

EI - 18155



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Subject Financial Docket 35095

Grace Whedbee
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May 8, 2010
David Navecky
STB Finance Docket No. 35095
Surface Transportation Board
395 E Street, SW
Washington, DC 205423
REFERENCE: Need for Rail Extension

Dear Sir:

In the purpose and need statement of the EIS, the only purpose stated is to serve the Port MacKenzie customers with rail access and to connect the port with the existing railroad. Point of fact is the Port has no new business. The only customers are still NPI LLC and Alaska Manufacturing Contractors (AMC), even though the Port has been there 9 years. NPI is in a lawsuit claiming the port design was changed and is **not** safe and has caused them to lose their customer. I will also show that the Port is not viable and has latent defects that will make it cost prohibitive in terms of economics and the environment.

The applicant claims they can handle the world's largest ships. According to the Point MacKenzie Port Master Plan dated January 1998 and amended May 1999, page 22 states "maximum ship draft would be limited to about 40 to 43 feet. **Knik Arm Shoal is the primary depth-limiting hazard to navigation in this area.**"

The port claims to be year round but now Marc VanDongan, port director is saying that he would prefer to shut the port down during the winter months and stockpile freight to go out in the spring. In the Port Master Plan it states "Once a ship has been docked in waters such as Cook Inlet, with its ice and fast currents, pilots require almost perfect dock alignment in order to hold ships in the moored position." Ships have to move 5 times to fill all compartments; therefore 5 perfect dock alignments must be obtained. The Port is clearly not safe during the winter months.

Port claims to be dredge free, however in the Knik Arm Crossing, Hydrology and Hydraulic Environment of Knit Arm, Rev, 2, 24 March 06, base sedimentation charts show a high rate of sedimentation at the deep water port area. The same report, Rev. 4, 30 May 2007 shows even more sedimentation at both the barge dock and the deep water area (see attached). Borough management is still not acknowledging this and has not begun any studies of how this sedimentation is affecting the barge dock or the deep water area.

The applicant claims that Port of Anchorage can't handle dry bulk commodities. They do

handle dry bulk commodities, 116,789 tons last year. Any rail loop Port MacKenzie may get in the future will not be started before the Port of Anchorage facilities will be complete with double rail lines. While the Point MacKenzie area has more room for storage, Anchorage's port (with the current expansion) will have more handling capacity, has the railroad area that can be rented by customers and has the Elmendorf AFB that has allowed storage on their land when needed.

According to the Port Comprehensive Plan the bathymetric of the area was never studied prior to building the Port. In an article in Alaska Journal of Commerce, July 19, 2005 Steve Boardman, U.S. Army Corp of Engineers said that "At the time Port MacKenzie was constructed, the Corps was given no data to show how the new port facility would affect the flow pattern or sediment pattern of Knik Arm." No study appears to have been done on the environmental habitat or fish movement around the docks.

The work on the dock was started in 1999 with the ribbon cutting on September 8, 2000. The dock was closed down in November 2000 when the US Army Corps of Engineers say the Port may not be structurally sound. The port was built on top of silt. It cost an additional \$880,000 to make the necessary repairs but still no study on how it affects Knik Arms.

Mr. Boardman also talked about the changing dynamics to Knik Arm channel. He said they have gone from dredging 300,000 cubic yards of material annually from the channel to nearly 2 million cubic yards and costs have gone from \$3 million to nearly \$12 million. They have not been able to determine what is causing the changes but cite the construction at Port MacKenzie and the Port of Anchorage. In the article he talks of building a model to study all factors. This model is now complete and working in Vicksburg, Mississippi. The Port of Anchorage has used the model to monitor the port expansion. **Port MacKenzie continues to make improvement but does not appear to do bathymetric studies or use the model.**

A shoal has developed between Port MacKenzie and Point MacKenzie. Please see the attached NOAA chartlets that show the growth of this shoal. At this time, the ship's pilots are encountering more difficulties in turning around in order to dock at the Port of Anchorage due to this shoal. From Port MacKenzie to Point MacKenzie is 2.75 miles, and this shoal lies between the two points. When asked about this problem, Marc Van Dongen, Port Mackenzie director keeps talking about a shoal 3.5 miles away that has been there for many decades, obviously a totally different area. The Borough management is not only not recognizing this shoal, they sent a letter to our representative, Charlie Huggins, asking that he not procure the money as requested by the Port of Anchorage for the study into how much it will cost to dredge this shoal. In the letter they talk about the area to the West of Point MacKenzie. As you can see from the NOAA chartlet, the shoal is between the Point and the Port, not west of the Point. This letter is an obvious ploy to stop investigation into the shoal until they have procured the rail extension corridor and the request from the State Capital Improvement budget of \$57 million for the intermodal area at the port and the \$750,000 port expansion grant.

In conclusion, Port MacKenzie was built without proper study and has not lived up to any of its purported abilities. It has proven to be a costly boondoggle and if you allow a rail extension, it will prove to be one of the costliest in Alaskan history. This Port is not viable as ships size is limited by the Knik Arm Shoal, is not safe for winter operations, and is offers no dry bulk good services that are not offered by the Port of Anchorage. In addition, there is evidence that the

port will not be dredge free as models show current high rate of sediment depositing is currently taking place. However, the costliest items may be the port's contribution to the increased dredging of the Knik Arms Shoal and the future costs to dredge the Point MacKenzie Shoal. It is vital that you research the Knik Bridge Crossing studies that show the exact downstream shoal formation from the proposed bridge that is seen downstream from the Port. Also of great importance is the damages being done both economically (import of concrete) and physically to the Port of Anchorage due to increasing shoaling. The Port of Anchorage is a Federally Funded, Military strategic port. The Intermodal expansion cost is around \$527 million of which 52% is federal monies.

Because the only purpose for the rail extension per the EIS is the Port and the facts show the Port is not viable or needed, **YOU MUST MAKE A "NO BUILD" FINDING.**

Sincerely,

Grace Whedbee

Attachments:

- a) Sediment rate from KAC study
- b) My historic study of port



Port MacKenzie Sedimentation.docx PORT MACKENZIE MONEY PIT.doc

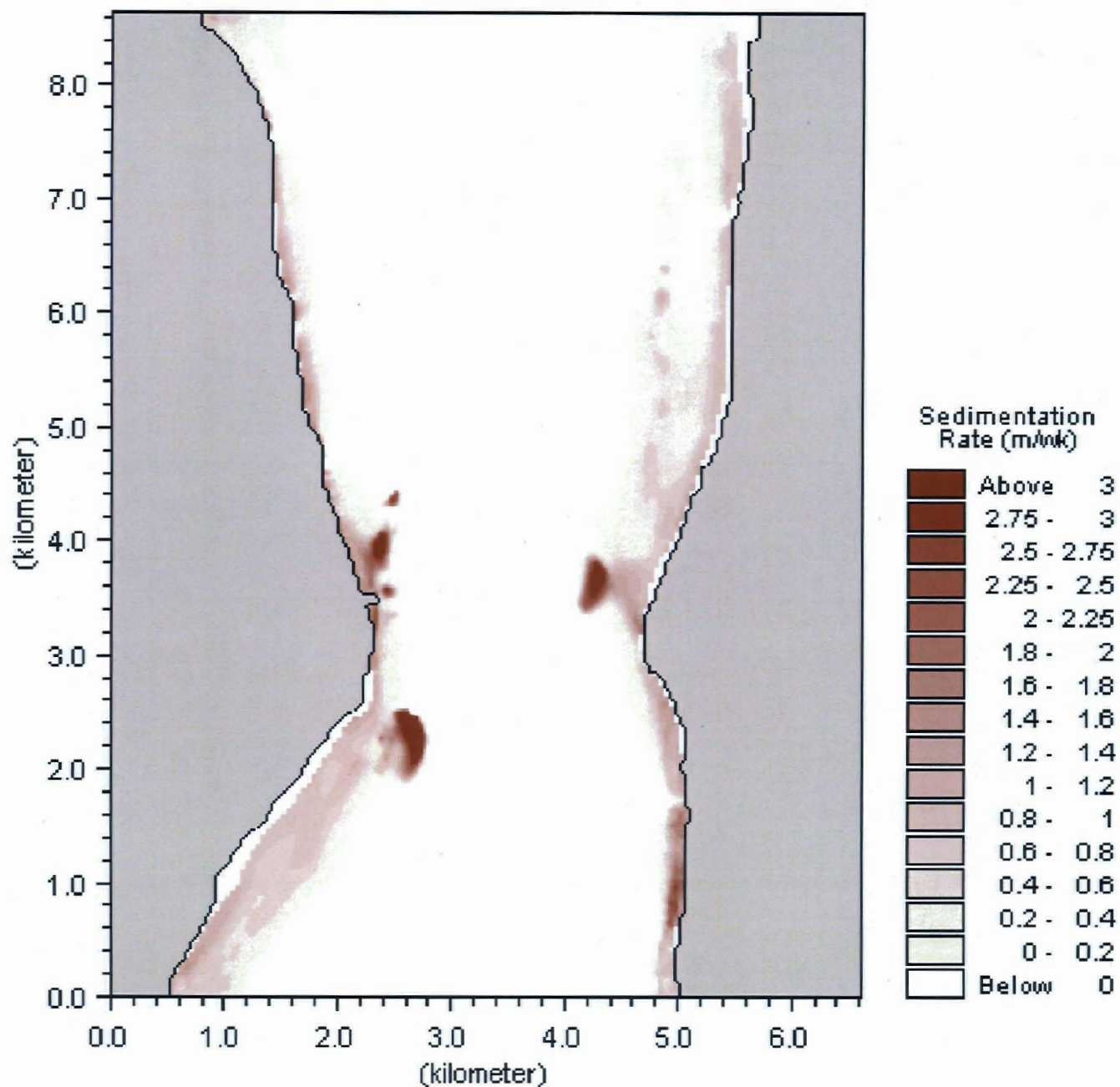


Figure is from the Knik Arm Crossing Hydrology and Hydraulic Environment of Knik Arms Rev. 2, 24 March 06 page 53.

This shows there is sedimentation building at Port MacKenzie

PORT MACKENZIE ENDANGERING SHIPPING LANES?

Can we afford to put any more money into Port MacKenzie until we know it is not endangering Alaska's economy and the military defense of America?

- (Quote from Alaska Journal of Commerce) U.S. Army Corp of Engineers, Steve Boardman when talking on the Knik Arm Bridge said that in 2003 the Corps developed a tabletop and mathematical model that it shared with port officials from Anchorage and the Mat-Su borough. "We drew the bridge as we knew it at the time, with the two causeways," Boardman said. "What it did was change the flow pattern to the point where it raised red flags that it might increase the flow velocity to the point where it could cause problems."

Meanwhile the Corps has in recent years had to dredge the Cook Inlet navigation channel more frequently. The channel, located halfway between Fire Island and Port MacKenzie, is the shipping lane traveled by major cargo ships delivering millions of tons of cargo to the Port of Anchorage. When the navigation channel was built in the late 1990s, the shoal in the middle of the channel was at minus 17 feet and was dredged to minus 39 feet, so ships could avoid delays at low tide.

Corps engineers still have a lot of unanswered questions about the changing dynamics of that channel, but they do know **they're gone from dredging 300,000 cubic yards of material annually from the channel to nearly 2 million cubic yards**, Boardman said... **At the time Port MacKenzie was constructed, the Corps was given no data to show how the new port facility would affect the flow pattern or sediment pattern of Knik Arm**, Boardman said.¹

- Compare Figure #1, a Google Earth map from 1995, prior to Port MacKenzie and Figure #2, a photo after the barge dock was built. They shows that the coastline has been altered. This is the narrowest area in Knik Arms, therefore the fastest flowing water. The study for the Knik Arms Bridge showed that a pier placed in fast currents would alter the speed of the currents and the sediment accumulation rate downstream.

¹ Alaska Journal of Commerce, June 19, 2005. Influx of silt in inlet increase in dredging costs by Melissa Campbell

