

**ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE**

February 8, 2024

1:02 p.m.

MEMBERS PRESENT

Representative Kevin McCabe, Chair
Representative Sarah Vance, Vice Chair
Representative Tom McKay
Representative Jesse Sumner
Representative Louise Stutes
Representative Genevieve Mina

MEMBERS ABSENT

Representative Craig Johnson

COMMITTEE CALENDAR

PRESENTATION(S): THE ALASKA RAILROAD: INVESTING IN ALASKA'S
FUTURE

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

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

POSITION STATEMENT: Co-presented a PowerPoint, titled "The
Alaska Railroad: Investing in Alaska's Future."

MEGHAN CLEMENS, External Affairs Director
Alaska Railroad Corporation
Anchorage, Alaska

POSITION STATEMENT: Co-presented a PowerPoint, titled "The
Alaska Railroad: Investing in Alaska's Future."

BRIAN LINDAMOOD, Vice President Engineering
Alaska Railroad Corporation
Anchorage, Alaska

POSITION STATEMENT: Answered questions during a PowerPoint, titled "The Alaska Railroad: Investing in Alaska's Future."

ACTION NARRATIVE

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

PRESENTATION(S): The Alaska Railroad: Investing in Alaska's Future

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CHAIR MCCABE announced that the only order of business would be the Alaska Railroad: Investing in Alaska's Future presentation.

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BILL O'LEARY, President & CEO, Alaska Railroad Corporation, provided a brief introduction to the PowerPoint, titled "The Alaska Railroad: Investing in Alaska's Future" [hard copy included in the committee packet].

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The committee took a brief at-ease at 1:04 p.m.

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MR. O'LEARY proceeded to slide 3, titled "Mission Statement," where he explained it boiled down to three words: safety, service, and profitability. He said that is the basis of what the Alaska Railroad Corporation (ARRC) does and what drives it.

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MR. O'LEARY moved to slide 4, titled "Quick Facts," which read as follows [original punctuation provided]:

- Organization (following State purchase)
 - Independent corporation owned by State

- Managed by a seven-member board of directors appointed by Governor
- Mandated to be self-sustaining, responsible for financial and legal obligations

Operating Data

- 656 Total miles of track
- 748 Freight cars (owned & leased)
- 45 Passenger cars
- 51 Locomotives

Operating Statistics

- Half a million+ passengers
- 3.5 million tons of freight (2023)

Employees (January 2024)

- 540 full-time year-round employees
- 15% registered 'Veteran' Status
- 2/3 are members of 5 unions

MR. O'LEARY noted that the number of employees swells up to approximately 800 during summer months.

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REPRESENTATIVE MINA asked if any of the summer season employees came to Alaska on a visa, and if so, whether they are also part of the union.

MR. O'LEARY replied that ARRC did not directly hire many through visa programs, and the majority of the 600 to 800 summer seasonal staff are members of one of the five unions on ARRC's property.

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MR. O'LEARY moved to slide 5, titled "Strategic Goals," and expounded on the 5 points featured on the slide. He stressed that the number one priority boiled down to safety, and a successful railroad could not be run without it. Slide 5 read as follows [original punctuation provided]:

1. Build a Proactive Culture of Safety and Engagement
2. Expand Business by Growing and Diversifying Revenue
3. Improve Profitability by Optimizing Cost Structure

4. Balance Capital Program to Optimize Safety, Revenue, and Efficiency

5. Enhance Economic Development, Stewardship and Stakeholder Relations

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MEGHAN CLEMENS, External Affairs Director, Alaska Railroad Corporation, continued the PowerPoint on slides 6 and 7, titled "Safety," and provided a quick overview. She emphasized the points on slide 7, which read as follows [original punctuation provided]:

Build a proactive culture of safety at the Railroad:

- Continued implementation of Incident Free Culture program
- Public safety awareness campaigns
- Participation in emergency response training exercises with local agencies

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MS. CLEMENS moved to slide 8, titled "Financial," with the subtitles "Expand Business by Growing and Diversifying Revenue," and "Improve Profitability by Optimizing Cost Structure." She quickly proceeded to slide 9, "Freight Service," which read as follows [original punctuation provided]:

