

HOUSE FINANCE COMMITTEE
February 19, 2002
2:15 P.M.

TAPE HFC 02 - 27, Side A
TAPE HFC 02 - 27, Side B

CALL TO ORDER

Co-Chair Mulder called the House Finance Committee meeting to order at 2:15 P.M.

MEMBERS PRESENT

Representative Eldon Mulder, Co-Chair
Representative Bill Williams, Co-Chair
Representative Con Bunde, Vice-Chair
Representative Eric Croft
Representative John Davies
Representative Richard Foster
Representative John Harris
Representative Bill Hudson
Representative Ken Lancaster
Representative Carl Moses

MEMBERS ABSENT

Representative Jim Whitaker

ALSO PRESENT

Representative Gary Stevens; Patrick Gamble, President & CEO, Alaska Railroad Corporation, Anchorage; Bill Leary, Vice President of Finance, Alaska Railroad Corporation, Anchorage.

GENERAL SUBJECT(S):

OVERVIEW: ALASKA RAILROAD CORPORATION

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 22nd Legislative Session, contact 465-2156. After the 22nd Legislative Session they will be available through the Legislative Library at 465-3808.

LOG	SPEAKER	DISCUSSION
		TAPE HFC 02 - 27 SIDE A
000	Co-Chair Mulder	Opened the House Finance Committee meeting at 2:15 P.M. He noted that

		testimony would be heard from the Alaska Railroad Corporation.
	ALASKA RAILROAD CORPORATION	
110	PATRICK GAMBLE, PRESIDENT AND CEO, ALASKA RAILROAD CORPORATION	Distributed handouts to Committee members. [Copy on File]. Major Gamble noted that the vision of the Railroad is to build a great railroad across the Greatland.
236	Major Gamble	Provided a history of the Railroad. The railroad was started in 1904 and hence went bankrupt. The next attempt was in 1910. In 1915, U.S. Congress decided that the U.S. would step in and build the remaining railroad track. That took 8 years and \$60 million dollars and the railroad had no name. In 1923, it was decided that the dog-team would always be the mode of transportation in the State of Alaska.
428	Major Gamble	Discussed that the railroad was essential during World War II. Towns developed along the railways and those locations were identified as the area grew. Eventually the growth moved across the "tracks".
556	Major Gamble	In 1970, something happened with the Alaska railroad. The money went to freight. Passenger service was spun off. Amtrak took that over. There is great interest in the railroad in the lower 48 states. The Alaska Railroad never moved far from the original intent. Passenger service is fundamental to the Alaska Railroad. The passengers move over the same rails that the freight goes. He pointed out that there is a lot of money spent on the ties and the rails.
806	Major Gamble	Alaska railroad maintains its uniqueness. Only recently, there have been articles in trade journals recommending broader passenger service for railroads. That chapter is now opening up to Alaska.
910	Major Gamble	Noted that passenger service is subsidized through federal dollars. Freight service is not subsidized at all, which is difficult.
937	Major Gamble	Spoke about the demise of the railroad in the lower 48. He commented about with the opportunity occurred to transfer the Railroad to the State of Alaska system. It took place for \$22 million dollars. He mentioned the first years operating

		budget of \$11 million dollars. That was the last time that the railroad took money from the State. At that time it essentially became privatized. It is currently unionized with five unions. Privatized made for incentive of net profit off the net earnings. That money pays for the operating costs and the account for paying the employees. The incentive is that those dollars generated go toward safety, better work place for employees and security for the public.
1232	Major Gamble	Continued, the transfer language written in 1983 was well constructed. Those that wrote that language were very careful with the language that was used. The structure established was complicated, which argues against the railroad being a private association.
1344	Major Gamble	The framers gave the railroad 36,000 acres half of which is privatized. Half of the half is currently leased and provides the net earnings of the railroad. In 1985, the railroad was set up and structured in order to change the way it was doing business. For several years, the railroad was under-funded. Additionally, deferred maintenance was under funded. It was in 1995, that Governor Sheffield noticed that there was money, which the railroad should have been eligible for, in order to rebuild the catch-up programs. The railroad is currently in the catch-up mode to produce newer ties and ballasts. A process which has worked well.
1639	Major Gamble	Commented that the challenges never stop. He pointed out that this was the 1st year in the railroad history that there was not a derailment in Alaska.
1708	Major Gamble	Itemized the revenues received by the railroad.
1811	Major Gamble	Commented on what the railroad is today. It is a State entity. Every citizen has a share. The railroad has community responsibilities.
1950	Major Gamble	Understands how essential it is to pay attention to what the people in the communities want.
2054	Major Gamble	Addressed the reputation of the railroad. He noted that it would be inconceivable to build if the community does not want it. It is essential to be on the ground

