

**2/01/11
PRESENTA-
TION:
PORT
MACKENZIE
RAIL
EXTENSION**

<TARGET><BILL></BILL><SUBJECT>2-01-11 PRESENTATION
PORT MACKENZIE RAIL
EXTENSION</SUBJECT><COMM>STRA27</COMM></TARGET>

Port MacKenzie Rail Extension



Ken Graham

Symbols show mineral deposits

A rail link from the Alaska Railroad mainline to the deep draft dock at Port MacKenzie will significantly boost the export of Alaska's strategic minerals, coal, cement, and other natural resources, helping diversify the Alaska economy.



Patty Sullivan/MSB

Photos: the ship, the deepest draft vessel ever in Upper Cook Inlet at Port MacKenzie; Above: 2010 haul road and rail loop construction at Port Mac moved 1.9 million cubic yards of dirt.

Funding Plan:

Already funded-\$62 million

2011 Governor's budget-\$20 million

2011 Requested appropriation-\$55 million, pays for half of rail embankment

2012 Appropriation request-\$63.5 million, build rest of embankment

2013 Appropriation request-\$43 million, placement of rails, completes project

2014 Ribbon cutting

ON SCHEDULE
UNDER BUDGET

Port MacKenzie is an exporting port for bulk natural resources. Port MacKenzie complements the Port of Anchorage, where consumer goods are imported.

Description & Justification: \$55 million

The Port MacKenzie Rail extension will bring tremendous economic benefit to Alaska through economic diversification, state revenues, and new jobs. The production of bulk resources is heavily dependent on low transportation costs. This new rail link will shorten the distance to tidewater and lower transport costs to such an extent that minerals now idle will be profitable to mine and export. The value of mineral production is projected to be nearly \$1 billion a year over 100 years, according to ISER, Institute of Social & Economic Research. Three mining companies say the Asian market is poised now for Alaska minerals such as molybdenum, lead, zinc, and copper. Also, a 1.5 billion ton limestone deposit near Livengood could be mined to produce a new export: Portland cement. A world-class cement manufacturing plant would be built in the Interior. Alaska would supply up to 15 percent of our nation's demand for cement. With the rail link, Alaska coal becomes more competitive on the world market. Usibelli Coal Mine estimates it will likely export up to 4 million tons of coal a year through Port MacKenzie. State revenues are estimated to reach \$300 million annually in taxes, royalties, and fees. Some 3,000 construction related jobs and 4,000 mining jobs will be created. The Alaska Pipeline project will gain \$100 million in transport savings by shipping heavy pipe north through Port MacKenzie.



Governor's Coordinated Transportation Task Force

2010-2012

Contact List

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NO. 1	Port MacKenzie: A major bulk materials terminal for Alaska
NO. 2	Funding: On schedule and under budget
NO. 3	Rick Mystrom's Compass Legislators Got It Right: Infrastructure Investment ADN April 2009
NO. 4	Resolutions of Support
NO. 5	Alaska State Chamber of Commerce Newsletter – Port MacKenzie Rail is a Top Infrastructure Project
NO. 6	Economic Studies
NO. 7	
NO. 8	

Port MacKenzie Rail Extension

Funding it now makes sense

- In light of the national recession, the faster the rail is completed, the faster we are able to add up to 4,000 permanent mining and logistics jobs to the Alaska economy.
- Additionally, construction will provide up to 3,000 jobs, beginning December 2011.
- Due to the economic downturn, bids for railbed construction work have been coming in significantly below engineering estimates. By avoiding a construction delay, we can take advantage of this window, building more rail miles for less money.
- With Alaska's rapidly declining oil production, the need to diversify our economy is urgent. The rail extension will provide less expensive transport for bulk materials and minerals from Interior Alaska to tidewater. This transportation link will lower the transport costs to such an extent that new mineral areas will become economic to mine.
- The construction of the Susitna Dam could utilize the rail extension for most of its construction materials.
- Leading Alaska mining companies indicate that Pacific Rim markets exist now for increased Alaska exports, and the prices are right. The sooner the rail line is completed, the sooner Alaska exports can increase to new record levels. This will also be beneficial for the national debt payments and increasing American exports.
- The Alaska coal industry indicates that the markets are ripe for coal exports. As soon as the rail line is completed, the coal industry can quadruple Alaska coal exports from one million tons to four million tons per year. Any funding lag, delays these benefits and puts at risk new markets that seek dependable suppliers.
- Timely funding will enable the rail extension to be completed and operational for 2014. This is the earliest possible start date for construction of a gas line from the North Slope, and the rail line will enable the construction effort to save more than \$100 million.
- Any funding delay will mean the loss of a summer construction season and a year-long delay in completing the rail extension.

Port Mackenzie: A major bulk materials terminal for Alaska



In June, a vessel, too large to fit through the Panama Canal, tied up easily at Port MacKenzie and loaded 1,250 tons of coal as a test-run. The test went smoothly and was a harbinger of bigger things to come. Up to 4 million tons of coal annually could be exported through Port MacKenzie, once a rail link is in. And this is just one of the projected exports. Aggregate minerals, limestone, cement, and timber all show promise. These developments emphasize how important Port MacKenzie will be in providing income, commerce, and jobs to the Matanuska-Susitna Borough.

With a coming rail link, an existing deep draft dock, and even a coming ferry connection, Port MacKenzie will become the major bulk materials export and import terminal for Alaska. It will also evolve into the largest industrial development grounds in the state.

Its natural amenities, large land resource, deep draft dock, and expanding infrastructure make it ideal. Nowhere else in the state is there a 100-rail car loop for the efficient offloading of bulk materials from rail to ship. Construction got underway on this loop last summer. The rail line will shorten the distance to tidewater making idle minerals profitable to mine and export. The value of mineral production is estimated to be nearly \$1 billion a year over 100 years, according to ISER, Institute of Social and Economic Research. A 1.6 billion ton limestone deposit in the Interior will introduce a new industry to Alaska, the production of Portland cement.

Up to 15 percent of our nation's cement could go through Port MacKenzie in the future. Such development will bring tremendous revenues to the Borough.



The nearly 9,000 acres of public lands in the Port District provide abundant land for stockpiling commodities, manufacturing products and processing petro chemicals. The port's deep water dock, a large expanded barge dock, terminal building, paved road access, and natural resources conveyor system from the uplands to the port, all contribute to the port's value and potential.

The development of the Port MacKenzie will also result in a large number of high paying, temporary and permanent jobs for Borough residents. It is estimated that more than 3,500 direct jobs will be created over the next 10 – 20 years

Natural scouring occurs in front of the deep draft dock so costly dredging is never needed.

As the planned terminus for the Knik Arm Bridge from Anchorage, Port MacKenzie will become a main transportation hub for the region.

Port MacKenzie is an exporting port for bulk natural resources. It complements the Port of Anchorage, where consumer goods are imported.

Port MacKenzie Rail Extension

Funding: On schedule and under budget

Funds appropriated to date:

- \$10 million – to complete Environmental Impact Statement (EIS)
- \$17.5 million – to complete bi-modal rail/road loop
- \$35 million – build first 5 – 6 miles of rail line embankment, design rail route selected by EIS, and buy right-of-way (*Project completion at 28%*)

Total funds appropriated to date: **\$62.5 million**

Estimated Funds Required to Complete Rail Extension

- \$55 million (first year) – complete next 10 – 11 miles of rail route embankment, and buy remainder of right-of-way [\$20 million currently in Governor's Budget – additional \$35 million needed] (*Project completion at 53%*)
- \$60 million (second year) – to complete construction of remaining rail embankment to the Alaska Railroad mainline. (*Project completion at 81%*)
- \$41 million (third year) – to purchase and lay rail, and complete rail extension construction (*Project completion 100%, Fall 2014 ribbon cutting*)

Total estimated additional funds needed: **\$156 million**

Total estimated cost of rail extension cost: \$218.5 million

COMPASS: *Other points of view*

Big capital budget can boost quality of life

By RICK MYSTROM

Is the capital budget proposed by the Legislature too high? Will it overheat the economy? Was it a "spending spree"? Or ... will it stimulate a slowing economy? Will it stop the job losses predicted by the state's economists? Will it improve the quality of life for Alaskans?

ALASKA'S CAPITAL BUDGET IS DIFFERENT

In every other state in the U.S., a large capital budget means that you take money out of the private sector to pay for the projects. Usually it's through state income tax increases, property tax increases or, in some cases, sales tax or fee increases.

Alaska is different. We've already taken the money out of the private sector. With billions and billions of dollars of surplus, the question for Alaska is do we want to use the taxes we've already collected to pay for the capital projects or are we better off leaving the money in one of the state's surplus accounts?

THE LEGISLATURE GOT IT RIGHT

Put me on the side of those who think the Legislature got it right. Probably not perfect, but generally right. At this time in Alaska's economic history we should have a large capital budget as long as those projects can either grow the economy or improve Alaskans' quality of life or both. Here's why I think this capital budget is good for Alaska's economy:

• **This is a very uncertain time for Alaska's economy.** Many unknowns are out there concerning future oil exploration, the future of a gas line or lines, the future of Alaska Native contracting legislation at the federal level, the high cost of



Every state government in America would like the opportunity to stimulate its economy. Only Alaska has that ability.

energy, etc.

• **Economists are predicting a loss of about 1,000 jobs over this next year.** In effect, the economy is frozen. The private sector, with the exception of health care, is shrinking. This is exactly the time that the state should be investing in capital projects. While I don't presume to know the specifics of all of the capital budget projects, I do believe that the amount is very appropriate for this time in Alaska's history.

• **A capital budget of \$3 billion will not overheat the economy.** It will keep the economy from shrinking and allow healthy growth. Every state government in America would like the opportunity to stimulate its economy. Only Alaska has that ability. Any conclusion that this amount would overheat the Alaska economy is not correct and not substantiated historically. Two other times in the past 30 years our economy was in danger of decline as it is today. Once the decline was avoided by capital projects. Once it was not.

• **In 1979-80 the construction of the trans-Alaska pipeline was completed and workers were moving out.** Gov. Jay Hammond realized the importance of creating jobs through the capital budget. With the support of the Legislature, he implemented a plan that gave every com-

munity in Alaska \$1,000 per person to develop capital projects. That meant about \$650 million a year for three years in 1980 dollars. This was in addition to the state's direct capital budget for roads, schools, public buildings, etc. Hammond's action was correct. It saved the Alaska economy from a post-pipeline decline.

• **In 1986 the economy dropped again.** This was caused by a 75 percent plunge in oil prices following five years of loose real-estate lending practices. It was also exacerbated by the tax reform act of 1986, which devalued real estate. None of those issues is in play today. While capital spending could not have stopped that major decline in the economy, it could have mitigated it somewhat. Gov. Steve Cowper chose to hold back money for capital spending and save the money for the tough times. The rest is history.

The measure of a state's economic health is not the amount of money in a state's savings accounts. It's the growth of the economy, the prosperity and quality of life of its citizens and the opportunities for its young people. If projects in the capital budget meet these criteria, they should not be vetoed.

Rick Mystrom served as mayor of Anchorage from 1994 to 2000 and is currently an economic development adviser to the Mat-Su Borough.

Resolutions of Support

Denali Borough

Alaska Railroad Corporation

Alaska Miners Association, Inc

Greater Fairbanks Chamber of Commerce

Matanuska-Susitna Borough

Greater Wasilla Chamber of Commerce

City of Palmer

Alaska State Chamber of Commerce

Top infrastructure priority

DENALI BOROUGH, ALASKA
RESOLUTION NO. 10-01

A RESOLUTION SUPPORTING THE PORT MACKENZIE RAIL EXTENSION

WHEREAS, natural resource development is vital to the economy of the entire State of Alaska; and

WHEREAS, Port MacKenzie, with a vast amount of industrial development land and a deep draft dock, is capable of processing and handling bulk resource commodities; and

WHEREAS, Port MacKenzie is strategically located and has available land and space to stage bulk resources for export; and

WHEREAS, Port MacKenzie can accommodate Panamax and Cape-size vessels and does not require annual dredging; and

WHEREAS, the distance to tidewater at Port MacKenzie from the Interior Alaska offers lower transportation costs and the Port MacKenzie Rail Extension will stimulate the use and export of coal and other minerals from the Interior; and

WHEREAS, the rail extension will eliminate congestion from shipping high-volume export materials on the southern rail end from Wasilla to Anchorage, and will eliminate the need for more costly upgrades to the rail system south of Big Lake; and

WHEREAS, off-loading, staging, and rail transportation of north bound materials for construction of a gas pipeline and other large projects from Port MacKenzie would be less costly than rail shipment from Anchorage or Seward; and

WHEREAS, the first two phases of rail extension development, the Environmental Impact Statement and the construction of a bi-modal road/rail loop at the port, are due to be completed during the next six to nine months.