- Largest business line for Alaska Railroad
- Provides Alaska businesses most cost-efficient and environmentally sustainable way to move heavy freight and bulk commodities
- ARRC operates freight docks in Seward and Whittier, and work closely with Port of Alaska to haul goods to Interior
- Interline barge service provides seamless connection with Lower 48 rail network

- Supports North Slope development, Alaska's energy sector, military bases, Port of Alaska, ADOT&PF, construction industry
- Partnerships with trucking industry relieve trucks on highways and spare drivers for other routes

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MS. CLEMENS proceeded to slide 10, titled "Freight Operations: 2011-2023," which showed a snapshot of types of rail-hauled cargo by volume, in thousands of tons. She pointed out the bar chart started higher in 2011, and in some cases, ARRC is looking for ways to accommodate more demand which would be covered more during following slides.

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MS. CLEMENS continued to slide 11, titled "Passenger Service," which she stated ARRC is most known for. The slide read as follows [original punctuation provided]:

- ARRC Operates year-round, regularly scheduled passenger rail service
- Ambassador for Alaska through passenger sales, marketing and media outreach
- Partners with tour operators, local hotels and excursion vendors to bring passengers to Railbelt communities and provide access to public lands
- Connects thousands of visitors between Anchorage Airport Depot and cruise ports
- Operates the nation's last Flagstop train as vital service to Alaskans living off-grid
- Keeps an estimated 8,000 buses off Alaskan highways each summer

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MS. CLEMENS moved to slide 12, titled "Passenger Operations." The slide showed a snapshot of the performance on the passenger side, with a bar chart from 2012 to 2023. She noted the

dramatic dip during the COVID-19 pandemic but said passenger operations was now back and stronger than ever.

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MS. CLEMENS moved to slide 13, titled "Real Estate," which read as follows [original punctuation provided]:

- ARRC is a steward of some of Alaska's most visited and visible lands
- Some prime ARRC lands have significant untapped potential, which the corporation seeks to demonstrate to developers and the public
- Areas with exciting mixed development opportunities at present include: Anchorage's Ship Creek; Fairbanks Chena Landing's; the Seward waterfront; and land adjacent to the Seward Airport
- As Alaska grows, ARRC seeks to attract the kind of developers and business partners that will continue to improve our economy, our visitor industry and our communities' quality of life

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MS. CLEMENS proceeded to slide 14, titled "Real Estate Revenue," which showed revenue in dollars from 2013 to 2022. The bar chart focused on lease and permits; Seward freight dock; Seward passenger dock; and Whitter freight dock. She pointed out that the bulk was from lease and permits and added that 2022 was driven by the return of cruising to the Seward passenger dock.

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MS. CLEMENS moved to slide 15, titled "Net Income and Revenue Sources." The slide showed ARRC's net income over the past decade, in millions of dollars. She noted that if there are grant opportunities out there, ARRC is actively pursuing opportunities to bring those dollars into the state as well as to seek new efficiencies.

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CHAIR MCCABE paused for questions from committee members.

[1:26:04 PM](#)

REPRESENTATIVE STUTES asked whether tensions with Anchorage had been resolved in reference to property issues.

MR. O'LEARY replied it was his understanding that it was an issue between ARRC and homeowners adjacent to the rail in South Anchorage. He said the board of directors decided it was not going to be resolved in a productive fashion; therefore, the board elected to it being settled by the courts and in 2019, ARRC prevailed on the disagreement.

REPRESENTATIVE STUTES appreciated the fact that ARRC had reached out to homeowners to accommodate them in some way instead of "running over them."

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REPRESENTATIVE VANCE referred to slide 10 and asked for a better picture of why there was an increase in gravel in 2017.

MR. O'LEARY provided an example of O'Malley Drive [in Anchorage], and further explained that gravel hauls are difficult to predict year after year, and in this particular case, O'Malley Drive was very competitive for ARRC to be involved.

REPRESENTATIVE VANCE noticed the red bar [signifying "Other"] increasing and asked what the "other" category was.

MS. CLEMENS responded that "other" would speak to ARRC's trailer on flat car business, containers hauled to the Interior, and capturing military moves.

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REPRESENTATIVE SUMNER asked about the Seward dock improvements and whether ARRC is projecting an increase in lease revenue net of debt payment, and if so, what the amount would be.

