



The Port MacKenzie Money Pit

It's time for answers, not investment.

The Port MacKenzie Money Pit

The Port MacKenzie project is the latest in a long line of extremely expensive projects undertaken by the Mat-Su Borough that have turned into complete financial boondoggles. Growth is something all Alaskans believe in. But pouring money into a bottomless pit is not.

The Mat-Su Borough has a long track record of mismanaging projects funded with public dollars. From the \$7.8 million ferry with nowhere to dock to the fancy \$4.5 million Ferry Terminal that sits empty and the empty \$225 million Goose Creek Prison, the Point MacKenzie area in the Mat Su Borough is a magnet for bad investments and mismanaged projects. Let's not let another money pit swallow Alaska's public funds.

The Port MacKenzie project has never received much support from the general public. Investment in Port MacKenzie was first rejected by the voters of the Mat-Su Borough in 1989 when they voted down a \$25 million bond package. Opposition to this project has remained strong over the years, local meetings frequently draw large crowds of vocal opponents who cite the Mat-Su Borough's history of mismanagement and the anticipated runaway costs of the project among their primary concerns.

Can Alaska continue to afford the Mat-Su Borough's poorly planned projects?



After the bond package was rejected by voters the Borough commissioned a study that described the Port as ***“a speculative investment whose long-term development potential is uncertain.”*** Despite the findings of their own study commissioned by Temple, Baker and Sloan, the Mat-Su Borough moved forward with the project anyway and used a loan on a Borough-owned office building to finance construction of the Port.

The Port opened in 2000 but has seen only about a dozen boats at its dock since opening and has been plagued with mismanagement and misinformation from the beginning. The Port has run huge structural deficits frequently losing millions of dollars every year.

Now, the Mat-Su Borough wants to dump another \$170 million of Alaska's public dollars to construct a rail spur to the Port. The Borough continues to push this development despite the history of failure at Port MacKenzie and without adequate information on the economic viability of the Port or its impacts on Alaska's existing ports in Anchorage and Seward.

Port MacKenzie – A Speculative Investment From Day One

The Port MacKenzie project was not projected to make much money, even under the Mat-Su Borough’s own projections. Unfortunately time has shown those grim financial projections becoming a reality.

While the Mat Su Borough tried to suppress the findings of the Temple, Baker & Sloan report, the underlying assumptions were clear: **this is a risky investment at best.** According to this original report, even under the rosier assumptions, the port would lose tens of millions of dollars for years. 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. **None of these assumptions can be safely made even 15 years later.**

Under the most pessimistic assumptions the consultants examined, the port would run in the red every year for the first the first decade, 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.**¹

In November 1989, the 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.**”

To date the Port has run major deficits and not ever come close to turning a profit. The Mat-Su Borough is now asking the State of Alaska to put good money into supporting their bad investment. Can the Mat-Su Borough prove that they will finally be able to make a profit if the rail spur is completed? History tells us that profits at Port MacKenzie are unlikely.

What Will It Cost to Operate and Maintain Port MacKenzie?

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 35 miles.²

Major questions remain about the operating and maintenance costs of the Port MacKenzie rail extension. It is likely that any savings because of distance would be offset by the operations and maintenance costs of tracks,