NOW THEREFORE BE IT RESOLVED: the Denali Borough Assembly supports the Matanuska-Susitna Borough in their efforts to extend the Alaska Railroad to Port MacKenzie.

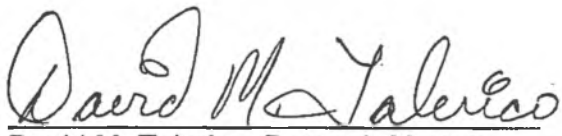
BE IT FURTHER RESOLVED: that the Denali Borough Assembly requests the Governor and the Alaska State Legislature support all phases of construction and rail extension development;

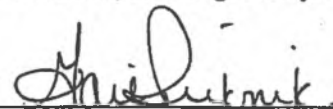
BE IT FURTHER RESOLVED: that the Denali Borough Assembly supports state funding of \$57 million for phase III of the project so construction can begin on the first 11 miles of rail line, and design and engineering can be completed on the connection route selected by the Environmental Impact Study.

AND BE IT FURTHER RESOLVED, that this resolution be distributed to:

Governor Sean Parnell
Commissioner Annette Kreitzer, Administration
Commissioner Emil Notti, DCCED
Commissioner Larry Hartig, ADEC
Commissioner Denby Lloyd, ADF&G
Commissioner Click Bishop, ADOL
Commissioner Tom Irwin, ADNR
Commissioner Patrick S. Galvin, ADOR
Commissioner Leo Von Scheben, ADOT
Director Karen Rehfeld, OMB
Sen. Gary Stevens, Senate President
Rep. Mike Chenault, House Speaker
Sen. Albert Kookesh, Senate Transportation Chair
Sen. Linda Menard, Senate Transportation Vice-chair
Rep. Peggy Wilson, House Transportation Chair
Rep. Craig Johnson, House Resources Chair and Transportation Vice-chair
Rep. Mark Neuman, House Resources Co-chair
Sen. Lesil McGuire, Senate Resources Co-chair
Sen. Bill Wielechowski, Senate Resources Co-chair
Sen. Bert Stedman, Senate Finance Co-chair
Sen. Lyman Hoffman, Senate Finance Co-chair
Rep. Mike Hawker, House Finance Co-chair
Rep. Bill Stoltze, House Finance Co-chair
Interior Delegation
Talis Colberg, Matanuska-Susitna Borough Mayor
Luke Hopkins, Fairbanks North Star Borough Mayor

PASSED AND APPROVED by the Denali Borough Assembly on this 13TH day of January, 2010.


David M. Talerico, Borough Mayor

ATTEST 
Gail Pieknik, Borough Clerk



PASSED UNANIMOUSLY



Adopted: October 12, 2010

Resolution No. 2010-34

Relating to Supporting Funding of
the Port MacKenzie Rail Extension

WHEREAS, The Alaska Railroad is a powerful economic engine and backbone for Alaska's transportation infrastructure, hauling millions of tons of freight per year and providing critical support for resource industries such as coal, petroleum, and gravel; and

WHEREAS, the State of Alaska needs to diversify and strengthen its economy and an effective transportation system facilitates such diversification; and

WHEREAS, the Matanuska-Susitna Borough is building a rail extension from Port MacKenzie to the Alaska Railroad mainline and the Alaska Railroad is assisting in this effort by serving as a contractor and applicant to the Surface Transportation Board for the project; and

WHEREAS, the new rail line will shorten the distance for transporting minerals and freight from the interior to tidewater and the Alaska Railroad expects the rail extension will lead to additional bulk resource rail transport opportunities in the future; and

WHEREAS, the Alaska Railroad serves ports in Seward, Whittier and Anchorage and the connection to Port MacKenzie, with its 9,000 acres of industrial zoned land and deep-draft dock, is a logical next step in enhancing the State's transportation capacity for bulk natural resources; and

WHEREAS, the rail extension also provides an additional rail route to tidewater that can serve both our military logistics and national security needs; and

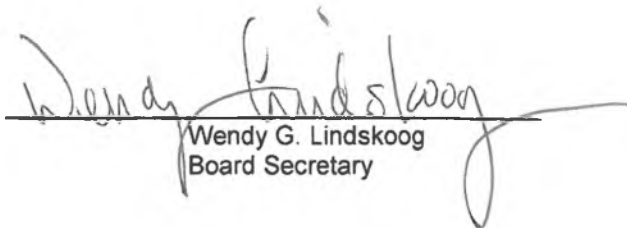
WHEREAS, this project is expected to create thousands of new jobs for Alaskans and is a project of statewide benefit and significance.

NOW THEREFORE BE IT RESOLVED that the Alaska Railroad Board of Directors supports the inclusion of \$55 million in the Governor's Fiscal Year 2012 Capital Project Budget to complete Phase Four construction of the rail extension between Port MacKenzie and the Alaska Railroad mainline.

This is to certify that I am the Secretary of the Board of Directors of the Alaska Railroad Corporation, and the above Resolution No. 2010-34 is a true and correct copy of the resolution adopted by the Alaska Railroad Corporation's Board of Directors at its regular meeting on October 12, 2010.

Date

10-13-2010


Wendy G. Lindskoog
Board Secretary

Corporate Seal



ALASKA MINERS ASSOCIATION, INC.

3305 Arctic Blvd., #105, Anchorage, Alaska 99503 • 907) 563-9229 • FAX: (907) 563-9225 • www.alaskaminers.org

November 15, 2010

Honorable Sean Parnell
Governor
State of Alaska
Capitol Building
Juneau, Alaska 99811

Re: Railroad Extension from Port MacKenzie to the Alaska Railroad Main Line

Dear Governor Parnell,

We are writing to urge continued funding for the extension of the railroad from the port at Point MacKenzie to the Alaska Railroad main line north of Wasilla.

The completion of this rail connection is needed for the export shipment of bulk commodities from existing and future mines in Southcentral and Interior Alaska. This project will provide important diversification and new opportunities for the state and will help stimulate new mineral development projects.

Mines producing coal, base metal (copper, zinc, lead, iron) concentrates, and many industrial minerals depend on reasonable transportation costs and this project has the opportunity to do just that. This extension, when combined with the results from the current western Alaska transportation study, will provide the best opportunity for concentrates from Interior Alaska to reach a deep water port.

Furthermore, this extension would allow current sand and gravel producers that are on the Alaska Railroad to export a portion of their production. In some cases, sand and gravel from these mines will provide the most economical sources for construction projects around the coast of Alaska.

We appreciate your consideration of this funding.

Sincerely,

Steven C. Borell, P.E.
Executive Director



Interior Alaska – The “Place” To Do Business

Introduced By: Transportation Committee
Date Introduced: September 27, 2010
Date Passed: September 27, 2010
Date Transmitted: September 27, 2010

RESOLUTION 10-0927

A RESOLUTION BY THE GREATER FAIRBANKS CHAMBER OF COMMERCE SUPPORTING PORT MACKENZIE RAIL EXTENSION PROJECT

WHEREAS, the State of Alaska needs to diversify its statewide and regional economies and develop an efficient and effective transportation system to support such diversification; and

WHEREAS, the rail extension being built from Port MacKenzie to the Alaska Railroad mainline will greatly stimulate such economic diversification by reducing the cost of transportation from Southcentral and Interior Alaska for bulk natural resources to tidewater; and

WHEREAS, the Greater Fairbanks Chamber of Commerce supports the need for economic diversification on both a statewide and regional basis as well as the need for significant transportation infrastructure improvements; and

NOW THEREFORE BE IT RESOLVED that the Greater Fairbanks Chamber of Commerce supports the inclusion of funding to continue construction of the rail extension between Port MacKenzie and the Alaska Railroad Mainline in the Governor’s Capital Project Budget.

BE IT FURTHER RESOLVED that this resolution be distributed to:

Members of the Alaska Legislature Transportation and Finance Committees
Interior Delegation
Governor’s office
Mat Su Borough Mayor
Mat Su Borough Assembly
Alaska State Chamber of Commerce

GREATER FAIRBANKS CHAMBER OF COMMERCE

Dan Britton
Board of Directors, Chairman

Karl Gohlke
Transportation Committee, Chairman

INVESTORS

DIAMOND

BP Exploration
ConocoPhillips
ExxonMobil
Fairbanks Daily News-Miner
FMH & Denali Center
Flint Hills Resources Alaska

PLATINUM

Alyeska Pipeline Service Co.
Carlson Center
Doyon, Limited
Fred Meyer Stores
Golden Heart Utilities
Mt. McKinley Bank
Wells Fargo Bank Alaska

GOLD

Alaska USA FCU
Birchwood Homes
Denali State Bank
Design Alaska
Doyon Utilities LLC
First National Bank Alaska
GCI
Kinross-Fort Knox Mine
MAC Federal Credit Union
Pogo Gold Mine
The Boeing Co.
Usibelli Coal Mine

SILVER

ACS
Alaska Airlines
Alaska Railroad
AT&T
Denali – The Alaska Gas Pipeline
Everts Air Cargo, Everts Air AK
Exclusive Paving/Univ. Redi-Mix
Fairbanks Natural Gas
Flowline Alaska
Fountainhead Development
General Teamsters Local 959
GVEA
Hale & Associates, Inc.
JL Properties, Inc.
Key Bank
Northrim Bank
Personnel Plus
Spirit of Alaska FCU
Tanana Valley Clinic
TDL Professional Staffing
TOTE
WAL-MART Stores, Inc.
Yukon Title Company

Adopted: 02/02/10

**MATANUSKA-SUSITNA BOROUGH
RESOLUTION SERIAL NO. 10-009**

A RESOLUTION OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY SUPPORTING
THE PORT MACKENZIE RAIL EXTENSION AS A STATEWIDE, ECONOMIC
DIVERSITY, STIMULUS PROJECT.

WHEREAS, the Port Mackenzie Rail Extension project connecting the Alaska Rail Road mainline will greatly reduce the distance for transporting bulk materials to and from Southcentral and Interior Alaska to tidewater; and

WHEREAS, reduced transport distance translates to reduced transportation costs which leads to an increase in volume of freight and the stimulation of resource development projects near the rail corridor; and

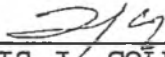
WHEREAS, the State currently relies on the petroleum industry for 85 percent of its revenue; and

WHEREAS, by stimulating resource development, the project would diversify and stabilize the State and local economies; and

WHEREAS, the construction and operation of the rail extension and the increased development it would stimulate along the rail corridor will provide thousands of jobs for Alaskans.

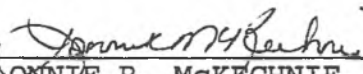
NOW, THEREFORE, BE IT RESOLVED, that the Matanuska-Susitna Borough Assembly supports the Port Mackenzie Rail Extension as a project which will provide Statewide benefits, economic diversity, and jobs for Alaskans.

ADOPTED by the Matanuska-Susitna Borough Assembly this 2 day
of February, 2010.



TALIS J. COLBERG, Borough Mayor

ATTEST:



LONNIE R. McKECHNIE, CMC, Borough Clerk

(SEAL)

PASSED UNANIMOUSLY: Woods, Houston, Arvin, Ewing, Bettine, Colver
and Halter.