MR. O'LEARY said there would not be an increase directly in lease revenue, and the current model is to permit the area for a short period of time.

REPRESENTATIVE SUMNER asked whether ARRC would own the asset upon completion of the project and whether the railroad anticipates lease revenue.

MR. O'LEARY responded that it would be the same lease revenue, and he added that ARRC anticipates more passengers leading to more dock revenue.

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REPRESENTATIVE STUTES asked how many board members there are and who appoints them.

MS. CLEMENS said there are seven board members, and they serve at the pleasure of the governor.

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MR. O'LEARY re-emphasized the banner at the bottom of slide 15, which read, "All ARRC income is invested in capital program: maintain and improve infrastructure and operations," and he stated that was a key aspect of the whole model. He proceeded to slide 17, titled "Robust 5-Year Capital Investment Plan," which read as follows [original punctuation provided]:

- Supports railroad facilities, infrastructure, community developments and interactions
- Will use internal forces, along with contractors and suppliers
- Over \$100 million for 2024; nearly half-billion dollars invested over 5 years
 - May add funding sources as competitive federal grants, partnerships, and other financial opportunities become available for large projects
 - May add debt financing for needs such as replacing vehicles, equipment and railcars
 - Numbers in below table do not include Seward investments discussed later (previously approved)

MR. O'LEARY pointed out that it is a tremendously capital-intensive industry, not made easier that it is being done in Alaska. The slide also featured a chart with funding sources from 2024 through 2028, with the last column showing a calculated five-year total. He said the railroad came over from federal ownership and had not been maintained appropriately, and the focus of ARRC became to make the railroad safe and efficient done through smart capital investment.

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MR. O'LEARY moved on to slide 18, titled "Competitive Grants: 2018-2023," that listed successfully received grants, as well as showing the grants not awarded. He continued to slide 19, titled "Competitive Grants: 2024 Plan." He said with the infrastructure bill that came out of Washington, DC, there are now a number of programs and opportunities for ARRC to pursue.

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MR. O'LEARY moved to slide 20, titled "Capital Investments: Bridge & Track," which read as follows [original punctuation provided]:

10-Year Bridge Plan

- Replace or rehab 50+ bridges over next decade
- Accomplished by internal forces and contractors
- Nearly \$40 million budget in 2024
- Recently awarded competitive grants: Federal-State Partnership (Bridge 190.5, Willow) and INFRA (Bridge G3.3, Fairbanks)

Track Rehab Program

- 45,000 ties replaced in 2023
- 190 track miles of ballast surfacing
- Shoulder & embankment fortification
- Nearly \$20 million budget in 2024

Funding Sources:

- FTA formula funds
- CRISI STC grants
- Competitive grants • ARRC internal funds
- Debt

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MR. O'LEARY advanced to slide 21, titled "Locomotives and Flat Cars," which read as follows [original punctuation provided]:

January 2024, the ARRC Board authorized a \$9.9 million loan to purchase:

- **Four used SD70Mac locomotives:** Without additional locomotives, ARRC is at capacity for summer operations and cannot sustain 6-day-a-week freight service, accommodate new train starts, or provide contingency in event of locomotive issues.

- **Thirty rail flat cars (approximately):** A significant portion of ARRC's fleet of 60-foot flat cars are aging out. Ordering new flat cars now will allow ARRC to better accommodate the surge in North Slope demand; by the time the pipe shipments are predicted to subside, the old cars will be retired and ARRC's fleet will be renewed.

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MR. O'LEARY continued to slide 22, titled "ARRC Whittier Terminal Master Planning," and he stressed that Whittier is where the rail barge activity comes in, and that the area is very constrained. The slide read as follows [original punctuation provided]:

- **Update / re-develop terminal master plan** to prepare for future and ensure state of good repair
- **Purpose:**
 - A) Identify terminal rehab projects
 - B) Configure upland and yard track to support maintenance and ops
 - C) Determine efficiency, reliability, resiliency and sustainability improvements terminal-wide
- **Funding:** \$1.17 million: 80% by MARAD (US DOT - Maritime Administration) and 20% by ARRC
- **Timeline:** Currently underway; expected complete summer 2024.

