

MUNICIPALITY OF ANCHORAGE



Office of the Mayor

Mayor Dan Sullivan

Phone: 907-343-7100
FAX: 907-343-7180

October 24, 2011

Honorable Gary Stevens
Senate President
Alaska State Legislature
State Capitol Room 111
Juneau, AK 99801

Honorable Mike Chenault
Speaker of the House
Alaska State Legislature
State Capitol Room 208
Juneau, AK 99801

To Senate President Stevens and House Speaker Chenault:

Included with this letter is the quarterly report for the third quarter of 2011 from the Municipality of Anchorage regarding the Port of Anchorage Intermodal Expansion Project (PIEP) submitted in accordance with the reporting requirement pursuant to Section 1, Chapter 5 FSSLA 2011 (pg. 20, line 16-18). This section requires the Municipality of Anchorage to submit quarterly progress reports detailing cost overruns and significant project scope changes.

This report addresses both of those requirements while explaining some of the major changes underway with the project. Additional information is available on www.muni.org/departments/port or by request. Please do not hesitate to contact me if you require any further assistance. For more information, or to schedule a tour of the Port of Anchorage please contact Port Director Bill Sheffield at (907) 343-6200.

Sincerely,

Dan Sullivan
Mayor

INTRODUCTION

The Port of Anchorage is Alaska's Lifeline. It supports bi-weekly shipments of goods transported on container ships from the Port of Tacoma to the Port of Anchorage. These goods account for an estimated 90% of the merchandise goods used in 85% of Alaska's populated areas. In addition to merchandise cargo, the Port is a major fuel hub providing critical supplies of jet fuel, gasoline, heating oil, diesel and aviation gas to communities throughout the state. It also serves as a source of concrete and other building materials.

The Port is celebrating its 50th anniversary this year, and although the facilities remain operational, the dock has surpassed its life expectancy and is in a deteriorated condition. In 2003, the Port of Anchorage and the Municipality of Anchorage along with the U.S. DOT Maritime Administration (MARAD) undertook the Port of Anchorage Intermodal Expansion Project in an effort to replace and expand the existing facility to provide modern, efficient and reliable marine infrastructure for Alaskans. The project is currently focused on construction of facilities to the north of the existing dock (Phase 1), scheduled for completion in 2019¹. For a detailed history of the project please refer to the July 2011 PIEP Quarterly Report.

Since July 2011, construction work has continued while project partners have been focusing on initiating long-term changes resulting in increased protection, improved project management structure, enhanced oversight, and an independent review of the work done to date.

Several major developments have occurred over the past few months, each of which are further discussed in the document:

- The Municipality of Anchorage recently concluded negotiations for a new Memorandum of Agreement with the U.S. Department of Transportation Maritime Administration (MARAD). This further clarifies the roles and responsibilities of each entity through May, 2012, at which time all contracting and construction management will be the responsibility of the POA, the Municipality, or their designee.
- The Port of Anchorage (POA), the Municipality and MARAD have engaged the U.S. Army Corps of Engineers to conduct an independent design review and an analysis of the project work to date.
- The U.S. DOT Office of the Inspector General is conducting an audit of MARAD and its contracting and procurement methods in its port development program using the Port of Anchorage Intermodal Expansion Project as a case study.
- The Municipality of Anchorage filed a lawsuit against the Federal Highways Administration's Record of Decision for the Knik Arm Crossing because its access route into Anchorage would traverse port property and negatively affect Port operations in a specific area. A settlement agreement is being finalized and the lawsuit will be withdrawn.
- MARAD has engaged AECOM to conduct a "root cause" analysis of work performed prior to 2010 to facilitate resolution of claims.

¹ Appendix A: Port of Anchorage Intermodal Expansion Project Phasing Plan

MEMORANDUM OF AGREEMENT

In 2003, the Municipality of Anchorage signed a Memorandum of Agreement with MARAD to develop the Port of Anchorage Intermodal Expansion Project. As the project progressed, it became clear that the original agreement did not sufficiently address or define each entities' roles and responsibilities. All parties recognized the need for a more extensive, detailed, and updated document which is reflected in the agreement approved by the Anchorage Assembly on Tuesday, September 27, 2011.

The most significant item in this document is the transfer of construction and contract management responsibilities from MARAD to the POA, the Municipality of Anchorage (MOA), or another agent designated by the Municipality by May 31, 2012. MARAD has been responsible for these items in the past and this represents a new direction for the project. This document also permits the potential for subsequent agreements to be negotiated between MARAD, the Municipality, and the U.S. Army Corps of Engineers to serve as the design and construction agent for the project.

The U.S. Army Corps of Engineers has increased its involvement in the project and is conducting an independent suitability study and an in-progress review that evaluates the work completed to date. The contract for the suitability study was let to CH2MHill in late September with a target completion date of March 31, 2012.