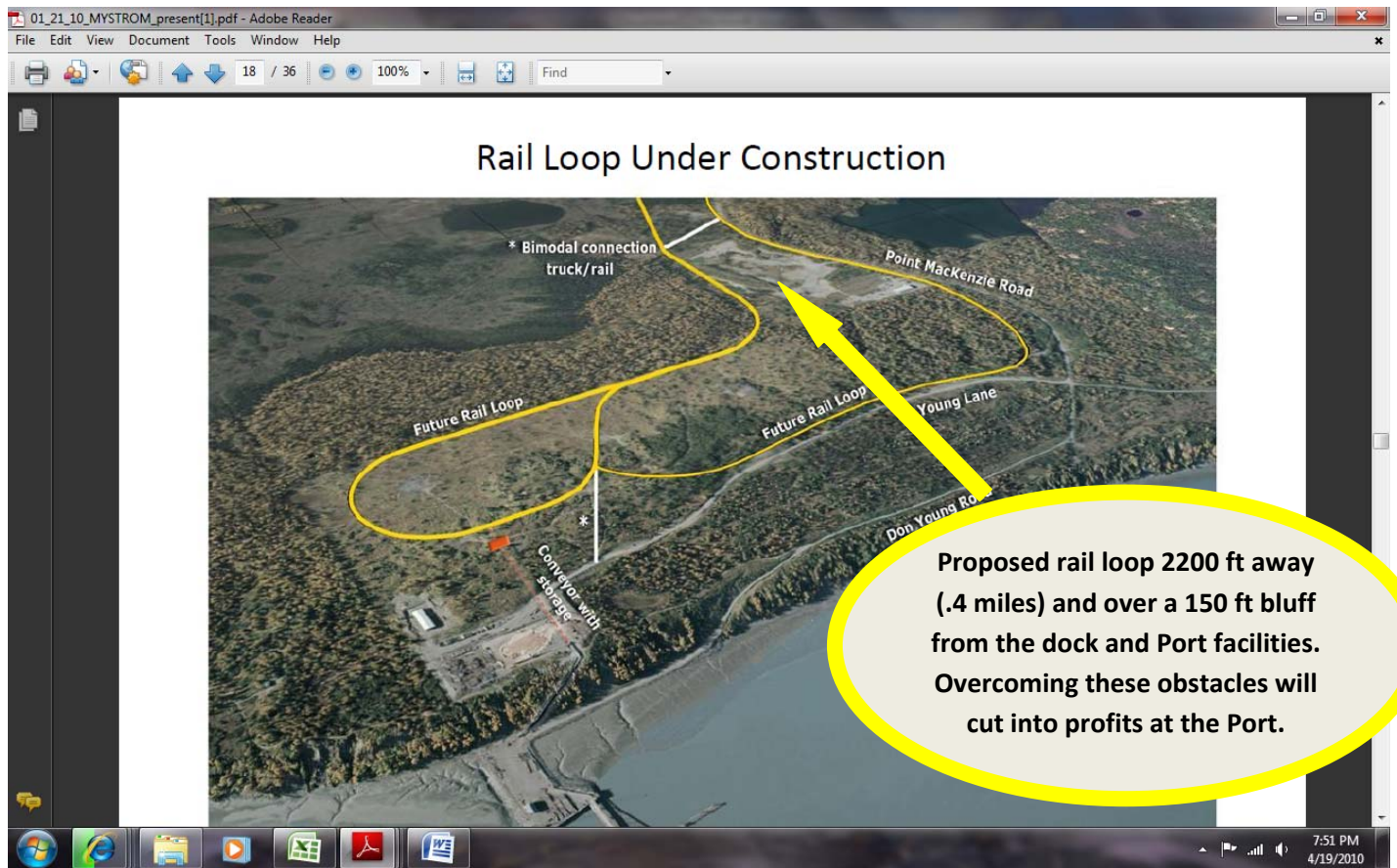
¹ Anchorage Daily News, November 17, 1989, **Report Pans Mat Su port, but boosters vow to press on** by Stan Jones

² **Benefit-Cost Assessment of the Port MacKenzie Rail Extension**, page 6

installing new signals, and substantial infrastructure required to offload bulk commodities like coal over the steep slopes of the bluff between the rail loop and the dock.

Unlike Seward, which offloads coal and loads coal on-grade to a conveyor system to load dry bulk cargo ships, Port MacKenzie's challenging geography will require conveyors built to accommodate the steep slopes. The existing conveyor system belongs to a private contractor who is in ongoing litigation with the Borough regarding use of this system.

Accurate costs for installing a conveyor and dust mitigation system have not been obtained or described. Even the established infrastructure in the Port of Seward is under scrutiny by local residents, the state DEC and the EPA because of the visual evidence of coal dust release. With its proximity to farmland and dense population centers in Government Hill in Anchorage, the need for modern coal dust mitigation system (like bag houses and enclosed conveyors) cannot be overlooked. These costs have not been properly accounted for and will make it extremely difficult for Port MacKenzie to turn a profit.