GREATER WASILLA CHAMBER OF COMMERCE RESOLUTION No. xx

**A RESOLUTION OF THE GREATER WASILLA CHAMBER OF COMMERCE
SUPPORTING EXTENSION OF THE ALASKA RAILROAD FROM THE RAILROAD
MAIN LINE TO PORT MACKENZIE.**

WHEREAS, bulk natural resource development and export is important to the economy of the Matanuska-Susitna Borough, the Denali Borough, the Fairbanks North Star Borough, and the State of Alaska; and

WHEREAS, the ability of the Alaska Railroad to continue to provide economical transportation of bulk commodities is vital to the economic health of Alaska; and

WHEREAS, Port MacKenzie, with its 8,940 acres of industrial development land and deep draft dock, is a developing port with capability for bulk natural resource transport; and

WHEREAS, Port MacKenzie is capable of handling panamax and cape-size vessels (the largest ships in the world); and

WHEREAS, Port MacKenzie is closer to tidewater than the existing ports of Southcentral Alaska; and

WHEREAS, a shorter distance to tidewater will make resource development in South Central and Interior Alaska more economical by lowering transportation costs; and

WHEREAS, the shorter rail distance to tidewater will further stimulate the use and export of coal from the Usibelli mine and other extracted material developments in the Denali Borough, Matanuska-Susitna Borough and Interior Alaska; and

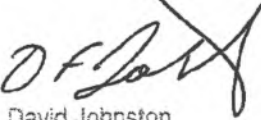
WHEREAS, the rail extension will make development of natural resources (coal, limestone, sand and gravel, timber and metallic minerals, etc.) located in the rail belt and Interior more economically feasible; and

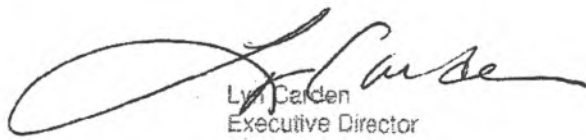
WHEREAS, the rail spur to Port MacKenzie will create more usage of the Alaska Railroad and increase the economic viability of the railroad; and

WHEREAS, the increase in economic activity will significantly contribute to the State's economic well being, increase employment of Alaskans, and contribute to the continued economic stability of one of the fastest growing regions in the nation.

NOW THEREFORE, be it resolved that the Greater Wasilla Chamber of Commerce strongly supports construction of the Alaska Rail line Extension from the Alaska Railroad mainline to Port MacKenzie.

ADOPTED by the Greater Wasilla Chamber of Commerce this ____ day of December, 2009.


David Johnston
President


Lynn Carden
Executive Director

CITY OF PALMER INFORMATION MEMORANDUM No. 10-011

SUBJECT: Resolution No. 10-009: Supporting the Extension of the Alaska Railroad from the Railroad Mainline to Port MacKenzie

AGENDA OF: January 12, 2010

Council action:	
<table border="1"> <tr> <td>Adopted</td> </tr> </table>	Adopted
Adopted	

Approved for presentation by B.B. Allen, City Manager B.B. Allen

Route To:	Department/Individual:	Initials/Date:	Remarks:
x	Originator – City Manager	<i>Zpie</i> 12/21/09	
x	City Clerk	<i>JR</i> 12/31/09	
x	City Attorney	<i>[Signature]</i> 12/31/09	
	Director of Administration		
	Director of Community Development		
	Director of Community Services		
	Director of Public Safety		
	Director of Public Works		

Attachments: Resolution No. 10-009

Certification of Funds:

X	No fiscal impact.	
	Funds are budgeted from this account number:	
	Funds are not budgeted. Budget modification is required. Affected account number:	

Director of Administration Signature: *[Signature]*

Summary statement: The Matanuska Susitna Borough seeks Palmer City Council support for the extension of the Alaska Railroad main mine into Port MacKenzie.

Administration recommendation: Approve resolution no. 10-009.

Introduced by: City Manager Allen
Date: January 12, 2010
Action: Adopted
Vote: Unanimous

Yes:	No:
Chmielewski	
Erbey	
Vanover	
Best	
Hanson	
Brown	

CITY OF PALMER, ALASKA

RESOLUTION NO. 10-009

A RESOLUTION OF THE CITY OF PALMER COUNCIL SUPPORTING EXTENSION OF THE ALASKA RAILROAD FROM THE RAILROAD MAIN LINE TO PORT MACKENZIE

WHEREAS, bulk natural resource development and export is important to the economy of the Denali Borough, Matanuska-Susitna Borough and its cities, the Fairbanks North Star Borough, and the State of Alaska; and

WHEREAS, the Usibelli Coal Mine is the main developed source of coal in Alaska; and

WHEREAS, Usibelli Coal Mine has offices and employees residing in Palmer; and

WHEREAS, Port MacKenzie with its 8,940 acres of industrial development lands and deep draft dock, is a developing port with potential for bulk natural resource transport; and

WHEREAS, Port MacKenzie is capable of handling panamax and cape size vessels (the largest ships in the world); and

WHEREAS, Port MacKenzie is closer to tide water than the existing ports of Southcentral Alaska; and

WHEREAS, a shorter distance to tide water will make resource development in Interior and Southcentral Alaska more economical, by lowering transport costs; and

WHEREAS, the shorter rail distance to tide water will further stimulate the use and export of coal from the Usibelli mine and other mineral developments in the Denali Borough, Matanuska-Susitna Borough, and Interior Alaska; and

WHEREAS, the rail extension will make development of various natural resources (coal, limestone, sand and gravel, timber and metallic minerals, etc.) located in the rail belt and Interior more feasible; and

WHEREAS, the economic activity will contribute to the Matanuska-Susitna Borough economy, tax base, and employment.

NOW THEREFORE, be it resolved that the City of Palmer strongly supports construction of the Alaska Rail line Extension from the Alaska Railroad mainline to Port MacKenzie.

Passed and approved by the City Council of the City of Palmer, Alaska this twelfth day of January 2010.



Kevin W. Brown II, Mayor Pro-Tempore



Janelle M. Bower, MMC, City Clerk



Lawmakers discuss Alaska's economic future

By Jedediah R. Smith

On the cusp of an election, and with \$12 billion in budget reserve accounts, five of Alaska's 60 legislators participated in a panel discussion before the State Chamber of Commerce, not to campaign, but to share their experiences and thoughts on strategies for filling the Trans-Alaska Pipeline, the state's regulatory regime, public employee retirement systems and ways the Legislature can

create a more friendly investment climate. At times, politics crept into the discussion. But the panel generally focused on the issues at hand. Chamber executive board chair Kip Knudson moderated the discussion and first asked lawmakers whether and how the state should spend the \$12 billion available in reserve accounts.

Responses were varied, from Sen. Kevin Meyer's belief that the money shouldn't be touched

until the economy improves, to Rep. Anna Fairclough's reminder that the state has a \$12 billion liability to PERSTRS retirement accounts.

"We made a promise to those that came before us," Fairclough (R-Eagle River) said. "I think we have to be very careful," said Rep. Bill Stoltz (R-Chugiak), who noted the state has invested money in important infrastructure projects in Southcentral Alaska, such as the Port MacKenzie rail spur. Prioritizing in-

rastructure projects is critical in choosing the best projects that will prove a return on investment for the state. But once open, that valve can be difficult to control with 60 legislators all vying for a piece of the action, Stoltz said.

The response highlighted the subtle differences on the political landscape among the business-friendly legislators, whose dis-

See Panel, Page 2

Chair's message: How to Create Jobs

By Kip Knudson

In last quarter's newsletter I expressed dismay with candidates who claim they will create jobs.

Most of our elected officials have lost track of the fact that the private sector creates two-thirds of Alaska's jobs, and pays the taxes that fund the remaining third. If they haven't forgotten this fact, then they are afraid to talk about it in public forums.



Knudson

During the State Chamber's priority-setting *The In*, we heard from Scott Cohn about how Alaska finished dead-last in the CNBC's 2010 Business Ranking. He told us about our bottom-of-the-pack rankings on things like road quality (not quantity), litigiousness, high taxes (our world-beating oil and gas taxes weren't even factored in) and low outcome, high-

cost education system.

My dismay at politicians talk about "creating jobs," and Mr. Cohn telling us everything-we-know-but-wish-we-didn't spurred a fantastic conversation among the State Chamber's Board of Directors on a central question: How can the State Chamber convince our elected officials to focus on policies and programs that encourage the private sector to create more jobs?

The first step is to sharpen our strategic plan, and below is a proposal that I intend to forward to the State Chamber Board.

Tag Line:
The Voice of Alaska Business

Vision (What does the future

look like?): A top ranking in "Best Places to Do Business" lists.

Mission (Why do we exist?): Advocate for public policies that encourage private sector investment and job growth.

Values (How do we operate?): Results-driven. We will focus on measurable improvement of the Alaska business climate. Be a statewide, all-business-sector advocate. "The Voice of Alaska Business" grows stronger when all businesses are represented.

Strategy (What will we do?): The State Chamber will achieve progress through three initiatives aimed at creating a robust business climate - and thus job growth - in Alaska. These initiatives provide

focus both to members and to government officials. Success on these initiatives can be measured and will result in private sector growth.

Perhaps most important to note is that the discreet action items within each initiative are generated by our membership. The more your business participates in State Chamber priority setting, the more likely the entire business community will benefit from collective ideas to grow our economy.

The State Chamber's strategy will:

Reduce Government Burden.
Our state government can either help or hinder business growth and

See Chair, Page 2

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P. 01
ANCHORAGE, AK
PERMIT NO. 283

Welcome New Members

ACE Air Cargo: ACE to the rescue! From Dutch Harbor to Ketchikan and 20 locations in between — ACE Air Cargo delivers more destinations, more often. ACE offers scheduled cargo flights, passenger and cargo charters, small package service and logistics across Alaska with connecting service to the Lower 48.

Based at Ted Stevens International Airport, the company flies a fleet of Beech 1900C and can accommodate virtually any freight that fits through a 52-inch-square door. ACE provides consistent flight schedules, online package tracking, competitive rates and superior customer service.

Flights include Anchorage to Aniak, Bethel, Chen-

St. Paul, Tatitlek, Wrangell and Yalutut.

Contact Person: Greg Hawthorne
Email: greg@aceaircargo.com
Physical Address: 5901 Lockheed Ave.,
Anchorage, AK 99502
Phone: (888) 722-0232
Web: www.aceaircargo.com

Sumitomo Metal Mining Pogo LLC (SMM Pogo) has been working on operation of the Pogo Mine, which is located about 90 miles southeast of Fairbanks. The Pogo Mine began its production in February 2006 and

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ago, she came under
age students and the
e perceived as being

anti-development, on budget issues and Alaska's dependence
on resource development for operating revenues.

"Students were saying 'Anna, we need to give the uni-
versity tens of millions of more dollars,' and I would say, 'I'd
love to do that, can you tell me what we should cut?'"

"We need to engage Alaskans in understanding where the econ-
omy is coming from and where it is going," Farclough said.

In the short-term, the members of the panel, which also
included Sen. Charlie Huggins (R-Wasilla) and Sen. Kevin
Meyer (R-Anchorage) said they didn't think changes in the
state's retirement system, from a defined benefit to a defined
contribution (Tier 3 to Tier 4) had a significant impact on
recruiting well qualified workers.

Public employee unions have continued to confound leg-
islators who have attempted to solve the state's entitlement
obligations though.

"You can't say you want to go back to a system of de-
fined benefits that will bankrupt our state and also want to
enshrine the dividend," Stoltz said. "Every year there is a
bill and a lot of pressure to radically reverse the system. This
is one of the most political issues. Some of us stuck our finger
in the electric pencil sharpener that is that union. I still have
a little bit of a nub left. I'm willing to do it again."

Attracting highly qualified state employees to run the per-
mitting system continues to be a concern among resource de-
velopment industries, said Jason Bruna, executive director
of the Resource Development Council. The current litigious

climate makes hiring good state employees all the more im-
portant for industry, as regulators are charged with writing
permits that will ultimately hold up in a court of law. Bruna
challenged the panel to find alternatives to avoid the "law-
suit first" strategy pursued by many environmental groups
opposing resource development projects.

Johnson said he'd tried a number of different things dur-
ing the last session, notably introducing a bill to freeze the
timeline of a permit once a lawsuit is filed.

"If you can stretch it out in court so that a permit expires,
you just wasted a bunch of time and expense," Johnson said.
Even if the developer prevails, the project may have to reapply
for another permit or even go through the costly Environmental
Impact Statement process again. His legislation would allow the
clock on the permit to resume only after the lawsuit was settled.

"I'm not confident we're going to get away from the public
litigant way of doing business for awhile," said Johnson, who
hopes to introduce the legislation again this year. "It isn't a
big fix, but might be something on the table to help."

Other steps the legislature must take, according to John-
son, are to leverage existing funds to attract money for large
scale hydroelectric projects like the Susitna Dam or Chacka-
channa, not necessarily by building them, but perhaps by
providing loan guarantees. He said the state missed the op-
portunity 20 years ago to build a project like Susitna, and that,
"We need to vision," Johnson said. "I dread 15 years from
now, having people say, 'why didn't you do something?'"