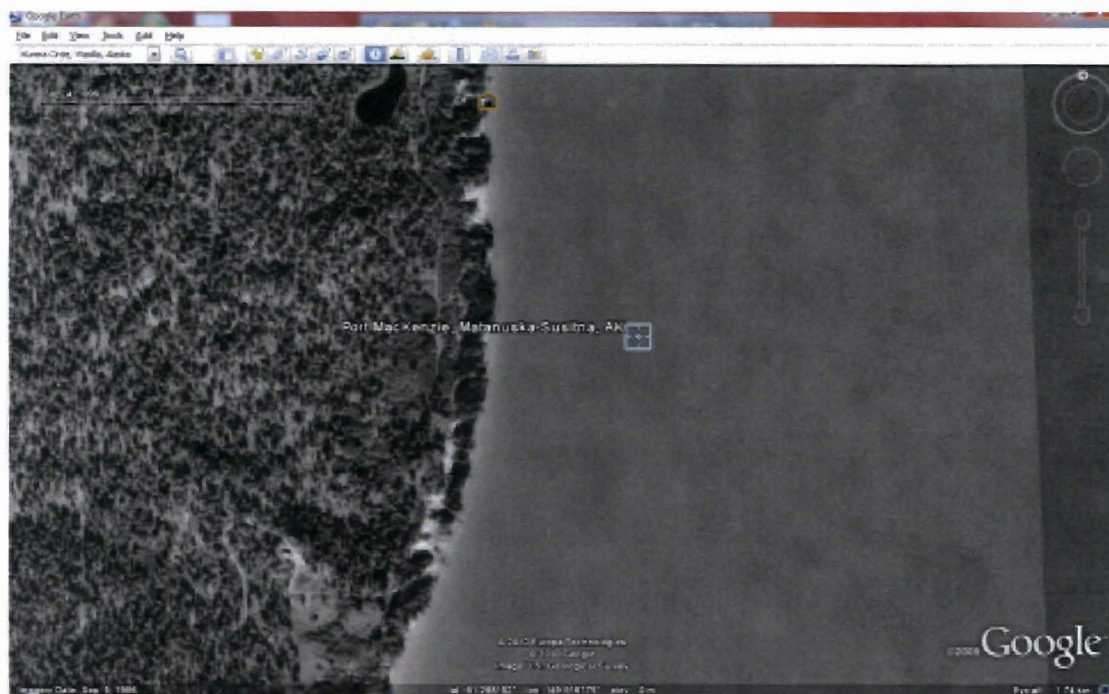


Figure 1 Shoreline prior to port construction

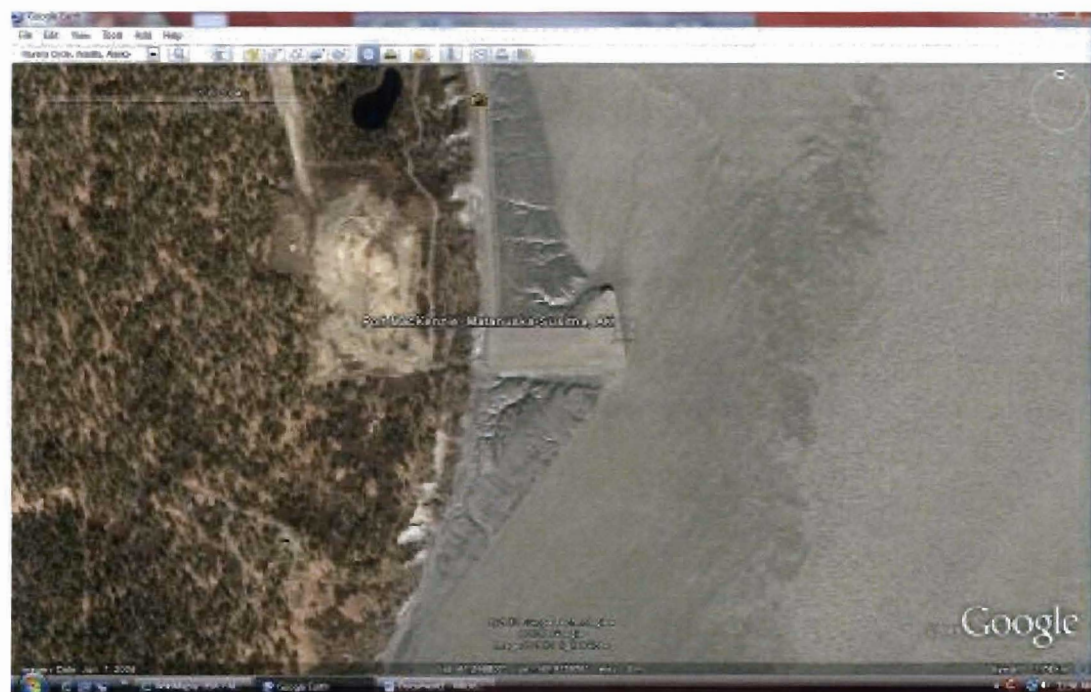


Figure 2 After barge dock - Noticeable change to shoreline

- A new shoal is building downstream of Port MacKenzie (called the Point MacKenzie shoal). Attached map show the area was stable prior to Port MacKenzie construction. First topo is USGS map July 1, 1963. Second is National Geographic map that is current as of 1988. Note that there are no changes in depth for 25 years.

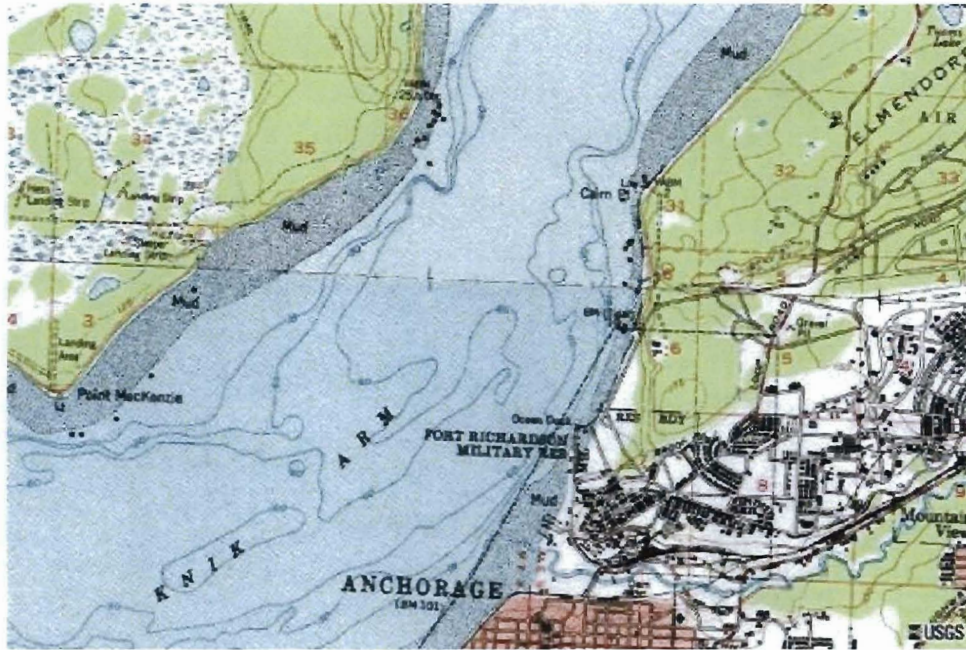


Figure 3 USGC map July 1, 1963

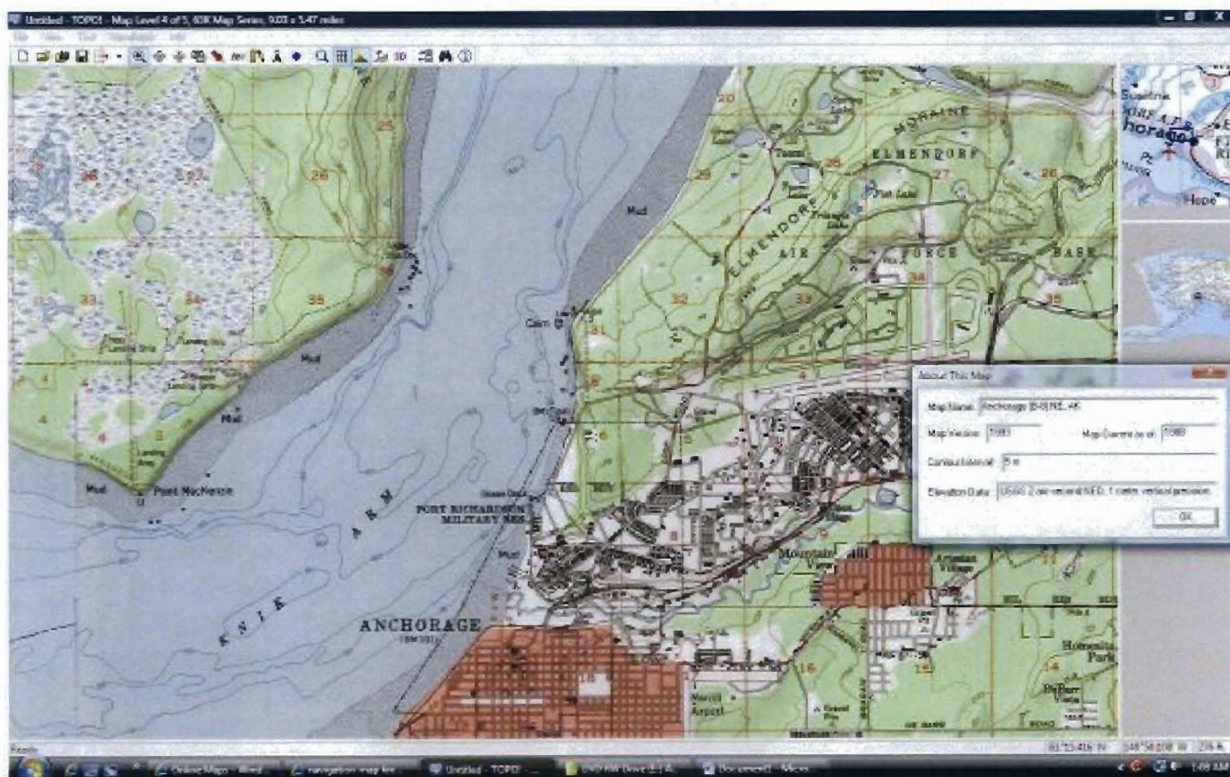


Figure 4 Map current as of 1988 shows no change to area in 25 years

- The new Point MacKenzie shoal is narrowing shipping lane as shown on this NOAA chartlet. Note that the 1992 line for 33 ft. has not change from 1963. Port MacKenzie started construction in 1999.

