SB 163

<TARGET><BILL>SB 163</BILL><SUBJECT>SB 163</SUBJECT><COMM>STRA27</COMM></TARGET>

SENATE TRANSPORTATION COMMITTEE

State Capitol, Room 11
Juneau AK, 99801-1182
907-465-6828

TO: Senate Transportation Committee

FROM: Senator Albert Kookesh, Chair
Senate Transportation Committee

DATE: February 9, 2012

RE: Senate Transportation Schedule for the week of February 13-17, 2012

Tuesday, February 14: 1pm to 3:00pm, Butrovich Room 205

SB 163: **Port General Obligation Funds**—relating to the issuance of general obligation bonds for the purpose of paying the cost municipal port projects. By the Senate Rules Committee at the request of the Governor.

Thursday, February 16: 1pm to 3pm, Butrovich Room 205

Bills previously heard or scheduled

+ Teleconferenced

Please contact Nancy Barnes at 465-6828 if you have any questions.

port extension

CS FOR SENATE BILL NO. 163(TRA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE SENATE TRANSPORTATION COMMITTEE

Offered:
Referred:

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

"An Act providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of municipal port projects; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section to read:

GENERAL OBLIGATION BONDS. For the purpose of paying the cost of design and construction of municipal port projects, general obligation bonds of the state in the principal amount of not more than $450,000,000, if ratified by a majority of the qualified voters of the state who vote on the question, shall be issued and sold. The full faith, credit, and resources of the state are pledged to the payment of the principal of and interest and redemption premium, if any, on the bonds. The bonds shall be issued under the provisions of AS 37.15 as those provisions read at the time of issuance.

* **Sec. 2.** The uncodified law of the State of Alaska is amended by adding a new section to

read:

2012 PORT PROJECT FUND. If the issuance of the bonds is ratified by a majority of the qualified voters of the state who vote on the question, a special fund of the state to be known as the "2012 port project fund" shall be established, to which shall be credited the proceeds of the sale of the bonds described in sec. 1 of this Act except for the accrued interest and premiums.

* **Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to read:

DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT. The amount of $450,000,000 is appropriated from the 2012 port project fund to the Department of Commerce, Community, and Economic Development to be awarded as grants under AS 37.05.315 to recipients for projects as follows:

PROJECT	AMOUNT
Municipality of Anchorage - Port of Anchorage	$200,000,000
Matanuska-Susitna Borough - Port MacKenzie Rail Extension	110,000,000
City of Seward - Community Development Quota Home Port	10,000,000
Bristol Bay Borough - Port Improvements	10,000,000
City of Emmonak - Port Improvements	10,000,000
Ketchikan Gateway Borough - Ward Cove Dock Improvements	10,000,000
City of Kotzebue - Cape Blossom Deep Water Port	50,000,000
City of Nome - Port of Nome Improvements	50,000,000

* **Sec. 4.** The uncodified law of the State of Alaska is amended by adding a new section to read:

STATE BOND COMMITTEE. If the issuance of the bonds is ratified by a majority of the qualified voters of the state who vote on the question, the amount of $2,250,000 or as much of that amount as is found necessary is appropriated from the general fund of the state to the state bond committee to carry out the provisions of this Act and to pay expenses incident to the sale and issuance of the bonds authorized in this Act. The amounts expended

from the appropriation authorized by this section shall be reimbursed to the general fund from the proceeds of the sale of the bonds authorized by this Act.

* **Sec. 5.** The uncodified law of the State of Alaska is amended by adding a new section to read:

LAPSE; REDEMPTION; REIMBURSEMENT. The unexpended and unobligated balances of the appropriations made in sec. 3 of this Act lapse under AS 37.25.020 and are appropriated to the state bond committee to redeem bonds sold under this Act. The amounts expended from the general fund to pay the principal, interest, and redemption premium on bonds issued under this Act shall be reimbursed to the general fund from the appropriation made under this section to the extent that the money is not needed to redeem the bonds.

* **Sec. 6.** The uncodified law of the State of Alaska is amended by adding a new section to read:

BALLOT QUESTION. The question whether the bonds authorized in this Act are to be issued shall be submitted to the qualified voters of the state at the first general election after the effective date of this Act and shall read substantially as follows:

PROPOSITION

State General Obligation $450,000,000
Port Project Bonds

Shall the State of Alaska issue its general obligation bonds in the principal amount of not more than $450,000,000 for the purpose of paying the cost of municipal port projects?

Bonds Yes [ ]

Bonds No [ ]

* **Sec. 7.** This Act takes effect immediately under AS 01.10.070(c).

27-GS2769\A.1
Kirsch
2/13/12

AMENDMENT

OFFERED IN THE SENATE

TO: SB 163

Page 1, line 9:

Delete "$350,000,000"

Insert "$400,000,000"

Page 2, line 10:

Delete "$350,000,000"

Insert "$400,000,000"

Page 2, following line 22:

Insert new material to read:

"PROJECT	AMOUNT
City of Nome - Port of Nome Improvements	50,000,000"

Page 2, line 26:

Delete "$2,965,000"

Insert "$2,000,000"

Page 3, line 15:

Delete "$350,000,000"

Insert "$400,000,000"

Page 3, line 18:

Delete "$350,000,000"

1 Insert "$400,000,000"

SENATE COMMITTEE REPORT
First Committee of Referral

DATE: 1/17/12

FURTHER: Finance

Date of 5-Day Notice: _____
(in accordance with Uniform Rule 23)

DATE TURNED IN TO OFFICE: 2/14/12

Transportation Committee considered SENATE BILL NO. 163

SB 163-G.O. BONDS FOR PORTS

"An Act providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of municipal port projects; and providing for an effective date."

and recommends:

[ ] be **replaced** with **CS** _____ (_____) *[ ] Same Title [ ] New Title*

[ ] adopt **previous CS** _____ (_____) *[ ] Same Title [ ] New Title*

[ ] attached amendment(s)

[ ] adopt _____Letter of Intent

[ ] further referral to _____Committee

Dept Abbr.	
ADM	LEG
CED	LAW
COR	LWF
CRT	MVA
EED	DNR
DEC	DPS
DFG	REV
GOV	DOT
DHS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

[ ] **APPROPRIATION - no fiscal note**

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Egan	→			
	Thomas	✓			
	Bernard	✓			
	Huggins			✓	
CHAIR:					

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version: **SB 163**
Fiscal Note Number:
() Publish Date:

Identifier (file name): SB163-DOR-TRS-1-31-12
Dept. Affected: Revenue
Title: Port General Obligation Bonds
Appropriation: Taxation and Treasury
Allocation: Treasury Division
Sponsor: Rules by Request of the Governor
Requester: (S) TRA
OMB Component Number: 121

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY13**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**
Personal Services							
Travel	20.0		20.0		20.0		
Services	880.0		1,145.0		880.0		
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous			7,400.0	19,900.0	19,900.0	28,100.0	28,100.0
TOTAL OPERATING	**900.0**	**0.0**	**8,565.0**	**19,900.0**	**20,800.0**	**28,100.0**	**28,100.0**

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF	900.0		8,565.0	19,900.0	20,800.0	28,100.0	28,100.0
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		**900.0**	**0.0**	**8,565.0**	**19,900.0**	**20,800.0**	**28,100.0**	**28,100.0**

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES							

Estimated SUPPLEMENTAL (FY12) operating costs _____ *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial note.

Prepared by: Deven Mitchell, Debt Manager — Phone 907-465-3750
Division: Treasury Division — Date/Time 1/31/12 1:00 PM
Approved by: Angela Rodell, Deputy Commissioner — Date 1/31/2012
Department of Revenue

(Revised 1/17/2012 OMB)

FISCAL NOTE

STATE OF ALASKA **BILL NO.** SB 163
2012 LEGISLATIVE SESSION

Analysis

The bill authorizes the issuance of $350 million of general obligation bonds of the State of Alaska. The bonds would carry the full faith, credit and resources pledge of the State and must be ratified in a statewide election. This is the strongest form of credit pledge available to the State and accordingly results in the lowest interest rates for borrowed funds. If the bill is approved, Alaska voters would consider the proposition in the November 2012 general election.

The bonds would be issued as either tax-exempt or tax exempt, subject to the Alternative Minimum Tax (AMT) securities in a ratio estimated to be 60 percent tax exempt and 40% subject to AMT. All of the bonds will be subject to limitations of the Federal tax code. While there are many restrictions imposed when taking advantage of tax exemption, two key limits are that an issuer must be able to track all funds to final expenditure on an allowed public capital project and that all funds resulting from the bond issuance are expended within three years of the bond sale. Due to these limitations it is anticipated that the authorization would require careful state oversight of the proposed municipal projects and result in multiple bond issues. For planning purposed six bond issues are assumed with three sale dates staggered over three years beginning with an initial issuance in February 2013 of $100 million followed by a 2014 issuance of $150 million and a 2016 issuance of the final $100 million. The initial bond issues would be sized based on anticipated cash-flow with subsequent issues adjusted to actual cash flow.

The first two series of $100 million in bonds would be issued in February 2013. The current rate for a 20 year level amortization of Alaska general obligation bonds are at all time lows and estimated at 2.35% for tax exempt and 3% for tax exempt subject to AMT for a blended rate of 2.61%. The series of bonds would be structured to amortize AMT bonds first and then tax exempt and at current rates results in annual debt service of approximately $6.5 million beginning in FY 2014 for the $100 million. This borrowing rate is below the anticipated Constitutional Budget Reserve (CBRF) regular account rate of return of 3.4% and well below the assumed rate of return on the CBRF subaccount of 6.85%.

For planning purposes a more conservative, but still historically low rate of 4% was used, increasing the annual debt service estimate to $7,400,000. If interest rates have increased at the point bonds are sold there would be a similar increase in the rate of return expectations in the CBRF regular account as it is comprised of fixed income securities that are actively managed.

It is estimated that $150 million in bonds would be sold in February 2014 with estimated annual debt service of $12.5 million beginning in FY 2015 followed by $100 million in February 2016 with estimated annual debt service of $8.2 million beginning in FY 2017. This proposed schedule of issuance would be modified to match the actual expenditures on the authorized projects. A more conservative 5% interest rate was used to estimate debt service on these issues.

The costs associated with issuing bonds include underwriting, rating agency, attorneys, financial advisors, marketing and disclosure services, administrative, and printing. It is estimated that these costs will be less than .85% of the bonds issued, or a total of up to $2,965,000 for the anticipated six series of bonds on three issue dates.

Sponsor Statement

SB 163

General Obligation Bond for Alaska Port Projects

Alaska's future rests on responsibly developing our natural resources, and creating jobs and economic opportunities for our families. The State of Alaska has more miles of coastline than any other state in the union. Combined with our remote location, Alaska's economy is reliant on waterborne commerce to receive the goods we use and to export the resources we develop.

SB 163 authorizes the State of Alaska to sell $350 million in general obligation bonds to fund infrastructure improvements for six port projects. With our AAA bond rating, Alaska receives a favorable interest rate on bond sales. With the current low cost of borrowing, the state realizes a greater rate of return on the general fund then it would have to pay when borrowing funds through a general obligation bond package.

The funds would be used to rehabilitate and expand six ports throughout the state. These ports are located in upper Cook Inlet, Bristol Bay, Kenai Peninsula, the Yukon River Delta and Ketchikan. Each of these projects has a pivotal role in Alaska's economy.

Alaska is unique in its economic dependence on ports. Very limited federal funding is available for port infrastructure. The use of general obligation bonds will help bring these projects to completion.

Governor Parnell is committed to working with the Legislature to develop Alaska's infrastructure. These projects will promote economic growth within their region, and to the economy of Alaska.

Prepared by Office of Management and Budget
February 12, 2012

Sectional Analysis

SB 163

General Obligation Bond for Alaska Port Projects

"An Act providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of municipal port projects; and providing for an effective date."

Section 1: This section describes the amount and the purpose of the general obligation bonds. The purpose is to provide funding to pay for the cost of design and construction of identified municipal port projects. The principal amount of the bonds to be sold is not to exceed $350,000,000 and must be ratified by a majority of voters in the state. The bonds shall be issued under the provisions of AS 37.15.

Section 2: This section establishes the Port Project Fund. If the voters approve the bonds, a special fund for the state shall be established that will be known as the *2012 Port Project Fund.* The fund shall include the proceeds from the sale of the bonds, but will not include the accrued interest and premiums.

Section 3: This section establishes how the funds will be awarded to the individually identified projects. The amount of $350,000,000 will be appropriated from the 2012 Port Project Fund to the Department of Commerce Community and Economic Development to be awarded as grants under AS 37.05.315 (Grants to Municipalities).

Section 4: This section appropriates $2,965,000 from the General Fund to the state bond committee to pay expenses associated with the issuance of the bonds. The amount authorized and expended in this section will be reimbursed to the state General Fund from the proceeds of the sale of the bonds. (Estimate $900.0 in bond issuance cost in FY2013 – see fiscal note)

Section 5: This section establishes the lapse, redemption, and reimbursement of the appropriations in Section 3. Unexpended and unobligated balances of the appropriations are appropriated to the state

bond committee to redeem bonds sold. Amounts expended from the state General Fund related to pay redemption costs shall be reimbursed to the General Fund to the extent the money is not needed to redeem the bonds.

Section 6: This section establishes the ballot question that will be asked of voters to approve the general obligation bonds for the specified purpose.

Section 7: This section establishes an immediate effective date.

Prepared by Office of Management and Budget
February 12, 2012

Municipality of Anchorage - Port of Anchorage

FY2013 Request: **$200,000,000**
Reference No: **41956**

AP/AL: Appropriation
Category: Development
Location: Anchorage Areawide

Project Type: Construction
Recipient: Municipality of Anchorage
House District: Anchorage Areawide (HD 17-32)

Impact House District: Anchorage Areawide (HD 17-32)
Estimated Project Dates: 07/01/2012 - 06/30/2017

Contact: JoEllen Hanrahan
Contact Phone: (907)465-2506

Brief Summary and Statement of Need:
This project will provide funds for the Port of Anchorage Expansion project. The Port of Anchorage expansion project has been scaled back in size and scope. This funding will be used to construct two barge berths and two ship berths to the north of the existing dock. Completion of the north end expansion is critical as it will allow the main shippers to safely berth and move cargo in an upgraded and expanded facility built to a higher degree of seismic stability. The general obligation bond authorization is considered one-time in nature and is not expected to fully fund the project.