The agreement also formalizes the Project Oversight and Management Organization (POMO) team, which has been in place since January, 2011. The POMO consists of high-level representatives from the MOA, POA, MARAD and Port who meet weekly, or as needed, to act as a leadership body determining policies, vision, strategic objectives and priorities for the expansion project. The POMO is supported by the technical advisory committee consisting of project managers and engineers from the POA, MOA, MARAD, and Project Contractors (Integrated Concepts and Research Inc., PND Inc. etc.). The technical advisory committee provides recommendations to the POMO and keeps them informed of construction progress and developments.

Some additional items in the agreement are designed to emphasize effective project planning. This includes a project master plan requirement and an annual project management and financial planning requirement. In order to increase day-to-day communication and coordination between the project partners, MARAD is required to provide a full-time, on-site representative.

This new Memorandum of Agreement represents the initial formal step in making significant changes and improvements to the existing management structure of the expansion project.

MARAD PORT PROGRAM AUDIT

In May 2011, the U.S. DOT Office of the Inspector General (OIG) announced that it had initiated an audit focusing on MARADS's coordination and oversight of port

infrastructure projects using the Port of Anchorage Intermodal Expansion Project as a case study. The audit has two objectives, “to evaluate MARAD’s oversight and risk management of port development projects and to evaluate MARAD’s oversight of port infrastructure projects’ contract awards and administration². ”

Under the current project management structure, MARAD has contracting and procurement responsibilities and acts as a central procurement agency with all funds, federal, state and local, being sent to MARAD for administration. Officials from the OIG visited Alaska this fall in order to meet with, and interview, entities involved in the project including Port and Municipal officials. The OIG has authority of the audit and no release date has been announced yet.

FHWA RECORD OF DECISION LAWSUIT

On July 5, 2011, the Municipality of Anchorage filed a lawsuit against the Federal Highways Administration (FHWA) stating that the Record of Decision (ROD) issued to the Knik Arm Bridge and Toll Authority did not adequately consider its affect on the expanding Port of Anchorage. The proposed route would have negatively impacted the port by eliminating operational use of the newly constructed dry barge berth. The lawsuit was not intended to stop or impede bridge development, but was initiated in order to protect port and municipal assets. A settlement agreement is being finalized.

2011 CONSTRUCTION STATUS

Work for the 2011 construction season included dismantling a section of damaged sheet pile in the wet barge berth area and completing tail wall inspections in the ship berthing areas in order to establish the integrity of the current structure. The projected budget for project related work including construction, design and support services is \$37.4 million.

The construction contractor, West Construction, successfully completed removal of a section of sheet pile in the damaged wet barge berth. Tail wall inspections were completed in a portion of the North Extension 1 ship berth area and no damage was found in the areas inspected. Ongoing work involves backfilling inspected areas and re-establishing the site. The construction work for this season is on schedule and within budget.

Table 2: Funding Snapshot as of October 11, 2011

Total funds received	\$332 million
Total funds transferred to MARAD	\$302 million
Total funds obligated	\$287 million
Total Funds Pending obligation	\$14 million

