

**HB**

**140**

<TARGET><BILL>HB 140</BILL><SUBJECT>HB  
140</SUBJECT><COMM>SFIN29</COMM></TARGET>

# SENATE FINANCE COMMITTEE REPORT

DATE: 4/8/15

FURTHER:

DATE TURNED  
IN TO OFFICE: \_\_\_\_\_

**Finance Committee** considered HOUSE BILL NO. 140

HB 140-LEG. APPROVAL: AK RAILROAD REVENUE BONDS

"An Act authorizing the Alaska Railroad Corporation to issue revenue bonds to finance a positive train control rail transportation safety project that qualifies for federal financial participation; and providing for an effective date."

and recommends:

be replaced with SCS \_\_\_\_\_ (\_\_\_\_\_)  Same Title  Technical Title Change  
 New Title/SCR No. \_\_\_\_\_

adopt previous SCS \_\_\_\_\_ (\_\_\_\_\_)  Same Title  Technical Title Change  
 New Title/SCR No. \_\_\_\_\_

attached amendment(s)

adopt \_\_\_\_\_ Letter of Intent

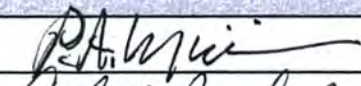
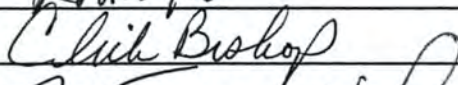



further referral to \_\_\_\_\_ Committee

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

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

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
CED			✓	1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	Do PASS	Do NOT PASS	No REC	AMEND
	MICCHELLE			✓	
	BISHOP	✓			
	DUNLEVY			✓	
	HOFFMAN	✓			
	OLSON			✓	
CO-CHAIR:					
CO-CHAIR: Anna MacKinnon	MacKinnon	✓			

# Fiscal Note

State of Alaska  
2015 Legislative Session

Bill Version:	HB 140
Fiscal Note Number:	1
(H) Publish Date:	3/23/2015

Identifier: HB140-DCCED-ARRC-03-13-15  
 Title: LEG. APPROVAL: AK RAILROAD REVENUE BONDS  
 Sponsor: THOMPSON  
 Requester: HOUSE FINANCE

Department: Not Applicable (for Fiscal Notes only)  
 Appropriation: Alaska Railroad  
 Allocation: Alaska Railroad  
 OMB Component Number:

**Expenditures/Revenues**

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2016 Appropriation Requested	Included in Governor's FY2016 Request	Out-Year Cost Estimates					
			FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Fund Source (Operating Only)**

None								
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time								
Part-time								
Temporary								

<b>Change in Revenues</b>								
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**Estimated SUPPLEMENTAL (FY2015) cost:** 0.0 (separate supplemental appropriation required)  
 (discuss reasons and fund source(s) in analysis section)

**Estimated CAPITAL (FY2016) cost:** 0.0 (separate capital appropriation required)  
 (discuss reasons and fund source(s) in analysis section)

**ASSOCIATED REGULATIONS**

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? **NO**  
 If yes, by what date are the regulations to be adopted, amended or repealed?

**Why this fiscal note differs from previous version:**

Initial Version

Prepared By: Tim Sullivan, Manager External Affairs  
 Division: Alaska Railroad Corporation  
 Approved By: Bill O'Leary, President & CEO  
 Agency: Alaska Railroad Corporation

Phone: (907)265-2357  
 Date: 03/13/2015 01:45 PM  
 Date: 03/13/2015

REPORTED OUT OF  
HFC 03/23/2015  
Control Code: Sazor

FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2015 LEGISLATIVE SESSION

**Analysis**

The Alaska Railroad Corporation (ARRC) is a public corporation supported by revenues generated through its freight, passenger and real estate services.

This legislation authorizes the Alaska Railroad Corporation to issue revenue bonds to finance the implementation of Positive Train Control; and provides for an effective date.