Funding:	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	Total
G/O Bonds	$200,000,000						$200,000,000
Total:	$200,000,000	$0	$0	$0	$0	$0	$200,000,000

☐ State Match Required ☑ One-Time Project ☐ Phased - new ☐ Phased - underway ☐ On-Going
0% = Minimum State Match % Required ☐ Amendment ☐ Mental Health Bill

Operating & Maintenance Costs:

	Amount	Staff
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	
Totals:	0	0

Additional Information / Prior Funding History:
FY2012 - $30 million GF SLA11, Ch 5, Sec 1, Pg 20, Ln 13; FY2011 - $20 million SLA10, Ch 43, Pg 80, Ln 9; FY2010 - $10 million SLA09, Ch 15, Pg 3 Ln 20; FY2010 SLA09, Ch 15, Pg 44, Ln 12; FY2009 - $15 million SLA08 CH 29, Pg 114, Ln 14; FY2009 $10 million SLA08, Ch 29, Pg 185, Ln 11; FY2008 - $10 million SLA07, Ch 11, Pg 74, Ln 7; FY2007 $10 million SLA06 Ch 82, Pg 51, Ln 29; FY2006 - $10 million SLA05 Ch 3, Pg 41, Ln 6

Project Description/Justification:
The Port of Anchorage (POA) serves 80 percent of Alaska's population as the entry point for 90 percent of consumer goods and petroleum products that are shipped to Alaska. The POA directly impacts the quality of life and the cost of daily goods for more than 200 communities in Alaska. The POA plays an essential role in economic development, military operations, and businesses throughout the state. In terms of economic impact, the POA contributes $1.4 billion annually to local and state economies, including hundreds of construction related jobs along with dozens of long term employment opportunities. The POA has served the State for 50 years and is in a deteriorated condition leaving it vulnerable to failure following a high magnitude earthquake.

Background: The POA Intermodal Expansion Project is a federal DOT project under the Maritime Administration (MARAD). The project began in 2003 with the objective to provide modern, efficient, and expanded infrastructure built to a higher degree of seismic stability. Partners in the project include the State of Alaska, Municipality of Anchorage-Port of Anchorage and port tenants and stakeholders. In the fall of 2011, the Municipality of Anchorage signed a new memorandum of agreement with MARAD that established the transfer of procurement and construction responsibilities to the Municipality, or their designees, by May 31, 2012.

Overall, this project has four primary objectives:

- Accommodate existing customer requirements;
- Accommodate growth and demand for Port services, especially with respect to potential new customers and the new generation of vessels anticipated to call at the POA;
- Stimulate economic development for the Municipality and the region by providing marine and landside transportation system improvements; and
- Better serve the military in the Port's role as the nation's 15th Strategic Seaport. The U.S. Maritime Administration (MARAD) has been designated as the federal lead agency for POA development.

Due to the overarching goal of maintaining 100% commercial operations throughout the duration of the project, it is progressing in phases. This funding will allow for the construction of two barge berths and two ship berths to the north of the existing dock. When completed, the POA will be able to move current container and general cargo operations off of the old deteriorating facility onto new berthing spaces built to a higher degree of seismic stability.

Matanuska-Susitna Borough - Port MacKenzie Rail Extension **FY2013 Request: $110,000,000**
Reference No: 46242

AP/AL: Appropriation
Category: Development
Location: Matanuska Susitna Borough
Impact House District: Matsu Areawide (HD 13-16)
Estimated Project Dates: 07/01/2012 - 06/30/2017

Project Type: Construction
Recipient: Matanuska-Susitna Borough
House District: Matsu Areawide (HD 13-16)
Contact: JoEllen Hanrahan
Contact Phone: (907)465-2506

Brief Summary and Statement of Need:
This project will provide funding for the continuation of the development and construction of the Matanuska-Susitna Borough Port MacKenzie Rail Extension. The rail extension will promote the diversification of Alaska's economy. The general obligation bond authorization is considered one-time in nature and is not expected to fully fund the project.

Funding:	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	Total
G/O Bonds	$110,000,000						$110,000,000
Total:	$110,000,000	$0	$0	$0	$0	$0	$110,000,000

☐ State Match Required ☑ One-Time Project ☐ Phased - new ☐ Phased - underway ☐ On-Going
0% = Minimum State Match % Required ☐ Amendment ☐ Mental Health Bill

Operating & Maintenance Costs:

	Amount	Staff
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	
Totals:	0	0

Additional Information / Prior Funding History:
FY2012 - $30,000,000 SLA 2011 Ch 5 Sec 1 Pg 37 Ln 28; FY2011 - $35,000,000 SLA 2010, Ch 43, Pg 99, Ln 27; FY2009 - $17,500,000 SLA 2008, Ch 29, Pg 129, Ln 19; FY2008 - $10,000,000 SLA 2007, Ch 30, Pg 88, Ln 8

Project Description/Justification:
This request is for continued development and construction of the Matanuska-Susitna Borough Port MacKenzie Rail Extension Project. The rail extension will provide for the transportation of bulk materials such as coal, minerals, and timber from Interior Alaska to tidewater, and will make Alaskan natural resources significantly more competitive in Pacific Rim markets. The rail extension is expected to quadruple coal exports, stimulate development of new mineral mines, development of limestone deposits and related cement industry, and new opportunities for timber exports. An expected 4,000 jobs will be created along the rail line and in Interior Alaska due to new mining ventures and development efforts. South Central Alaska is expected to gain 2,000 permanent jobs over the first 10 years following rail construction and up to 3,500 jobs over the longer term.

Background: The Port MacKenzie Rail Extension will bring tremendous economic and employment benefits to Alaska. The project will create jobs, lower transport costs and increase economic development. Extension of the rail line will connect the Alaska Railroad Mainline to Port MacKenzie, resulting in a shorter distance to tidewater from the interior that will save more than $100 million over

existing ports for the State's proposed natural gas pipeline. Less expensive bulk transport costs will also help stimulate the development of natural resources and mines.

The lower costs created by the proposed rail extension coupled with this limestone deposit will create a major new export related manufacturing opportunity for the production of cement. With the rail extension, Alaska will be able to produce up to 15% of the nation's annual need for cement. In addition, the shorter distance to tidewater will reduce the cost of transporting coal by approximately 6 dollars per ton, making coal from Alaska's interior competitive on the world market. Representatives of the Alaska coal industry indicate that once the rail line is completed, it can quadruple annual coal exports from one million tons to four million tons.

An independent study by the University of Alaska-Fairbanks estimates the revenue to the State from new mines averages $300 million per year over the next 100 years. According to a study by the Institute of Social and Economic Research, the Port MacKenzie Rail Extension Project will create up to 3,400 new jobs over a three year period in construction (currently in progress), 35 jobs in annual operations and another 640 direct and indirect jobs.

In order to complete the rail extension from the main Alaska Railroad line in Houston, to the Port MacKenzie facility, the Matanuska-Susitna Borough estimates the total cost of the project to be approximately $180 million including this project funding.

The current cost estimate for the project (32.1miles) is $272.5 million of which $92.5 million has been funded leaving an unfunded shortfall of $180 million to complete the project. Funding on hand will complete the rail embankment for the one mile bi-modal loop adjacent to Port MacKenzie, the first 5 miles of the rail embankment (Segment 1) starting at Port MacKenzie and proceeding toward Houston and approximately one plus miles (Segment 6) of rail embankment and rail at the intersection of the new rail extension and the current ARRC mainline. The construction contract for the completion of the port loop and the first 5 miles of rail embankment (Segment 1) has been awarded. A contract for the "Y" connection with the main line at Houston (Segment 6) will be advertised for construction bids in early March 2012. Work on both contracts will be initiated in the spring/summer of 2012. All required Engineering and Right of Way (ROW) acquisition are funded and are scheduled for completion in 2012.

The $110 million contained in the General Obligation Bond could be available for construction in the spring of 2013. It would be utilized to construct the rail embankment for Segments 3, 4, and 5 (18.5 miles) and the manufacture of ballast rock and purchase of long lead time materials such as steel rails. This work would be completed by the fall of 2015. An additional $70 million would be required to complete the project. This $70 million would be utilized to construct the rail embankment on Segment 2 (8.5 miles) and install ties, ballast, rails and other railroad operational equipment to complete the rail extension.

City of Seward - Community Development Quota Home Port **FY2013 Request:** **$10,000,000**
Reference No: **52376**

AP/AL: Appropriation
Category: Development
Location: Seward
Impact House District: Kenai Areawide (HD 33-35)
Estimated Project Dates: 07/01/2012 - 06/30/2017

Project Type: Construction
Recipient: City of Seward
House District: Homer/Seward (HD 35)
Contact: JoEllen Hanrahan
Contact Phone: (907)465-2500

Brief Summary and Statement of Need:
This project will provide funding to move the home port of the CDQ fishing fleet from Seattle, Washington to Seward, Alaska. Since 1982, the City of Seward has obtained approximately $35.7 million in Federal or State grants, appropriations and City bonds to construct a basin, ship lift, and ship repair facility at the Seward Marine Industrial Center. The general obligation bond authorization is considered one-time in nature and is not expected to fully fund the project.

Funding:	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	Total
G/O Bonds	$10,000,000						$10,000,000
Total:	$10,000,000	$0	$0	$0	$0	$0	$10,000,000

☐ State Match Required ☑ One-Time Project ☐ Phased - new ☐ Phased - underway ☐ On-Going
0% = Minimum State Match % Required ☐ Amendment ☐ Mental Health Bill

Operating & Maintenance Costs:

	Amount	Staff
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	
Totals:	0	0

Additional Information / Prior Funding History:
FY2012 - $400,000

Project Description/Justification:
Moving the home port of the Coastal Villages Region Fund (CVRF) fishing fleet from Seattle to Seward is a historic opportunity. This is a long standing goal that began with the Magnusson-Stevens Act of 1976 and the Community Development Quota (CDQ) Program that began in December, 1992.This move has been done to provide fishing quotas to the communities surrounding prime fishing areas, and to reinvest profits to produce jobs and grow the industry to "Alaskanize" the Alaska fishing fleet.

In examining ports across Alaska, the City of Seward on Resurrection Bay met all of the Board's requirements. The City of Seward has all of the following essential requirements necessary for a home port that have been identified by the CVRF Board of Directors:

- A deep water year-round ice-free port
- Sufficient space and depth of water to construct a half-mile of dock, mooring, loading, and servicing deep draft and other marine vessels.
- Sufficient ship repair and maritime support facilities
- Existing ship repair and maritime support facilities
- Road, rail, and air access

Bristol Bay Borough - Port Improvements **FY2013 Request: $10,000,000**
Reference No: 46059

AP/AL: Appropriation
Category: Development
Location: Bristol Bay Borough
Impact House District: Bristol Bay/Aleutians (HD 37)
Estimated Project Dates: 07/01/2012 - 06/30/2017

Project Type: Construction
Recipient: Bristol Bay Borough
House District: Bristol Bay/Aleutians (HD 37)
Contact: JoEllen Hanrahan
Contact Phone: (907)465-2500

Brief Summary and Statement of Need:
This project will provide funding for the rehabilitation/replacement of the Bristol Bay dock structure and port area. The rehabilitation/replacement of the Bristol Bay Dock will facilitate and support efforts to retain and grow the Bristol Bay region's wealth through providing a cost effective method of transportation to ship the salmon to market. The general obligation bond authorization is considered one-time in nature and is not expected to fully fund the project.

Funding:	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	Total
G/O Bonds	$10,000,000						$10,000,000
Total:	$10,000,000	$0	$0	$0	$0	$0	$10,000,000

☐ State Match Required ☑ One-Time Project ☐ Phased - new ☐ Phased - underway ☐ On-Going
0% = Minimum State Match % Required ☐ Amendment ☐ Mental Health Bill

Operating & Maintenance Costs:

	Amount	Staff
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	
Totals:	0	0

Additional Information / Prior Funding History:
FY2012 - $2 million; FY2010 in SB230 - $5 million; FY2009 - $1.5 million; FY2007 - $400,000; FY2006 - $500,000

Project Description/Justification:
This project will provide funding for the rehabilitation/replacement of the Bristol Bay Dock area.

The Port of Bristol Bay, located at Naknek, in Southwest Alaska, has a single pile-supported dock constructed of steel and concrete in 1982. The dock has a face (width) of 200 feet and is subject to tidal influence, with large barges not able to approach the dock at low tides. The Port has approximately 6 acres of Terminal area. The Port shares a warehouse with Public Works that provides approximately 4,000 square feet of seasonal inside storage and distribution for smaller cargo. An additional 200 x 200 feet sheet pile dock, which was completed in the fall of 2010 provides additional dock face, storage and on the down river section some moorage, parking and amenities for commercial fishing vessels. Fishing vessels "raft" together, as there are no individual berths. Electricity, potable water, restrooms, trash and used-oil disposal are available. The existing pile supported dock has exceeded its useful life.

Bristol Bay is home to the largest sockeye salmon fishery in the world, shipping over 114,410,000 pounds of salmon in 2009 with a value of over $915,280,000. This is the regional hub for Bristol Bay

and services 30 communities in the region. This port provides fuel to over 11 communities within the region and King Salmon Air Force Base. This expansion project will continue to support the economy of Bristol Bay Borough, and the region, by maintaining the capacity to ship tremendous volumes of fish and cargo. The Port of Bristol Bay is a regional port and serves a surprisingly vast area. The expansion improvements will provide a safe work place for Borough employees, as well as, safety for the fishermen that utilize the facility. By the addition of an area specifically for fishermen, it will ease the congestion and increase the capacity of the dock to cater to independent owner/operator processing vessels. Segregating the activity of shippers and fishermen at the port site is also a requirement of the port security requirements under Homeland Security guidelines.

The entire Bristol Bay region depends on this dock for cargo, fuel, and shipment of the valuable fish product produced in Bristol Bay. This dock is the economic engine that supports over 30 communities within Bristol Bay not just the Bristol Bay Borough.

City of Emmonak - Port Improvements

FY2013 Request: **$10,000,000**
Reference No: **46067**

AP/AL: Appropriation
Category: Development
Location: Emmonak
Impact House District: Bering Straits (HD 39)
Estimated Project Dates: 07/01/2012 - 06/30/2017

Project Type: Construction
Recipient: City of Emmonak
House District: Bering Straits (HD 39)
Contact: JoEllen Hanrahan
Contact Phone: (907)465-2500

Brief Summary and Statement of Need:
This project will provide funding for the construction of the Port of Emmonak. This project contributes to the department's mission of promoting a healthy economy and strong communities by providing economic growth in the communities it serves. The general obligation bond authorization is considered one-time in nature and is not expected to fully fund the project.

Funding:	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	Total
G/O Bonds	$10,000,000						$10,000,000
Total:	$10,000,000	$0	$0	$0	$0	$0	$10,000,000

☐ State Match Required ☑ One-Time Project ☐ Phased - new ☐ Phased - underway ☐ On-Going
0% = Minimum State Match % Required ☐ Amendment ☐ Mental Health Bill

Operating & Maintenance Costs:

	Amount	Staff
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	
Totals:	0	0

Additional Information / Prior Funding History:
FY2009 - $516,000

Project Description/Justification:
This project will provide funding for the construction of port facilities in Emmonak to serve the commerce and commercial fishery activities of Emmonak and the lower Yukon region.

The Port of Emmonak would serve the Yukon River Delta, providing direct benefits to the surrounding communities of Alakanuk, Kotlik, and Nunam Iqua. Additionally, Emmonak serves as the transportation hub for the Lower and Middle Yukon River, which includes the communities of Mountain Village, Pitkas Point, St. Mary's, Pilot Station, Marshall, Russian Mission, Holy Cross, Anvik, and Grayling. Emmonak as a regional port would serve a population of over 5,375 residents and a multitude of business activity, including commercial fishing, and energy fuel shipments.

