

ALASKA STATE LEGISLATURE
SENATE TRANSPORTATION STANDING COMMITTEE

February 15, 2024

1:46 p.m.

MEMBERS PRESENT

Senator James Kaufman, Chair
Senator David Wilson, Vice Chair
Senator Löki Tobin
Senator Jesse Kiehl
Senator Robert Myers

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 105

"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."

- MOVED CSSB 105(TRA) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: SB 105

SHORT TITLE: RAILROAD CORP. FINANCING

SPONSOR(S): TRANSPORTATION

03/15/23	(S)	READ THE FIRST TIME - REFERRALS
03/15/23	(S)	TRA, FIN
03/21/23	(S)	TRA AT 1:30 PM BUTROVICH 205
03/21/23	(S)	<Bill Hearing Canceled>
02/13/24	(S)	TRA AT 1:30 PM BUTROVICH 205
02/13/24	(S)	Heard & Held
02/13/24	(S)	MINUTE(TRA)
02/15/24	(S)	TRA AT 1:30 PM BUTROVICH 205

WITNESS REGISTER

BILL O'LEARY, President and CEO
Alaska Railroad

Anchorage, Alaska

POSITION STATEMENT: Gave invited testimony on SB 105.

ACTION NARRATIVE

[1:46:53 PM](#)

CHAIR JAMES KAUFMAN called the Senate Transportation Standing Committee meeting to order at 1:46 p.m. Present at the call to order were Senators Wilson, Myers, and Chair Kaufman. Senators Tobin and Kiehl arrived thereafter.

SB 105-RAILROAD CORP. FINANCING

[1:47:36 PM](#)

CHAIR KAUFMAN announced the consideration of SENATE BILL NO. 105 "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."

This is the committee's second hearing of SB 105. A committee substitute was adopted at the first hearing and one amendment was received for discussion today.

[1:48:02 PM](#)

CHAIR KAUFMAN advised that his intern Ms. Wallace-Moyer as well as Alaska Railroad Corporation (ARRC) President and CEO Bill O'Leary were available to answer questions.

[1:48:15 PM](#)

CHAIR KAUFMAN solicited a motion.

[1:48:29 PM](#)

SENATOR MYERS moved to adopt Amendment 1, workorder 33-LS0606\B.1, to SB 105.

[Original punctuation provided.]

33-LS0606\B.1
Marx/Walsh
2/14/24

AMENDMENT 1

TO: CSSB 105(TRA), Draft Version "B"

Page 1, line 1, following "Act":

Insert **"relating to the review of the Alaska Railroad Corporation's assets; relating to the Alaska Railroad Corporation's annual reporting requirements;"**

Page 1, following line 4:

Insert new bill sections to read:

**** Section 1.** AS 42.40.260(a) is amended to read:

(a) Within 90 days following the end of the fiscal year of the Alaska Railroad, the board shall present to the governor a report describing the operations and financial condition of the corporation during the preceding fiscal year. The report may include suggestions for legislation relating to the structure, powers, or duties of the corporation or to the operation or facilities of the corporation. Subject to AS 42.40.220, the report shall itemize the cost of providing each category of service offered by the railroad and the income generated by each category. The board shall submit the report to the senate secretary and chief clerk of the house of representatives and notify the legislature that the report is available.

*** Sec. 2.** AS 42.40.260 is amended by adding a new subsection to read:

(d) The annual report must include a complete accounting, audited by an independent outside auditor, of the assets of the corporation and the results of the review and determination made under AS 42.40.545.

* **Sec. 3.** AS 42.40 is amended by adding a new section to article 6 to read:

Sec. 42.40.545. Annual Review of Assets. (a) The corporation shall annually review the corporation's assets to determine whether assets of the corporation exceed an amount required to fulfill the purposes of the corporation as described in this chapter. In making its review, the board shall determine whether, and to what extent, assets in excess of the amount required to fulfill the purposes of the corporation during the next fiscal year are available without

(1) breaching an agreement entered into by the corporation;

(2) materially impairing the operations or financial integrity of the corporation; or

(3) materially affecting the ability of the corporation to fulfill the purposes of the corporation as described in this chapter.

(b) The corporation shall specifically identify in the corporation's assets the amounts that the board believes are necessary to meet the requirements of (a) (3) of this section."

Page 1, line 5:

Delete "**Section 1**"

Insert "**Sec. 4**"

Renumber the following bill section accordingly.

[1:48:34 PM](#)

CHAIR KAUFMAN objected for purposes of discussion.

[1:48:37 PM](#)

SENATOR MYERS explained that Amendment 1 does not relate to the bonding authority of SB 105 but is related to the Alaska Railroad Corporation (ARRC). It seeks to separate the parts of the railroad that are directly related to and necessary for railroad operations, transporting passengers, freight, etc., from parts that are profit-seeking in other ways. He said ARRC's real estate holdings and the management of that real estate have caused consternation in several districts. He listed Flying Crown subdivision in Anchorage, the Nenana waterfront, and North Pole as examples. Amendment 1 would subject ARRC to a third-party independent audit annually. The audit would be presented to the Chief Secretary of the Senate and the Chief Clerk of the House. The audit would show what part of ARRC, is necessary to operate the railroad and what part is not. He said this amendment would not change ARRC operations, but it would begin to provide information to the legislature.

[1:50:34 PM](#)

SENATOR WILSON concurred and further proposed separating ARRC into land bank and operations sides. He questioned, however, whether ARRC could be defined as the cars and trains for the purpose of moving goods and people along its rails or if it is in the business of generating profits as a land trust. He suggested it may not be possible to separate those parts as one doesn't work without the other. He said SB 105 is a heavy lift as it is. He suggested Amendment 1 may make it more difficult to pass SB 105.

