a PowerPoint presentation on the Alaska Railroad Corporation [hard copy included in the committee packet]. He began on slide 2, which highlighted the measures taken by ARRC to maintain safety, service, and profitability. He stressed that safety is the first priority. He moved to slide 3, titled "Quick Facts," which covered ARRC's organization following state purchase, operating data, operating statistics, and employees. He stated that this slide is critical, as it explains how ARRC works. He explained that it is a state-owned entity but self-sustaining, like private industry. He added that currently no state general funds support the railroad, and none of the employees are state employees. He moved to slide 4 and slide 5, pointing out the chart showing the net income for the past ten years, up to fiscal year 2022 (FY 22), which has not yet been finalized.

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MR. O'LEARY, in response to a committee question on the change in revenue for FY 16 and FY 17, stated that some of ARRC's revenue sources have changed and fallen over the last eight to nine years, and this has resulted in some staff layoffs. He noted that in FY 16 ARRC stopped receiving some grant funds; however, it received double the amount in FY 17. He noted the change in revenues in FY 20 due to the COVID-19 pandemic.

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MR. O'LEARY moved to slide 6 and discussed passenger operations, which is provided year-round. He added that most passengers travel in the summer, but the winter months travel has been growing. He pointed out on the graph the number of train cars owned by the cruise ship industry partners. He noted the impact on the cruise ship traffic during the pandemic and expressed the expectation that FY 22 would show improvement.

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MR. O'LEARY, in response to a committee questioned concerning the high net income of FY 21, stated that this is partly from federal grant funds, as these funds have been used for capital activities and some passenger services activities. He added that this was also due to tightening the cost structure, and the unexpected rise in passengers and freight in 2021.

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MR. O'LEARY moved to slide 7, discussing the future addition of specialty passenger trains for Alaskans, such as holiday trains, beer trains, and ski trains. He moved to slide 8, pointing out that the freight operations are the bulk of the operations; however, the tonnage the ARRC carries has dropped over the years. He noted that one reason for the drop is the downturn in the coal-exporting industry.

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MR. O'LEARY, in response to a committee questioned concerning what goes into the "other" freight category, stated that this is the "catch all" category, which includes transportation for the military and moving rock, for example.

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MR. O'LEARY moved to slide 9 and addressed ARRC's future freight service. He stated that moving liquified natural gas (LNG) is a project that is being pursued. He discussed the interline barge service that is done in conjunction with the barge industry. He described this as an efficient way of moving things, as it is a way of connecting with the railways in the Lower 48. He suggested that moving freight offers a strong market for ARRC.

MR. O'LEARY moved to slide 10 and discussed ARRC's real estate holdings. He stated that when the railroad was transferred from the federal government to the state, it came with 36,000 acres of land. He noted that most of the land is used in operations, while some is leased out for other purposes. He pointed out that this is a consistent piece of revenue for the railroad, adding that ARRC has also participated in some land trades with other entities. He moved to slide 11, titled "Wetlands Mitigation Bank." He stated that ARRC is one of the first state entities to put this bank into place. In respect to this, he discussed the plans concerning the area around the Seward Highway.

MR. O'LEARY, on slide 12, expressed the opinion that the amount of capital that ARRC has reinvested into the organization and its infrastructure is a good metric of success. He stated that this reinvestment has been driven by the federal monies available, and the internal funds generated. He moved on to slide 13, titled "ARRC Whittier Terminal Master Planning." He pointed out that Whittier is a key piece of ARRC's operation, as it is the location of the rail-barge facility. He noted that the master plan for Whittier is currently being updated using mostly federal funds.

MR. O'LEARY moved to slide 14 and discussed the investments ARRC is making in Seward's infrastructure. He stated that the railroad has significant holdings in Seward and discussed the three docks there. Moving to the next slide, he stated that ARRC is looking to put around \$200 million into the Seward passenger and freight docks in the next five years. The passenger dock is key because of the tourist industry, not only for Southcentral Alaska, but for the Interior as well. He discussed how the current passenger dock in Seward is reaching the end of its life, as seen on slide 16. The plan is for ARRC to take ownership and finance the new dock. He moved to slide 17 and discussed the expanded Seward master plan, which is in combination with the Royal Caribbean Group. He added that the plan is to fund this with tax-exempted bonds, as this would not in debt the state; however, the legislature would need to authorize the bond's increase from \$60 million to \$150 million.