Ketchikan Gateway Borough - Ward Cove Dock Improvements

FY2013 Request: $10,000,000
Reference No: 54883

AP/AL: Appropriation
Category: Development
Location: Ketchikan Gateway Borough
Impact House District: Ketchikan (HD 1)
Estimated Project Dates: 07/01/2012 - 06/30/2017

Project Type: Construction
Recipient: Ketchikan Gateway Borough
House District: Ketchikan (HD 1)
Contact: JoEllen Hanrahan
Contact Phone: (907)465-2500

Brief Summary and Statement of Need:
This project would provide funding for the construction of a dock facility at Ward Cove in Ketchikan, Alaska. This facility would be used by the Alaska Marine Highway System (AMHS), and the National Oceanic and Atmospheric Administration (NOAA) for their moorage facility that is being developed at Ward Cove. This project contributes to the department's mission of promoting a healthy economy and strong communities by providing economic growth in the communities it serves. The general obligation bond authorization is considered one-time in nature and is not expected to fully fund the project.

Funding:	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	Total
G/O Bonds	$10,000,000						$10,000,000
Total:	$10,000,000	$0	$0	$0	$0	$0	$10,000,000

☐ State Match Required ☑ One-Time Project ☐ Phased - new ☐ Phased - underway ☐ On-Going
0% = Minimum State Match % Required ☐ Amendment ☐ Mental Health Bill

Operating & Maintenance Costs:

	Amount	Staff
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	
Totals:	0	0

Additional Information / Prior Funding History:
Ch. 5, SLA 2011, Sec 1, page 101, line 15 - 24 $3,900,000; Ch. 30 SLA 2007, Sec. 20, page 151, line 17 $5,000,000 - AK Capital Income Fund reappropriation

Project Description/Justification:
This project will provide funding for the construction of a dock facility at Ward Cove, located in Ketchikan.

This project would improve and increase mooring capacity at Ward Cove for Alaska Marine Highway System (AMHS) vessels and provide a homeport for National Oceanic and Atmospheric Administration (NOAA) Ship, Fairweather. New mooring facilities would allow AMHS to move most or all of its operations located at the south berth of the Ketchikan shipyard to Ward Cove where AMHS headquarters and operations are located. This project would also assist in the transition of AMHS away from the shipyard property.

Currently the NOAAS Fairweather is without a home port facility. The Ketchikan Gateway Borough encourages the State of Alaska to continue to work with NOAA in redeveloping the Ward Cove Marine Industrial site. Redevelopment of the site with a joint AMHS/NOAA marine facility will relocate AMHS away from south berth to enable Alaska Ship and Drydock to continue its expansion. This

project will continue to further the development and rehabilitation of the Ward Cove area in Ketchikan.

ALASKAN-IZING THE FLEET

Bringing the Coastal Villages Region Fund CDQ vessels home to Alaska

The Program

Coastal Villages Region Fund (CVRF) represents 20 Western Alaska communities, and with 35% of the total assets is the largest of the six Community Development Quota (CDQ) groups. Combined, the groups are a billion dollar business annually, employing 2300 people in wage and salary jobs paying $32 million, with another $25 million in ex-vessel payments to 1500 permit holders and 1700 crew.

CVRF harvests cod, pollock, crab, salmon and halibut in the Bering Sea and Aleutian Islands, and holds over $300 million in CDQ assets.

The Project

Currently, the economic benefits of homeporting largely bypass Alaska in favor of Puget Sound. Given sufficient infrastructure choices ships will follow their owners. The CVRF fleet owners desire to bring their fleet home to Alaska, and have partnered with Seward to further develop the Seward Marine Industrial Center (SMIC) support facilities including:

- Breakwater to protect mooring basin
- 2500' of moorage
- 20,000 sq. ft. of warehouse
- 5,000 sq. ft. of office
- 5-10 acres fenced storage
- Private sector vendors for fuel, provisions, training and services across marine trades.

Why Seward?

- Year round ice-free port
- Road, rail and air access
- Fleet-capable drydock and ship repair
- History of fishing businesses
- AVTEC maritime licensing, training and certification
- Access to marine trades and services across all of South-Central Alaska
- Building onto $30+ million of community bonded basic port infrastructure
- Regulatory process streamlined by adding onto currently permitted SMIC projects and activities
- Existing baseline geotechnical work

"No single port can meet all the fleet's service, supply and repair needs. Seward's location will serve as the ideal hub for access to Anchorage, Cook Inlet, Prince William Sound and Kodiak port resources for the vessels".

Cost and Funding

Initial total cost estimate is $55 million including a 31% contingency, which will be refined and lowered as the design is further developed.

Given the size of the project and the economic importance of Alaskan-izing the CDQ fleet, Seward is pursuing a combination of grant funding and debt service options, including:

- State: AIDEA, Legislative appropriation, Statewide Port Bond Package, ADOT&PF Harbor program
- Federal: USACE, "TIGER" grant, EDA, USDA Rural
- Local bonding
- Private sector w'hse, offices, housing and vessel services

Benefits

In addition to construction jobs, the primary benefit is spending on vessel repair and maintenance and goods and services and jobs created and supported in Alaska rather than in WA.

Savings to CVRF are significant, including airfare to/from Seattle, and exemplified by average fuel savings of $75,000 per vessel per round trip to Seward rather than Seattle. Savings will more than offset the sometimes higher cost of doing business in Alaska, and are expected to increase as economies and efficiencies of scale grow with the relocation.

The harbor improvements will be critical in attracting other new business to Alaska, including exploration and support vessels for Beaufort and Chukchi O&G.

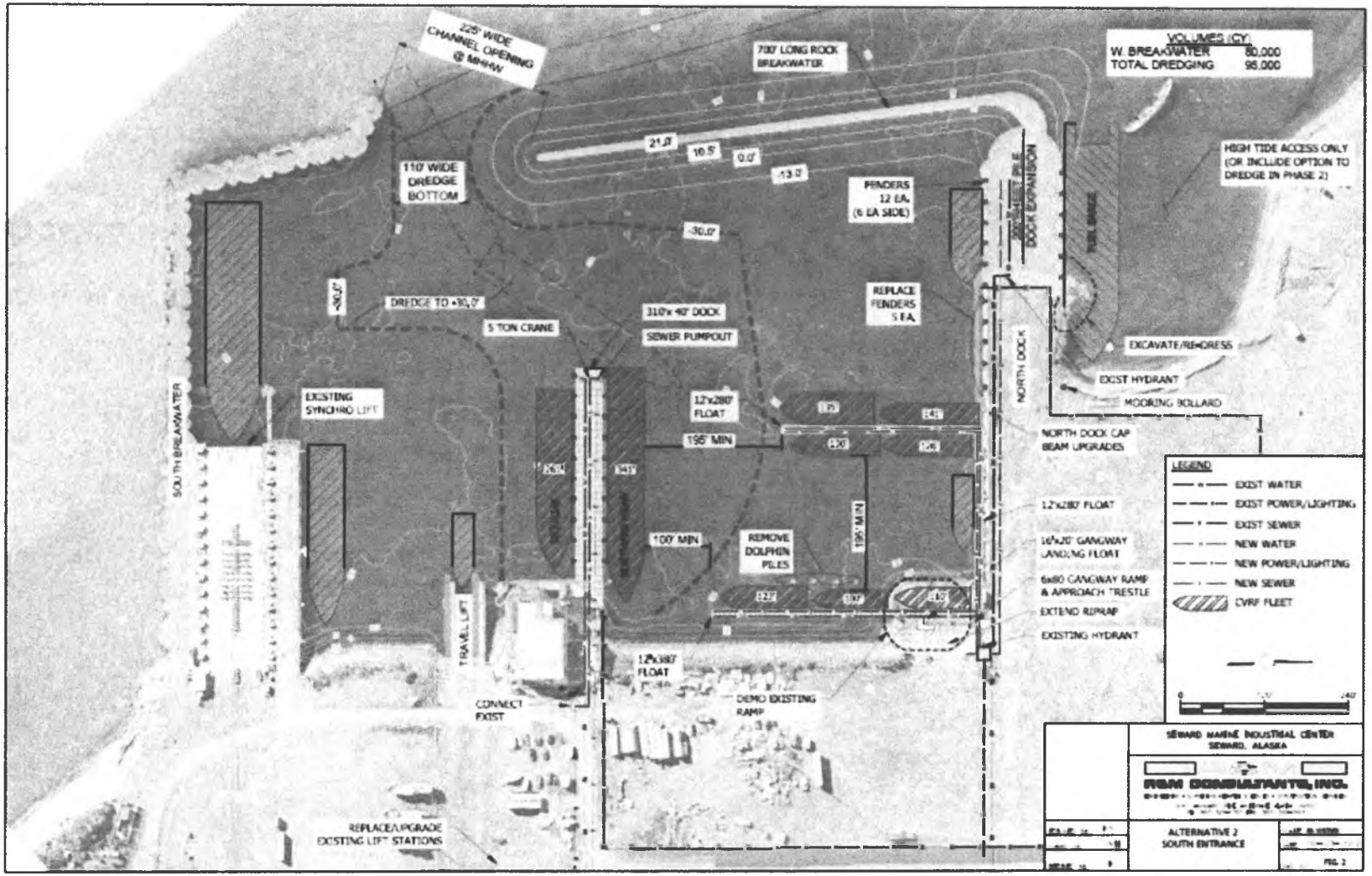
The Future

The economic activity associated with homeporting the CVRF fleet will enable private sector development to existing, new, and new-to-Alaska businesses.

Sales and property taxes and fuel excise taxes will far outweigh moorage charges. These, together with lease fees, will support debt service and ongoing operations and maintenance of the public infrastructure so that future state and federal subsidies are avoided.

This project furthers the late Sen. Steven's vision in the Magnuson-Stevens Fisheries Act and CDQ amendments of achieving sustainable and diversified economies in Western Alaska, as well as bringing significant benefits to the state as a whole.

City of Seward • P.O. Box 167 • Seward, Alaska 99664 • www.cityofseward.us
City Manager Jim Hunt • 907-224-4012 • jhunt@cityofseward.net


225' WIDE CHANNEL OPENING @ MHHW
700' LONG ROCK BREAKWATER
VOLUMES (CY)
W. BREAKWATER 80,000
TOTAL DREDGING 95,000
HIGH TIDE ACCESS ONLY (OR INCLUDE OPTION TO DREDGE IN PHASE 2)
110' WIDE DREDGE BOTTOM
21.0'
10.5'
0.0'
-13.0'
-30.0'
FENDERS 12 EA. (6 EA SIDE)
DOCK EXPANSION
FUEL DOCK
DREDGE TO -30.0'
5 TON CRANE
310'x 40' DOCK
SEWER PUMPOUT
REPLACE FENDERS 5 EA.
NORTH DOCK
EXCAVATE/REHORESS
EXIST HYDRANT
MOORING BOLLARD
SOUTH BREAKWATER
EXISTING SYNCHRO LIFT
12'x280' FLOAT
195' MIN
NORTH DOCK CAP BEAM UPGRADES
100' MIN
REMOVE DOLPHIN PILES
195' MIN
12'x280' FLOAT
16'x20' GANGWAY LANDING FLOAT
6x80 GANGWAY RAMP & APPROACH TRESTLE
EXTEND RIPRAP
EXISTING HYDRANT
TRAVEL LIFT
CONNECT EXIST
12'x280' FLOAT
DEMO EXISTING RAMP
REPLACE/UPGRADE EXISTING LIFT STATIONS
LEGEND
EXIST WATER
EXIST POWER/LIGHTING
EXIST SEWER
NEW WATER
NEW POWER/LIGHTING
NEW SEWER
CVRF FLEET
SEWARD MARINE INDUSTRIAL CENTER
SEWARD, ALASKA
ALTERNATIVE 2
SOUTH ENTRANCE

PORT OF ANCHORAGE
Alaska's Port • Alaska's Future

Fast Facts about Alaska's Port

The Port of Anchorage provides an estimated 90% of the merchandise goods for 85% of Alaska's populated area.

- This includes over 200 villages and rural towns across Alaska
- It is the major point of entry for containerized cargo in Alaska
- Annually, around 240,00 containers move through the Port
- Since 2000, an average of 4 million tons of goods and materials pass through the Port's facilities annually.

The Port of Anchorage is also an important hub for fuel providing:

- 100% of the jet fuel used at Joint Base Elmendorf Richardson
- 65% of the jet fuel used at Ted Stevens International Airport
- 1.4 million gallons of fuel to western Alaska for heating oil, gasoline, and diesel
- It is an important source of gasoline for the Anchorage and Southcentral area.

The Port of Anchorage is a Department of Defense designated National Strategic Seaport, one of only 19 in the national to have such designation.

- Port facilities have supported over 30 deployments since 2005
- Over 18,000 pieces of military cargo have passed through the Port over the past 7 years.

The Port of Anchorage is an economic engine for Alaska and is essential to the distribution of goods throughout the state.

- Over $700 million annually in economic impact to the state
- $50 million aggregate annual payroll from Port Stakeholders
- Over 3,600 vehicles move through port per day when containerships are offloading.
- Nearly 100 million pounds of goods pass through the port annually which are distributed across the state as bypass mail

Expansion Project Facts

Expansion Facts

The Port is 50 years old and in a deteriorated condition. The facilities require costly annual repairs, and are vulnerable to failure during a high magnitude earthquake.