Tides and Ice: A Dangerous and Risky Combination for Shippers

Anchorage is a sheltered port that offers safety to moored ship from Cook Inlet's massive tides and winter ice flows, Port MacKenzie is exposed to both elements making accessing and mooring at the Port a very risky action for ships in the winter months.

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."³ Per Marc Van Dongen, the Port Director at Port MacKenzie "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."⁴ In February 2005 the first ship to dock at Port MacKenzie had to leave because of dangerous ice conditions while at the same time the port of Anchorage encountered no ice problems.⁵

The first ship to ever dock at Port MacKenzie had to leave early due to dangerous ice conditions. Strong tides and heavy ice flow make Port MacKenzie a dangerous winter port.

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." Because of the heavy ice and likelihood of ships being broken from their moorings, using Port MacKenzie in winter months is inherently dangerous. **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 February of 2005, the 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 planned to operate year-round, but everyone is aware of the ice... Van Dongen said ice conditions are a chance vessel captains take bringing ships into the area in the winter". **With more established, accessible and safe ice free ports in Anchorage and Seward is it realistic to believe that ships will choose to dock at Port MacKenzie in the winter months?**

³ Point MacKenzie Port Master Plan, Amended May 1999, page 23

⁴ Alaska Journal of Commerce, February 6, 2005, Port MacKenzie's ship has come in by Margaret Bauman

⁵ Alaska Journal of Commerce, February 14, 2005, Ice puts a kink in Port MacKenzie's first docking by Margaret Bauman

An Unnecessary Investment

The Port of Anchorage is a critical port for Alaska's economy and security. **The Port of Anchorage supplies 90% of all consumer goods to the State of Alaska.**⁶ The Port of Anchorage is also one of only 19 Ports designated by the Department of Defense⁷ as a national strategic port. National Defense would be impacted if military supplies were shut off to the nation's most strategic ports. Why would we risk Alaska's most important port?

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 2008.⁸

If 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 does. The rail road has a loop used for loading and unloading rail cars. They also rent and lease land to rail or port tenants.

The Port of Anchorage has room to grow, is already established as a critical piece of infrastructure for Alaska and our nation. Why would we risk access and investment Alaska's most critical port for a speculative and extraneous Port MacKenzie just 2 miles away?



⁶ **The Economic Impact and Logistics of the Port of Anchorage**

⁷ <http://www.muni.org/departments/port/pages/default.aspx>

⁸ **2008 Port of Anchorage Annual Tonnage Report**

Photo by: [U.S. Army Corps of Engineers](#), [Creative Commons](#)

Setting the Stage for Future Litigation

The Mat-Su Borough believes that coal exports from the Wishbone Hill coal mine and other coal projects will be a major source of revenues for the Port. However the Wishbone Hill and Chuitna coal mines face stiff public and legal opposition and may never come to fruition.

The loading and transportation of coal can produce significant amounts of fugitive coal dust. Coal dust has been documented to contain toxic materials such lead, cadmium and zinc. Once dust becomes airborne there are concerns about the impact to air quality and water quality in the region.

The EIS for the 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.⁹ With a pending lawsuit over Clean water Act violations and an ongoing air quality monitoring program related to the coal loading facility in Seward, serious questions about the impact of a coal loading facility 2 miles from Anchorage remain.

What steps are being taken to ensure that Port MacKenzie will not experience similar lawsuits and what would those lawsuits due to the projected bottom line at Port MacKenzie?



Loading barge with gravel at Port MacKenzie. Note closeness of Anchorage in background. Similar loading facilities in Seward are facing lawsuits from environmental organizations and public health advocates over Clean Water Act violations. What will prevent Port MacKenzie from facing similar costly litigation?