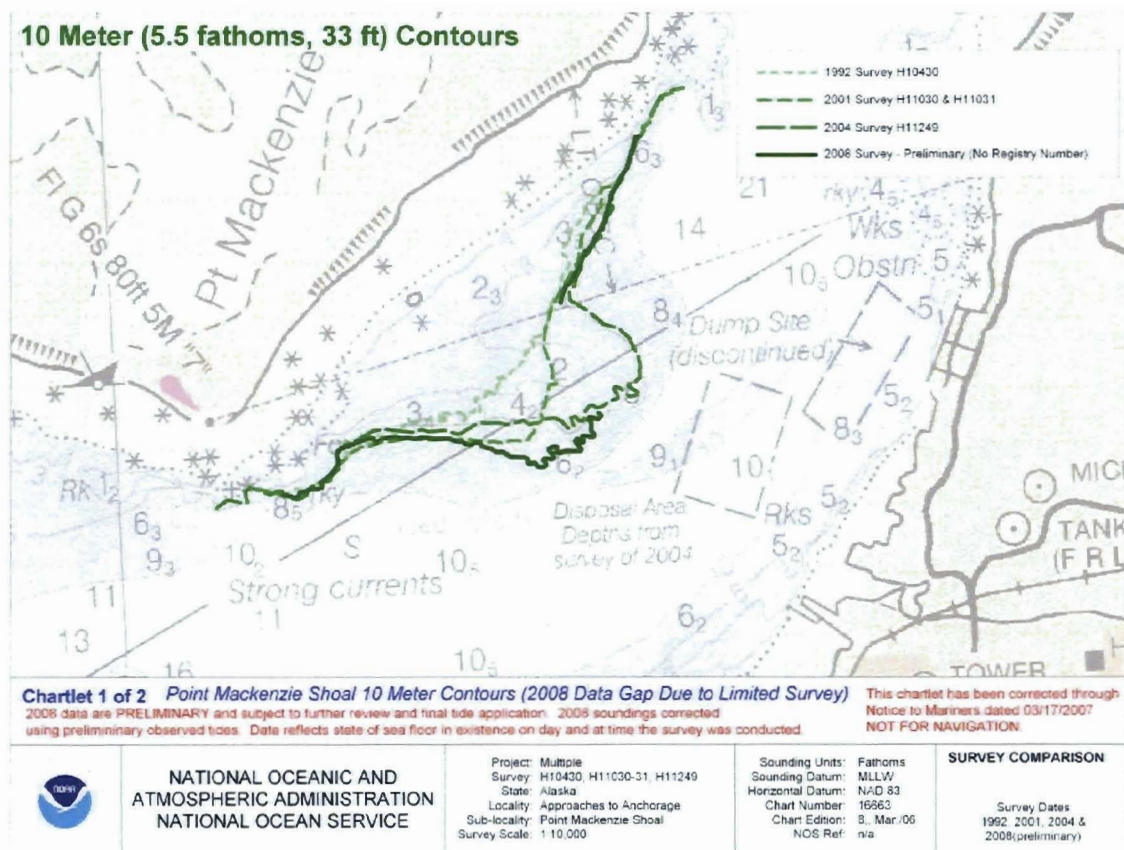


Figure 5 Note the steady growth of Point MacKenzie Shoal. The middle of Knik Arms is now as shallow as 6 feet where it used to be 60 ft.

- Ships entering either port must deviate from the navigation line and maneuver more than normally needed to safely approach the docks. Turning ships around has become increasingly dangerous due to the Point MacKenzie shoal, especially in wind or ice conditions.
- The U. S. Army Corps of Engineers needs \$ 1 to \$1.5 million as a 50% cost share to study the Point MacKenzie shoal and determine how much it will cost to dredge it annually.
- Port of Anchorage supplies 90% of all consumer goods to the State of Alaska.² Alaska's economy would suffer if access to the Port of Anchorage becomes more challenging as a result of continued growth of the Point MacKenzie shoal.
- Port of Anchorage is one of only 19 Ports designated by the Department of Defense³ as a national strategic port. National Defense would be impacted if military supplies were shut off to the world's hot spots.

² The Economic Impact and Logistics of the Port of Anchorage

- We **must** do further study on the negative impact to the Knik Arms ecosystem and fish habitat. In the meeting notes of the KABATA Bridge Approach Design Option Agency Meeting #2 on August 26, 2005: "*Robin Reich (HDR) said: "When we look at fish around Port MacKenzie dock, we saw a fair amount of juvenile salmon. We caught fewer around the face than on the two sides. Phil Brna (USFWS) mentioned the fish may not be able to get around the dock. That leads us to the abutment topic. We want to address concerns so we design to make it easier for fish to get around."*
- The Matanuska-Susitna Borough is aware of all this but is still asking for an additional \$57 million to expand the Port area facilities, even though they are aware of the high probability that Port MacKenzie has caused these damages. Simply physics say that further constriction of the narrowest point in the Knik Arm from future expansion of the Port will increase the speed of currents and can multiply the rate of sedimentation as described in the Knik Arms bridge study.

Port MacKenzie was built on a "Build it and They Will Come" "Pie in The Sky" Dream NOT on Economic Reality

- Port MacKenzie's mission "*To develop a world class Alaskan deep-water Port capable of safely and efficiently transporting people and commodities*". The Port of Anchorage is a world class Alaskan deep-water port capable of safely and efficiently transporting people and commodities. Only 1.5 miles separate the two ports. Railroad service to Port MacKenzie will save only 26.4 miles, some reports say 35 miles.⁴ It should be noted that the Alaska Railroad is only co-sponsoring the rail extension. They will sponsor the bonding but they will not put up Railroad assets for collateral. In a conversation with Steve Silverstein, Vice President, Business Development of Alaska Railroad, he states the cost of operating and maintaining the Port MacKenzie rail extension, based on actual conditions, would cost the railroad more to go to Port MacKenzie than it would cost to go to the Port of Anchorage. Any saving because of distance would be offset by the operations and maintenance costs of tracks, signals, etc and the fact that it is a dead end. He said the only way the rail extension would be cost effective over taking freight to Anchorage would be if a bridge with rail road tracks is built across the inlet or there is a substantially greater volume than we can identify at Port MacKenzie.
- Anchorage is a sheltered port that offers safety to moored ship. Port MacKenzie's master plan states "*Once a ship has been docked in waters such as Cook Inlet, with its ice and fast currents, pilots require almost perfect dock alignment in order to hold ships in the moored position.*"⁵ Per Van Dongen "The hardest part, most critical, is moving it while it's at dock. The ship will have to be moved 5 times in the course of loading its cargo. We have a heavy current there, we will use 24 lines to tie the vessel to the dock. There's a lot of force between the current and the ice."⁶ In February 2005 the first ship to dock at Port MacKenzie had to leave because of dangerous ice conditions. The port of Anchorage encountered no ice problems.⁷