Continued from Page 2

on private and public sector transporta-
tion programs and projects throughout
Alaska, including major road and port
renaissance engineering for oil/gas
mining developments.

Contact: Mike Gordon McKinnon,
Owner/Manager
Email: mgmckinnon@gci.net
Address: Office: 319 Seward St.,
Suite 3, Juneau, Alaska
Phone: (907) 523-9877

New members in September:

American Seafoods Group
Great Northwest Inc.

New members in October:

Faulkner Walsh Constructors
Health Care Cost Mgmt. Corp. of A
Hotel Seward
Kenai Physical Therapy Inc.
Northern Gas Pipeline
U.S. Dept. of Labor, VETS
MacCheyne's Carpets Plus Inc.

New members in November:

Alaska Addiction Professionals Association
River's Edge Resort

Chair Continued from Page 2

job creation. Therefore, the State Chamber will
lobby to:

- ♦ Reform oil and gas tax;
- ♦ Continue the existing coast zone program;
- ♦ Continue effective administration of the
state's strong mining regulations;
- ♦ Review RCA regulations;
- ♦ Adopt tax incentives for new economic sec-
tors;
- ♦ Lower workers compensation costs
- ♦ Privatize public services that compete with
the private sector;
- ♦ Reduce litigation costs and delays;
- ♦ Reform state procurement code;
- ♦ Create, and then follow, a strategic plan for
economic development; and
- ♦ Reduce state GF spending to FY10 levels.

Improve and Expand Infrastructure

- ♦ Create an infrastructure endowment to reli-
ably fund renewal and expansion;
- ♦ Renew the Port of Anchorage;
- ♦ Construct a rail spur to Ft. McKenzie; and,
- ♦ Advocate for a long-range energy plan and
then identify all barriers to that long-range plan

Communicate and Educate

Advocacy on the above two initiatives can be
leveraged through a solid communication and

education program, including:

- ♦ In cooperation with all the trade asso-
ciations in Alaska, create a scorecard to clearly
communicate our expectations to lawmakers;
 - ♦ Support the Board of Trustees Alaska Busi-
ness Political Action Committee in their efforts
to support candidates who commit to grow the
private sector;
 - ♦ Immerse high school students in entre-
preneurship and leadership through the Alaska
Business Week summer program;
 - ♦ Empower our partners in local chambers
to affect statewide change, in addition to sup-
porting local chambers focus on growing their
community and regional economies;
 - ♦ Provide timely updates to membership
on progress on the initiatives through print and
electronic media;
 - ♦ Educate member companies on how to
engage employees to participate in the govern-
ment's progress on these initiatives; and,
 - ♦ Connect members with their legislators to
drive home the in-district impact of adopting the
initiatives
 - ♦ Consistent, valuable communication both
internal and external to the State Chamber
- I welcome your feedback on this strategic
plan at kjp.c.knudson@tsocorp.com.
Make a plan and work the plan.



FIND ALL THE STUDIES ONLINE

The entire studies can be found at the Matanuska-Susitna Borough website. The link to the website is below:

http://ww1.matsugov.us/index.php?option=com_docman&task=cat_view&gid=125&Itemid=238

Benefit-Cost Assessment of the Port MacKenzie Rail Extension

Final Report

prepared for
Matanuska-Susitna Borough

prepared by
Steve Colt
Nick Szymoniak

Institute of Social and Economic Research
University of Alaska Anchorage

20 June 2008



Contact:
Steve Colt
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steve.colt@uaa.alaska.edu

or:
Nick Szymoniak
907-786-5452
nick.szymoniak@uaa.alaska.edu

Executive Summary

Costs

We assume that the Port MacKenzie rail extension would cost \$275 million to construct.¹ This is a conservative estimate based on a range of between \$200 million and \$300 million for different route options. The time horizon runs 50 years from 2012 to 2061. O&M costs are assumed to be \$1.5 million per year, with a net present value of \$26.1 million. The net present value of all costs using a 5% real discount rate² and a base year of 2010 is \$301.1 million.

Benefits

The rail extension would provide two distinct types of benefits: 1) It reduces the cost of rail transportation; and 2) It is likely to stimulate significant new mines and other major development. These benefits come from a diverse mix of potential projects – thus a strength of the rail extension is that its economic viability does not depend on any one project.

Reduced transportation costs

Relative to Seward, using the extension would save 140.7 miles per one-way trip.³ Assuming an average cost savings of 6 cents per ton-mile and a 5.0% real discount rate, we estimate that using the extension would save \$572 million in avoided rail costs, avoided port costs, and avoided railroad and road upgrades. These savings are shown in the table and figure on the following page.

In addition to the above, we estimate that about 22,000 train crossings of Pittman Road and other roads would be avoided by the extension, saving motorists up to 64,000 vehicle-hours of travel time delay between now and 2061.

¹ AK Railroad submission to Federal Surface Transportation Board requesting license to build rail extension. January 2008.

² “real discount rate” means adjusted for inflation. This rate is based on the real rate of return from the Alaska Permanent Fund.

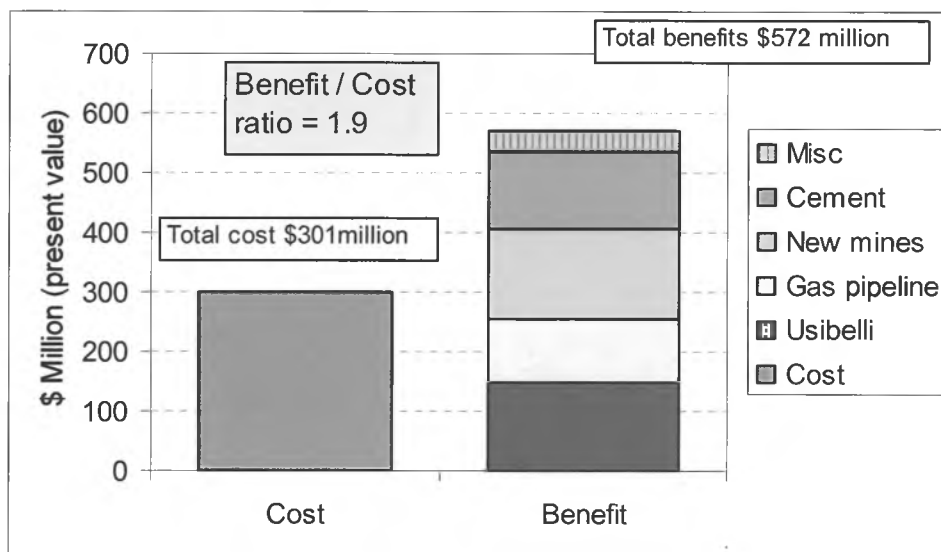
³ Paul Metz, Economic Analysis of Rail Link Port MacKenzie to Willow, Alaska. February 2007

Benefits of Port MacKenzie rail extension from reduced transportation costs

(Present value in year 2010 @ 5.0%; does not include motorist time savings)

	Tons per year	Years of operation	Benefits from reduced rail and port cost NPV at 5%	Notes
Usibelli Coal	1,000,000	2012 - 2061	\$ 148,711,175	
Gas pipeline materials	N/A	2013 - 2015	\$ 105,838,887	1
Ore from new mines	1,879,750	2017 - 2056	\$ 151,038,111	2
Cement plant	1,095,000	2020 - 2061	\$ 130,031,810	3
Misc commodities	250,000	2012 - 2061	\$ 36,694,410	4
Total benefits			\$ 572,314,393	
Construction cost			\$ 275,000,000	
O&M cost (NPV of \$1.5 million/yr)			\$ 26,079,894	
Total cost			\$ 301,079,894	
Benefit / Cost ratio from transportation savings				1.9

- Notes:
1. Gas pipeline savings includes \$82 million NPV of avoided rail and road upgrade costs
 2. Mines would commence operation in various years; the tonnage number in this table is peak production reached after 2037. The analysis of benefits is based on the actual time profile of tonnage produced.
 3. Assumes 3,000 tons per day output shipped to tidewater for export.
 4. Assumes a combination of gravel, wood chips, additional fuel imports to meet growing demand, and other miscellaneous bulk commodities.



Direct fiscal return to State of Alaska

Because much of the savings from reduced rail transportation costs would flow through to increased taxable income, we estimate that direct annual fiscal returns to the State of Alaska

would have a present value of between \$107 million (tied to rail cost savings) and \$4.4 billion (including all mineral revenues from new mines). These break down as follows:

- Between \$1 million and \$3 million per year in additional corporate income taxes, with a present value of \$32.7 million
- About \$7 million per year in additional oil and gas revenue due to lower pipeline construction cost reflected in lower pipeline tariffs, with a present value of \$33 million.
- A direct saving to the state of \$41.2 million from avoided railroad and road upgrades⁴
- Assuming new mineral development and attributing it to the rail extension, \$42 million per year increasing to \$602 million per year from mining license taxes, royalties, and corporate income taxes. The present value of all these mineral revenues is \$4.3 billion.

Economic development from new mineral activity

According to a detailed analysis by Paul Metz (Metz, 2007a), the rail extension would provide a significant stimulus to new mineral developments within a 120-mile wide corridor surrounding the existing railroad. Metz projects likely minerals development with a cumulative gross metal value of \$173 billion. This value would generate taxes and royalties to the State of Alaska starting at \$42 million per year (in 2017) and increasing to \$543 million per year in 2027 and to \$602 million per year beginning in 2037. In addition these developments could generate up to \$3 billion per year in additional economic activity in Railbelt communities.

Conclusion

This project provides a benefit/cost ratio ranging from 1.9 (based only on transportation cost savings) up to about 40 (assuming that additional mineral activity is attributable to the rail extension). In addition, there will be community benefits -- jobs and income -- that we have not explicitly considered here. These are extraordinarily good returns on an infrastructure investment in Alaska.⁵

⁴ We have assumed that the state would pay half of these upgrades and pipeline builders would pay half.

⁵ By comparison, the Bradley Lake hydroelectric project now appears to have a B/C ratio of less than 1.5, even when based on high and rising natural gas prices. Most public projects in Alaska have not been subjected to formal cost-benefit analysis.

Benefits of the Southcentral Rail Extension to the Municipality of Anchorage

prepared for:

Matanuska – Susitna Borough
Economic Development Department

prepared by:

Steve Colt and Nick Szymoniak
Institute of Social and Economic Research (ISER)
University of Alaska Anchorage



January 21, 2010

contact:

steve.colt@uaa.alaska.edu
907-786-1753

Benefits of the Southcentral Rail Extension to the Municipality of Anchorage

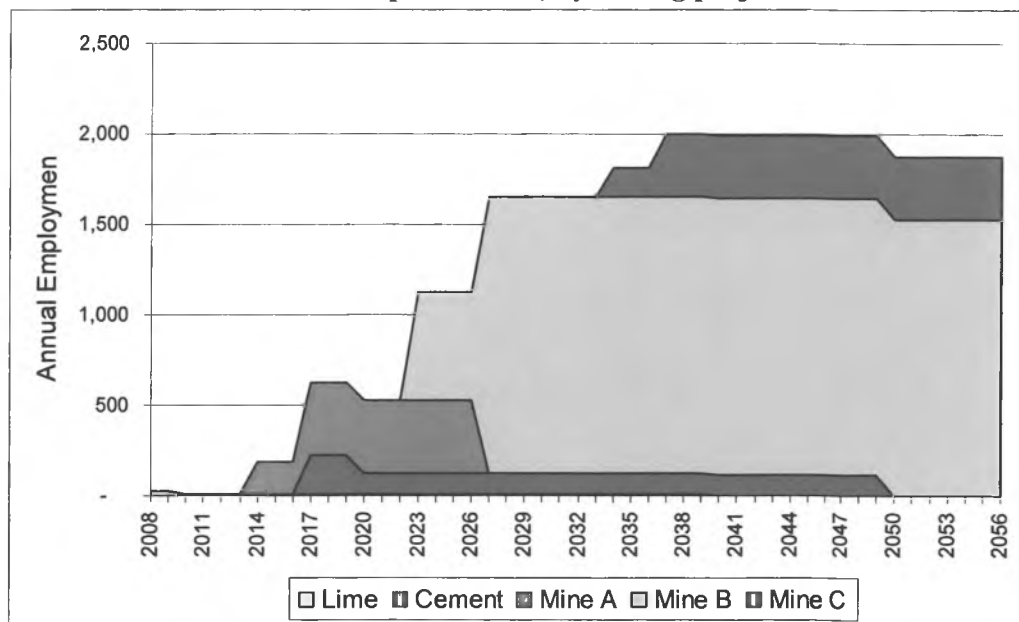
Summary of Findings

The proposed Southcentral rail extension to Port MacKenzie is likely to generate significant economic benefits for the residents of Anchorage. These benefits are due to a combination of reduced transport costs, the ability to ship bulk commodities over shorter distances, and economical access to industrial land. We considered and analyzed these benefits under a set of assumptions about job creation, transportation costs, land use considerations and future mineral development. Our major findings include the following:

Jobs

- Port MacKenzie.** The rail extension will generate new jobs for Anchorage workers by stimulating industrial development and jobs at Port MacKenzie. Under a base case scenario with a rail extension and ferry service, Anchorage residents would gain 730 average annual jobs and \$50 million of annual income during the period of 2013 -2017 from industrial development at Port MacKenzie. Hundreds more jobs would be gained after 2017. The rail extension will play an important role in this process. For example, it will allow coal exports through the port as early as 2013, generating more than 100 jobs.
- New Mines.** Major new mines shipping concentrate via the rail extension would generate thousands of new jobs, and a significant fraction of these jobs would be held by Anchorage residents. Our detailed analysis of the potential employment from five specific mining projects indicates that more than 2,000 average annual jobs would be created in Anchorage or held by Anchorage residents once the mines are fully developed. Most of these jobs would be in mining and in professional sectors that pay good wages. Also, during initial mine development, many of the jobs would be in construction and fabrication.