⁹ 1990 Diamond Chuitna Coal Project Final Environmental Impact Statement, Volume 1, Chapter 5, Environmental Consequences

Exacerbating Navigation Challenges in Upper Cook Inlet

The Powerful tides and ice of upper Cook Inlet already make ship navigation in the area a challenge and now the developments at Port MacKenzie are making the problems worse. By placing new infrastructure in the Inlet, Port MacKenzie has begun to create sedimentation deposits and a rapidly growing shoal. These developments will require more frequent dredging and are making it more difficult for ships to access both Port MacKenzie as well as the Port of Anchorage. **Have these costs been adequately considered in the Port MacKenzie price tag?**

According to the draft EIS, 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."*¹⁰

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. To avoid these dangerous maneuvers ships will either avoid accessing Port MacKenzie and the Port of Anchorage or will demand increased dredging efforts.

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 stated that 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."*¹¹



The U. S. Army Corps of Engineers has requested \$ 1 - \$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. These costs should be factored into any realistic cost projections of Port MacKenzie operating and maintenance costs.

¹⁰ Point MacKenzie Port Master Plan, Amended May 1999, page 22


¹¹ Anchorage Daily News, March 22, 1989, **Shallow Inlet Deters Shippers, Mat Su Officials Defend Port Plan** by Charles Wohlforth

The Army Corps of Engineers has raised concerns about the rapidly developing shoal in Cook Inlet and worry that Port MacKenzie and the potential development of the Knik Arm Bridge could exacerbate the problem.

The following is an excerpt from the Alaska Journal of Commerce, June 19 2005 titled Influx of Silt in Inlet Increase in Dredging Costs: 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’ve 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.¹²



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?



The Mat-Su Borough is aware of all this but is still asking for an additional \$110 million to expand the Port area facilities with a rail spur even though they are aware of the high probability that Port MacKenzie has caused these damages. 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.

¹² Alaska Journal of Commerce, June 19, 2005. **Influx of silt in inlet increase in dredging costs** by Melissa Campbell

How can we be sure that ships will be willing to navigate through these increasingly treacherous waters to access Port MacKenzie when safer, more established ports are available in Seward and Anchorage?

And why would we risk access to the Port of Anchorage? **Port MacKenzie is already creating significant navigational barriers to the Port of Anchorage. The impacts of infrastructure at Port MacKenzie should be further studied before more funds are dedicated to the project.**

Compare Image #1, a **Google Earth map from 1995**, prior to Port MacKenzie and Image #2, a photo after the barge dock was built. 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.



Image 1
1995's shoreline near Port
Mackenzie prior to construction.
Note the absence of major
sediment accumulation prevalent
in Image 2



Image 2
Major sedimentation build up
above and below Port
MacKenzie dock post
construction

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.