³ <http://www.muni.org/departments/port/pages/default.aspx>

⁴ Benefit-Cost Assessment of the Port MacKenzie Rail Extension, page 6

⁵ Point MacKenzie Port Master Plan, Amended May 1999, page 23

⁶ Alaska Journal of Commerce, February 6, 2005, Port MacKenzie's ship has come in by Margaret Bauman

⁷ Alaska Journal of Commerce, February 14, 2005, Ice puts a kink in Port MacKenzie's first docking by Margaret Bauman

- Port MacKenzie claims a deep-draft capability of -60' mllw. However this is misleading. The elevation of the Knik Arm Shoal is -37 feet mllw. All ships going to the Port of Anchorage or Port MacKenzie must cross this shoal. ***Port MacKenzie's Master Plan states "based on information presently available, in conjunction with tide and depth limitation, it appears that maximum loaded ship draft at the proposed port would be 40 to 42 feet."***⁸
- In the draft EIS for the proposed Port MacKenzie rail extension, Appendix H, Biological Assessment, Section H.1, page H-12, paragraph 1 states: *"Port MacKenzie facilities include a deep-draft dock that can be used on a year round basis. In winter months with heavy ice, additional tie-down lines and a stand-by barge are used when ships are broken from their moorings by ice movements."* This statement is a very accurate description of the challenges to using Port MacKenzie in winter months. For any shipper to have to plan for this level of emergency back up just to stay tied to a dock is a very expensive and risky undertaking.
- In the Draft EIS for the proposed Railroad Extension under Purpose and Need *"The Applicant notes that the Port of Anchorage currently has no capacity for dry bulk materials export."* **In fact the Port of Anchorage handled 116,789 tons of dry bulk commodities in 2008.**⁹
- EIS states *"The required room for bulk rail unloading (unit train rail loop arrangements) does not exist, nor does the Port of Anchorage presently have the capacity to handle the loading of dry bulk materials into ship."* **The proposed Port MacKenzie's rail line loop is up a 150 ft embankment. The rail loop proposed phase I area is currently 2 miles from the Port by steep road,¹⁰ or will require 1800 ft of conveyor system. Existing conveyor system belongs to a private contractor who is in ongoing litigation with the Borough regarding use of this system. This means trains do not offload into the port area as we are led to believe. Additionally Port of Anchorage is currently handling dry bulk commodities import, why would they not be able to handle export. The Alaska Railroad owns an additional 600 acres of land on the west side of the Port of Anchorage, not two miles away as Port MacKenzie is. The rail road has a loop used for loading and unloading rail cars. They also rents/leases land to rail or port tenants.**

⁸ Point MacKenzie Port Master Plan, Amended May 1999, page 22

⁹ 2008 Port of Anchorage Annual Tonnage Report

¹⁰ RAIL EXTENSION PROJECT Economic Benefits to the Central Alaska Regional Economy



Figure 6 Proposed rail loop 2200 ft away (.4 miles) and over a 150 ft bluff

- Port MacKenzie claims they can handle coal. EIS for Chuitna Coal mine said that their Port area will have 56 pounds of coal dust an hour released into the area equaling 236.6 tons per year.¹¹ Will Anchorage residents ever allow permitting for coal shipping within 2 air miles of the City? Consider how coal dust from the Seward Port is affecting that town.

¹¹ 1990 Diamond Chuitna Coal Project Final Environmental Impact Statement, Volume 1, Chapter 5, Environmental Consequences



Figure 7 Loading barge with gravel. Note closeness of Anchorage in background.

- As early as 1989 the Anchorage Daily News reported: *Bill Noll, Vice President of Suneel Alaska Corporation, informed the Anchorage Daily News that **the company long ago discarded the possibility of shipping coal from Upper Cook Inlet because of navigational hazards. "It's not the economics, it's the possibility of losing your ships," Noll said. Coal ships draw 40 to 45 feet of water. To get to Point Mackenzie, they would have to pass over two shoals that are shallower than that.*** Ed Murphy, President of the Southwest Alaska Pilots Association said ***coal carriers would have trouble with Cook Inlet ice.*** He said the ice has caused problems for Sealand and Totem Ocean Trailer Express ships this winter, and those ships are smaller, have more powerful engines, and are designed with sharper bows to cut through the ice. "Time is critical here." He said. "You've got to be able to get across the shoal at the critical time and to the other shoal before it gets to the critical depth, and in a round-bow, low-horsepower ship in the ice, that may be a problem."¹²
- (October 1989) The Mat-Su voter rejected a \$25 million bond for Port.¹³
- (November 1989) Anchorage Daily News reported: *Mat-Su Borough's Boston based consulting firm Temple, Baker & Sloane, Inc. describes the Point Mackenzie Port Project as "**a speculative investment whose long-term development potential is uncertain**" and suggests the borough "carefully consider the full range of alternative economic options available." Even **under the rosiest assumptions, the port***

¹² Anchorage Daily News, March 22, 1989, *Shallow Inlet Deters Shippers, Mat Su Officials Defend Port Plan* by Charles Wohlforth

¹³ Mat-Su Borough Clerk's Office

would lose money for years a total of \$25 million through 1997, according to the report. After that, it would start to earn money, bringing in a total of \$48 million over the next decade. That's if everything breaks in the borough's way: the proposed Wishbone Hill mine near Palmer goes into production and ships through Mackenzie, Healy coal now shipped through Seward is switched, and an export industry in Mat-Su logs and wood chips springs to life. Under the most pessimistic assumptions the consultants examined, the port would run in the red every year through 2004, losing \$70 million. After that, it would make money for two years a total of about \$17 million then shut down as Wishbone played out. The report also notes that two thirds of the economic benefits in the port analysis could come to pass even without a port.¹⁴

- (February 1990) Anchorage Daily News reported: "Study shows a port at Point Mackenzie probably doesn't make sense economically, and voters turned it down last fall, but the Matanuska Borough is still spending money to make sure it gets built. **Spending on the port appears to have created its own momentum. The Port Commission used borough money to have a consultant devise a plan to lobby the borough assembly for the port, and then tried to keep it secret.**"

Enthusiasm of port supporters persisted even though a \$25 million port bond was turned down by voters. Port Commission Chairman Dan Dorran called the negative vote, "a victory," and some assembly members agreed, because they said voters were ill-educated on the issue and, thus, were likely to vote against it." But a borough funded survey of voters leaving the polls showed that impression was wrong. Marc Hellenthal, who conducted the poll, said only 3 percent of those who voted against the bonds said they didn't know enough about the issue. The vast majority said a port isn't needed, would lose too much money, was too expensive in light of other borough needs, or has not received enough study.