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MR. O'LEARY, in response to a committee question concerning any results to the state if the bond increase is approved, stated that there would be no cost to the state, only a benefit of the increased economic development. He expressed the understanding that the cruise industry has the desire to grow in the Seward area. In response to a follow-up question, he stated that the master plan for Seward involved extensive public and city government input. He expressed the understanding that resolutions of support for the plan will be given from the city.

MR. O'LEARY, in response to a committee question, stated that if ARRC is not eligible for the bond expansion, it has explored other paths forward. He expressed the opinion that if the tax-exempt funds are not available, the financing would look "brutal and ugly," as it would be done with a much higher interest rate over a longer period of time. In response to a follow-up question, he stated that the reworked master plan includes one

larger dock and one larger terminal building, and this would meet the needs of larger ships. He responded that this would not include the new freight dock, as this project would not occur until 2027 or 2028.

MR. O'LEARY, in response to a committee question concerning whether the Royal Caribbean Group is putting any funds into the project, stated that raising the tax-exempt bond amount would be the most cost-effective way to do the project. He stated that ARRC is in the process of making a long-term agreement with the Royal Caribbean Group. In response to a follow-up question, he stated that other entities would be using the dock, as this would be the premier dock in Southcentral. He added that the new freight dock would be designed for use by the Alaska Marine Highway System.

MR. O'LEARY, in response to a committee question concerning the number of passengers this would accommodate, stated that the plan is for quantum-class ships to arrive in 2025; therefore, the bond legislation would need to pass during the current legislature. He reiterated that the cruise industry is motivated to expand in Alaska.

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MR. O'LEARY moved to slide 18 and addressed the Seward freight dock's status. He stated that ARRC will receive a federal grant of about \$20 million for the project. On slide 20, he noted that other than these projects, the railroad still must be maintained, and this requires the use of its revenue. He discussed the ARRC's five-year capital investment plan, which has a projected cost of \$500 million, and this would be for deferred maintenance.

MR. O'LEARY moved through the next slides and addressed the capital projects outside of the five-year plan. On slide 23, he provided that one of these projects is the Northern Rail Extension, which would connect North Pole with Delta Junction. He stated that the project has four phases. Phase one has been completed, but the funding has since dissipated. On slide 25, he discussed the Port MacKenzie Rail Extension project, of which this funding has also dissipated.

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MR. O'LEARY, in response to a committee question concerning transporting LNG, confirmed that if the Port MacKenzie Rail

Extension project was completed, LNG tanks could be transported to Fairbanks from Port MacKenzie.

MR. O'LEARY moved to slide 26 and addressed how the railroad corridor is managed. He pointed out that the corridor is incredibly valuable, as it covers roughly 14,000 acres and is a safety buffer for rail operations. He stated that, as it is valuable, ARRC is looking to make it available for other uses, such as for crossings and utilities. He moved to slide 27 and discussed the permit application process for this. He pointed out that this land ownership is also an asset which allows ARRC to be self-sustaining.

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MR. O'LEARY, in response to a committee question on slide 26, stated that the application process was created to be cost neutral for ARRC. In respect to the corridor management, he stated that ARRC looks to have fair market value on this.

MR. O'LEARY, in response to a committee question concerning whether the railroad owns the land, stated that ARRC owns the land, but the railroad is fully owned by the state. In response to a follow-up question, he stated that the fair market value would be determined by appraisers who are [Members of the Appraisal Institute]. He added ARRC would also investigate the value of adjoining pieces of land. He suggested that the corridor itself could be appraised for a better understanding. He expressed the opinion that fair market value is a difficult thing to "pin down."

MR. O'LEARY, in response to a committee question concerning why ARRC is not in the Alaska Executive Budget Act, stated that this is because the railroad is charged with acting as a business, and a static business approach would not serve a free-market enterprise.

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MR. O'LEARY moved to slide 28 and suggested that the railroad is a key asset for a state that is lacking in basic infrastructure. He asserted that ARRC "works hard" to make sure it is financially healthy and serves the residents of the state. He moved to slide 29, pointing out ARRC is now 100 years old.

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MR. O'LEARY, in response to a committee question concerning HAZMAT [hazardous materials] that the railroad might transport, reiterated that ARRC takes safety seriously. He stated that a large amount of petroleum product is carried on the railroad. He pointed out that the railroad is regulated, with regular drills on safety. He expressed the opinion that ARRC is prepared for the unexpected, as its safety record continues to improve.

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CHAIR MCCABE thanked him for the presentation.

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ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 2:04 p.m.