ARRC will issue up to \$37 million in tax-exempt revenue bonds supported by Federal Transit Administration (FTA) formula funds to finance the unfunded federal mandate to implement Positive Train Control. Debt service for the bonds would come from a portion of ARRC's annual FTA formula funds. All costs related to issuing the bonds will be paid from the bond proceeds and are included in the \$37 million authorization. In no event will the general credit of the State of Alaska or ARRC be pledged for the repayment of these bonds.

# ALASKA STATE LEGISLATURE

**Session:**

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Juneau, Alaska 99801-2186  
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## REPRESENTATIVE STEVE THOMPSON DISTRICT 2

### SPONSOR STATEMENT FOR HB 140

***"An Act authorizing the Alaska Railroad Corporation to issue revenue bonds to finance a positive train control rail transportation safety project that qualifies for federal financial participation; and providing for an effective date."***

HB 140 will authorize the Alaska Railroad Corporation (ARRC) to issue up to \$37 million in tax-exempt bonds backed by Federal Transit Administration (FTA) formula funds received annually by ARRC. Bond proceeds will be used to finance Positive Train Control (PTC): a safety program mandated by the federal government without any correlating funding, which is estimated to cost ARRC approximately \$158 million.

ARRC proposes to refinance \$66 million in existing bonds and extend the repayment date in order to issue an additional \$37 million in bonds to pay for a major portion of the remaining \$55 million in PTC costs.

Under AS.42.40.285 ARRC is required to receive legislative approval to issue bonds. In no event will the general credit of the State of Alaska or ARRC be pledged for the repayment of these bonds. AS.42.40.500 requires that all liabilities incurred by ARRC shall be satisfied "exclusively" from the assets or revenue of ARRC and not the State.

Debt payment for the bonds will come from a portion of Federal Transit Administration (FTA) formula funds which are statutorily mandated by Federal law and received annually by ARRC. Issuing debt backed by FTA formula funds is authorized through FTA regulation and has already been used by ARRC to issue bonds.

PTC is technology designed to stop or slow a train before human-error causes an accident to occur. In 2008, the federal Rail Safety Improvement Act required certain railroads to install a fully functional PTC system by the end of 2015; by virtue of its passenger service, ARRC is subject to this requirement. A failure to implement PTC will force ARRC to severely curtail or eliminate passenger service and/or face severe fines for non-compliance.

Estimates for this large research and development project indicate that it will cost approximately \$158 million to implement. Since 1997, ARRC has invested \$68.9 million to develop a PTC system. In 2013 and 2014, ARRC received an additional \$19.1 million and \$15 million respectively from the State of Alaska to continue work on PTC. Between 2016 and 2018, an additional \$55 million will be required for ARRC to complete the development and installation of PTC by 2018. This figure does not include the estimated \$5 million to \$7 million per year of operating and capital maintenance costs related to the system that ARRC will fund after PTC is installed.

E-Mail: [Representative.Steve.Thompson@akleg.gov](mailto:Representative.Steve.Thompson@akleg.gov)  
Website: [www.akrepublicans.org/thompson/](http://www.akrepublicans.org/thompson/)

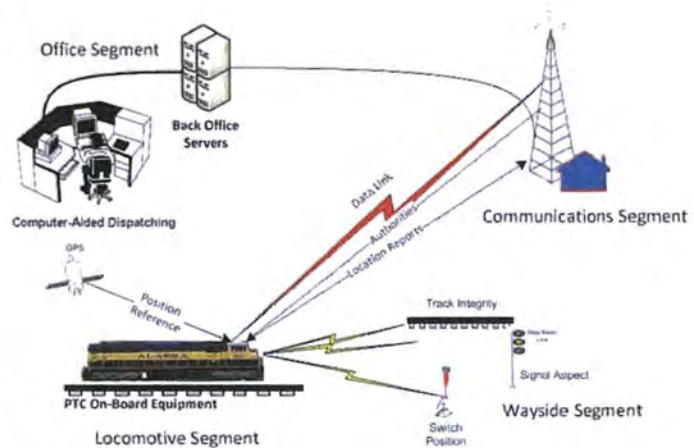
# Alaska Railroad Positive Train Control

## PTC Project Overview

Congress mandated Positive Train Control (PTC) in 2008 for passenger and the seven largest U.S. railroads, but the Alaska Railroad (ARRC) has been working since 1997 to develop a PTC system. The deadline to complete PTC installation set by the federal mandate is December 31, 2015; however, ARRC and most railroads in the lower 48 will not make this deadline.