Port supporters also tried to discredit the consultant's economic study which came out after the election. **The commission dictated changes to the consultant, striking the statement that the port is a speculative and uncertain investment and leaving out tables that showed how long the port would lose money.** But even after the revisions, it is still difficult to find anything positive about the port in the study. **It says the port would require large subsidies to export even its most profitable commodities. Shipping 1 million tons a year of coal from Sutton's Wishbone Hill mine would require a subsidy of \$4 to \$5 a ton, the report said.** Despite that outlook, the commission had the consultant continue with the second phase of the contract, which was to write an action plan to sell the port.¹⁵

- (January 1992 Alaska Journal of Commerce reported: A quiet battle is being waged in the case of the proposed Port MacKenzie over a critical missing link, a railroad spur, over which millions of tons of natural resources could be moved to dock. On one side are port promoters who say they have all the economic facts and numbers needed, except those they need from Alaska Railroad Corp. to build that track. On the other side are railroad officials, who say they can't decide whether to support such a link, which they don't propose to finance until they get more facts on the economic feasibility of the port. .. Before lending support to about 30 miles of rail from Palmer to the proposed port on Upper Cook Inlet,

¹⁴ Anchorage Daily News, November 17, 1989, **Report Pans Mat Su port, but boosters vow to press on** by Stan Jones

¹⁵ Anchorage Daily News, February 27, 1990, **Backers Still Pull for Port in Valley** by Charles Wohlforth

the railroad needs to know what revenues would be generated by the port, said Loren Lounsbury, chairman of the railroad board.¹⁶

- (April 1993) Alaska Journal of Commerce reported: *A subsidiary of Japan's Kobe Steel, Ltd. Is moving slowly in its considerations of a \$200 million plant on Upper Cook Inlet, with a cautious eye to winter ice, seismic activity and gas prices. "We are assuming a positive decision internally on the viability of a North American project," says Frank Griscom, vice president of marketing for Midrex Corp., an engineering firm based in Charlotte, N.C. "We would love to put a plant in, but we are not going to try to hoodwink anyone into building a plant that we believe can't live up to the economics, winter ice and seismic conditions," Griscom said in a telephone interview March 30.*¹⁷
- (September 2000) Anchorage Daily News Reported: *After attending the ribbon cutting ceremony for the new Port MacKenzie Dock, Mike Doogan of the Anchorage Daily News wrote; "I've seen artist's conceptions of Point Mackenzie before. There was the Knik Arm Crossing, an oft-conceived bridge or causeway, sometimes with tidal power generators, sometimes not, to connect Anchorage with its sketched-in bedroom community across the water. There was Seward's Success, a climate controlled city connected to Anchorage by a high-speed aerial tramway. The Point Mackenzie Dairy Project, part of Gov. Jay Hammond's ill fated green development scheme, actually leaped off the drawing boards, only to crash into a flaming mass of bankruptcies and finger-pointing. **For more than a generation, Point Mackenzie has been where big ideas go to die.**"..... "Dreams become a reality if you work hard enough to achieve them", Mat-Su Borough Manager Mike Scott told the crowd, "and he might have added, if you can secure the public funding. Nearly \$7 million in federal funds went into the dock and approach road, with another \$1 million-plus in state and Borough funding. There's another \$4.5 million in federal money to build a ferry landing...."*¹⁸
- (November 2000) Anchorage Daily News reported: *The U.S. Army Corps of Engineers, in a preliminary review of the Port Mackenzie dock, declares that the new port at Point Mackenzie may not be able to withstand an earthquake. At issue was the stability of several hundred 70 foot pilings that surround the dock. Driven into the Cook Inlet silt, the pilings create the framework for the dock, holding in place 350,000 cubic yards of gravel. "Only two of the three test holes drilled for the agency turned up a potentially weak layer", said Marc Van Dongen, Port Mackenzie's new Director, "and those two holes were 10 feet apart. So it could be just a localized problem." "State Department of Transportation officials originally requested the review because of concerns about **the stability of the gravel dock and lack of data about the silt underlying it**" Van Dongen said.*¹⁹
- (June, 2001) Alaska Journal of Commerce reported: *A shift in development priorities by the Mat-Su Borough administration has affected plans for Port Mackenzie. With the exception of one business, activity at the port has ground to a halt since the Corps of Engineers issued a preliminary report last fall,*

¹⁶ Alaska Journal of Commerce, January 20, 1992, **Port MacKenzie promoters, railroad spar over spur** by Margaret Bauman

¹⁷ Alaska Journal of Commerce, April 5, 1993, **AIDEA funds feasibility study for iron processing plant** by Margaret Bauman

¹⁸ Anchorage Daily News, September 8, 2000, **Point Mackenzie Proves Itself a Graveyard for Grand Schemes**, Mike Doogan

¹⁹ Anchorage Daily News, November 25, 2000, **New Dock May Be At Risk** by S.J. Komarnitsky

alleging that the port may not be structurally sound. Shortly after that, the Federal Highway Administration issued a recommendation that the port close until the Corps and the borough come up with a plan to make appropriate repairs... There is one tenant at the port, Alaska Manufacturing Contractors. The company began manufacturing homes for villages in rural Alaska last year, completing 11 homes and then shipping them from Port MacKenzie. The company managed to do this despite a lack of basic infrastructure at the port. Plant manager Bob Gilman said his company has met all its contractual obligations as a tenant, and he hopes the borough will be able to reciprocate. "We expect a certain amount of growing pains," Gilman said. "We've managed to accomplish every single thing we said we were going to **do 2 ½ years ago**, and we fully expect that the Mat-Su borough will accomplish their goals also, including road improvements, permanent power and other infrastructure for the port here." **Right now there is no electricity, no gas and no real infrastructure to attract and keep port tenants.**²⁰

- (November 2001) Anchorage Daily News reported: When Mat-Su Borough built a port at Point Mackenzie in 1999, borough administrators pitched it as a small-scale operation that would pay for itself and grow as needed. Fees from a ferry service and shipments of Mat-Su timber would pay the bills, then borough Manager Mike Scott pledged. But as Port Mackenzie prepares for its third season, the self-supporting part of the operation has yet to pan out.

The port, **which cost about \$7 million, has generated less than \$20,000 in revenue**, according to the borough's port director. It has one permanent customer. There are questions about the dock's stability in an earthquake, and borough officials say much more money --millions more--needs to be spent to create an economically viable port. Borough officials stop short of saying the initial plans for the port were unrealistic, but they now talk about it as a long-term project that will take years to pay off. Meanwhile, the borough faces questions about the stability of the dock. The U.S. Army Corps of Engineers started a review last year after cracks appeared in the gravel on the top of the dock. In February, an engineer with the corps said the dock could be failing already.²¹

- (August 2003) Anchorage Daily News reported: The Matanuska-Susitna Borough wants to team up with a timber firm to build a bigger dock at its Point Mackenzie port in hopes of attracting more business. But some Assembly members are questioning the proposal, **which could end up costing borough taxpayers up to \$10 million and requires putting up the borough office in Palmer and the land it sits on as collateral.** The Assembly members and Borough Mayor Tim Anderson say they want more information about the timber company NPI LLC.

They are concerned that taxpayers could end up footing the bill, although officials say they are optimistic the state would reimburse the borough for the cost of the project. **Since the project would give NPI exclusive rights to ship some products, including gravel and wood chips**, it might discourage other

²⁰ Alaska Journal of Commerce, June 10, 2001, *With Port Mackenzie Closed, Mat-Su Borough Shifts Director's Responsibilities*, Chas St. George

²¹ Anchorage Daily News, November 5, 2001, *Knik Arm Dock Has Yet to Pay for Itself* byes'. Komarnitsky,

businesses from setting up at the port some members say. "I have a whole lot of questions and no answers," said Assembly Member Mary Kvalheim. The proposal comes as the borough is struggling to find a niche for the port. The facility opened in 1999 with great fanfare but so far has only one permanent customer--a business that builds prefabricated homes and ships them to the bush.