The expansion project will create:

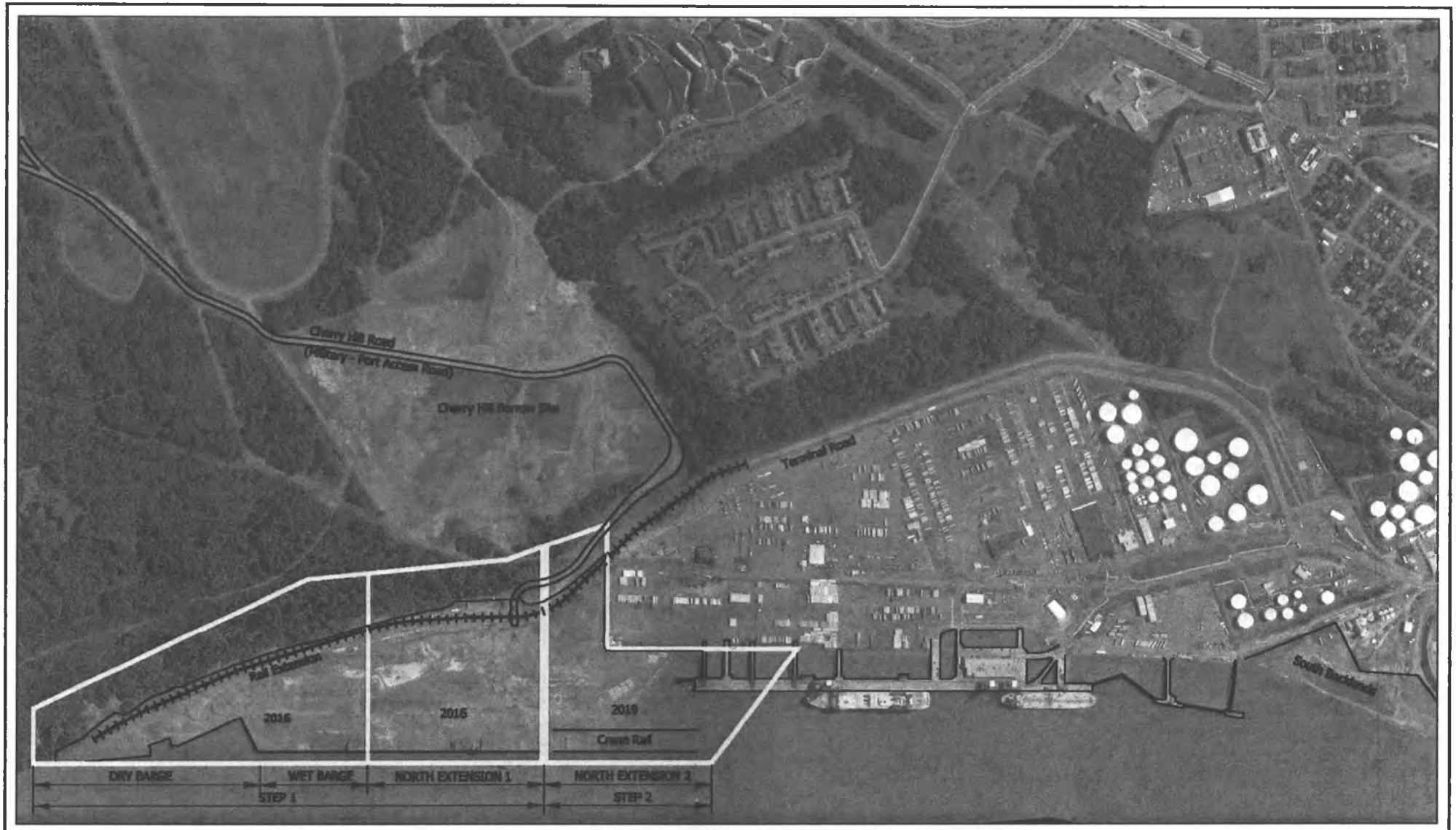
- 2 new barge berths
- 2 new large cargo vessel ship berths
- Deeper draft for modern vessels, larger spacing between berths.
- 65 acres of new land for commercial/industrial use
- Improved seismic capacity
- Secure access to Joint Base Elmendorf-Richardson

Creating Jobs

- Growth in business at the expanded Port will provide for jobs around the state and advantages in the rural areas. Construction, energy projects, pipeline, etc.
- Many craft jobs will be required to complete this important infrastructure project including iron workers, electricians, carpenters, pile bucks, truck drivers, laborers, plumbers, concrete workers, and more.
- Over 200 companies involved in project from 2005 – 2011
- Moving forward, the project will require more than 200 jobs annually.

Project Management

We have made major changes to ensure that future construction work will be completed successfully. Last fall, the Municipality signed a new agreement with the Maritime Administration that will hand over all contracting, design and construction responsibilities to the Municipality or their designee by the end of May, a significant change from the previous form of project management. The agreement also formalized an oversight committee that meets on a weekly basis.

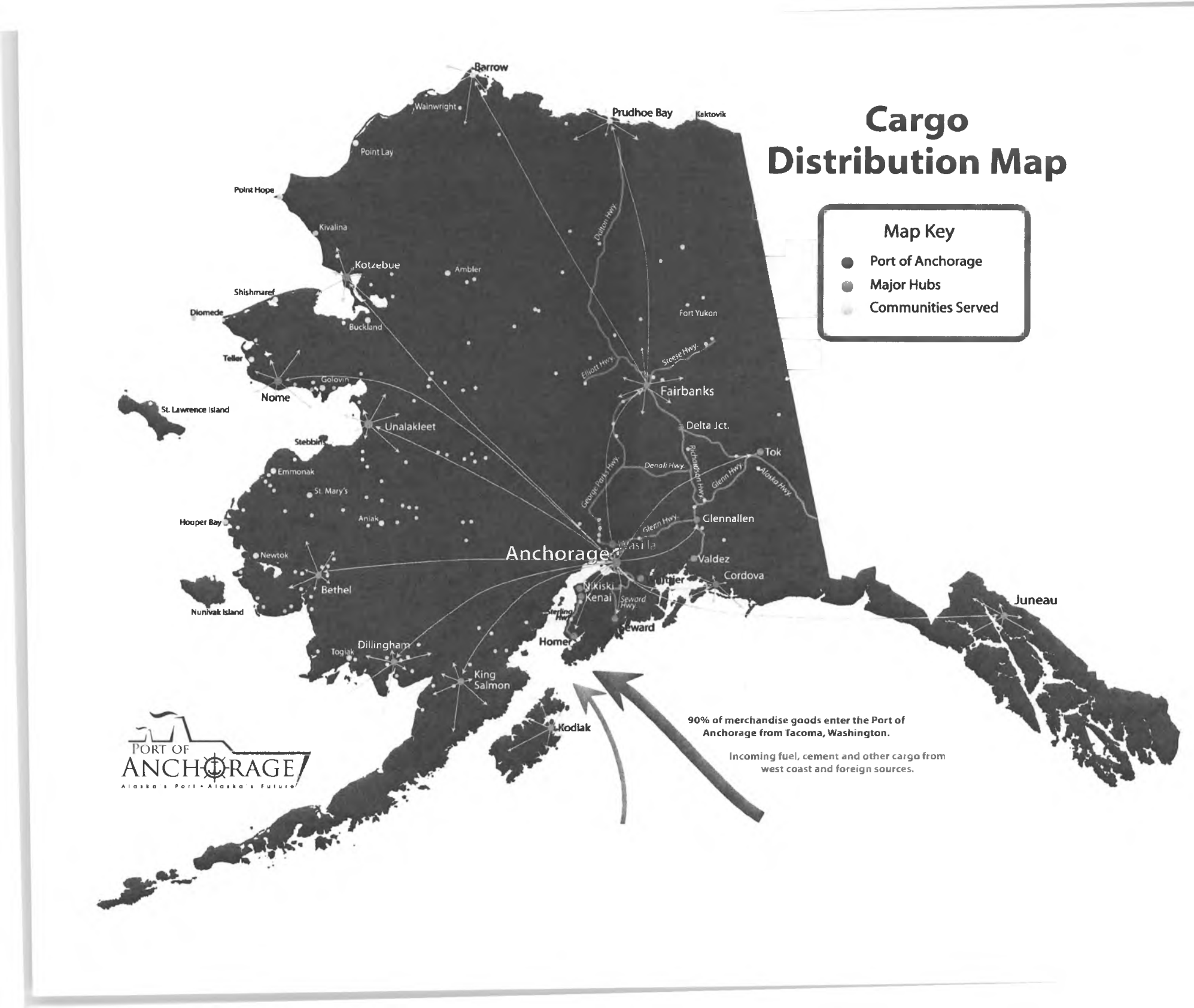


* Assumes full funding

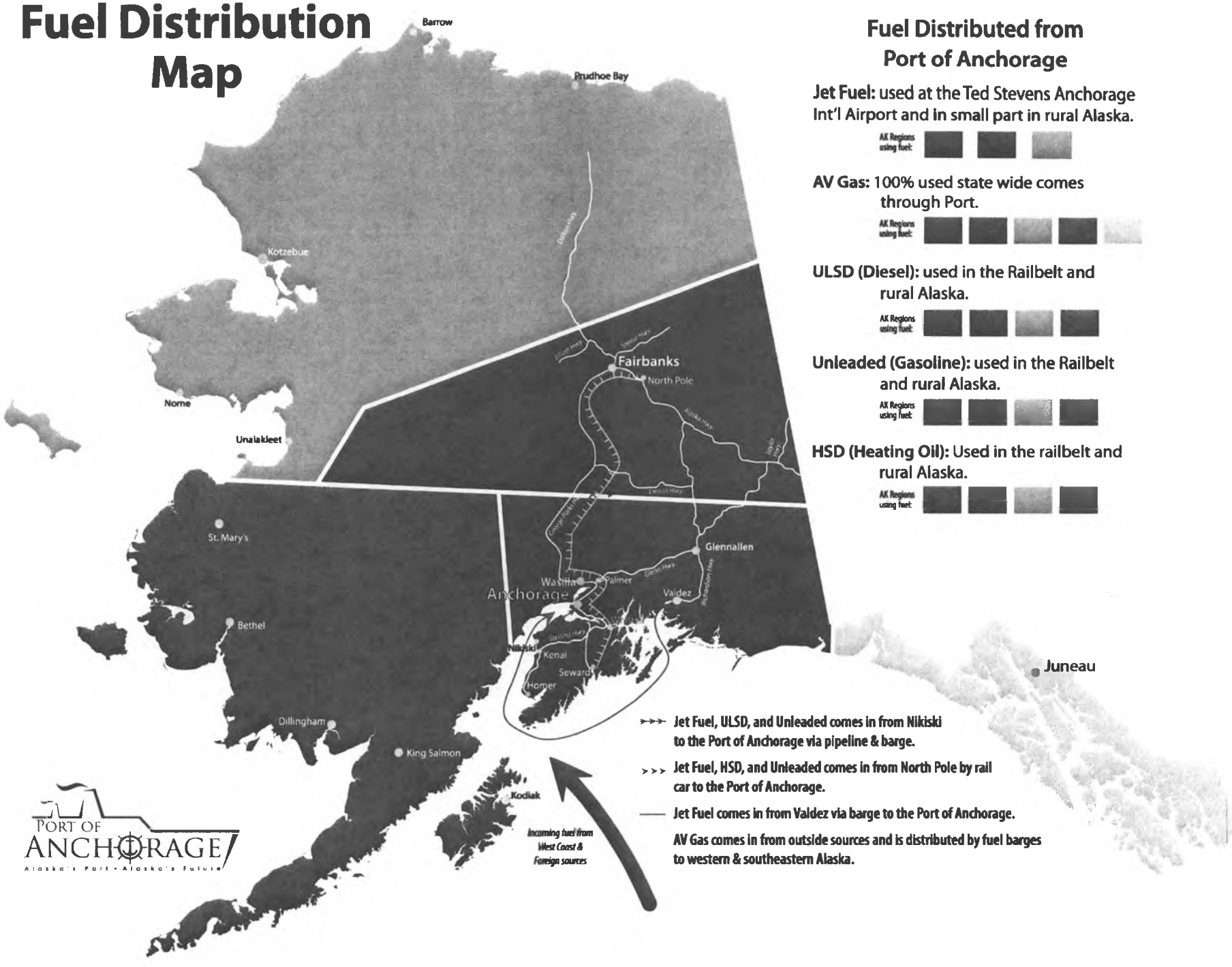
AUG 30, 2011

Intermodal Expansion Project Phasing Plan

PORT OF ANCHORAGE


Cargo Distribution Map
Map Key
Port of Anchorage
Major Hubs
Communities Served
Barrow
Wainwright
Prudhoe Bay
Kaktovik
Point Lay
Point Hope
Kivalina
Kotzebue
Ambler
Shishmaref
Diomede
Buckland
Teller
Golovin
Nome
St. Lawrence Island
Unalakleet
Stebbins
Emmonak
St. Mary's
Hooper Bay
Aniak
Newtok
Bethel
Nunivak Island
Dillingham
Togiak
King Salmon
Kodiak
Homer
Seward
Anchorage
Wasilla
Nikiski
Kenai
Valdez
Cordova
Juneau
Fairbanks
Fort Yukon
Delta Jct.
Tok
Glennallen
Dalton Hwy.
Elliott Hwy.
Steese Hwy.
George Parks Hwy.
Denali Hwy.
Richardson Hwy.
Glenn Hwy.
Alaska Hwy.
Seward Hwy.
90% of merchandise goods enter the Port of Anchorage from Tacoma, Washington.
Incoming fuel, cement and other cargo from west coast and foreign sources.
PORT OF ANCHORAGE
Alaska's Port • Alaska's Future

Fuel Distribution Map



Fuel Distributed from Port of Anchorage

Jet Fuel: used at the Ted Stevens Anchorage Int'l Airport and in small part in rural Alaska.

AK Regions using fuel:

AV Gas: 100% used state wide comes through Port.

AK Regions using fuel:

ULSD (Diesel): used in the Railbelt and rural Alaska.

AK Regions using fuel:

Unleaded (Gasoline): used in the Railbelt and rural Alaska.

AK Regions using fuel:

HSD (Heating Oil): Used in the railbelt and rural Alaska.

AK Regions using fuel:

➤➤➤ **Jet Fuel, ULSD, and Unleaded comes in from Nikiski to the Port of Anchorage via pipeline & barge.**

➤➤➤ **Jet Fuel, HSD, and Unleaded comes in from North Pole by rail car to the Port of Anchorage.**

— **Jet Fuel comes in from Valdez via barge to the Port of Anchorage.**

AV Gas comes in from outside sources and is distributed by fuel barges to western & southeastern Alaska.

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Alaska's Lifeline

Cargo Distribution Patterns from the Port of Anchorage to Southcentral, Northern, Western and Southeast Alaska

PORT OF ANCHORAGE

Alaska's Port • Alaska's Future

University of Alaska Anchorage
College of Business & Public Policy
Department of Logistics
and
Port of Anchorage
Municipality of Anchorage

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Anchorage, Alaska 99501
Phone: 907-343-6200
Fax: 907-277-5636
www.portofalaska.com

February 2011

EXECUTIVE SUMMARY
PORT OF ANCHORAGE CARGO DISTRIBUTION STUDY

The sources for the data in this executive summary are extensively referenced in the body of this study.

Goods shipped through the Port of Anchorage (POA) reach almost every Alaska community making the POA arguably one of the most important infrastructure facilities in the State of Alaska. The data presented in this report shows the entry points and distribution channels of critical cargoes that drive Alaska's economy and bring Alaskans the consumer goods and business supplies essential to the state's economy and daily life.

For the vast majority of Alaskans, the Port of Anchorage **is** Alaska's Port. The annual cargo entering the Port of Anchorage accounts for 90% of the merchandise goods used by Alaskan communities west of Cordova. This study will help inform public policy decision at the state and federal level to determine the level of public support that is justified for the Port expansion project.

Nearly all of the container goods that make up the day-to-day items used by Alaskans originate in shipments from the Port of Tacoma to the Port of Anchorage (POA). These shipments represent a critical lifeline for Alaska and amount to nearly 30 percent of Tacoma's total cargo activity. The total value of these goods is estimated to be well over $1 billion annually according to a study by the Port of Tacoma and the Seattle Chamber of Commerce.

Once these cargos enter Alaska through the Port of Anchorage, they are distributed throughout the Railbelt by truck, train, and to rural Alaska by air and barge. Ninety percent of the goods delivered to Fairbanks and the Mat-Su area originate in shipments through the Port of Anchorage as do seventy-five percent of the goods consumed in Western and Northern Alaska. A substantial amount of POA originated cargo is shipped via air freight to Southeast Alaska and 28.5 million pounds of US Postal Service Standard mail arrives in the state annually through the Port.

The POA is also a major entry point for fuel. On average, two-thirds of the fuel for air carriers at Ted Stevens Anchorage International Airport, and two-thirds of the fuel used by the US military and federal government agencies in Alaska, are delivered through the Port. This includes 100 percent of the jet fuel for Elmendorf Air Force Base and Fort Richardson- now Joint Base Elmendorf-Richardson (JBER). Smaller aircraft around the state are particularly dependent on Port operations because all in-state aviation gasoline (avgas) passes through the Port. Additionally 90 percent of the fuel Alaskans use to operate their vehicles and water craft originates in POA deliveries.