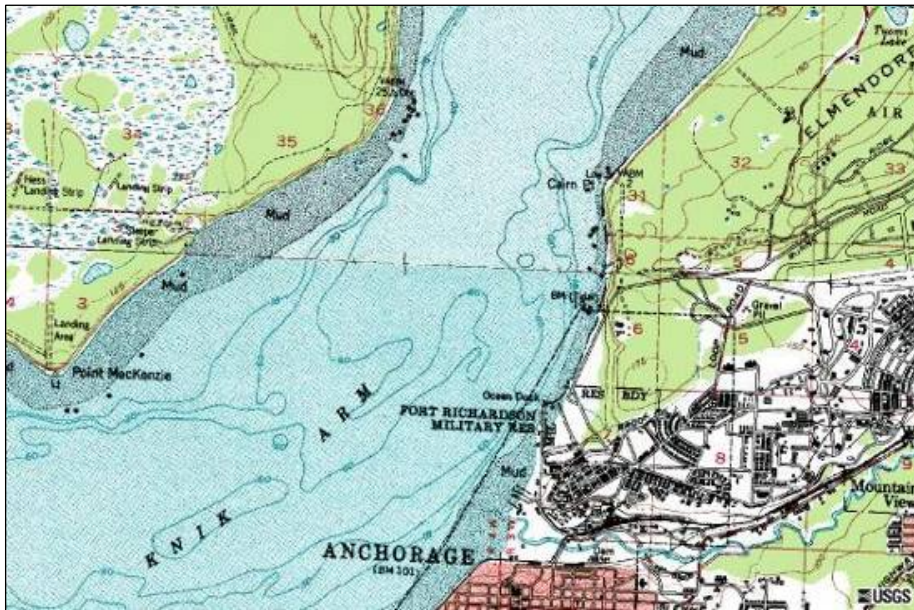
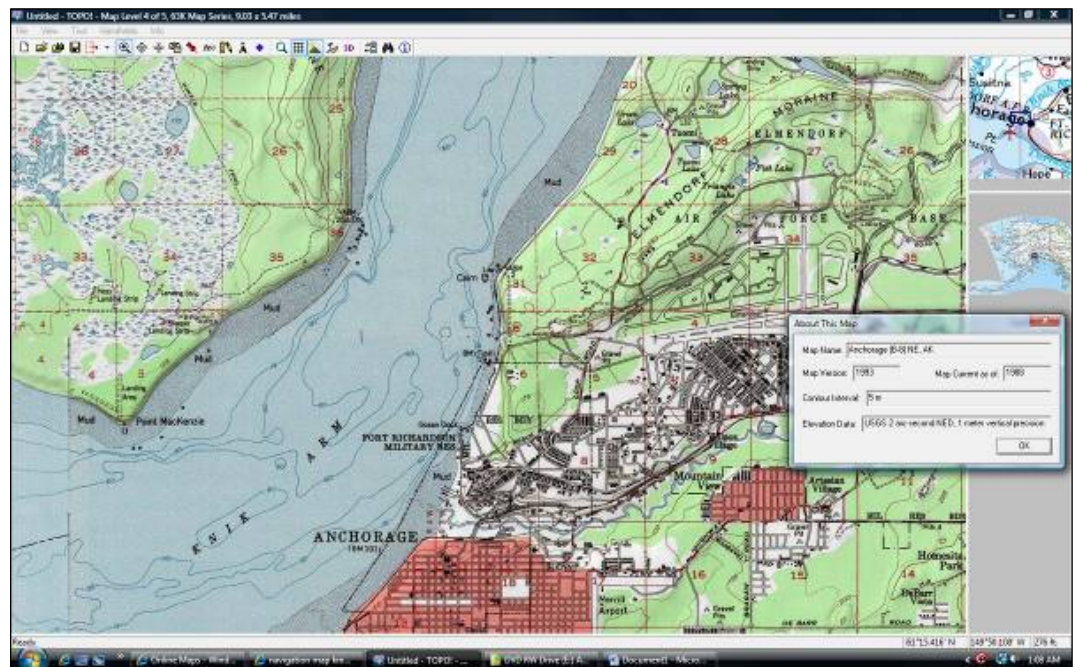


Image 1 - USGC map July 1, 1963 showing channel depths.

Image 2 - 1988 map shows almost no change to channel depths in the area over the 25 prior to the construction of Port MacKenzie



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.