A recent study done for the borough suggested the port might have trouble living up to its supporters' expectations without a big change in the political and economic landscape, such as construction of a natural gas pipeline to the port. The study by The Cornell Group, Inc. states that without such a development, "Port Mackenzie may be relegated to the position of a marginal port supporting the Port of Anchorage for the next 20 years."

Under the proposal, both sides would pitch in to pay for the estimated \$11.5 million extension, which would add 485 feet to the current 850 foot dock. **The borough would pay up to \$10 million for construction while the timber company would contribute \$3 million and build an \$8 million conveyor and loading system to transfer material, such as gravel and wood chips, onto waiting barges.** The borough would issue revenue bonds to pay for its share and is hoping the state will reimburse those costs, Borough Manager John Duffy said. But that is not guaranteed.

The Legislature passed a law last year that authorizes reimbursement to the borough of up to \$10 million for the dock extension. However, the Legislature has to approve those payments each year and could decide not to if state budget problems persist. Legislators have already turned down money authorized for other projects in the same bill. **If the state doesn't come through, Duffy said he's hopeful the fees the borough would charge for shipping products, particularly gravel, would cover the bond debt for extending the dock. But he acknowledged that taxpayers could be left footing the bill if the state funding falls through and revenues from the new port do not materialize. He said it is unlikely that borough officials would give up the borough building. Instead, the Assembly would raise property taxes, he said.**

Because the borough is putting up its office building as collateral, bonding for the dock extension would not require voter approval as is typical for funding such projects as school construction, Duffy said. The difference is the borough usually backs its bonds with a promise to raise taxes if needed to cover costs, that promise requires voter approval. In this case, the guarantee is the borough building. Mayor Anderson said he'd prefer a vote since taxpayers may end up paying for the project. "I'm really concerned with the borough getting stuck with the debt repayment every year," he said.²²

- (August 2004) Anchorage Daily News reported: For a decade, a port at Point Mackenzie across Knik Arm from Anchorage was a dream and piles of paper in the Mat-Su Borough's Mayor's office. Now workers are driving steel pilings into the silty floor of Cook Inlet, building a dock deep enough for ocean going vessels. Mat-Su officials hope the \$13 million project will bring jobs, cash and momentum for other big development dreams: a ferry, a bridge and railroad access to the Mat-Su port.

²² Anchorage Daily News, August 14, 2003, *Valley Weighs Bigger Dock* by S.J. Komarnitsky

The multimillion-dollar project is an expansion of a smaller \$7 million dock the borough built at Point Mackenzie 5 years ago. Later the borough spent \$800,000 to bring it up to safety standards. Much of the capital improvements have been funded by federal and state money. **The borough spends about \$250,000 a year for the port director and port planning. So far the first dock has one long-term customer and is generating about \$20,000 to \$30,000 a year, said Borough Manager John Duffy.**²³

- (November 2004) Alaska Journal of Commerce reported: A deep-draft dock under construction at Port Mackenzie since July is near completion, and, weather permitting, the first load of about 40,000 tons of wood chips should move out of the port in January, Port Director Marc Van Dongen said Nov 4. "Each one of those ships will probably generate about \$50,000 in wharfage and dock fees. They're looking at a ship a month, so that would be \$600,000 a year in borough revenues just for the wood chips. But the real benefit will be 120 new jobs, driving trucks and cutting timber. Given the multiplier effect of those dollars turned over and over in the local economy, the desired effect of generating economic development will be realized. The port will provide alternative revenue to the borough assembly to use as they see fit."

To date, the borough has spent some \$22 million on the port project, with most funds coming from federal and state grants, Van Dongen said. In addition, NPI is putting in about \$11 million this year just to get it up and running. We've got a public/private partnership going. This time next year this will be more than self-supporting.²⁴

- (January 2005) Alaska Daily News reported: The first shipment of birch chips leaving Point Mackenzie via the newly built deepwater dock is set to be loaded this week onto the Keoyang Majesty bound for Korea. The shipment has been four years in the planning, said Terry Nininger, manager of NPI LLC, a wood chip manufacturing and export company. The initial wood shipment represents a shift in economics at the port, and 10 to 12 vessels are expected through the facility this year, netting the Borough about \$600,000. "We won't be tapping the taxpayers to support the port at all" said Port Director Marc Van Dongen. NPI has put more than \$11 million into the deep-dock project.²⁵
- (February 2005) Alaska Journal of Commerce reported: A spokesman for a wood chip manufacturing firm said Feb. 7 his company is considering blocking out several weeks in mid-winter as shipping dates in the wake of icy conditions at Port Mackenzie that prompted a ship to depart with half its cargo loaded. **Several days after arrival, with three of six compartments loaded, the captain became alarmed at mounting ice conditions and decided to bring the vessel back to Homer to wait until conditions improved...** Officials at the Port of Anchorage said ice conditions caused no delays at that port. "Port Mackenzie lies at a narrower point of Upper Cook Inlet than the Port of Anchorage, and is subject to faster currents, which contribute to ice problems in winter", Van Dongen said... "Port Mackenzie was

²³ Anchorage Daily News, August 5, 2004, *Work is Now Under Way on \$13 Million Port Mackenzie Project* by Sarana Schell

²⁴ Alaska Journal of Commerce, November 14, 2004, *Deep Draft Dock at Port Mackenzie Nears Completion* by Margret Bauman

²⁵ Anchorage Daily News, January 31, 2005, *First Ship to Tie Up at Mackenzie Dock* by Rindi White

*planned to operate year-round, but everyone is aware of the ice... **Van Dongen said ice conditions are a chance vessel captain's take bringing ships into the area in the winter".***

Port officials have heralded the arrival of the huge Korean vessel as a major step forward for the port. Matanuska-Susitna Borough manager John Duffy has estimated port fees from wood chip vessels alone would bring in \$80,000 to \$100,000 annually to borough coffers.²⁶

- (April 2005) Anchorage Daily News reported: *A so – far smooth relationship between the Mat-Su Borough and NPI, LLC, the sole business shipping from the borough dock at Port Mackenzie, has hit a contractual snag. NPI's contract to operate at the port is on the line after borough officials said the company failed to make payments it should have made more than a month ago. The borough claims NPI owes more than \$66,000 in wharfage fees based on tons of material handled at the Port Mackenzie dock. An NPI contract to clear 900 acres of borough timber is also on hold until the dispute is settled.*

*NPI issued its own notice of default to the borough Tuesday, **contending the borough improperly changed the dock design without the company's approval. The changes have cost NPI a customer,*** according to a letter to the borough from Dale Rich, President of Oklahoma based Horizon Natural Resources Inc., the NPI LLC parent company....***Because of these changes made by the Mat-Su Borough, certain shipping companies have now deemed Port Mackenzie unsafe for berthing," Rich wrote. "Therefore, we have lost our customer."*** NPI spokesman Terry Niningger said that one NPI client voiced concerns about shipping from the dock during winter months.²⁷