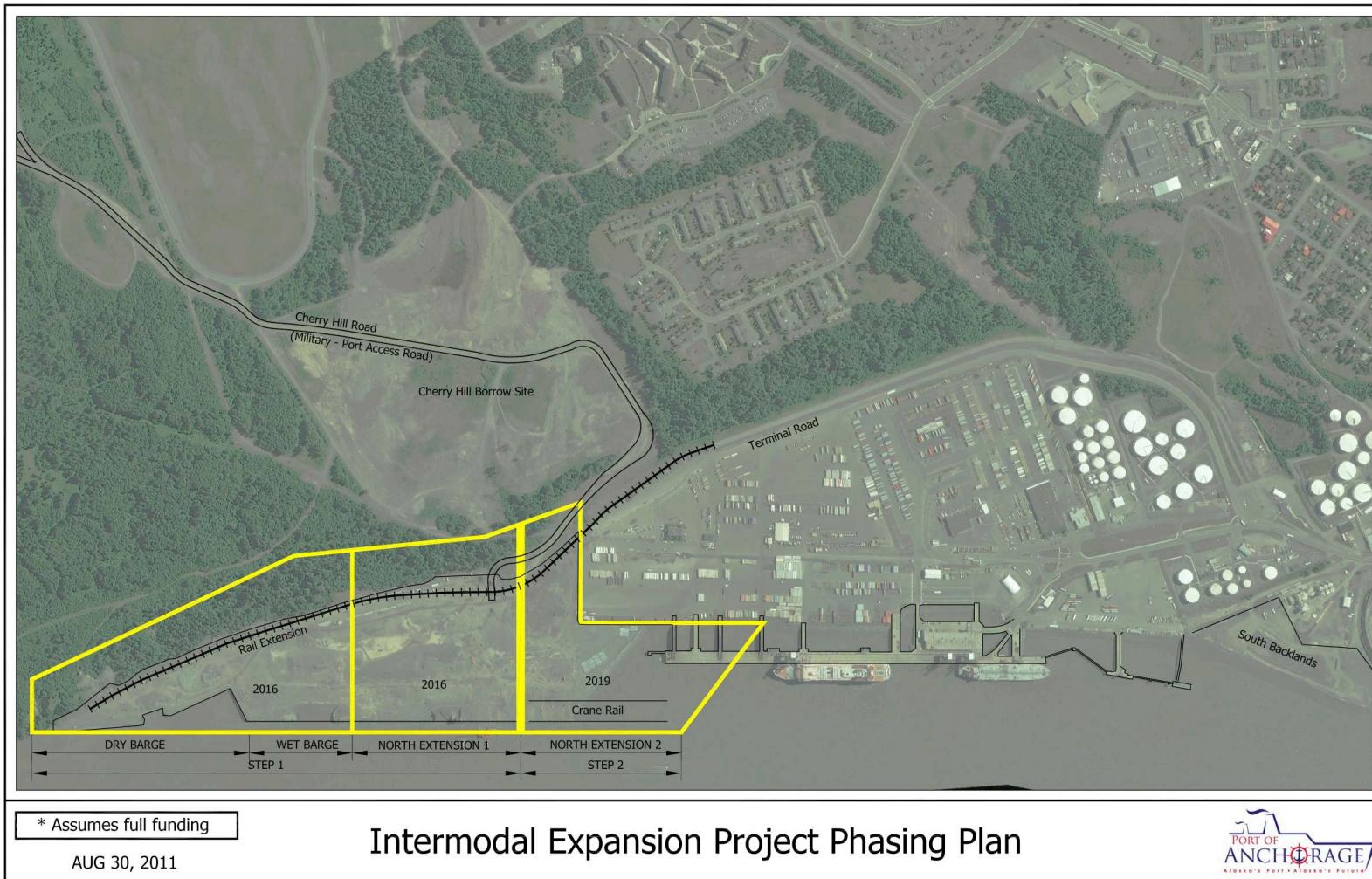
For a summary of the Expansion Project’s funding to date please see Appendix B.

² May 9, 2011 Memo from the U.S. DOT OIG to the Maritime Administrator

CONCLUSION

The past few months have produced significant changes to the project, best illustrated in the new Memorandum of Agreement. These changes are both necessary and substantial. This document creates a structure under which the project can transition from its previous form of contract management and oversight to a new team, one experienced in delivering marine infrastructure projects. As the transition process develops, our goal is that it will result in improved project delivery, cost effective design, and financial protection that will assure all parties involved that their investments are well managed and protected.

APPENDIX A: Port of Anchorage Intermodal Expansion Project Phasing Plan (highlighted area indicates Phase 1)



APPENDIX B: FUNDING SUMMARY

Of the \$332 million received, \$302 million have been transferred to MARAD. Currently all federal funds appropriated to the PIEP are transferred directly to MARAD, however state and port funds are transferred to the project as needed so the remaining balance of funds in MARAD's account is not necessarily an accurate indicator of the state and port funds available at any given time.

Table 2: Funding Snapshot as of October 11, 2011

Total funds received	\$332 million
Total funds transferred to MARAD	\$302 million
Total funds obligated	\$287 million
Pending 2011 obligations	\$14 million

Table 3: State funds received to date

Year	Amount	Legislation
2002	\$5,853,658	SB 29
2004	\$436,505	SB 283
2005	\$10,000,000	SB 46
2006	\$10,000,000	SB 231
2008	\$25,000,000	SB 221
2009	\$20,000,000	SB 75
2010	\$20,000,000	SB 230
2011	\$30,000,000	SB 46
Total	121,290,163	

Table 4: Federal funds received to date

Year	DoD	FHWA	FTA	SDDC
2002	-	\$9,568,421	\$2,832,968	
2003	\$4,850,000	\$590,500	\$2,862,505	
2004	\$4,850,000	\$1,371,058	\$5,181,803	
2005	\$12,003,750	\$4,729,584	-	
2006	\$8,245,000	\$5,349,258	\$5,577,500	
2007	\$9,700,000	\$6,030,856	\$5,820,000	\$1,951
2008	\$10,804,618	\$6,052,337	\$6,305,000	
2009	\$10,000,000	\$8,929,635	\$6,547,500	
2010	-	-	\$472,390	
2011	-	-	-	
Total	\$60,453,368	\$42,621,649	\$35,599,666	\$1,951
Total Funds	\$138,676,634			