The Port of Anchorage is the only port in Southcentral that has the capability to offload bulk cement in unsacked powder form. As a result, over 80 percent of the cement used for concrete construction in the state comes into the Port annually, enough to build a four foot wide sidewalk from Homer to Barrow and back.

The Port is essential to the Armed Forces and was designated one of only 19 National Strategic Seaports by the Department of Defense. The US Armed Forces have staged over 20 military deployments through the Port of Anchorage in the past 10 years, including Stryker Brigade deployments to Iraq and Afghanistan. In a 2009 letter to the U.S. Secretary of Transportation, Raymond LaHood, U.S. Senator Daniel Inouye calls the Port of Anchorage "vital to our nation's defense" citing its service to all five military bases saying "the port is essential in serving the thousands of Army and Air Force personnel that call Alaska home." He continues on to say that "without the Port of Anchorage, these key military bases and activity would be out of business."

The Port of Anchorage makes a substantial contribution to Alaska's economy not only through the goods and cargoes which enter the port, but also through jobs and associated payroll. Total payroll at the Port for direct operations exceeds $53 million per year. An additional $20 million dollars per year in construction wages supports around 500 jobs and is expected to continue through 2021. The associated railroad, trucking and air cargo operations (delivering Port of Anchorage sourced goods at the regional air hubs of Fairbanks, Bethel, Nome, Dillingham, Kotzebue and Barrow) also make a significant contribution to many local economies.

Four container ships per week supply the vast majority of consumer goods and business supplies to Alaskans. In the course of this study we discovered that most retail companies, non-profits and government agencies reported that they would reach a crisis mode within two weeks if service was disrupted.

This study also identifies some of the issues that could substantially increase operating costs within the distribution system, and ultimately, the cost of goods to Alaska consumers. One example is increased fees and tariffs to pay for the Port of Anchorage Intermodal Expansion Project should local bonding be required. Federal issues include proposed changes to the bypass mail system, elimination or reduction of the Essential Air Service Program, new requirements for marine vessels to use ultra-low sulfur diesel, and any initiation of federal container taxes. Each of these issues could have a significant impact on the cost of goods to Alaskans.

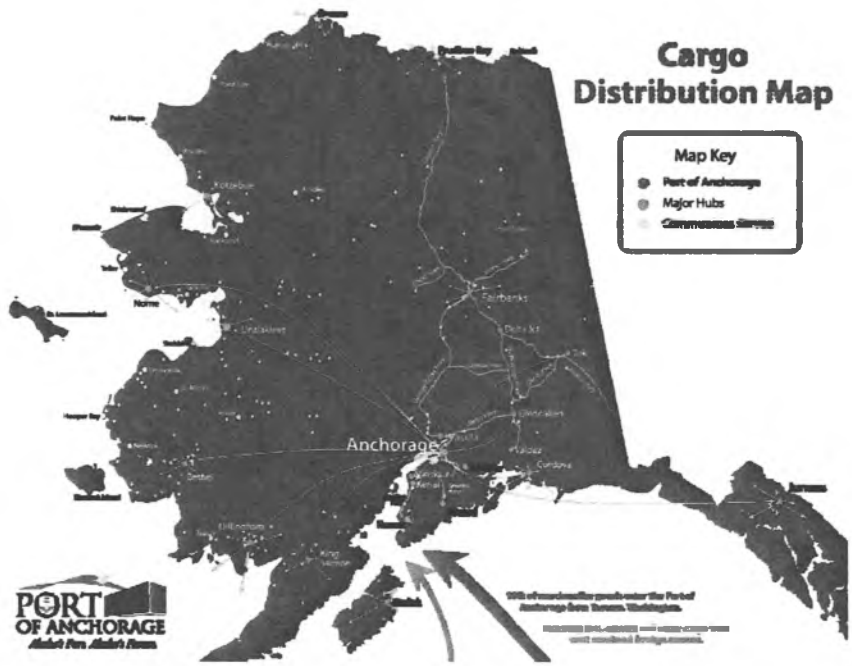


TABLE OF CONTENTS

ABBREVIATIONS

AEDC – Anchorage Economic Development Corporation
ARRC – Alaska Railroad Corporation
ASIG – Aircraft Service International Group
AS&G – Anchorage Sand and Gravel
CIRI – Cook Inlet Region Incorporated
DLA – Defense Logistics Agency
DOD – Department of Defense
ECA – Emissions Control Area
Horizon – Horizon Lines, Inc.
IMPLAN – Impact M for Planning, a multiplier for economic impact calculation developed by the US Department of Agriculture Forest Service
ISER – Institute of Social and Economic Research, University of Alaska
JBER – Joint Base Elmendorf-Richardson
LO/LO – lift-on/lift-off operations
MLLW – Mean Lower Low Water
PANAMAX – The maximum sized vessel that will fit through the Panama Canal
POA – Port of Anchorage
POL – Petroleum Oils and Lubricants
RO/RO – roll-on/roll-off operations
TOTE – Totem Ocean Trailer Express
ULSD – Ultra-Low Sulfur Diesel
USCG – United States Cost Guard
USPS – U.S. Postal Service

STUDY PURPOSE AND METHODOLOGY

The purpose of this study is to describe the distribution patterns of goods which enter the Port of Anchorage (POA) and are delivered to Southcentral, Interior, Northern, Western and Southeast Alaska. The information from this study is intended to inform the general public and public policy makers on the importance of the Port's operations to Alaska's people and businesses.

The study methodology was to collect all available and relevant data on incoming volumes of cargo entering the Port of Anchorage utilizing published documents, port data and interviews with port operators. The final cargo destinations within Alaska and the patterns of freight distribution were further determined through interviews with freight forwarders, trucking, railroad and air freight operators along with retail and government related customers.

To better illustrate the patterns of freight distribution, the data was arranged according to the following tiers:

I. The first tier consists of shipping companies and operators who deliver cargo to the POA including containerized cargoes of consumer goods and business supplies, fuel, cement, construction materials, military equipment, building materials, automobiles and commercial vehicles.

II. The second tier is made up of trucking and rail operations which move goods from the POA to a secondary location. There they are either delivered directly to retail markets or consolidated and shipped via a third tier transporter to a further destination.

III. The third tier is comprised of air cargo carriers and barge operators who ship consolidated freight to hub airports and local harbors via bypass mail, air freight and barge operations. Once received at a hub airport or harbor, the freight is then further broken down for delivery by smaller air carriers or barge shippers for final delivery to rural villages.

IV. The fourth tier includes those goods delivered to the Port of Anchorage and then transshipped to Kodiak, Dutch Harbor and Western and Northern Alaska by container ship and barge. This includes consumer goods and business supplies, fuel, construction materials, automobiles and commercial vehicles.

Data on incoming fuel, cement and military supplies were also analyzed to determine their sources and patterns of distribution.

The Port is committed to treating any proprietary data in a confidential manner and informed study participants that such data would be aggregated to ensure confidentiality. As a result, much of the data is described in overall terms or percentages, nevertheless it clearly indicates the patterns of distribution.

The total payroll of Port stakeholders was collected from operators to help illustrate the economic impact of direct Port operations on Alaska's economy. This data was aggregated into a total payroll amount and was interpreted by Dr. Darren Prokop, UAA Professor of Logistics. The Alaska Trucking Association and the Alaska Association of Air Carriers provided additional information to help assess the value of trucking and air cargo operations to Alaska's economy.

In the course of interviewing participants in the distribution chain, issues of concern were raised that could affect the cost of delivery of goods throughout Alaska including the costs of developing the Port if local bonding were required, changes or reductions in the bypass mail system, requirements for marine vessels to use ultra-low sulfur diesel fuel, and any change in container taxes. These concerns are addressed at a cursory level towards the end of this study.

Participants also identified several inefficiencies in current Port operations that could be improved as a result of the new Port design. This information is contained in *Commodity Details and Port Efficiency Issues* on page 15.

Participants were asked to identify the impact on their businesses should there be any disruptions to Port of Anchorage operations. A summary of their responses is contained on page 18 under *Interruption of Service.*

This study was sent in draft form to all participants for review to identify any omissions or errors. A complete list of companies interviewed for this study can be found on page 25.

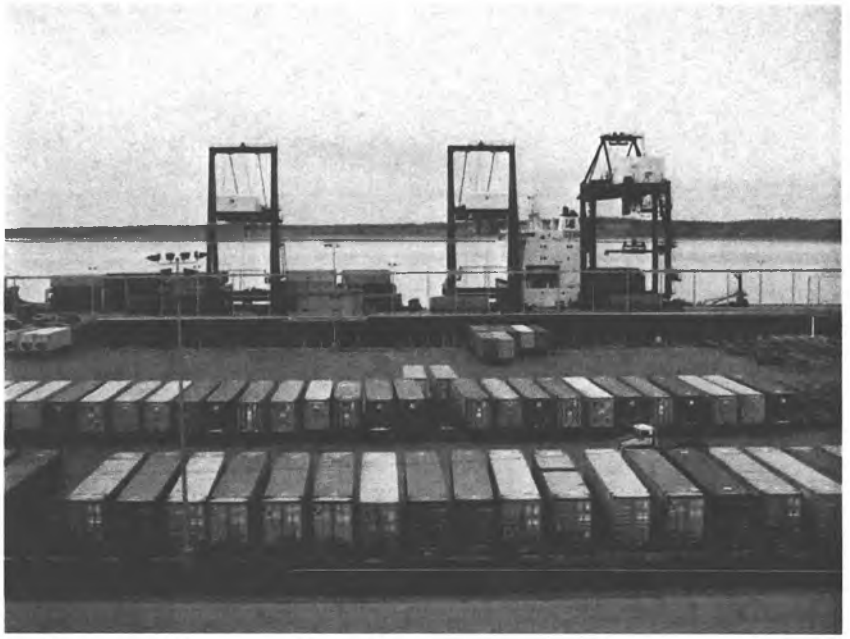
ABOUT THE AUTHORS

This study was conducted under the supervision of Dr. Darren Prokop, Professor of Logistics at the College of Business and Public Policy at the University of Alaska, Anchorage (UAA). Primary research for the project was conducted by Paul Fuhs under the supervision of the Port of Anchorage. The project was assisted by University of Alaska Anchorage student interns Duke Kahumoku (majoring in Political Science) and Grigory Kalugin (majoring in Logistics).

A NOTE FROM THE AUTHORS

The authors would like to thank all the companies who participated in this study. Their cooperation was freely given and their support is very much appreciated. Too often this sector of our economy is taken for granted as essential items appear each week on the shelves without any thought as to how they got there.

This study contains data and statistics, which when taken together, are quite remarkable. As different sectors of the industry were interviewed, it became apparent that behind the numbers there are very real Alaskans, all pulling their weight in a complex and sometimes dangerous system that requires each leg to work all the time, every time, in order to be successful. This silent, steady system is what keeps Alaska's economy alive, its what keeps food in the house and pencils on the desks. This study is a way of recognizing what these companies and people do for the citizens of Alaska every day.



BACKGROUND ON CURRENT PORT OPERATIONS AND PORT REDEVELOPMENT PLANS

The current Port facility has four ship berths and a published draft depth of -35 ft mean lower low water (MLLW) which easily accommodates ships requiring 30 feet of draft. The two northern berths are container ship berths used primarily by Horizon Lines and Totem Ocean Trailer Express (TOTE). A container ship from each of these companies travels from the Port of Tacoma to call on the POA twice a week on Tuesdays and Sundays. TOTE offloads their cargo via Roll-on/Roll-off (RO/RO) facilities while Horizon Lines uses three 38-foot gauge container cranes to lift containers on and off their ships. These container berths are also used to accommodate cruise ship vessels during summer months and other vessels as needed. The two berths on the south end of the dock are for bulk cargo (cement) and petroleum oil and lubricants (POL). These berths accommodate fuel tankers, fuel barges, and dry bulk carriers.

The Port occupies 129 acres with 81 acres leased to long-term users and 31 acres used as transit storage for cargo including fuel tanks and cements silos. These same areas are occasionally designated for use by the Department of Defense to stage military deployments. The Alaska based U.S. Coast Guard Maritime Safety and Security Team is home ported at the POA with 75 personnel and multiple emergency response vessels.

The POA is involved in a major project to replace aging and deteriorated facilities that were built up to 50 years ago and are at risk of catastrophic failure in the event of a major earthquake[1]. The Port of Anchorage Intermodal Expansion Project began in 2002 and upon completion will add 1,700 ft of linear dock space, creating 7 functioning ship berths, two public barge berths, and an additional 135 acres of land which can accommodate industrial development activities. The project increases the operating depth of the Port to -45' MLLW and is expected to reduce dredging costs. The expansion project must be constructed in phases with new operational sections completed before abandoning the current facilities to ensure that there is no disruption of service.

Several areas of the new facilities are constructed to withstand the worst case expected earthquakes based on past history of seismic activity. They are designed to operate for 50 years without any major maintenance and an overall useful life of 75 to 100 years. The expanded facilities will also address a number of inefficiencies inherent to the current facilities which are described in this report.

[1] R&M Consultants, Inc. *Seismic Vulnerability Report.* (2009).

The Port of Anchorage operates on a self-sustaining basis. Port tariffs and fees pay for all operations and maintenance of the facility, along with a small reserve fund. This steady fiscal performance qualifies the Port for a $75 million line of credit used as part of the Port's match to state and federal funds in the ongoing expansion project.

FINDINGS OF THE STUDY

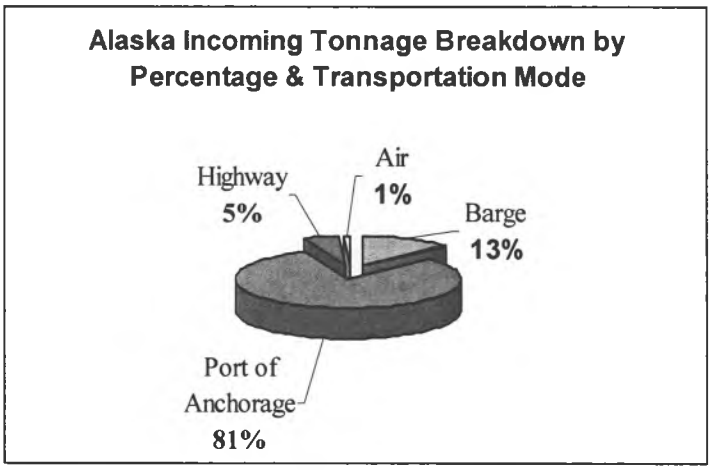
TIER I: ANNUAL INCOMING CARGO AND ORIGIN OF SOURCES

In 2009, the baseline year for complete data, the Port of Anchorage received 4,370,000 tons of cargo (8.74 billion pounds) comprised of containerized consumer goods and business supplies, US mail, fuel, construction materials, drill pipe, cement for concrete, automobiles, and military equipment.[2]

An additional 706,000 tons of annual cargo deliveries, most by barge, do not pass through the POA, but enter Southcentral Alaska through the Alaska Railroad Corporation's rail barge operations in Seward and Whittier and through barge deliveries to North Star Terminal and Stevedoring and the Swan Bay dock. These are primarily outsized and overweight loads and bulk construction supplies.[3] Around 325,000 tons of goods enter the Railbelt through trucking and airfreight.