Projected average annual employment of Anchorage residents due to new mining activity and multiplier effects, by mining project



- **Rail Construction.** The construction of the rail extension would generate up to 3,000 total jobs, and ongoing operations would generate up to 150 total jobs. It is likely that many of these jobs would be held by Anchorage residents.
- **State Revenues.** State mining taxes generated from new mines will boost the Anchorage economy. Estimated tax revenues and royalties would grow steadily, reaching \$267 million per year by 2040. A large share of these potential tax revenues, roughly proportional to Anchorage's share of state population, would likely flow into the Anchorage economy, sustaining hundreds of direct jobs and reducing property tax burdens that would otherwise stifle private sector job creation.

Regional Competitiveness

- **New Economic Opportunities.** Port MacKenzie and the rail extension, operating together, are a significant new strategic asset for the entire regional economy. This infrastructure will create expanded opportunities for mineral, timber, and energy resource development, and the export of bulk commodities by rail through Port MacKenzie constitutes a new economic sector for the Southcentral regional economy. As the region's commercial and financial hub, Anchorage will gain jobs and income from all of this activity.
- **More Efficient Land Use.** The rail extension allows for higher-valued use of land in Anchorage. The rail extension will allow for railroad-dependent industrial development to take place at Port MacKenzie. This development would allow limited existing industrial-zoned land throughout Anchorage to be used for other, higher-value uses such as commercial development, while still meeting the regional economy's need for industrial land.

Fiscal Benefits

- **New State Revenues.** As noted above, revenues to the State of Alaska from new resource development would grow steadily, reaching \$267 million per year by 2040. These revenues will reduce the need for other taxes, stimulating capital formation and job creation by the private sector.
- **Higher Local Tax Base.** Local governments will also see higher tax revenues from a higher-valued property tax base. The stimulated new development will increase the tax base and reduce the need to raise taxes on homeowners or existing businesses.

Other Benefits

- **Port of Anchorage.** The industrial and mineral development stimulated by the rail extension to Port MacKenzie will likely increase both the volume and the value of cargo going through the Port of Anchorage. For example, if large mines are developed, the goods and equipment used by the mines for development and operations will flow through Anchorage.
- **Rail Shipping Costs.** The unit cost of shipping on the Alaska Railroad is likely to fall as fixed costs of roadbed maintenance and administration are spread over a higher volume of shipments.

Final Report

**Economic Analysis of Rail Link
Port MacKenzie to Willow, Alaska**

By

**Paul A. Metz, Ph.D., DIC, P.G.
Consulting Economic and Mining Geologist
P.O. Box 73795
Fairbanks, Alaska 99707**

Submitted to:

Matanuska-Susitna Borough

February 2007

Executive Summary

A railroad link of 43 miles from Willow to Port MacKenzie will result in rail freight savings for bulk commodities and heavy freight transported to and from the Rail Belt area of interior Alaska. Tidewater access at Port MacKenzie from interior Alaska is 26.4, 89.1, and 140.7 miles shorter than the Ports of Anchorage, Whittier, and Seward respectively. Bulk freight from metallic and industrial mineral development, coal and petrochemical production, and forest products are estimated. These bulk freight quantities are then multiplied times a per mile cost for the number of miles saved by using Port MacKenzie versus other ports. This results in an annual monetary savings. The net present value of these savings is calculated at a public tax-free bond interest rate of 4.5%, for payback periods of 25 and 30 years.

Metallic mineral and other natural resource freight loads are estimated from a probabilistic analysis of the known mineral and resource occurrences within a 120-mile wide transportation corridor in three separate segments. The primary economic analysis is on the existing Alaska Railroad from Port MacKenzie to the northeastern end of the Alaska Railroad at Eielson AFB. A secondary analysis is conducted on a planned railroad extension from Eielson AFB to Delta Junction and tertiary analysis is conducted on a potential railroad extension from Delta Junction to the Canadian Border.

The primary analysis indicates that the net present value of rail freight savings from the proposed rail link relative to the Ports of Whittier and Seward greatly exceeds the capital cost of the proposed project. The net present value of the rail freight savings for Port MacKenzie relative to the Port of Anchorage over a 30 year period equals 92% of the capital cost of the project.

The economic benefits to the State of Alaska from the development of the metallic mineral occurrences in the rail corridor from Port MacKenzie to Eielson, AFB, assisted by the line extension, greatly exceed the capital cost of the project. These benefits are estimated to range between \$61 and \$773 million per year for a 100 year time period. Industrial minerals, coal, petrochemicals, and forest products will add significantly to the economic benefits of metallic mineral production.

The citizenry of the state will be the prime beneficiaries of the proposed rail extension addition to the infrastructure of the state that will reduce bulk transportation costs, increase economic development, decrease transportation congestion in the Anchorage area, and decrease the adverse impact of natural disasters on the surface transportation systems in central and south-central Alaska.

Final Report

Economic Analysis of Rail Link

Port MacKenzie to Willow, Alaska

Phase II - Possible Rail Extension Users Analysis

By

Paul A. Metz, Ph.D., DIC, P.G.,
Consulting Economic and Mining Geologist
P.O. Box 73795
Fairbanks, Alaska 99707

Submitted to:

Matanuska-Susitna Borough

November 2007

Executive Summary

This economic analysis examines possible business activities that will be induced or enhanced in Southcentral and Interior Alaska by the rail extension from Port MacKenzie to the Alaska Railroad mainline. The possible business activities include: coal exports, mineral aggregate (sand and gravel) exports, lime and portland cement exports, forest product exports, refined petroleum product exports and imports, the Alaska Natural Gas Pipeline logistics and metallic mineral development. This is also a preliminary investigation of the economic benefits provided by these uses and whether these benefits justify the capital investment needed to build the rail extension. The analysis does not include the coal tonnage that would likely be transported on the rail extension, if the Agrium Coal Gasification Project moves forward.

Background: Metallic and non-metallic mineral and solid fuel (coal) resource development is a major source of freight for most railroads worldwide. These bulk commodities must be transported to worldwide markets by the most economical method available. Thus, railroads either transport the materials from mines and quarries directly to manufacturing and population centers or to ocean vessels via the nearest port facilities. Alaska is no exception.

Alaska has abundant mineral and energy resources that can supply both North American and worldwide markets. In the absence of a railroad connection to the contiguous states and major manufacturing in Alaska, these resources must be exported through deepwater port facilities. Connecting the mines to the ports via railroads greatly reduces transportation costs. This increases the competitive advantage of Alaskan resources, and results in maximum returns to the State in the form of jobs, corporate income taxes, and mineral rents and royalties. Estimating the mineral and energy resource potential of Alaska is a necessary step in the planning, design, financing, and construction of infrastructure.

Part I: Part I examines possible exports and imports of products, other than metallic minerals, over the rail extension during the first ten years of rail extension operation. The analysis provides information on expected rail extension use during the first five years (2012-2017) and the second five years (2017-2022) of operation. During the first five years, 1.4 million tons of freight is expected to be annually transported over the rail extension. For the second five year period, 2.4 to 3.4 million tons are expected to be annually transported. *The five year and ten year freight tonnage projections in this investigation may be very conservative. These expected annual tonnages are over and above the 3.3 million tons of coal annually required for the Agrium Coal Gasification Project at Nikiski.*

Part II: Part II focuses on new metallic mineral developments that will be enabled by the proposed 25-40 mile rail extension. The Part II analysis examines the feasibility of developing one small, one large, and one medium metallic mineral deposit inland from the port over the first, second, and third decades of rail extension operation. In addition, the analysis includes a forecast of the tonnage of rail freight for each mine over the initial

mine life; the mining license taxes, royalties, and corporate income taxes expected to accrue to the State of Alaska; and the expected economic benefits that will accrue to the communities along the rail belt from the mine developments.

Metallic mineral deposits and coal in the railbelt corridor have the greatest potential for generating additional rail freight revenues and additional revenues to the State of Alaska as well as additional economic benefits to the railbelt communities. Other potential sources of rail freight loads are relatively small or short term. During the first thirty years of rail extension operation, it is expected that the annual metallic mineral development tonnages transported will be at least 365,000 tonnes in the first decade, 1.7 million tonnes in the second decade and 1.9 million tonnes during the third decade.

The expected annual rail freight revenues from metallic mineral production for the first, second, and third decades of the rail extension operation are expected to increase by \$7.8, \$33, and \$45.1 million respectively. The expected revenue streams to the State of Alaska over a sixty year period in the form of corporate income taxes, mining license taxes, and mining royalties from metallic minerals alone are estimated at \$18.1 billion or \$300 million per year. The economic benefits that will accrue to the railbelt communities from metallic mining over the same period are estimated at \$185 billion or \$3 billion per year. These amounts far exceed the estimated \$225 - \$330 million capital cost of providing the rail connection between Port MacKenzie and the rest of the Alaska Railroad system.

Conclusion: The combined Part I and Part II results of estimated metallic and non-metallic annual freight tonnages over the first thirty years of rail extension operation are conservatively expected to range up to 3.7 million tonnes in the first decade, 4.1 million tonnes in the second decade and 4.3 million tonnes in the third decade. Most of the origin or destination of the freight would be the interior of Alaska thus the average haul distances are expected to be approximately 350 miles. At an average freight rate of \$0.06 per ton mile, four million tonnes of freight per year along this route would generate annual gross revenues of \$84 million.

Cost Savings Related to Use of the Port MacKenzie Rail Extension to Support Alaska Gas Pipeline Construction

Prepared for the

Matanuska-Susitna Borough

March 2008

Prepared by


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Revised Executive Summary Including Additional Scenarios from Appendices

This report was commissioned by the Matanuska-Susitna Borough (MSB) in January 2008. The report's purpose is to examine the transportation savings and other economic advantages of using Port MacKenzie and a proposed rail extension to provide logistical support for construction of a natural gas pipeline connecting Alaska North Slope (ANS) gas reserves to markets in Canada and the Lower 48, as well as a natural gas spur line that will serve Southcentral Alaska markets. This revised executive summary includes a discussion of scenarios included in the appendices showing estimated transportation costs from Anchorage and Whittier.

Transporting gas pipeline construction materials by rail from Port MacKenzie appears to generate significant savings when compared to the costs and foregone savings associated with the transportation of the same materials by rail from Seward, Whittier or Anchorage, or by truck from Valdez. This report estimates that \$122 million in cost savings and foregone spending (compared to the use of Port of Seward) could be realized with the full development and use of Port MacKenzie and a rail extension linking the port with the ARRC mainline. Savings are significantly higher—\$165 to 176 million—when compared to using the Port of Valdez and using trucks as the primary mode of land transportation. Savings are lower—\$107 to \$111 million—when compared to using the Port of Anchorage with rail or the Port of Whittier with rail.