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MR. O'LEARY moved to slides 23 and 24, titled "Seward Freight Dock Expansion," and "Seward Passenger Dock Project," which showed images of the extension plan. He pointed out that the ARRC owns three docks in Seward. The Seward passenger dock project is a "coming attraction," he said, and the dock currently used is past its useful life. He added it is safe and functional because ARRC will put over \$2 million into the docks. He stressed that a critical piece of infrastructure for the visitor industry is rebuilding the dock, as it impacts many regions.

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MR. O'LEARY said the goal is to build a facility that will be in place for the next 50 years and can handle growth and larger ships, projected for 2026.

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REPRESENTATIVE STUTES presumed that issues had been worked out between Royal Caribbean Group and private property owners in Seward. She expressed her hope that with the construction being planned, the Royal Caribbean Group would do local hiring.

MR. O'LEARY replied the "threesome," being Royal Caribbean Group, ARRC, and a developer called The Seward Company, would be utilizing an Alaska firm that has extensive experience in dock construction.

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REPRESENTATIVE VANCE opined that after seeing the conceptual photo, it looks almost too efficient. She asked about the motivation to encourage visitors to spend time in Seward to stimulate the economy. She expressed her concern there may not be much time to go into the community based upon how efficient the design is.

MR. O'LEARY replied that it may be a better question to pose to Royal Caribbean Group but said he would speak for Royal Caribbean Group in that they are very excited about remaining in Seward because of the community there and the experience for their guests.

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REPRESENTATIVE STUTES noted that the Department of Transportation & Public Facilities (DOT&PF) and Seward are both interested as well, because tourists could have the opportunity to take a ferry up [the Inside Passage] to [Seward] and then get on the train [to the Interior].

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MR. O'LEARY moved quickly through slide 25, titled "Economic Development," and slide 26, which showed a map of the Port MacKenzie Rail Extension (PMRE). Slide 27 was immediately shown, which focused on remaining construction estimated 3 years to complete. He proceeded to slide 28, titled "Estimated Cost to Complete PMRE (2023 Dollars, millions)," which featured various types of construction needed to complete the rail extension and the costs for each.

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CHAIR MCCABE referred back to previous comments regarding Alaska Industrial Development and Export Authority (AIDEA) and its interest.

MR. O'LEARY replied ARRC had discussion with AIDEA about rail extensions and that from his perspective, AIDEA was supportive and wanted to help ARRC work through some of the demand for the completion of Port MacKenzie.

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REPRESENTATIVE STUTES spoke to the map on slide 26 and presumed the extension would be strictly for freight.

MR. O'LEARY replied not really; it is the same track whether used for freight or passenger.

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MR. O'LEARY moved to slide 29, titled "PMRE Funding Summary (2023, Dollars, millions)." The slide showed three columns featuring state funds and matching percentages of federal funds. He said the chart was not designed to be definitive at this point, but to show examples of how funding could work.

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CHAIR MCCABE recalled a discussion about federalizing a portion of the railroad and said he was uncertain what that meant.

MR. O'LEARY said he would like to introduce a colleague who could respond.

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BRIAN LINDAMOOD, Vice President Engineering, Alaska Railroad Corporation, responded that the status of the project is that all federal regulatory permits have been obtained, with the exception of the license from the Surface Transportation Board. He added that complications arise when federal money is introduced, and the federal agency would have to do an environmental analysis to take federal action. He said delays could occur up to two years.

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REPRESENTATIVE VANCE inquired if there was a Southcentral port authority that the railroad was a part of, whether ARRC would be eligible for more grants to fill some of the federal matches.

MR. O'LEARY replied he did not think so.

REPRESENTATIVE VANCE commented further on other opportunities there are for partnerships.

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CHAIR MCCABE asked Mr. Lindamood if there were a combined Southcentral port authority whether it would open up a portion of the railroad that is close to Port MacKenzie to a maritime administration (MARAD) grant, and whether it would still require an updated federal environmental impact statement (EIS).

MR. LINDAMOOD confirmed that is correct.