Railbelt Alaska Incoming Tonnage Breakdown: Percentage by Facilities[4]

There are four ways of delivering goods to the Alaska Railbelt: container ship, barge, trucks, and air freight. Each delivery method is displayed by percentage in the following chart according to data from the Alaska Rail Road Corporation.



[2] Port of Anchorage, 2009 Annual Port Tonnage Report
[3] Personal Interview, September, 2010, Alaska Rail Road Corporation
[4] Personal Interview, September, 2010, Alaska Rail Road Corporation & 2009 Annual Port Tonnage Report

POA LO/LO and RO/RO Operations

Container crane lift on/lift off (LO/LO), and roll-on/roll-off (RO/RO) operations account for 1,820,000 tons annually, (120,000 incoming containers annually, or about 10,000 containers per month.)[5] TOTE's RO/RO operations also allow for the delivery of oversized loads, or just about anything that can be put on wheels.

POA container crane and RO/RO cargo is primarily comprised of consumer goods and business supplies, construction materials, and vehicles. This represents 90 percent of Railbelt and interior merchandise cargo and business supplies shipped to Fairbanks, Mat-Su and the Kenai Peninsula.[6] **Origin of Cargo:** Port of Tacoma

Non POA Barge Cargoes

Around 706,000 tons of annual cargo does not pass through the POA, but is instead transported by barge to Seward, Whittier, and private docks in Anchorage. These cargoes are mostly bulk but can also be containerized and are primarily materials such as chemicals, sack cement, grain products, construction goods, heavy industrial loads, oversized items and fuels. There are several different types of barges that use the facilities listed above including rail barges, with regular weekly service between Seattle or Price Rupert depending on the company, and fuel barges. **Origin of Cargo:** Seattle, Prince Rupert, BC

Fuel

Eleven million barrels[7] (or 462 million gallons) of refined petroleum products move through the Port of Anchorage annually on a regular basis including:

- Two-thirds of the jet fuel used at Ted Stevens Anchorage International Airport
- Two-thirds of all fuel used by military and federal agencies in Alaska
- 100 percent of the jet fuel used by Elmendorf Air Force Base
- 90 percent of the fuel used by vehicles, watercraft and general aviation aircraft in Railbelt Alaska
- 100 percent of the aviation gasoline used statewide (including Southeast Alaska)

Origin of Cargo: Flint Hills Refinery, Tesoro Refinery, Petrostar Refinery, domestic and international ships and vessels.

[5] Port of Anchorage, 2008 Annual Tonnage Report
[6] 1999 VZM TranSystems Corp/Northern Economics, *Port Master Plan*, Page 1.C 14
[7] Port of Anchorage, Annual Dock Tonnage 2001 - 2010

Cement

An estimated eighty percent of the cement for manufacturing the concrete used in Anchorage, Fairbanks, Mat-Su, the Kenai Peninsula and the road system is delivered through the Port of Anchorage by the company Alaska Basic Industries, a division of Anchorage Sand and Gravel (AS&G).[8] Other barge operations deliver an additional 20,000 tons per year. In some cases, cement is distributed from the POA to rural areas via air freight from Ted Stevens Anchorage International Airport. To date, 78 Alaskan communities throughout the State, including the North Slope, have received cement through this distribution method.
Origin of Cargo: Korea, China, Thailand

Automobiles and Commercial Vehicles

About ninety-five percent of new private, commercial, and military automobiles and trucks bound for the Railbelt come through Port of Anchorage. On average, 50,000 vehicles pass through the POA annually.[9] **Origin of Cargo:** Port of Tacoma

Military Cargo

In addition to the fuel, military operating supplies and equipment, commissary groceries, and base/post exchange consumable and durable goods items provided through the Port of Anchorage. In a 2011 letter to Alaska's Congressional delegation, Lieutenant General Dana Atkins, Commander of Alaska Command wrote "The Port of Anchorage is not only the strategic hub for military deployments and operations, it is also one point of throughput for the commodities we stock in our base exchanges, commissaries and troop stores in support of 55,000 military and family members in Alaska."

In the past ten years the Port has supported over 20 military deployments, including deployments to Iraq and Afghanistan. Lieutenant General Atkins writes "Since 2005 almost 18,000 pieces of military cargo in the form of combat vehicles, weaponry, and support equipment have passed through the Port. Our ability to project this power to combat theaters around the globe depends heavily upon sealift through the Port of Anchorage."[10]

USPS Mail

Twenty-eight and a half (28.5) million pounds of US "standard mail" is delivered annually through the Port of Anchorage.[11] **Origin of Cargo:** Port of Tacoma

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[8] Personal Interview, Alaska Basic Industries, October, 2010.
[9] Phone Interview, Wrightway Auto Carriers, October, 2010.
[10] Letter from Lieutenant General Dana T. Atkins to the Alaska Delegation, February 9, 2011.
[11] Phone Interview, U.S. Postal Service, October, 2010.

Bulk Shipments and Construction Materials through POA

These include general construction materials, drill pipe for the North Slope and industrial structural elements. If Cook Inlet Region Incorporated (CIRI) moves forward with it planned wind energy project on Fire Island, the towers are expected to arrive in Cook Inlet by ship and be delivered to the POA for transfer by barge to Fire Island. This will be facilitated by the Port's dry barge landing facility.
Origin of Cargo: Seattle, Tacoma and International sources.

TIER II: PRIMARY DISTRIBUTION TO ANCHORAGE, INTERIOR AND RAILBELT ALASKA

Trucking operations make deliveries directly to large and small retail stores in the Anchorage bowl. Trucks also deliver containers to freight consolidators and warehouses in Anchorage who further break down the cargo for smaller deliveries.[12]

Nearly 90 percent of consumer goods and business supplies for Fairbanks, Mat-Su, and the Kenai Peninsula first enter through the Port of Anchorage. The goods are primarily transported as follows:

- 60 percent intermodal transfer to ARRC for rail transport
- 40 percent delivered by trucking operations[13]

Standard US mail shipped through the Port of Anchorage is delivered by truck to the USPS sort operation near the Ted Stevens Anchorage International Airport. After sorting, it is delivered locally by mail carriers and statewide by truck and air operations. Fuel and cement are delivered directly by truck and railcar to customers throughout the state while cement is also delivered to remote locations by air freight. Construction materials and automobiles are delivered directly by truck.

These trucking operations have a substantial impact on Alaska's economy. The American Transportation Research Institute reports that in 2008, 603 Alaska trucking companies provided 19,955 jobs.[14]

[12] Personal Interview, Alaska Trucking Association, November, 2010.
[13] Personal Interview, Alaska Rail Road Corporation, September, 2010.
[14] American Transportation Research Institute & Alaska Trucking Association, *Alaska Fast Fact.*, (2011)

TIER III: SECONDARY DISTRIBUTION OF CONSUMER GOODS AND BUSINESS SUPPLIES FROM THE PORT OF ANCHORAGE TO RURAL AND SOUTHEAST ALASKA

Surface and Air Transport of Goods

Goods designated for shipment to rural Alaska are transported primarily by trucks to distribution warehouses as stated under the second distribution tier. These warehouses and distribution centers consolidate the goods which are then further distributed to air freight and bypass mail carriers for transport to rural areas. The volume of consumer goods transported through this method is significant. According to a 2006 Northern Economics study, 75 percent of total goods move to rural Alaska through bypass mail.[15]

Air cargo and related passenger flight operations make a substantial contribution to Alaska's economy. According to the Alaska Air Carriers Association, there are 304 commercial operators in Alaska with 47,000[16] people employed in Alaska aviation. The amount of airfreight per person in Alaska is 39 times higher than the US average, amounting to almost one ton per person per year.[17] Air cargo shipments of POA originating goods are also made year round to resource development projects such as Red Dog Mine, Donlin Creek Mine, the North Slope, etc.

According to Alaska Airlines Air Freight, a "substantial" amount of POA originating cargo is sent to the Southeast Alaska communities of Cordova, Juneau, Wrangell, Petersburg, Sitka and Ketchikan. Once the cargo is delivered to these hub communities, smaller air carriers further distribute this Anchorage originating cargo to more remote villages in Southeast.[18]

Bypass Mail

Bypass mail plays a crucial role in delivering consumer goods to Western and Northern Alaska. Cargoes originating from the Port of Anchorage are delivered by truck or rail to the primary air cargo hubs of Anchorage, Fairbanks and Deadhorse. From there this cargo is flown either to the regional hubs of Bethel, Nome, Kotzebue, Dillingham, and Barrow, or flown directly to the villages. The U.S. Postal Service reports that these shipments total almost 100 million pounds per year, with 1.5 million pounds of bypass mail being shipped from Anchorage and 750,000 lbs shipped from Fairbanks every

[15] Northern Economics, *Port of Anchorage Consolidation & Distribution Study,* 2006.
[16] Alaska Department of Transportation & Public Facilities Commissioned Study, *The Economic Contribution of the Aviation Industry to Alaska's Economy,* 2008.
[17] Alaska Air Carriers Association, *Alaska Aviation Facts*, 2009.
[18] Specific cargo amounts and percentages are not available since one carrier, Alaska Airlines, flies almost all of this cargo and to publish it would reveal proprietary information.

week.[19] An additional 10 percent of cargo is flown at the full tariff air freight rate. Standard US Mail shipped through the Port of Anchorage is also delivered by air to rural Alaska.

Bypass mail provides a lower cost to consumers since air cargo is charged at "postage stamp rates" which means that cargo moves at $0.38 per pound regardless of which community it is shipped to, similar to the way a letter is charged the same rate regardless of where you are sending it. To send that same freight from Anchorage to Bethel via air freight or at standard postal rates for instance, would cost nearly twice that much. To send it to the outlying villages could cost up to 6 times that amount. The USPS pays for the difference in those prices which amounts to a "subsidy" of over $100 million per year.[20]

Bypass mail is organized into two categories:

1. Service to hubs; in planes fully loaded with cargo, or by combi service (a Boeing 737 configured for half freight in totes and half passengers) as offered by Alaska Airlines. These hubs are a legacy of the old postal hub communities. The number of providers is limited to those carriers who have provided this service in the past and have the capacity for hauling a minimum of 7,500 pounds.

2. Service to villages: Cargo is flown in conjunction with passenger flights on smaller aircraft that have at least 20 percent of the passenger market in those communities. In many cases the revenues from bypass mail are what keep these airlines serving these communities.

There is discussion within USPS of moving these hubs to communities that they estimate would be more efficient locations for them. However, this would require significant state expenditures to upgrade these airports, while current hubs have seen substantial improvements in their capabilities. Airports like Bethel, the second busiest airport in Alaska, are considering moving to a 24/7 schedule to accommodate all of their nighttime traffic in a safe and efficient way.[21] Any reductions in bypass mail service would impose a significant burden on people living in the villages who are already struggling to make ends meet due to the high cost of goods and energy.

[19] Phone Interview, USPS, October 2010.
[20] Personal Interview, Alaska Commercial Company, October, 2010.
[21] Personal Interview, Airport Manager, Bethel Airport, November, 2010.

TIER IV: CARGO TRANSHIPPED VIA WATER TO RURAL ALASKA

A significant amount of Western Alaska bound cargo is shipped by container vessel to Anchorage and then loaded to barges destined for Western Alaska. One of the barge operators serving western Alaska estimates that 25 percent of their cargo is transshipped via the Port of Anchorage. The remaining 75 percent of barge cargo is sourced directly out of Seattle.[22]

Horizon Lines has direct container service to Kodiak and Dutch Harbor/Unalaska. These ships carry cargo from the Port of Tacoma, discharge most of their cargo in Anchorage, take on additional cargo for Kodiak and Dutch Harbor and then return to Tacoma after making those port calls. They take Asian destination frozen fish from Southcentral and Kodiak to Dutch Harbor where it is loaded onto container ships headed for foreign destinations. Frozen fish from Kodiak and Dutch Harbor are backhauled to Tacoma for distribution to domestic markets.

Several consolidators and large scale retailers, such as Alaska Commercial, repackage cargo from the Port of Anchorage and then reload these containers on the Horizon vessels or Northland barges headed for Kodiak, Dutch Harbor and Western Alaska ports.

Fuel to Rural Alaska

Annually, 1.7 million barrels of refined petroleum product are shipped out of the Port of Anchorage to rural Alaska via barge[23].

Cargo Backhaul to the Port of Tacoma

On average, about 2 out of 10 containers is loaded with cargo for container ship return voyages to the Port of Tacoma. This cargo is comprised of: recycled items, frozen fish, household goods and vehicles for people moving out of Alaska, automobile and truck trade-ins, and rental car fleet inventories being returned to the West Coast.[24] As an example of how backhauled goods can have a strong impact on shipping rates, it is estimated that the backhaul of fisheries products alone can help reduce the cost of shipping goods to Alaska.[25]

COMMODITY DETAILS AND PORT EFFICIENCY ISSUES

"As Is" LO/LO and RO/RO Container Service

The current container service operated by Horizon Lines and TOTE is highly efficient. Four vessels a week supply around 90 percent of the

[22] Phone Interview, Northland Services, December, 2010.
[23] Port of Anchorage, 2009 Annual Tonnage Report
[24] Personal Interview, Horizon Lines, Totem Ocean Trailer Express, November, 2010.
[25] Personal Interview, Lynden Inc. 2010

merchandise goods and business supplies to Alaskans living west of Cordova. It is so efficient, particularly when combined with the capability for just-in-time delivery, that many retail outlets have drastically reduced, or even eliminated, their need for warehousing services. Coupled with bar code inventory systems, the products in many containers are taken from the vans and put directly on store shelves. These efficiencies allow retailers to offer a wide range of food and other commodities at a price that is little different from those in Seattle.

"To Be" LO/LO and RO/RO Container Service

When completed, the modernized Port of Anchorage will contribute to even greater efficiencies. The draft (depth) at the current dock is -35 feet, restricting the size of vessels that can call on the Port, while the three LO/LO container cranes on the current dock only have a nine container reach. A modern container ship is 16 containers wide and requires a deeper draft and larger cranes at port facilities.

The design of the new facility will provide seven berths of nearly 1,000 feet each that are capable of supporting either RO/RO or LO/LO operations, 49 feet of draft, and placement of the dock face farther out into the channel where it will be self-scouring. New container cranes will be able to reach across PANAMAX container ships, now the industry standard. These upgrades will improve the efficiency of container, commodity, RO/RO and automobile operations. Additional staging areas immediately behind the LO/LO and RO/RO operations will improve efficiencies there while construction of a railroad intermodal loading facility at the back of the port will make transfer operations to flat cars more efficient and reduce the need for drayage operations.