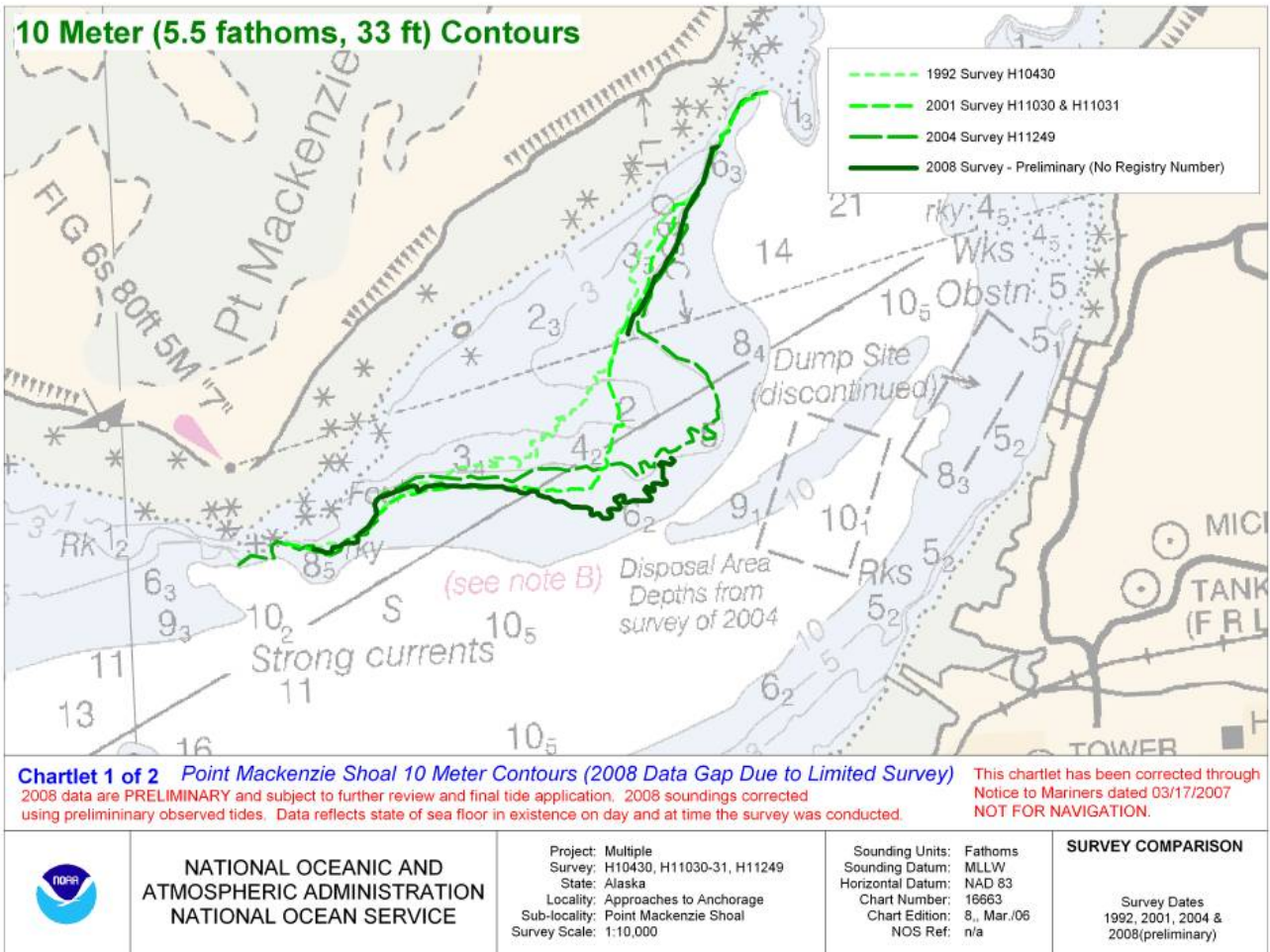
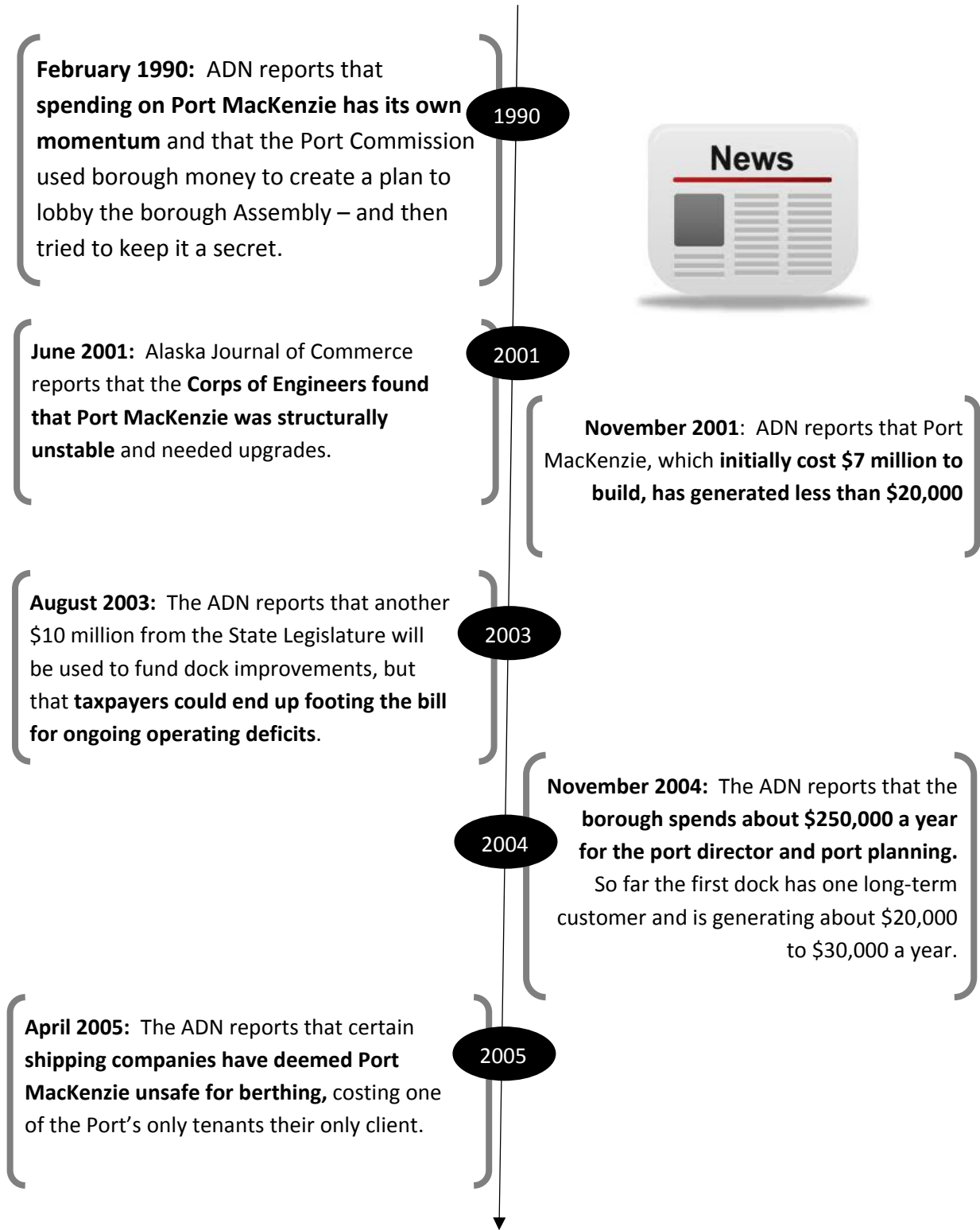