Table ES-1 provides a summary of the transportation costs associated with moving pipe, supplies, equipment and other materials for the construction of the ANS main gas pipeline and a gas spur line from Fairbanks to Wasilla. The results are shown for various scenarios developed in this report and in the appendices.¹

Land Transportation Costs

The summary table shows estimated transportation costs using rail from Seward, using rail from Port MacKenzie, using trucks from Valdez, and using rail from Anchorage and Whittier. The estimated costs of moving material by rail from Port MacKenzie are \$23 to \$30 million less than the costs of moving the material from the Port in Seward. Moreover, the estimated costs of moving the material by truck from Valdez are significantly higher than any of the rail-based scenarios. The Port MacKenzie transportation costs are up to \$58 million less than the Valdez truck option. The rail-based costs from Port MacKenzie are from \$5 to \$11 million less than estimated rail-based costs from Anchorage and \$14 to \$20 million less than estimated rail-based costs from Whittier.

Marine Transportation Costs

The summary table also provides comparisons of marine transportation costs to each of the ports including the port fees. In general, the differences in marine transportation costs among ports (up to \$5 million), are small relative to the differences in land-based transportation costs. Due to its higher tariff cost, it is estimated that marine costs to Anchorage are highest (\$19 million) among the ports considered, while marine costs to Whittier are lowest (\$14 million). Marine costs to both Seward and Port MacKenzie are both estimated at \$16 million, while marine costs to Valdez are estimated at \$15 million.

¹ Land transportation estimates in the main body of the report focus on costs from Port MacKenzie, Seward and Valdez. Appendix B provides additional detail of land-based transportation costs and includes estimates of moving material by rail from Anchorage and from Whittier.

Infrastructure Improvement Costs

The summary table also addresses infrastructure improvement costs related to pipe and pipeline material transport including road and bridge improvements, at-grade rail crossings, and module transport-related road improvements.

Assuming that the pipe and other gas pipeline materials will be transported by truck from Valdez, the road and bridge improvements needed to support gas pipeline construction-related transportation from Delta to Valdez will be no less than \$90 million. If the pipe preparation plant is in Valdez, the Glennallen to Tok Highway segment could be used in addition to the Delta to Valdez highway segment. In that case, the road and bridge improvements needed to support gas pipeline construction will be no less than \$100 million. The road improvements considered include bridges, passing lanes, turning lanes, safety pull-outs, weigh station upgrades, and other highway improvements. This would be considered a minimum level of investment with no significant pre-construction pavement and sub-base rehabilitation.

Under a second scenario, where you presume that the substandard road segments, with less than ideal geometric standards (lane width, shoulders, curvature and grade) as well as substandard pavement condition need to be brought up to a high standard, the pre-construction investment would rise significantly to the \$225 million range with an additional \$50 million needed for the Tok Highway section. These improvements do not include pipeline construction related "road wear and tear" repairs (Ottesen, 2008). These road improvement costs are assumed for the Valdez truck transportation options.

It is estimated that the cost of improvements to at-grade rail crossings in and around Wasilla is approximately \$73 million (Brooks, 2008). This analysis assumes that this expense would be foregone given the construction of the rail extension to Port MacKenzie since pipeline materials would not go through Wasilla and a significant portion of future freight traffic would use the rail extension. To capture these foregone expenditures if the rail line to Port MacKenzie is built, the analysis shows the \$73 million as a cost that would need to be incurred if any of the other ports are used for transporting pipeline materials.

Furthermore, Flour (2003) estimated that \$20 million in highway improvements would be required to move modules by road from Kenai. If Port MacKenzie is used to construct some of the large modules and support structures that might otherwise be constructed on the Kenai Peninsula or in Anchorage, and assuming that these modules and structures can be transported by rail, then the need to spend \$20 million on improvements to the Glenn and Parks Highway could be eliminated. The \$20 million in costs are assumed to occur if Port MacKenzie is not used.

Table ES-1. Summary of Costs Related to the Transport of Pipeline Materials under Different Scenarios

Description	Scenario 1: Seward by Rail	Scenario 2: Port Mackenzie by Rail	Scenario 3: Valdez by Truck	Scenario 4: Valdez by Truck with Coating Plant	Scenario 5: Anchorage by Rail	Scenario 6: Whittier by Rail
Total Tons of Materials to Transport for ANS Gas Mainline (tons)	1,275,383	1,275,383	1,275,383	1,275,383	1,275,383	1,275,383
Total Tons of Materials to Transport for Fairbanks to Wasilla Spur Line (tons)	235,096	235,096	235,096	235,096	235,096	235,096
Total Tons of Materials to Transport for Main Line and Spur Line (tons)	1,510,479	1,510,479	1,510,479	1,510,479	1,510,479	1,510,479
Estimated Land Transport Costs						
Land Transport Costs for ANS Gas Mainline (\$)	181,000,000	161,000,000	204,000,000	206,000,000	166,000,000	173,000,000
Land Transport Costs For Spur Line (\$)	20,000,000	16,000,000	24,000,000	24,000,000	17,000,000	19,000,000
Land Transport of All Materials for Both Main Line and Spur Line (\$)	201,000,000	178,000,000	228,000,000	229,000,000	183,000,000	192,000,000
Differential From Unadjusted Port Mackenzie Costs (\$)	23,000,000	-	50,000,000	52,000,000	5,000,000	14,000,000
Land Transport of All Materials (With Adjustment—See Note #4)	201,000,000	172,000,000	228,000,000	229,000,000	183,000,000	192,000,000
Differential From Adjusted Port Mackenzie Costs (\$)	30,000,000	-	57,000,000	58,000,000	11,000,000	20,000,000
Estimated Marine Transport Costs						
Marine Transport Costs for ANS Gas Mainline (\$)	13,000,000	13,000,000	12,000,000	12,000,000	16,000,000	12,000,000
Marine Transport Costs For Spur Line (\$)	3,000,000	3,000,000	2,000,000	2,000,000	3,000,000	2,000,000
Marine Transport of All Materials for Both Main Line and Spur Line (\$)	16,000,000	16,000,000	15,000,000	15,000,000	19,000,000	14,000,000
Differential from Port Mackenzie Costs (\$)	less than -500,000	-	-2,000,000	-2,000,000	3,000,000	-2,000,000
Other Costs and Avoided Costs Related to the Transport of Pipeline Materials						
Costs to Repair At-grade Knik Goose Bay Rail Crossings	73,000,000	-	-	-	73,000,000	73,000,000
Costs to Improve Glen and Parks Highways for Pipeline Module Transport (\$)	20,000,000	-	20,000,000	20,000,000	20,000,000	20,000,000
Costs to Improve Richardson Highway between Valdez and Delta Junction (\$)	-	-	90,000,000	90,000,000	-	-
Costs to Improve Tok Cut-off between Glenallen and Tok (\$)	-	-	-	10,000,000	-	-
Total Costs and Avoided Costs (\$)	93,000,000	-	110,000,000	120,000,000	93,000,000	93,000,000
All Marine and Land Costs Related to the Transport of Pipeline Materials						
All Marine and Land Costs and Avoided Costs (\$)	310,000,000	188,000,000	353,000,000	364,000,000	295,000,000	299,000,000
Differential from Adjusted Port Mackenzie Costs (\$)	122,000,000	-	165,000,000	176,000,000	107,000,000	111,000,000

Source: Estimates were generated by Northern Economics.

Notes:

1. Details regarding these estimates can be found in Appendix B.
2. Costs are rounded to the nearest million—rounding errors account for apparent inconsistencies.
3. All estimates for land transport include rail or trucking costs to staging areas.
4. This adjusts Port MacKenzie rail costs by including \$6 million in "difficult to quantify" savings due to congestion costs and higher per mile maintenance costs on the existing ARRC track between Houston and Seward. More details on these adjustments are found in the main report.
5. Otteson (2008) indicates that \$90 million in road improvements would be required on the Richardson Highway between Valdez to Delta Junction, with an additional \$10 million required if 80-ft double joint sections of pipe will be moved from Valdez.
6. Brooks (2008) estimates the costs to upgrade crossings at \$73 million. This report assumes the crossing upgrades would not be required if the rail extension to Port MacKenzie is constructed.
7. Flour (2003) estimates that the \$20 million in improvements would be required to move modules from Kenai. These costs could be foregone with a rail extension to Port MacKenzie.

Economic Effects of the Southcentral Rail Extension

Prepared for the

Matanuska-Susitna Borough

March 2007

Prepared by


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Executive Summary

The proposed plan to expand the transportation infrastructure in the Point MacKenzie area by creating a rail link between Port MacKenzie and the Alaska Railroad Corporation's (ARRC) mainline is expected to generate significant economic benefits to the region and the state. This study evaluates the potential economic effects of the construction and operations of the proposed Southcentral rail extension project and some of the anticipated development that may occur as a result of the rail extension. In particular, this study evaluates the direct, indirect, and induced economic effects of the following project components and associated development:

- Construction and operations of the rail extension
- Construction and operations of a new dock at Port MacKenzie
- Construction and operations of loading and unloading facilities from the rail terminal to the dock
- Expansion of coal production at the Usibelli Coal Mine

The economic benefits of the project were measured according to the direct, indirect, and induced jobs and industry output or sales that would be generated by the local spending for construction and operations of various facilities associated with the project. The direct effects estimates of local spending (or in-state spending) were generated using preliminary cost estimates of construction and operating costs for the various facilities. The indirect and induced economic effects (or the multiplier effects) within the state were estimated using an input-output model of the Alaska economy.

Table ES-1 and Table ES-2 summarize the direct and the multiplier effects of the proposed project and associated development.

Table ES-1. Estimated Direct, Indirect, and Induced Industry Output/Sales Associated with the Proposed Southcentral Rail Extension and Associated Development (in million \$)

Facility	Direct Local Spending	Additional Business Sales	Total
Rail Extension			
Construction	\$193	\$164	\$357
Operations (annual)	\$1.5 - \$2	\$1.25 - \$1.67	\$2.75 - \$3.67
Uplands Development			
Construction	\$8	\$6	\$14
Operations (annual)	\$12	\$9.80	\$21.80
Port MacKenzie Dock			
Construction	\$23 - \$26	\$19.5 - \$22	\$42.5 - \$48
Operations (annual)	\$0.99	\$0.80	\$1.00
Usibelli Coal Mine (expansion)			
Operations	\$15 - \$20	\$11	\$26 - \$31
Total Construction			\$413.50 - \$419.00
Total Operations			\$51.55 - \$57.47

If the construction of the rail extension takes two years to complete, then the number of jobs in any year would depend on the expenditures made in each year. If the expenditures in both years of

construction were equal, then the number of total construction-related jobs would be about 1,600 to 1,700 full-time and part-time jobs.