- (November 2005) Alaska Daily News reported: *Matanuska-Susitna Borough officials want to know if a bridge across the Knik Arm at Anchorage would trigger the collapse of the borough-owned dock at Port Mackenzie. Borough officials have been concerned about the dock ever since a federal study two years ago showed building the span could increase the flow of water near the port. Earlier this month, Borough Manager John Duffy wrote the U.S. Army Corps of Engineers citing the "potential catastrophic collapse" of the dock. He noted a 2003 model exercise by the agency showed that the span could trigger a "significant increase" in water velocities near the port.*

Duffy wanted to know whether the Corps of Engineers reviewed that study and what they found. The answer wasn't what Duffy hoped. The agency doesn't expect a copy of the study until next week, and it will likely take weeks for a thorough review, said Steve Boardman, who oversees the Corps of Engineers civil project branch in Alaska. Borough concerns about the bridge impact on its dock date back to a 2003 study by the Corps of Engineers at its offices in Vicksburg, Mississippi. That study simulated conditions in Knik Arm. It highlighted a number of potential problems with the span, including faster currents in parts of Knik Arm and possibly more sedimentation near the Port of Anchorage. The latter is a concern

²⁶ Alaska Journal of Commerce, February 14, 2005, *Ice Puts a Kink in Port Mackenzie's First Docking*, by Margret Bauman

²⁷ : Anchorage Daily News ,April 21, 2005, *Dock Arrangement Hits Rocks* by Rindi White

because the port already spends millions a year dredging to keep the channel clear for ships. The faster currents could also make navigating Knik Arm trickier for ships, Boardman said.²⁸

- (January 2006) Alaska Journal of Commerce reported: *The Mat-Su Borough's Port Mackenzie earned \$217,000 in 2005 in wharfage and dockage fees from several large cargo vessels and barges, just a fraction of the port's fiscal operating budget for fiscal 2006*, borough officials said December 20. According to Cheyenne Heindel, the borough's revenue and budget manager, the port has an operating budget of \$2.7 million for fiscal 2006, including \$178,536 in wages and benefits for the port's two employees. Until July 1, 2005, port funds came from an area wide operations fund, Heindel said. As of July 1, the borough transferred all port assets – a total of \$27.5 million – to a separate port enterprise fund. *That fund has already paid out \$410,000 in interest charges on a \$10 million bond for port construction approved in a borough election several years ago*, Heindel said.²⁹
- (January 2006) Anchorage Daily News Reported: *The borough has long hoped to see its port become an economic engine in the Valley, and Director Marc Van Dongen has found encouragement in a newcomer – a company that views the dock as a potential terminal for offloading imported cement. Van Dongen wouldn't identify the company but the business interest may be a sign of things to come as operation of a new Point Mackenzie ferry draws closer and a potential Knik Arm Bridge looms in the background. At least 40 companies have talked to Van Dongen about doing business at the port in the past three years*, he said.³⁰
- (January 2006) Anchorage Daily News reports: *A \$3.3 million ferry terminal will be built at the Port Mackenzie dock this year, but it will be at least two years before ferry service begins*, port director Marc Van Dongen said Monday. Robert Koski, Port Mackenzie project manager for the borough, said he expects the terminal building to be finished in November. Paid with federal funds, the terminal building is one of three large projects that must be completed before ferry service between Mat-Su and Anchorage can begin. In line for completion next year, Koski said, is a project to build ferry landings at Port Mackenzie and in Anchorage. A small terminal building, where ferry tickets can be purchased, is also slated for construction next year in Anchorage.

*While ferry landings are built, the catamaran-style ferry will be built in Ketchikan, Van Dongen and Koski said. Van Dongen said the ferry will take 18 months to build. Koski said that if the ferry project stays on track, the ship will be put through a testing regimen in late 2007. Van Dongen said delivery to the Mat-Su Borough is set for spring 2008. The ferry is expected to cost nearly \$30 million.*³¹

- (June 2007) Anchorage Daily News reports: *A timber company that partnered with the Mat-Su Borough in 2003 to build a \$14 million deep-water dock at Port Mackenzie is now suing the borough for more*

²⁸ Anchorage Daily News, November 23, 2005, *Effects of Bridge on Port Concern Officials* by S. J. Komarmitsky

²⁹ Alaska Journal of Commerce, January 1, 2006, *Costs Outpacing Revenues As Port Mackenzie Develops* by Margret Bauman

³⁰ Anchorage Daily News, January 4, 2006, *Scores of Companies Eye Port Mackenzie* by Kyle Hopkins

³¹ Anchorage Daily News, January 25, 2006, *Ferry Terminal First Stage* by Rindi White

than \$100,000 in damages. NPI, LLC filed the suit last month in Palmer Superior Court accusing the borough of breaches of "good faith" and "fair dealing". **Specifically the suit claims the borough was unfair in "denials of Lease Credits to NPI, Interference with NPI's priority use rights (at the dock), and interference with NPI's timely recoupment of costs associated with developing the bulk material loading facility at Point Mackenzie."**

The company also contributed \$3 million toward construction of a \$14 million dock extension and paid \$8 million to build a bulk material loading facility. The facility allows transferring items like gravel and wood chips onto barges. In exchange, the borough gave the company exclusive rights to ship bulk commodities, such as wood chips, out of the port. The company has had a running dispute with the borough about being able to deduct work such as road improvements at the port from lease payments it makes on its land.

More recently, company officials have complained a borough moratorium on timber sales has made it difficult for the company to get timber for export to its markets in Asia. The borough put a moratorium in place after complaints from residents about noise and traffic from timber harvesting operations.³²

- (February 2008) Anchorage Daily News reports: It's possible that unexploded 90 mm and 120 mm artillery shells are nestled amid wetlands, meadows and forests within an 8,657-acre wedge on Point Mackenzie, according to the U.S. Army Corps of Engineers. Because of that, the Mat-Su Borough Assembly next month will consider whether to pay a contractor \$148,775 to survey 20 acres the borough owns and that Alaska Aggregate Products plans to mine next year. "The odds of anyone finding something are really remote – extremely remote. But they do exist," said Port Director Marc Van Dongen. Van Dongen said he served 24 years in the Corps of Engineers, including six as deputy commander before retiring and becoming the borough port director.

According to the November Report, the former Susitna Gunnery Range is a fan-shaped area that extends from Cairn Point on Elmendorf Air Force Base to the Little Susitna River, about 17 miles. It was used between 1952 and 1958 as an impact area for anti-aircraft artillery troops firing long-range weapons. The military issued a certificate of clearance in 1960 that said all ammunition fired in the area had self detonating fuses and, according to the report, "there was no evidence of malfunction". But the report, citing military archives, said that 90 mm armor-piercing shells, 90 mm high-explosive shells and 120 mm high-explosive shells may still be there.

Today the area includes the borough's barge and deep-water port, several farms, a few homesteads and recreational cabins. A landowner clearing land in August 2000 with a bulldozer discovered a 105 mm high-explosive projectile, according to the report. A second shell, a 90 mm armor piercing tracer, was also found when Alaska Manufacturing plant was built near the port in the late 1990's. And, according

³² Anchorage Daily News, Dock Financial **Dispute leads to Lawsuit**, S. J. Komarnitsky, 6-13-2007)

to the report, a detonation team member recalled in a 2005 interview responding to the area twice in the 1970's and 1980's to recover two "dud" artillery shells.³³

³³ Anchorage Daily News, February 21, 2008, *Old Munitions May Slow Gravel Mining* by Rindi White