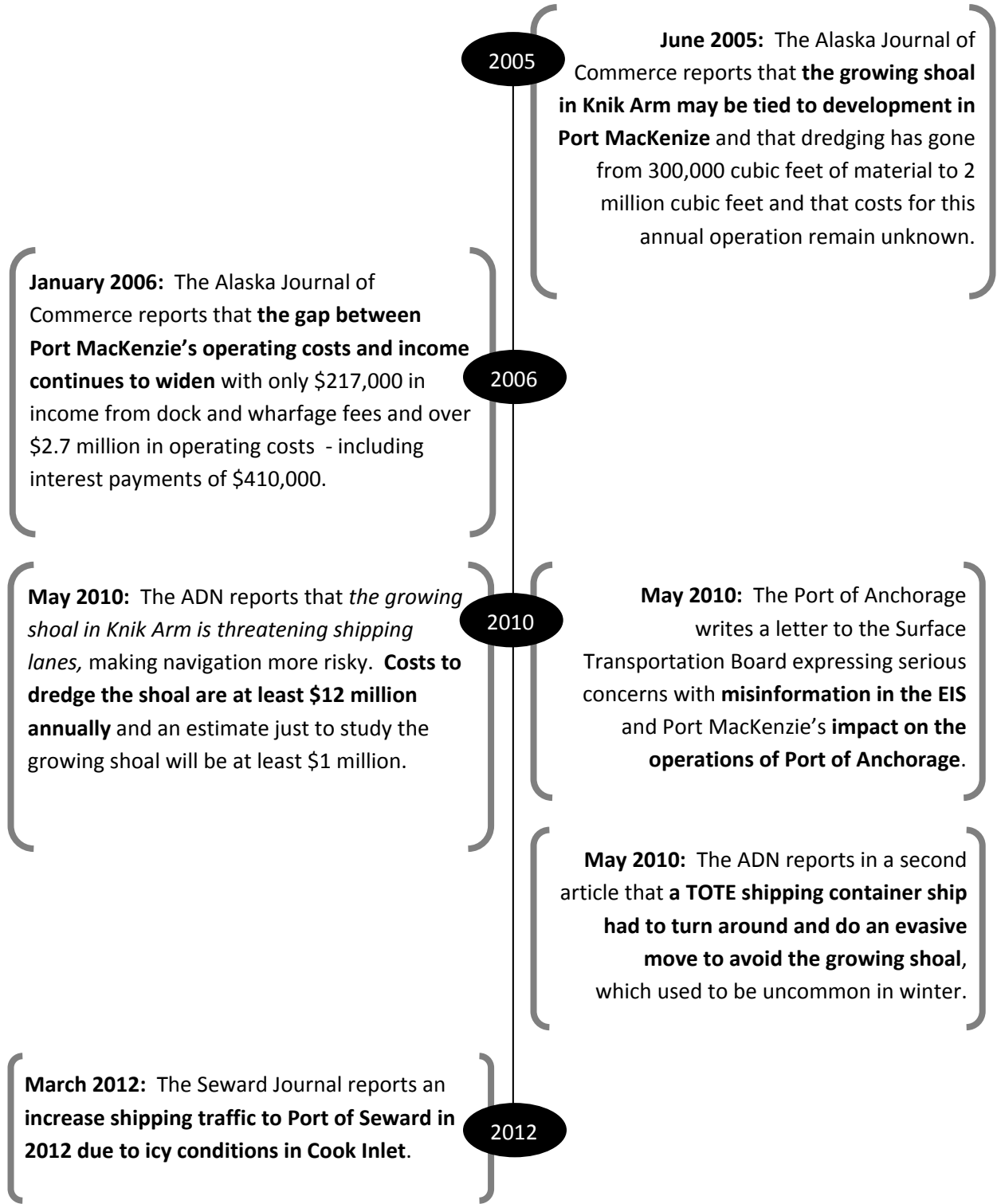