[1:51:32 PM](#)

Senator Tobin joined the meeting.

[1:51:51 PM](#)

SENATOR MYERS agreed that more action is needed. He said information is needed to guide action and audits could provide the necessary information. He acknowledged adding Amendment 1 may affect passage of SB 105. He urged consideration of the

amendment as a first step toward necessary changes to ARRC's operations and interactions with the public.

[1:53:18 PM](#)

SENATOR TOBIN asked for a description of ARRC's current practice for reporting to the public.

[1:54:05 PM](#)

BILL O'LEARY, President and CEO, Alaska Railroad, Anchorage, Alaska, said ARRC does not support Amendment 1. ARRC is unclear about what problem or shortcoming Amendment 1 seeks to address. He opined that the proposed audit would unnecessarily complicate the outstanding economic development opportunity for the state represented by SB 105.

MR O'LEARY asserted that the Alaska railroad is one of the more reviewed and audited entities under state purview. It is subject to:

- annual financial audit by the international accounting firm
- annual single audit related to some of the federal monies ARRC receives for passenger services
- national transit database review performed by that accounting firm
- triennial review conducted by the federal government through the Federal Transit Administration on many of ARRC's operations
- statutorily mandated annual performance audit on a different topic each year to ensure operation efficiency and effectiveness
- Department of Transportation and Public Facilities (DOTPF) audits overhead rates
- unfettered access to review by Legislative Audit
- producing myriad reports to the executive and legislative branches of state government

MR O'LEARY suggested the additional audit would be expensive and resource-intensive for undefined benefit. He opined that it would be difficult to determine the appropriate entity to perform the proposed audit. He offered an example of inventories for locomotive parts. He explained ARRC does things differently than lower 48 railroads; being isolated, ARRC manages significantly more inventory. He asserted that the audit, as drafted to report on assets and financials simultaneously, would be infeasible.

MR. O'LEARY said ARRC loves to talk about themselves and, other than proprietary information, they welcome discussions about assets, holdings and plans. They make themselves available for transportation committee meetings and other meetings.

MR O'LEARY concluded that the model for ARRC is ingenious, put together by a legislature that considered what was necessary for the railroad to be, by statute, self-sustaining, and not come to the state every year, or any year, for operating subsidies. He said the railroad's lands are a key piece of that. He said there are rail operations and there are land holdings, and they work together to make ARRC self-sustaining. He cautioned that changes to the model should be considered with great care.

[2:01:11 PM](#)

SENATOR MYERS expressed confusion. He said Amendment 1 asks for an external audit and the assertion is that ARRC already does an external audit and that an external audit would be infeasible. The assertion is that ARRC loves to talk about itself and its operations but declines to share what it owns and how that contributes to operations.

[2:01:52 PM](#)

MR. O'LEARY explained that ARRC does have an annual standard financial audit, examining whether ARRC is presenting information clearly and accurately. ARRC's understanding is that the proposed audit would look at substantially more than that: examining assets to determine what is in excess of what is necessary to meet the railroads mission.

[2:02:36 PM](#)

SENATOR KIEHL joined the meeting.

[2:02:40 PM](#)

MR. O'LEARY asserted it is ARRC's job to look at their holdings every day as part of running the business. They would not hold on to assets that aren't contributing to the business. He explained that requiring an audit by statute like the one proposed would be tremendously expensive and tremendously resource extensive for limited benefit. He stated it is the intention of ARRC to be open with the legislature and others, subject to proprietary concerns, about what they're doing, what their plans are, where they've been and where they want to go.

[2:03:46 PM](#)

At ease

[2:04:26 PM](#)

CHAIR KAUFMAN reconvened the meeting.

CHAIR KAUFMAN opined that, while Amendment 1 may have merit, it is beyond the scope of SB 105.

[2:04:33 PM](#)

CHAIR KAUFMAN maintained his objection and asked for a roll call vote.

[2:05:05 PM](#)

A roll call vote was taken. Senators Kiehl and Myers voted in favor of Amendment 1 and Senators Tobin, Wilson, and Kaufman voted against it. The vote was 2:3.

[2:05:40 PM](#)

CHAIR KAUFMAN announced Amendment 1 failed on a vote of 2 yeas and 3 nays.

[2:05:48 PM](#)

CHAIR KAUFMAN called for discussion of SB 105. He asked about the scope of the dock design and the focus on cruise ship function. He asked about other wharf or dock operations in the future, and about the function of other facilities, especially about freight in the Seward area.

[2:06:27 PM](#)

MR. O'LEARY answered that ARRC has three docks in Seward:

- the old coal dock, renamed the "energy dock"
- the passenger dock, which is the subject of SB 105 and this discussion
- the freight dock

He said the passenger dock is used in the winter for freight activities. He explained the majority of freight activities occur at the freight dock, which is the subject of another capital project. He said there is a \$25 million plan to expand the freight dock to make it more functional for the increased business they have been experiencing and expect in the future.

[2:07:56 PM](#)

At ease.

[2:08:10 PM](#)

CHAIR KAUFMAN reconvened the meeting and solicited a motion.

[2:08:14 PM](#)

SENATOR WILSON moved to report committee substitute (CS) for SB 105, work order 33-LS0606\B, from committee with individual recommendations and attached fiscal note(s).

[2:08:37 PM](#)

CHAIR KAUFMAN found no objection and CSSB 105(TRA) was reported from the Senate Transportation Standing Committee.

[2:08:39 PM](#)

At ease

[2:10:37 PM](#)

CHAIR KAUFMAN reconvened the meeting.

[2:10:44 PM](#)

There being no further business to come before the committee, Chair Kaufman adjourned the Senate Transportation Standing Committee meeting at 2:10 p.m.