Table ES-2. Estimated Direct, Indirect, and Induced Jobs Associated with the Proposed Southcentral Rail Extension and Associated Development

Facility	Direct	Indirect + Induced	Total
Rail Extension			
Construction	1,700 to 1,900	1,500	3, 200 to 3,400
Operations (annual)	10 to 20	10 to 15	20 to 35
Uplands Development			
Construction	80	45	125
Operations (annual)	25 to 35	80	105 to 115
Port MacKenzie Dock			
Construction	230 to 260	145 to 165	375 to 425
Operations (annual)	10	<10	< 20
Usibelli Coal Mine (expansion)			
Operations	60 to 70	115	175 to 185
Total Construction			3,600 to 3,950
Total Operations			320 to 355

RAIL EXTENSION PROJECT



Patty Sullivan/MSB




ECONOMIC BENEFITS TO THE ALASKA ECONOMY

What the Rail Extension means to Alaska's economy

- 🌐 **Opens up the Interior to resource development**
- 🌐 **Creates a development corridor along the Railbelt for exploration and extraction of strategic minerals (lead, zinc, copper, molybdenum and silver)**
- 🌐 **Facilitates the development of a world class limestone deposit between Livengood and Fairbanks**

- **Facilitates the development of a cement production facility in or near Fairbanks**
- **Dramatically improves the world competitiveness of Alaska coal**
- **Significantly reduces transportation and staging cost for the Alaska Gas Pipeline construction**
- **Increases employment in the Mat-Su Borough, the Denali Borough, the Fairbanks North Star Borough and Anchorage**

Port MacKenzie and the Rail Extension working together

-  **Port MacKenzie is a bulk commodities port for the export of minerals, cement and coal**
-  **Provides for the import, storage and staging of bulk fuel and pipe**
-  **Is not a consumer goods or container port like the Port of Anchorage**

Port MacKenzie

a port with 14 square miles of industrial land

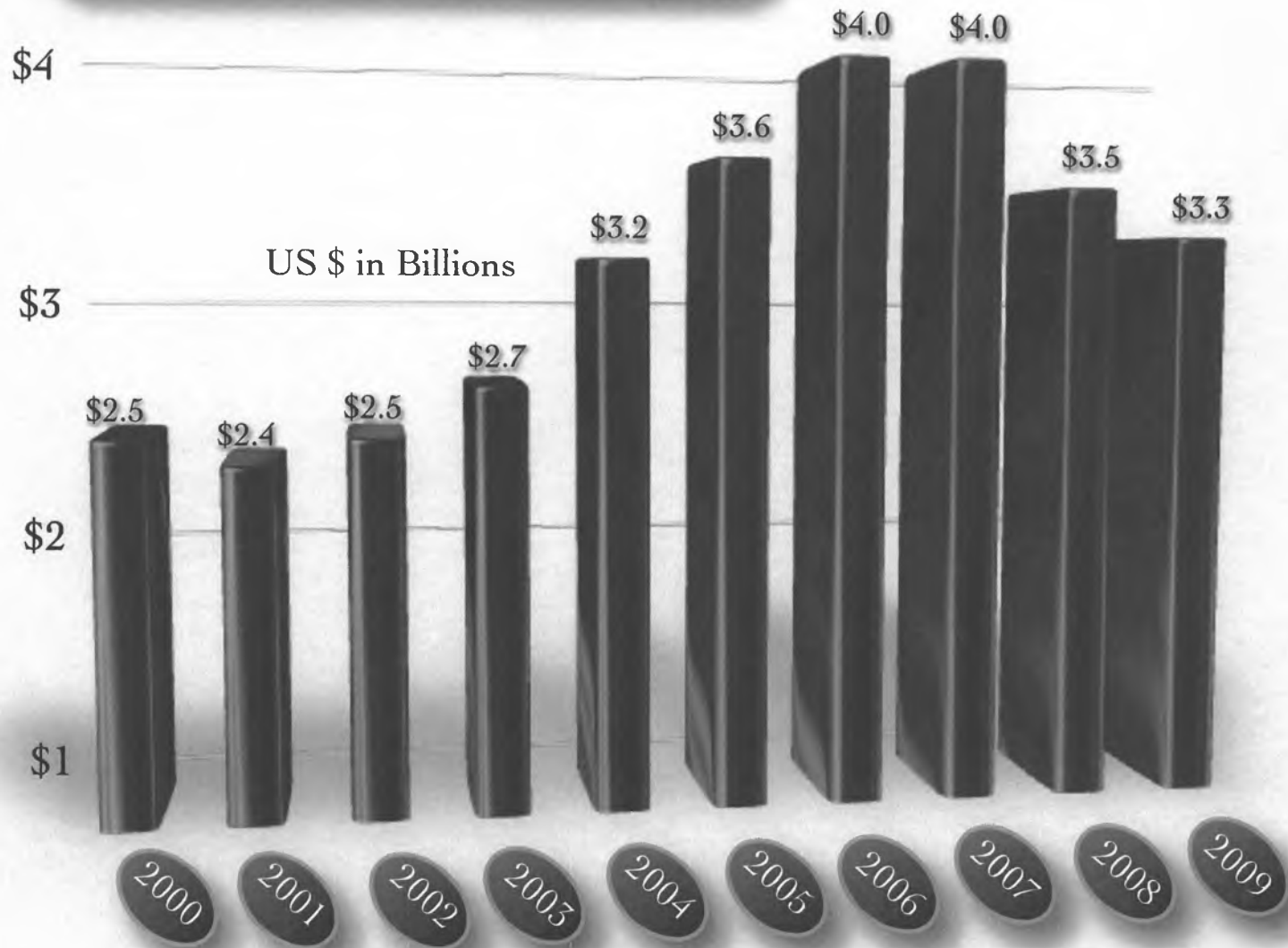


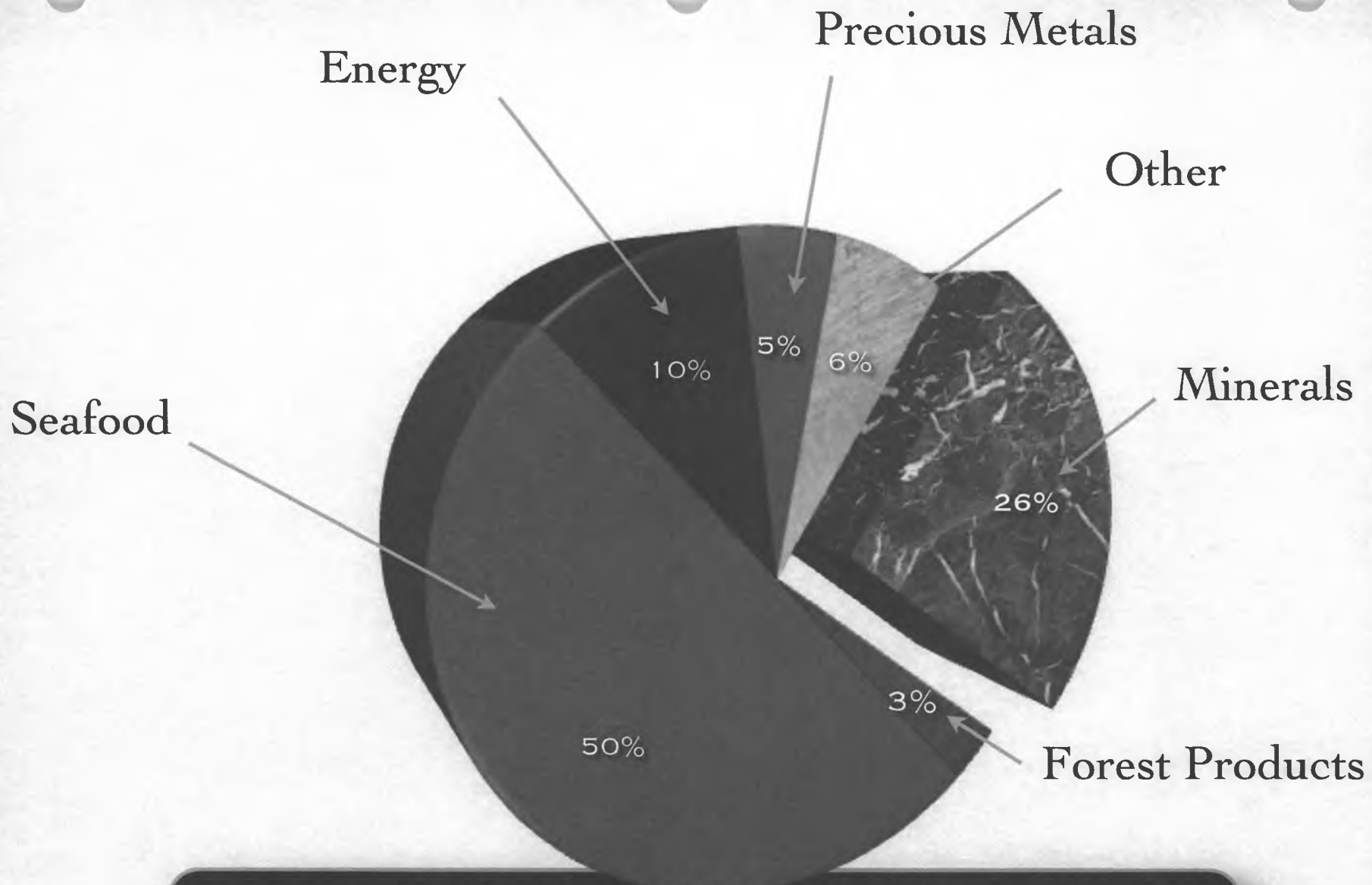
Advantages of Rail to Port Mac

- Shorter rail distance to tidewater for mineral exports
- Only Alaska port with 100 rail car loop
- Efficient product transfer from train to ship
- Avoids the most congested portion of Alaska RR mainline
- Deep draft port that operates year-round

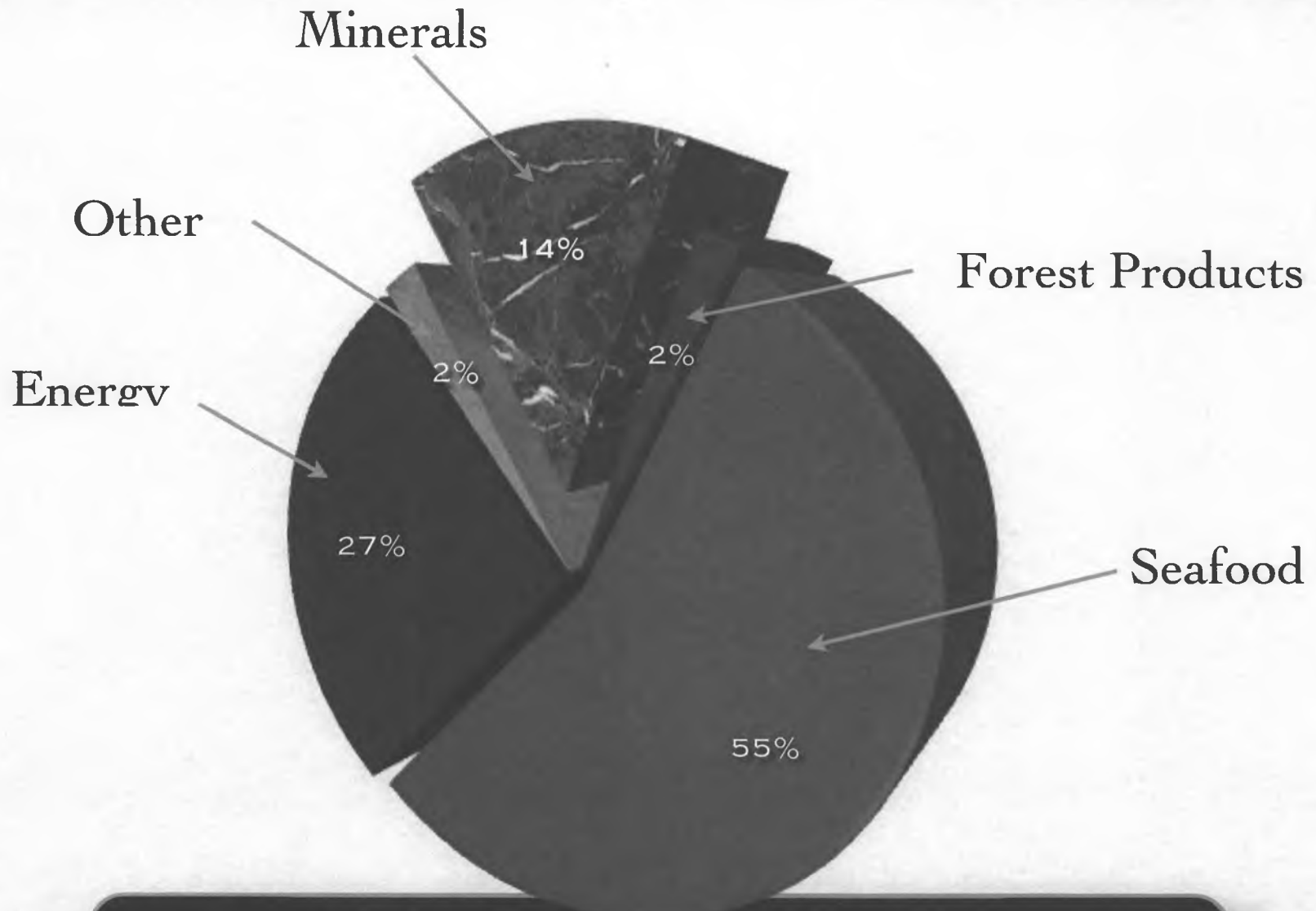
- 14 square miles of industrial area
- Will make **Alaska's minerals more competitive** on the world market (molybdenum, copper, lead, zinc, coal)
- Port MacKenzie Rail Extension is a **great opportunity to grow our export economy**