Image 3 – The green lines show the steady growth of Point MacKenzie Shoal from 1991 to 2006 following the construction of the Port. This shoal is narrowing existing shipping lanes and making navigation of the channel more difficult and hazardous. The middle of Knik Arms is now as shallow as 6 feet where it used to be 60 ft.

The Writing Has Been on the Walls All Along: The Mat Su Borough Has a Bad Track Record at Port MacKenzie





Too Many Questions Remain Unanswered

Alaskans believe in investing in the future of our state for our families and our economy. But the Port MacKenzie Rail Extension is a bad investment that leaves too many questions unanswered. Is the Port economically viable? What are the operating and maintenance costs? Will ships travel to Port MacKenzie when there are other safer, closer ports in Alaska for both bulk dry goods and consumer goods? Is the Port MacKenzie development endangering shipping lanes to the Port of Anchorage in Knik Arm? How much will it cost to build necessary infrastructure to support the Port? **It's time for answers, not \$170 million more dollars.**

Written by Grace Whedbee, Big Lake, Alaska

Grace Whedbee moved to Alaska in 1964. She was a graduate of West Anchorage High School. She has been married to Mike for over 40 years and has two children and five grandchildren. She and Mike moved from Anchorage to the Big Lake area in 2007 to enjoy the lifestyle and luxury of their lakeside airport subdivision. This lifestyle is being threatened by the Port MacKenzie Rail Extension.

She is an active general contractor, real estate developer and insurance adjuster. She is a commercial-industrial consultant doing Disaster Recovery Analysis, Grant Management, construction management and research analysis on an International basis.