"As Is" Fuel Details

Fuel deliveries have been steadily increasing at the Port of Anchorage. The startup of the ultra-low sulfur diesel towers at the Petrostar facility in Valdez will further increase these deliveries to the POA. Currently about 7.7 million barrels of fuel are delivered to the Anchorage area by rail car annually.[26] An additional 4.5 million barrels come across the Port's dock.[27] ASIG operates the tank farm and valve manifolds that facilitate deliveries of jet fuel to the Ted Stevens Anchorage International Airport by pipeline.[28]

The tank farm at the airport is a subzone of the Foreign Trade Zone at the Port of Anchorage. Since most of this fuel is burned out of the US, there is a significant tax advantage to imported fuel. The crude oil refined at the Tesoro refinery in Nikiski is

[26] Port of Anchorage, Annual Tonnage Report 2010
[27] Port of Anchorage, *Annual Dock Tonnage 2001 – 2010*
[28] Personal Interviews, Petrostar Refinery, Alaska Rail Road Corporation, ASIG, October, 2010.

sourced out of Russia and UK. They also import substantial quantities of refined jet fuel from Korea.[29]

Currently, all general aviation gas (avgas) for Alaska comes through the Port of Anchorage which typically receives four or five tanker deliveries per year and are stored at the Port's tank farms. It is then distributed to Fairbanks, Mat-Su, and the North Slope by truck, and to Western and Southeast Alaska by barge. The Southeast Alaska trade in avgas is facilitated by favorable prices in Anchorage. If Southeast communities were to rely on direct tug and barge deliveries of avgas, these barges would have to travel as far as San Francisco to get avgas from the West Coast. Instead, they are serviced by tugs and fuel barges that are demobilizing from their Western Alaska trades and returning south in the fall. These tugs and barges make this return trip profitable by loading avgas at the POA and making deliveries to Southeast Alaska as they continue their return voyage.[30]

"To Be" Fuel Infrastructure Benefits

Fuel operations are also constrained by the current, limited draft at the Port of Anchorage. Larger petroleum product carriers, given the ability to make larger bulk deliveries, can potentially reduce the overall cost of fuel to consumers. Petroleum operators at the Port who supply fuel to Ted Stevens Anchorage International Airport have indicated the need for increased storage tanks to ensure deliveries of adequate volumes to cover peak periods of demand at the airport. Two dedicated POL berths with new environmentally friendly and state-of-the-art offload headers at the future petroleum docks provide opportunities for new storage capability and the ability to handle a wider variety of refined petroleum products. The newly added acreage behind the POL berths could be a siting source for additional tankage.

"As Is" Cement Offload and Storage Infrastructure

Cement is used in almost every construction project in the state, large and small. The Port of Anchorage is one of the only facilities in Alaska with bulk offloading capacity for cement ships. The ships arrive with dry cement carried in segregated hold compartments and are offloaded via a vacuum and pump system. The cement is transferred through a pipeline to storage tanks on railroad property. Trucks are used to transport the cement from the storage tanks to its final destination. Due to the limited draft at the port, the current bulk cement carrier can only load and receive 24,000 tons at a time despite the vessel's capacity of 40,000 tons.

[29] Ostherimer, David. *Annual Report For Foreign-Trade Zone No. 160; October 1, 2008-September 30, 2009*

[30] Personal and Phone Interviews, Tesoro Alaska, September, 2010. PetroMarine, Delta Western Fuels, December, 2010.

"To Be" Cement Offload and Storage Infrastructure

Completion of the south replacement and extension phase of the intermodal expansion project will provide both a deeper depth of -45ft and new acreage for the construction of additional cement storage tanks. This could create a cost savings benefit to the shipper as they would be able to double their capacity, transporting 40,000 tons at a time while experiencing the same operational and crew cost with only a modest increase in fuel. The operators of the bulk cement facility at the Port have indicated that if they could utilize these efficiencies, they would construct additional cement silos at the Port on the newly added backlands created by the Port expansion. This would eliminate their current need to truck cement across town to a different storage facility.[31]

"As Is" Military Support

The Port of Anchorage currently serves all five military bases in Alaska through fuel, supplies, vehicles and deployments. In a 2009 letter to the U.S. Secretary of Transportation Ray LaHood, U.S. Senator Daniel Inouye (HI) wrote:

> For example, the Port of Anchorage is vital to our national defense. The Expansion project that is underway will provide further economic opportunities and further strengthen the military and diplomatic mission of the United States. The Port of Anchorage is one of only 19 ports designated by the Department of Defense as a Strategic Port. There are five military bases strategically located in Alaska (Elmendorf AFB, Ft. Richardson, Eielson AFB, Ft. Waignright, and Ft. Greely), and the Port is essential in serving the thousands of Army and Air Force personnel, that call Alaska home. Alaska is playing a larger role in the training of military personnel with more than 2 million acres of training grounds, where troops can train with close air support in live fire exercises. Without the Port of Anchorage, these key military bases would be out of business. (April 28, 2009)

As part of its designation as a Strategic Seaport, the Port of Anchorage must be able to provide enough dock space and acreage to support a military deployment within 72 hours notice. Currently, the Port has successfully demonstrated the ability to provide one 1,000-foot berth without ceasing normal commercial dock operations, and 25 acres of non-contiguous/non-adjacent staging, however this does not meet the military's stated needs.

"To Be" Military Support

The U.S. Transportation Command's Surface Deployment and Distribution Command, through the U.S. Maritime Administration, has indicated a new need for the Port to be able to provide 2,000 feet of berthing space with an adjacent 25 acres of staging area in support of a more expedited major unit deployment[32]. Upon completion of the expansion project, two

[31] Personal Interview, Alaska Basic Industries, October, 2010.
[32] US Department of Administration, Maritime Administration, *Port Planning Order*. (August 31, 2010)

1,000-foot berths and 25 acres of adjacent contiguous staging area can easily be provided with room for growth if needed. This future footprint further provides an easily secured and monitored area decreasing security costs for military users.

The gravel fill for the expansion project, 11 million cubic yards, will all be mined on Elmendorf Air Force Base and transported down a haul road to the Port. This arrangement has proved mutually beneficial to both parties. The Port benefits because the short transit distance generates a large cost savings for the project while the Air Force benefits as hills are removed at the end of the north-south runway creating land that can be developed and used as needed. Once the project is complete, the road that is currently used to transport gravel will be used for deployment, providing the military with direct access to a secured facility and avoiding the associated congestion on public roadways.

Interruption of Service

The efficiencies of the Port have significant advantages, but only so long as port operations remain uninterrupted. During the course of our surveys, businesses were asked how quickly their operations would be affected if operations at the Port were disrupted. Most businesses said they would feel the consequences within a week, two weeks at most. Beyond that time period, they indicated that the interruption would develop into a full blown crisis[33]. This highlights the seriousness of concerns about the stability of the current deteriorated Port structure in the event of a major earthquake.

Once completed the expanded facilities would significantly decrease this risk. The facilities are designed to withstand normal to moderate earthquakes with little to no damage. Given the past seismic history of the region, the design includes two berths designated as "essential facilities." These berths feature increased structural reinforcements and are designed to remain operational following a maximum level earthquake of equal or greater magnitude than the 1964 earthquake.

Manufacturing and Increased Backhaul Opportunities

The Port's newly added acreage can provide much needed industrial space for the manufacture of modules for the North Slope or for the construction of the Alaska gas pipeline. Potential developers of the gas line have already visited the Port to explore these opportunities. A recent report by Anchorage Economic Development Corporation (AEDC) indicates that industrial development lands in Anchorage that are suited for development are limited and dispersed.[34] The new uplands at the Port can help provide space for industrial development and staging.

[33] See list of retail businesses interviewed in reference section

[34] Anchorage Economic Development Corporation, *Industrial Land Needs – The Outlook for Anchorage 2010-2030.* (2009)

Nearly 90 percent of the backhauled containers from the POA are empty. This is a potential area for increased economic activity that would have an additional benefit of reducing the cost of shipping. Although this has yet to be realized, value added processing of natural gas liquids from an Alaskan gas line could provide manufactured products for export. For example, ethylene processed into polyethylene beads, and butane processed into butyl rubber cants is the feedstock for plastic products such as automobile tires.[35]

POTENTIAL COST INCREASE DRIVERS

As previously mentioned, the efficiency of the existing distribution system is quite impressive. So much so that there is a large portion of the state's population that gives no real thought as to how things get on the store shelves. It is the efficiency of this transportation system that has contributed significantly to the ability to stabilize consumer prices for Alaskans. That being said, the balance is delicate. Here are a few potential sources of cost increases that, if realized, could easily upset that balance.

EPA Emissions Control Area

The requirements of this mandate, which are slated to take effect in 2015, would force Alaska-bound ship operators to use ultra-low sulfur diesel fuel in and near the Alaska coast. This fuel is much more expensive and safety concerns have been raised related to the low lubricating characteristics of this fuel. Once in effect, this could dramatically increase the cost of providing service to Alaska.[36]

Changes in Bypass Mail System

Reductions in the bypass mail system would have devastating effects on rural Alaska resulting in increased air shipping costs to rural villages by up to 500 percent. The recent proposal by U.S. Senator John McCain to eliminate the Essential Air Service program could increase the cost of air transportation including the transportation of consumer goods and other items to rural areas.

Proposed Container Tax

The states of Washington and California have both proposed container taxes to provide funds for transportation projects in their states. Alaska would be particularly and unfairly burdened with these fees since the bulk of our cargo arrives by container. The State of Alaska and the Alaska transportation industry rose up to vigorously oppose these measures and they were defeated. However, this issue may surface again and if adopted would significantly increase the cost of shipping goods to Alaska.

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[35] Chemical Manufacturers of America, Inc, *2010 Update: Cook Inlet Value Added Opportunity, for AEDA and ANGDA.*

[36] Personal Interviews, Horizon Lines, Totem Ocean Trailer Express, November, 2010.

Port Expansion Financing Plan

The Port of Anchorage secures funds for its intermodal expansion project from the federal government, the State of Alaska, and through contributions from its own annual profits. If the Port were required to bond completely for this project, to make the required payments towards those bonds would require substantial increases in port surcharge fees, from 3 to 8 times higher than current rates[37]. This would increase the cost of every single item, bulk or containerized, that passes through the POA. State and federal grants for the project negate the need to consider this option.

CONCLUSION

A modern, safe, survivable Port of Anchorage is critical to the lives of Alaskans. It is an economic driver that provides the needed commodities and business supplies Alaskans use in their everyday lives. It provides essential supplies to Alaska's construction and resource development industries and delivers the cars we use to get around in. The Port also provides jobs for Alaskans both through its direct operations and through the extensive web of transporters and facilitators that ultimately deliver the goods to Alaskans. It truly is the Port of Alaska.

[37] Based on tax-exempt bonding for capital costs of $300 to $750 million.

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ADDITIONAL BUISNESS CONTACTED

Barrow
A & D Automotive & Jeep
Aamodt Construction Inc.
Arctic Coast Trading Post
Arctic Janitorial Service
Arctic Pizza
Astac Cellular
Barrow Quick Stop
Barrow Souvenirs & Gifts (Phillips Child Care)
Barrow Utilities & Electric (Bueci)
Boynton Office Systems
Borealis Glass Design
Browers Restaurant
Cornerstone community church
Ferreras Equipment, LLC.
Inupiat Cleaners/ Furshop/ Water service
King Eider Inn
Lucy's Fabric Shop
Napa Auto Parts (Eskimos Inc. Fuel and Parts)
North Slope Borough Vet Clinic
Northern Lights Restaurant
Osaka's Restaurant
Pepe's North of the Border
Sam & Lee's Restaurant
Top of the World Hotel

Mountain Village
Mt. Village Covenant Church

Saint Mary's
Mattys Truck Rental LLC.

Nome
Airport Pizza
Anchor Liquor
Arctic Trading Post
Aurora Inn
Breakers Bar
Builders Industrial Supply
Eds/Xerox Corp
Kawerak Inc.
Landons
Mai's Guest House
Mukluk Telephone Co.
N B Tweet & Sons
Nome Liquor Store
Nome Machine Works
Nome Outfitters Gun & Tackle
Outsiders Hardware
Our Saviors Lutheran Church
Quality Auto Parts
R J's Auto Repair
Rasmussen's Music Art
Rave'n Cuts
River of Life Assembly of God
Solid Green Bingo & Pull Tabs
Subway
Trails End
Veggo Alaska

Kotzebue
Arctic Chiropractic
Arctic Sun Pull Tabs/Kvfd
Baker Services
Baker Aviation Inc.
Custom Electronics
Empress Chinese Restaurant
First Baptist Church
Iva Baker
Thomas Bolen (Otter Enterprises)

Dillingham
Alaskan Espresso
B & B Bed & Breakfast
B & C Fiberglass Inc.
Beaver Creek Bed & Breakfast
Bristol Express
D & J Rentals
Dan's Raft & Camping Equipment
Dave Williams Aircraft Repair
Dillingham Liquor Store
Firewood Bed & Breakfast
Food Bank
JD B&B Reservations
Kae Williams Aircraft Repair
Kozy Kuspuk (Bush Outfitters)
Marx Merchandise
N & N Market Inc.
Nushagak Cab Co.
Osborn Tanks
Rae's Flower & Garden
Ram Auto & Equipment Repair
Sherry's Cuts & Curls
Southwest Salvage
Stelling Enterprises (Gas Stations)
Teddy's Convenient Store
U Pop em' Fireworks

Unalakleet
Essential Services (Plumbing & Heating)
Sleep Inn
Unalakleet City Clerk
Unalakleet Native Village-Housing

APPENDIX A:

List of over 250 Alaskan Communities served by the Port of Anchorage

Adak
Akiak
Akiachak
Akutan
Alakanuk
Allakaket
Ambler
Anaktuvuk Pass
Anchorage
Anchor Point
Anderson
Aniak
Anvik
Arctic Village
Atka
Atqasuk

Barrow
Beaver
Bethel
Betties Field
Big Lake
Border
Boundary
Brevig Mission
Buckland
Butte

Candle
Cantwell
Central
Chalkyitsik
Chandalar
Chatanika
Chena Hot Springs
Chenega Bay
Chenik
Chevak
Chicken
Chikaloon
Chignik
Chiniak
Chitina
Chugiak
Circle
Circle Hot Springs
Clam Gulch
Clarks Point
Clear
Cold Bay
Coldfoot
Cooper Landing
Copper Center
Crooked Creek

Deadhorse
Deering
Deltana
Delta Junction
Diomede
Dillingham
Dot Lake
Dutch Harbor

Eagle
Eagle River
Eek
Egegik
Ekwok
Elim
Emmonak
English Bay
Eureka

Fairbanks
False Pass
Flat
Fort Glenn
Fort Greely
Fort Yukon
Fortuna Ledge
Fox

Gakona
Galena
Gambell
Girdwood
Glenallen
Golovin
Gordon
Grayling
Gulkana

Hamilton
Healy
Holy Cross
Homer
Hooper Bay
Hope
Houston
Hughes
Hulsia

Icy Bay
Iditarod
Iguigig
Ikatan
Iliamna
Indian
Ivanoff Bay

Kaktovik
Kaltag
Kanatak
Kanishna
Karluk
Kasigluk
Kasilof
Katalla
Kenai
Kenny Cove
Kiana
King Cove
King Salmon
Kipnuk
Kivalina
Kobuk
Kodiak
Kokhanok
Koliganek
Kongiganak
Kotlik
Kotzebue
Koyuk
Koyukuk
Kustatan
Kwethluk
Kwigillingok
Kwikpak

Lake Minchumina
Larsen Bay
Lavelock
Livengood
Long
Lower Kalskag

Manly Hot Springs
Manokotak
Marshall
McCarthy
McGrath
Medra
Mekoryuk
Mentasta
Minto
Moose Pass
Mountain Village