ARRC will be able to continue passenger operations as long as we make good faith effort towards implementation and our current project completion goal is 2018. If ARRC does not make a good faith effort

towards our implementation plan, the Federal Railroad Administration (FRA) can implement fines of up to \$100,000 per day. PTC is a system of functional requirements for monitoring and controlling train movements to provide increased safety by eliminating human error. PTC is comprised of the integration of four major segments: Office, Locomotive, Wayside, and Communications.



## PTC Benefits

PTC is a safety system that reduces human factor errors and must reliably and functionally prevent:

1. Train-to-train collisions by enforcing authority limits;
2. Overspeed derailments;
3. Trains entering maintenance of way work zone limits; and
4. Train movement through a main line switch in the improper position.

The NTSB has once again listed PTC as one of its top ten safety initiatives. The NTSB reinforced the 2015 deadline due to a number of serious train accidents.



*In 2008, a Metrolink passenger train in Los Angeles, CA passed a red signal while the engineer was texting, colliding head-on into a freight train resulting in 25 fatalities and 130+ injuries.*



*In 2013, a Metro North passenger train in Bronx, NY derailed when the engineer fell asleep going 82 MPH in a 30 MPH curve resulting in 4 fatalities and 63 injuries.*

# Alaska Railroad Positive Train Control

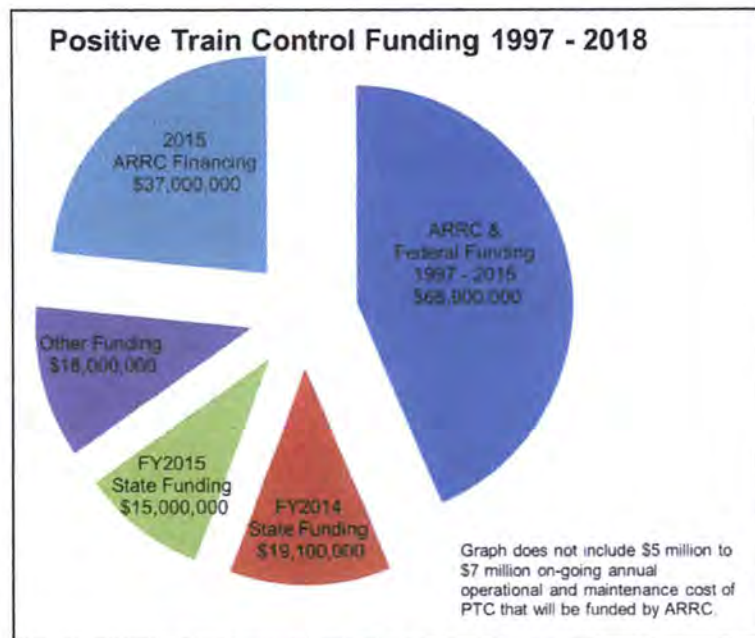
## Project Progress

ARRC began voluntary implementation of PTC in 1997, and has seen numerous benefits through the development process:

- Elimination of human-factor errors by implementing Track Warrant Control (TWC) and a Computer Aided Dispatch system.
- Changed the method of operation for track equipment to TWC to replace the less safe “track car lineup” that is no longer permitted by the FRA.
- Installation of Data Radio Network and GPS on locomotives increased situational awareness of train movements in relation to the authority issued. ARRC had a near miss in 1995 when a northbound freight and a southbound coal train nearly collided near Montana Creek due to a human-factor error while reporting train location.
- Replacement of functionally obsolete analog microwave radio system and voice radios to an updated digital system to reduce radio communication read-repeat errors.
- Improved train performance and reduced human-factor errors with implementation of Centralized Traffic Control (CTC). CTC bases train movement on signals and switches remotely called by a dispatcher. ARRC has now implemented CTC in Whittier Tunnel area, from Potter siding (south of Anchorage) to Kashwitna (north of Willow), and in the Hurricane area.

