

House Special Committee on Economic Development, Trade, and Tourism
Economy: Past, Present and Future
From Railroad perspective
Thursday, October 25, 2007

Presentation by Bruce Carr: 20-30 minutes (leave time for Q&A)

Thank you Chairman Neuman. Good Afternoon. For the record, my name is Bruce Carr and I am the Director Strategic Planning for the Alaska Railroad Corporation.

I have been asked to provide an overview of the economy...past, present and future, from a Railroad perspective. As background, the Alaska Railroad is a state owned corporation charged by our governing statutes to operate as a quasi-private business with an additional mission of providing a tool for economic development in the state. We offer freight, passenger and real estate services through 13 municipalities from Seward to North Pole. This provides us a broad perspective.

The Past:

The Alaska Railroad has been an integral part of the territory and state transportation infrastructure since its completion in 1923. The Railroad connected tidewater in Seward and Anchorage moving passengers and freight to the Interior. Railroad construction camps were the genesis for many thriving communities now comprising the area now known as the "railbelt" in which live about 70% of the state's population. The Railroad was seen as a tool for

economic development by the federal government serving the coal mines in the Mat-Su Valley and the gold fields in the Interior. The Railroad has a rich and varied history and one of which the citizens of Alaska can be proud.

Few events in the railroad's history can equal the importance of the sale of the federal railroad to the state of Alaska in 1985. The wisdom of the legislature in accepting the operation of the railroad from the federal government cannot be overemphasized. The wisdom of the legislature in establishing a self-sufficient, business-based model of ownership is equally important. We are required by the state to act like a business. We must build a sustainable budget, justify that budget before our Board of Directors and then execute that budget with a high degree of certainty. Our Board of Directors is intimately involved in the business details of operating the Alaska Railroad to ensure we meet not only our expense budget but make certain we are re-investing into railroad assets the necessary capital dollars to sustain us into the future. We must be responsive to our customers. We must be flexible to anticipate changing markets as they occur.

The railroad primarily moves bulk products, gravel, coal, and refined petroleum products. We move heavy equipment, steel, tubular pipe and other products to sustain the on-going activities on the North Slope. We support the mining operations at Ft. Knox Gold mine in Fairbanks. We provide critical logistical support to our military. We help DOT build roads, we supply our international airports with jet fuel. We provide coal for power generation in the Interior and

coal for export to overseas markets. We continue to be an integral part of the state's economy.

The Present:

From our perspective we see the State's economy at a crossroads. The following issues come to mind:

1) Reduced federal Highway Trust Fund dollars coming to Alaska reduce the potential market for gravel in the Railbelt as state highway projects decline

In addition to federal highway money, large projects and subdivisions are falling off and gravel for construction is also going down. We expect gravel and construction to continue to decline slowly over the next two years and more steeply thereafter.

2) Increase in spending from the private sector, especially from the construction of big box stores, has partially offset the decline HOWEVER, the Railroad has not been able to fully participate because of additional source material available in Anchorage rather than the Palmer/Wasilla pits.

3) Oil patch spending continues to be satisfactory but seems fragile; will there be a pipeline? when will that project occur? The current blip in pipe shipments will come to an end as the majority of the feeder line replacement is completed.

Additional drilling is probably based on a function of the current debate in the legislature. While there will be a need to maintain pressure in the fields, I see no return to the large pipe shipments of the past.

Discussions with the oil companies and service companies are not very illuminating about the future. What we see, is a halt to capital projects and slowed growth until they understand the economic changes required by the special session.

4) Current housing market troubles in the Mat-Su Valley may translate to reduced spending on durable goods which could reduce trailer and container shipments coming into Alaska. Again, in my opinion, this is a function of the optimism placed on the potential for a gas pipeline. This could impact the Anchorage housing market as well.

The steamship companies serving Southcentral Alaska carry about 67% of all marketplace goods for the region through the Port of Anchorage (POA). Overall, consumer goods, project freight and construction freight through the POA appear to be flat to down 1 or 2% in the near future. Freight moving to the Interior from POA is up due to military and oilfield activity but not enough to offset the downward trend in Anchorage.

5) Permitting problems with hard rock minerals may have additional downward pressures on need for mining equipment and support materials for this sector.

The recently approved ballot initiative aimed at limiting the ability of Pebble Mine to be permitted may affect the rest of the sector dramatically)

Bright Spots:

6) I do see the opportunity for greater shipment of export coal if we can land additional contracts.

7) The Port MacKenzie rail extension, if built, could have a significant impact on not only the Railroad but also the Interior; additional jobs at Usibelli, and in the long-term, potential for development of mines in the Interior unless they are stymied by the permitting process.

Agrium's Kenai coal-gasification is going through a business-case justification.

All of the additional jobs we see from the Marketing side are related to that single project: jobs at Agrium, the railroad and Usibelli. The Point MacKenzie project, in and of itself, will only provide an alternative port outlet in the short to mid term.

Projects will have to be sustainable on their own.

8) Increased cargo shipments through TSAIA will continue to grow providing an opportunity for FHR to participate as the demand for jet fuel increases. We currently ship the majority of their output.

The Future

From a strategic standpoint, the State must invest in its transportation infrastructure whether it be roads, railroads, airports, marine transportation, or ports. We cannot continue to rely on dwindling federal dollars. Recognizing the same fact, the State of Washington has recently issued \$4B in general obligation transportation bonds and the State of California issued \$20B in general obligation transportation bonds. They have invested in their future by making strategic investments that ensure their competitiveness in the global market.

The development of natural resources is absolutely critical to the future of Alaska. The proposed rail spur from our mainline to Pt. MacKenzie in the Mat-Su Borough will open a bulk export port that will not only serve the south central region but also the Interior. With this one port, vast mineral resources such as the lime deposits near Fairbanks, anticipated world-class mines on the way to the Canadian border become economically possible. The Alaska Railroad is pursuing the environmental approval for an extension from Eielson Air Force Base to Delta, some 80 miles. We have no funding for actual construction. A recent report issued by a bi-lateral working group from the State of Alaska and the Yukon Government concludes a rail link to the lower 48 is economically

possible. There is no funding available however to continue this effort much further.

The Railroad and DOT are charged with maintaining and expanding our state transportation infrastructure. Transportation infrastructure drives economy's, develops natural resources, provides jobs, makes us more efficient in the global market we compete in. We need the help of the State to do that.