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MR. O'LEARY moved to slide 30, titled "Economic Development," which read as follows [original punctuation provided]:

Northern Rail Extension (NRE)

- 80+ miles North Pole to Delta Junction
- 4-phase project
 - **Phase 1: completed in 2014 : Bridge over Tanana River, road and levee near Salcha (pictured)**
 - Phase 2: 13 miles of rail, from Moose Creek / Eielson AFB to Tanana River Crossing
 - Phase 3: 30 miles of rail from Tanana River Crossing to Donnelly Training Area
 - Phase 4: 38 miles of rail, Donnelly to Delta Junction
- NRE Cost and Funding:
 - Original cost estimate was about \$1 billion. Estimate now \$1.7 billion
 - DOD was main funding source for initial planning, environmental and Phase 1. Public-private partnership explored as future funding option

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MR. O'LEARY moved to slide 31, titled "Completing NRE," and he said he would go directly to the dollars on slide 32, titled "NRE Budgetary Estimate." Slide 32 read as follows [original punctuation provided]:

2023 Cost Projections*

- Phase 2 (Final Permitting, ROW, 13 Miles of Construction): \$205 million
 - Phase 2a (Final Permitting & ROW only): \$60 million
 - Phase 3 (30 Miles of Construction): \$651 million
 - Phase 4 (38 Miles of Construction): \$826 million
- TOTAL: \$1.7 billion**

FUNDING STRATEGY: DOT - MPDG MEGA Grant

- Expected open mid-2024; typical 60-day window
- Minimum 20% non-federal match

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REPRESENTATIVE STUTES noticed the northern extension route required the purchase of private land, and asked if that was the case with Port MacKenzie as well.

MS. CLEMENS confirmed that is correct.

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REPRESENTATIVE VANCE asked for understanding why it is \$22 million per mile.

MR. O'LEARY responded that rail by nature is very expensive.

MR. LINDAMOOD added that there are two primary reasons: a significant amount of permafrost to deal with, and the construction of about two miles of bridges that need to be built.

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REPRESENTATIVE VANCE inquired how long before a return on investment is seen.

MR. O'LEARY replied he could not answer; it is significant infrastructure.

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CHAIR MCCABE opined that a lot of it depends on Canada. He said he had discussions with Canadian Members of Legislative Assembly (MLA) regarding building to their borders. He further mentioned Papoose Twins Road [Big Lake, Alaska] to Mr. Lindamood, as it was fairly well destroyed by the contractor that was putting in the rails.

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MR. O'LEARY moved to slide 33, titled "Economic Development: Need for Partnership," which read as follows [original punctuation provided]:

These projects exceed to Alaska Railroad's ability to accomplish alone: many partners may have a role to play, including Congressional Delegation, State Government, USDOT, AIDEA, Mining Industry, Military, Canada and more

MR. O'LEARY stressed that ARRC is trying to understand how to put together a coalition of stakeholders that understand the benefit that these projects can bring to the state. He reiterated the railroad cannot do it alone.

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CHAIR MCCABE offered a scenario of if Mr. O'Leary was headed to Washington, D.C., how effective a letter from the legislature would be that stated support for the project and electing Mr. O'Leary to be its leader.

MR. O'LEARY responded he did not know if it was the right time.

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MS. CLEMENS re-joined the presentation on slide 34, titled "Public Engagement," which read as follows [original punctuation provided]:

Strive to be a good neighbor to our Railbelt communities

- Attend local Council and Assembly meetings
- Meetings with Mayors
- ARRC Board of Directors External Issues Review Committee
- School partnership program
- Community Open Houses

- Customer events
- Partnership with U.S. Forest Service
- Participate in Transportation Fairs
- Project public engagement plans
- Charitable donations
- Economic development projects

In 1985, the State of Alaska bought the Alaska Railroad for \$22 million, becoming the railroad's official owner, and remaining so to this day.

MS. CLEMENS drew attention to the ARRC Mission Statement and how the railroad would continue to engage the public.

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MR. O'LEARY concluded on slide 35, titled "How can the Alaska Railroad support Alaska's next 100 years?," which read as follows [original punctuation provided]:

- The Railroad is a critical piece of transportation infrastructure
- Must balance growth with essential maintenance of existing assets
- Partnership is key in ensuring success for economic development mission

MR. O'LEARY reiterated that the railroad is looking for stakeholders and partners to join their mission. The railroad, he said, is good for the state and he appreciated the committee's time and attention.

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CHAIR MCCABE stated there cannot be resource development without transportation and ARRC is a big part of that. He offered his assistance to publish a five-year plan, similar to a business plan, for the railroad.

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ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 2:36 p.m.