### PTC Project Funding

ARRC has used a combination of corporate revenues, federal funding and state funding to develop PTC since 1997. ARRC has been heavily reliant on state funding since FY2014 due to dramatic declines in key lines of business and significant cuts to federal funding. If funding continues as currently defined in our project schedule and budget, ARRC will complete PTC by 2018 (three years past the congressional deadline). If funding is delayed, ARRC will need FRA approval for an extended completion date (to avoid fines) and will see project costs escalate an



estimated \$5-10 million per year above current project estimates. Once PTC is installed, ARRC plans to fund the \$5-7 million annual operating and maintenance costs through its internal budget.

Budget Overview	
Total Spent to Date:	\$91,988,000
Total Funded (through end of FY 2015):	\$103,000,000
Funding Still Needed to Complete by Dec. 31 2018:	\$54,950,000
Total Project Costs	\$157,950,000

# PTC Funding Sources 1997 - 2015

through December 31, 2014	Federal Funds/ARRC	State FY 14 & FY 15 Funds	Total
<b>Overall PTC Integration and Management</b>	\$29,557,997	\$4,982,068	\$34,540,065
<b>Locomotive Segment</b>	\$3,663,749	\$6,223,127	\$9,886,876
<b>Communications Segment</b>	\$7,803,271	\$4,524,861	\$12,328,132
<b>Office Segment</b>	\$19,691,965	\$4,179,150	\$23,871,115
<b>Wayside Device Monitoring</b>	\$8,197,729	\$14,190,795	\$22,388,524
<b>Total</b>	<b>\$68,914,711</b>	<b>\$34,100,000</b>	<b>\$103,014,711</b>
<b>Funds Committed + Spent</b>	93%	83%	
<b>Funds Spent</b>	88%	56%	



# ARRC 2016 – 2018 PTC Unfunded Budget

	FY 2016	FY 2017	FY 2018	Total
<b>Office, Comm and Locomotive Segments</b>	<b>\$10,650,000</b>	<b>\$ 7,850,000</b>	<b>\$ 8,350,000</b>	<b>\$26,850,000</b>
Overall PTC Integration and Management	\$ 5,800,000	\$ 5,300,000	\$ 5,300,000	\$16,400,000
Locomotive Segment	\$ 500,000	\$ 500,000	\$ 500,000	\$ 1,500,000
Communications Segment	\$ 3,000,000	\$ 1,000,000	\$ 1,500,000	\$ 5,500,000
Office Segment	\$ 1,350,000	\$ 1,050,000	\$ 1,050,000	\$ 3,450,000
<b>Wayside Segment</b>	<b>\$11,000,000</b>	<b>\$ 9,000,000</b>	<b>\$ 8,100,000</b>	<b>\$28,100,000</b>
Monitoring CTC Signal and Switches	\$ 2,500,000	\$ 2,000,000		\$ 4,500,000
Dark Territory Manual Switch Monitoring	\$ 8,500,000	\$ 7,000,000	\$ 8,100,000	\$23,600,000
<b>Total Funds Required</b>	<b>\$21,650,000</b>	<b>\$16,850,000</b>	<b>\$16,450,000</b>	<b>\$54,950,000</b>



Jane,

You had asked if there was any way that HB 140 would diminish the debt capacity of the State or if the State would be left to pay the debt service if the Railroad were to default.

I don't believe that this authorization of \$37 million to finance the positive train control project will impact the state's debt capacity. The Railroad is a public corporation of the State of Alaska that will be issuing revenue bonds of the corporation that will only be secured by revenues derived from the operation of the Corporation. The investors are explicitly told that they will only be repaid from railroad receipts, the credit ratings that the securities are expected to achieve will be based on the pledge of railroad revenue, and the yield based on perceived risk will be established based on the railroad's pledge.

If the Railroad were to default the State would have no obligation to pay, and based on the relatively small deal size and the facts surrounding the proposed issuance I don't believe that the State should consider paying if there were a default. The investors were informed and would have been receiving a rate of return based on the railroad credit, not the State of Alaska's credit.

Let me know if I misunderstood the question,

Deven

Deven Mitchell  
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