Nabesna
Naknek
Napakiak
Nelson Lagoon
Nenana
New Stuyahok
Newhalen
Newtok
Nightmute
Nikiski
Nikolai
Nikolski
Ninilchik
Noatak
Nome
Nondalton
Noorvik
Northway
North Pole
Noyes Island
Nuiqsut
Nulato
Nunapitchuk
Nyac

Old Harbor
Ophir
Ouizinkie

Palmer
Paxson
Pedro Bay
Perryville
Petersville
Pile Bay
Pilot Point
Pilot Station
Platinum
Point Hope
Point Lay
Poorman
Port Alice
Port Alsworth
Port Graham
Port Heiden
Port Moller
Portage Creek
Prudhoe Bay

Quinhagak

Russian Mission
Rampart
Red Devil
Ruby

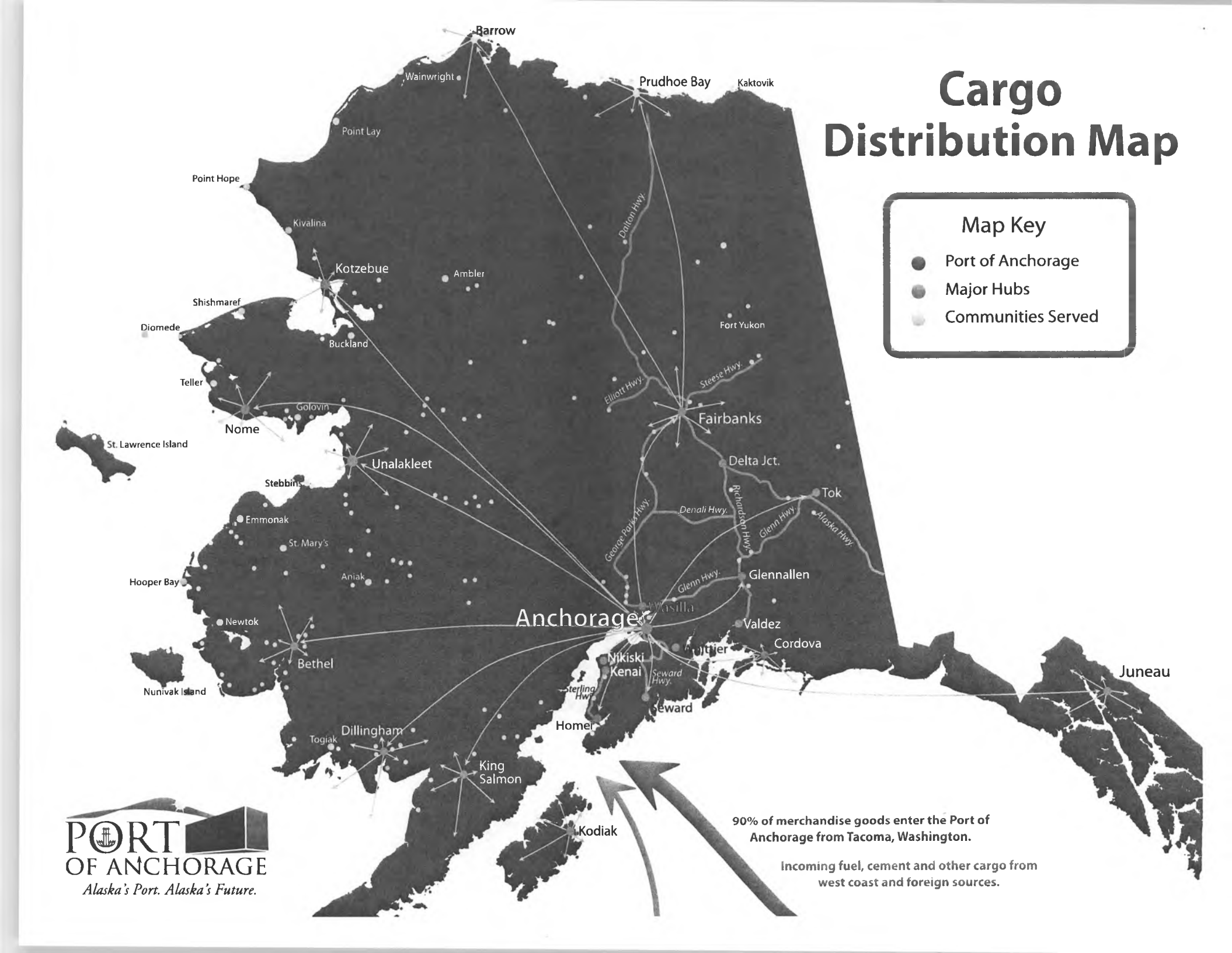
St. George Island
St. Marys
St. Michael
St. Paul Island
Salcha
Sand Point
Savoonga
Scammon Bay
Selawik
Seldovia
Seward
Shageluk
Shaktoolik
Sheldon Point
Shemya
Shishmaref
Shungnak
Skwentna
Slana
Slaterville
Sleetmute
Soldotna
South Naknek
Stebbins
Sterling
Stevens Village
Stony River
Sutton

Takotna
Talkeetna
Tanacross
Tanana
Tatitlek
Teller
Tetlin
Tofty
Togiak
Tok
Toklat
Toksook Bay
Tonsina
Trapper Creek
Tuluksak
Tuntutuliak
Tununak
Twin Hills
Tyonek

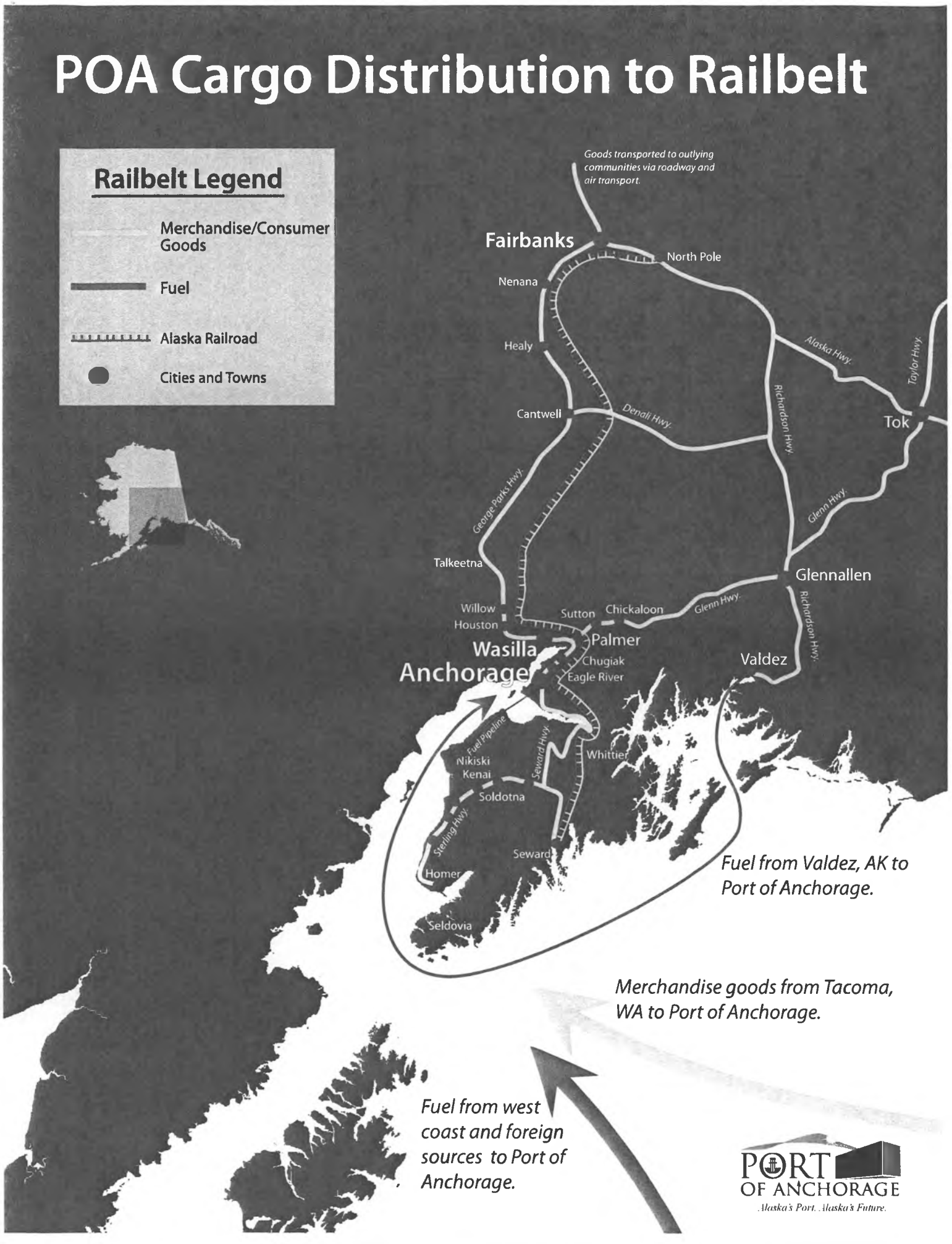
Uganik
Umiat
Unalakleet
Unalaska
Unimak
Upper Kalskag

Valdez
Venetie

Wainwright
Wales
Wasilla
White Mountain
Whittier
Willow


Cargo Distribution Map
Map Key
Port of Anchorage
Major Hubs
Communities Served
Barrow
Wainwright
Prudhoe Bay
Kaktovik
Point Lay
Point Hope
Kivalina
Kotzebue
Ambler
Shishmaref
Diomede
Buckland
Teller
Golovin
Nome
St. Lawrence Island
Unalakleet
Stebbins
Emmonak
St. Mary's
Aniak
Hooper Bay
Newtok
Bethel
Nunivak Island
Dillingham
Togiak
King Salmon
Kodiak
Homer
Seward
Seward Hwy.
Sterling Hwy.
Nikiski
Kenai
Anchorage
Wasilla
Valdez
Whittier
Cordova
Juneau
Glennallen
Glenn Hwy.
Tok
Alaska Hwy.
Richardson Hwy.
Denali Hwy.
George Parks Hwy.
Delta Jct.
Fairbanks
Fort Yukon
Dalton Hwy.
Elliott Hwy.
Steese Hwy.
PORT OF ANCHORAGE
Alaska's Port. Alaska's Future.
90% of merchandise goods enter the Port of Anchorage from Tacoma, Washington.
Incoming fuel, cement and other cargo from west coast and foreign sources.

POA Cargo Distribution to Railbelt



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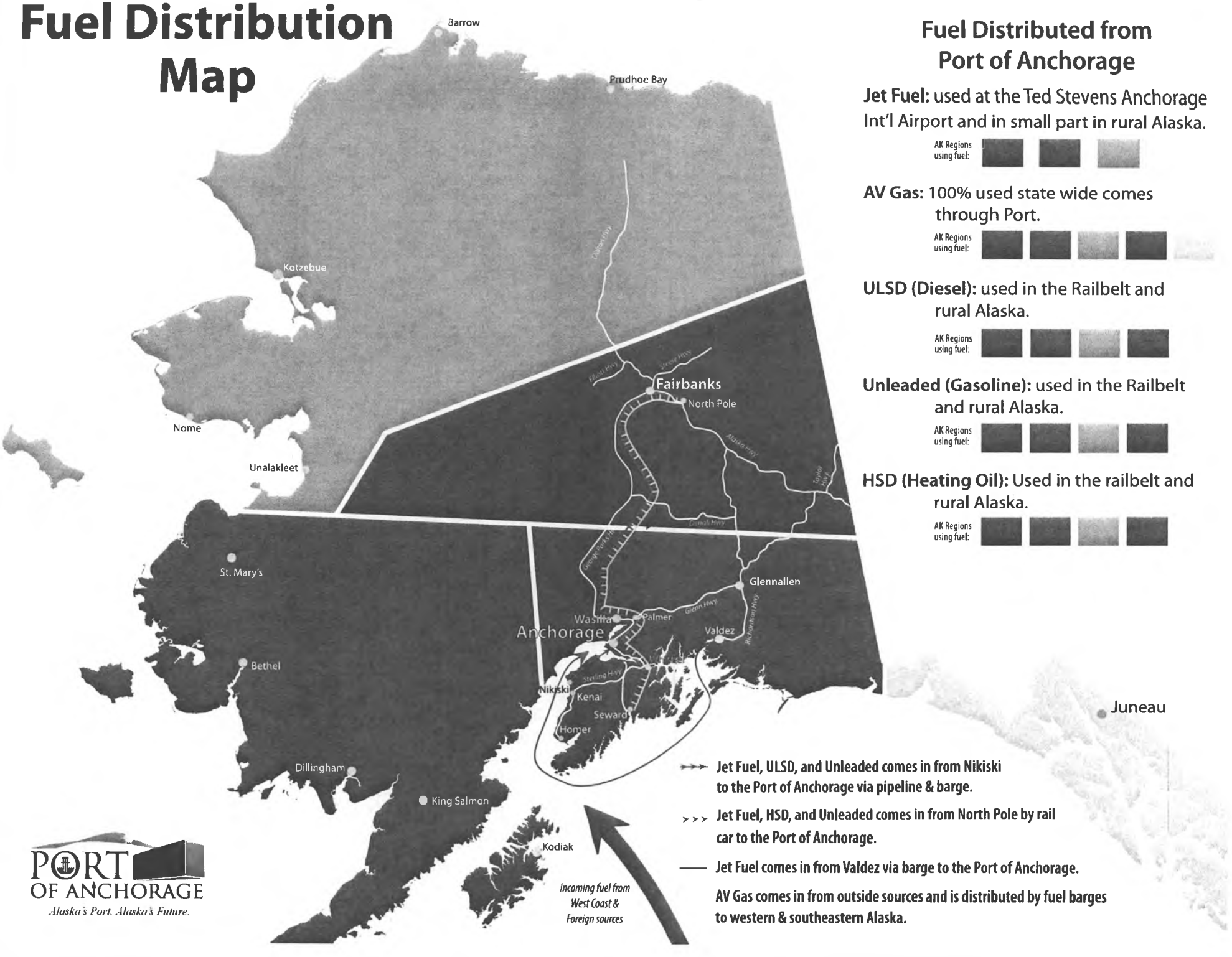
Fuel Distribution Map



Fuel Distributed from Port of Anchorage

Jet Fuel: used at the Ted Stevens Anchorage Int'l Airport and in small part in rural Alaska.

AK Regions using fuel:

AV Gas: 100% used state wide comes through Port.

AK Regions using fuel:

ULSD (Diesel): used in the Railbelt and rural Alaska.

AK Regions using fuel:

Unleaded (Gasoline): used in the Railbelt and rural Alaska.

AK Regions using fuel:

HSD (Heating Oil): Used in the railbelt and rural Alaska.

AK Regions using fuel:

→→→ **Jet Fuel, ULSD, and Unleaded comes in from Nikiski to the Port of Anchorage via pipeline & barge.**

→→→ **Jet Fuel, HSD, and Unleaded comes in from North Pole by rail car to the Port of Anchorage.**

—— **Jet Fuel comes in from Valdez via barge to the Port of Anchorage.**

AV Gas comes in from outside sources and is distributed by fuel barges to western & southeastern Alaska.

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