Alaska's Total Exports

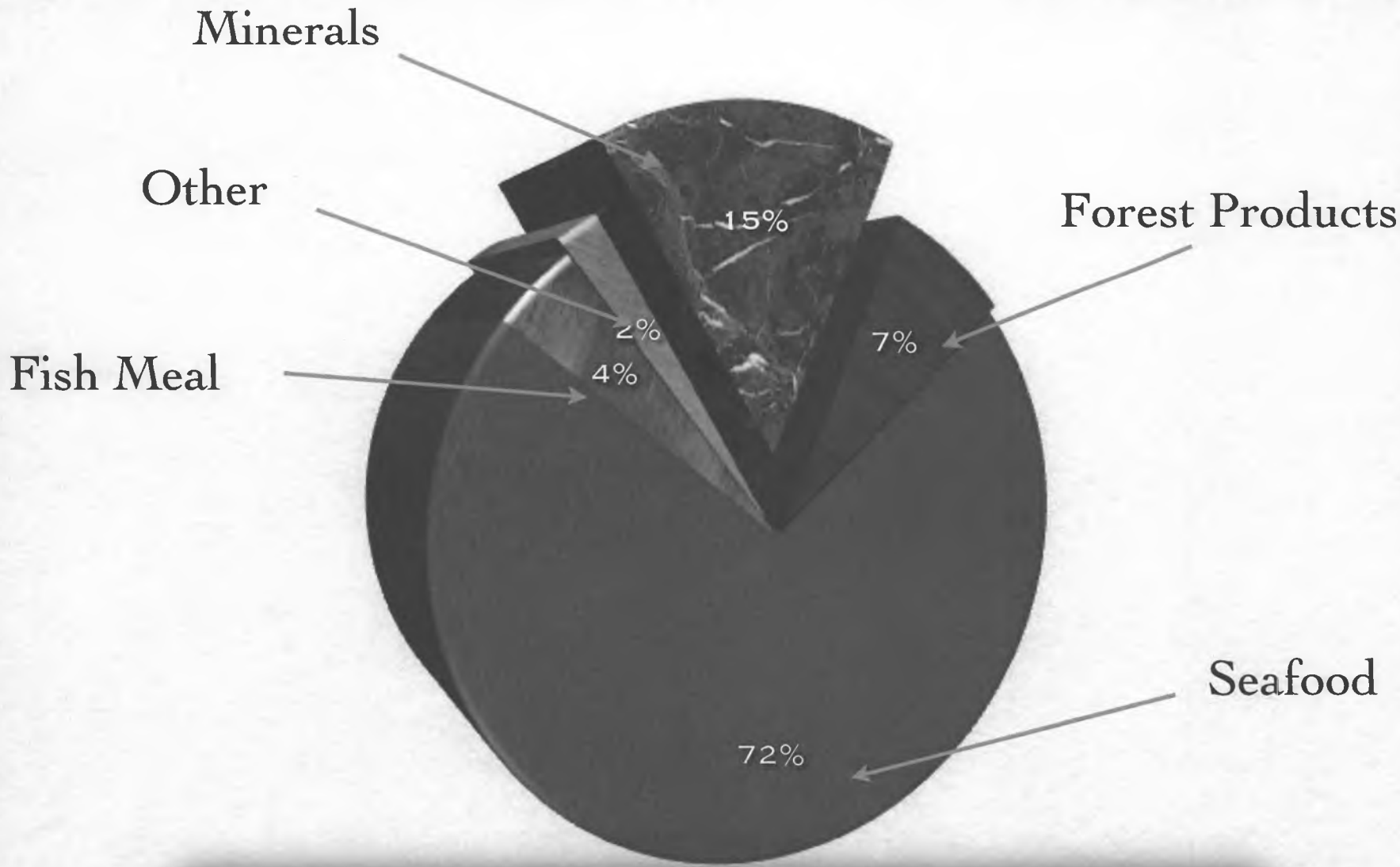




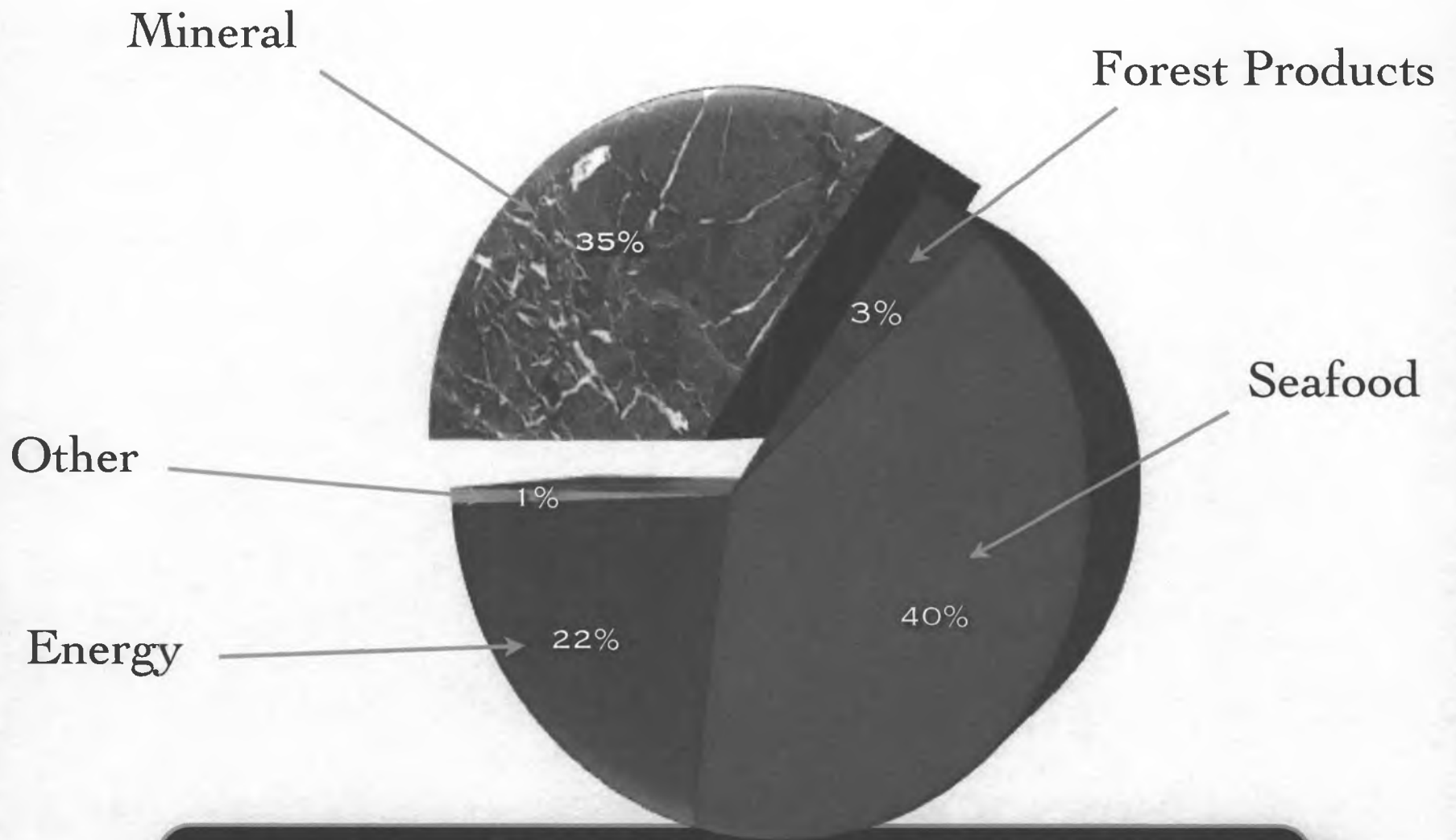
**ALASKA'S 2009 TOTAL EXPORTS
\$3.3 BILLION**



**ALASKA 2009 EXPORTS TO JAPAN
\$981 MILLION**



**ALASKA 2009 EXPORTS TO CHINA
\$586 MILLION**



**ALASKA 2009 EXPORTS TO KOREA
\$458 MILLION**

JOBS CREATED

by Rail Extension and Port MacKenzie Expansion*

direct, indirect and induced jobs from construction



3000



***Estimates by HDR and ISER**

JOBS CREATED

private development

mining development along rail line

4000

industrial development of Port MacKenzie

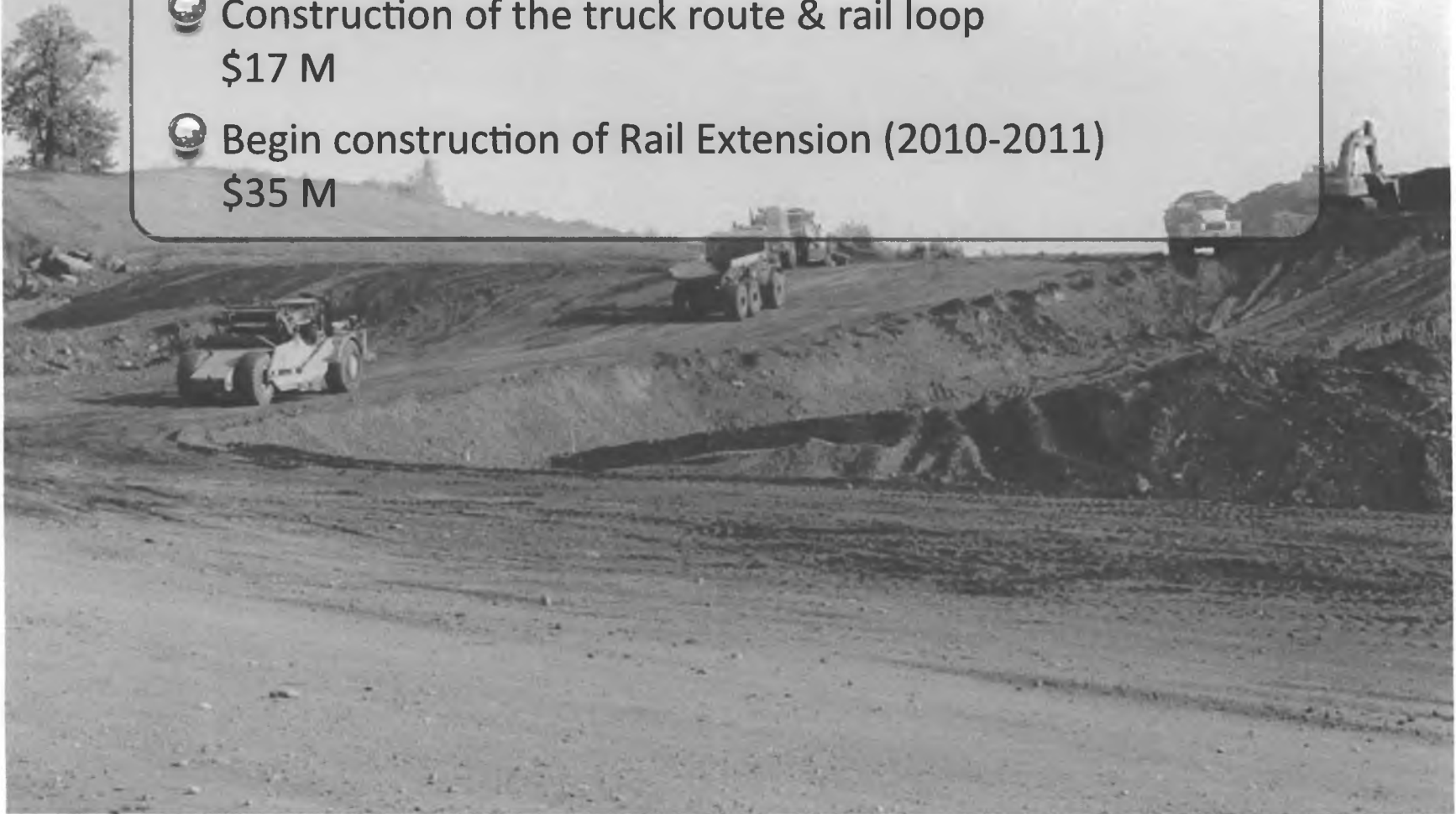
3500



*Estimates by HDR and ISER

What's underway for the Rail Extension?

- Completion of the Environmental Impact Study (Fall 2010)
\$10 Million
- Construction of the truck route & rail loop
\$17 M
- Begin construction of Rail Extension (2010-2011)
\$35 M



What's Next?

- 🚂 Continued construction of Rail Extension (fall 2011)
\$55M
- 🚂 Complete railbed to Alaska main line (2013)
\$60 M
- 🚂 Lay rail and complete Rail Extension (2014)
\$41 M