		floor of the planning process, building consensus. The railroad has a stake in the outcome. There are many projects listed in the handout, which require dialogue along with the communities.
2243	Major Gamble	Partnering is important as a State entity. He added that leasing is also an important concern. Some leases go to international customers. There is also a larger permitting area. It is the railroads responsibility to know who and what is being dealt with and then accessing the long-term ramifications. He added that it is essential to follow the State guidelines and ethic rules.
2423	Major Gamble	Noted that the Governor appointed the Board of Directors as the buffer between the President of the Railroad and the State.
2451	Major Gamble	Commented on the relationship between both State and private entities. He noted that the labor force, which the railroad provides, is a quality of life.
2537	Major Gamble	Advantages of being quasi-private, which help to build incentive by innovators. Innovation is not stifled. The Railroad is financially innovative and with the use of technology. Because the railroad builds their own business, they can be more creative.
2703	Major Gamble	Addressed the maritime business that the railroad is in.
2725	Major Gamble	Stated that the railroad is an agent for development. Where the curves cross is the optimum point. The federal dollars provide an attempt to clarify the efficiency of the railroad. He noted other developments and the rail link to Canada; the commuter rail; the pipeline support; support of the DOD and those projects; the use of the railroad for the conduit for the bond raising issue; and opening and developing the initial early access.
2956	Major Gamble	The railroad, as an agent for development, under the current model, needs to be ready.
3050	Major Gamble	In the development bottom line, the passenger has to be safe and secure. To respond to challenges, the railroad needs to be responsive.
3134	Major Gamble	The construction season is a large concern and dynamic in movement. It has

		been rigorous and well developed. The railroad is an important component of the transportation dynamic for the State of Alaska. There is interdependence in the movement mode within the State of Alaska. There is an inter-model dependence. It interplays with planes, trucks and trains. To hamstring any of those components would harm the other two. He urged that the system be optimized. People and freight are transferred when it comes to Alaska, which is the essence of the inter-model system.
3352	Major Gamble	Mentioned capital funding and the competing one another with the inter-model funding needs.
3455	Major Gamble	Spoke to the railroad as being a component part of development for Alaska transportation. Transportation needs to take a regional approach. The inter-model concentrates on "links".
3540	Major Gamble	Spoke to the success of the Alaska Railroad and how it addresses the core competency.
3606	Major Gamble	Alaska Railroad is Alaska owned and operated railroad and it is a pride, which is providing for progress. He stressed that is what makes Alaska tick and it is essential to transportation within the State. It should stay in the State and that it cannot be done long distance.
3730	Co-Chair Mulder	Questioned the Railroad being an agent for development
3755	Major Gamble	Commented that the railroad must be a partner in the State and responsive to customers. The challenge is to have the capacity to answer the call when that call comes. He thought that the railroad could be built to hold that capacity. The railroad is a fundamental niche in development for the State.
3940	Co-Chair Mulder	Asked about the mission statement.
3959	Major Gamble	Referenced Page 1 of the handout. The mission of the railroad is to be profitable by focusing on safe, high quality service to freight, passenger and real estate customers. To foster the development of Alaska's economy by integrating railroad and railbelt community development plans.
4137	Representative Foster	Asked about the number of moose killed this year by the railroad.

4155	Major Gamble	Replied that this has been a low moose kill year for the railroad this year given the amount of snowfall.
4220	Vice-Chair Bunde	Spoke to the deficit of the State. He asked if there would be anytime in the future in which the railroad would be able to provide the State with a dividend.
4329	Major Gamble	Explained that if legislation were passed, then the railroad would attempt to accomplish it. He did not see anything feasible like that in the next few years. The railroad would need more net earnings than they currently have. They are currently unable to meet the deferred maintenance needs. Washington D.C. has provided \$20 million dollars annually. The railroad is playing catch-up. It could be possible in the future. He noted that he was concerned with the potential loss of U.S. Congress money.
4525	Major Gamble	Discussed the congressional money, some of which comes fairly unencumbered. The second type of money received by the railroad is federal administration dollars because the Alaska railroad is a passenger railroad. That is a complex formula depending on the number of passengers hauled and urbanized zones.
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4706	Co-Chair Mulder	Pointed out that those dollars are projected to drop.
4659	Major Gamble	Spoke to the "sustain mode". He noted that the railroad is in a transition mode at this time.
4615	Representative Davies	Thought it was unlikely that the State would be able to make allocations to the railroad. He mentioned the coal lands.
4451	Major Gamble	Stated that it would cost \$3 million dollars per mile to build railroad and \$33 thousand to maintain it each year, which would provide for maintenance, small yards and signals. The capital investment up front is significant. He did not foresee any roadblocks for any investment. The \$33 thousand dollars starts to accrue when the 1st spike is driven. There will be a point when there is an expense and then earnings. Things will develop which cannot be predicted.
4147	Representative Harris	Spoke to the extension of the Alaska railroad and the advent of the ballistic defense system at which time heavy

		machinery that will need to be moved. He asked where the railroad was going on new development toward Fort Greeley since the military projects are going to be happening.
4019	Major Gamble	There is little information on those plans at this time. The original plans did not rely on the rail. He did not know the plans for Fort Greeley. He wanted to find out more about the Fort Greeley intentions.
3832	Representative Lancaster	Asked who were the land leases with.
3831	Major Gamble	Replied most were international and some were small businesses and then below that are the permits.
3741	Representative Hudson	Asked about the draft legislation before the Legislative bodies. He mentioned the local hire.
3654	Major Gamble	Noted that there is third history working on the railroad. Additionally, there are many kids out of high school working on the railroad. He noted the number of tour guides on the railroads that come out of the high schools. However, there is not enough coming to work for the railroad. Now there is a recruiter going into the schools to educate those students for the potential of the railroad livelihood. They make better employees and like living in Alaska.
3414	Representative Hudson	Referenced the Alaska Marine Highway System. When there is a vacancy, because of the Union, the vacancy is sometimes filled from out of State.
3341	Major Gamble	Was not familiar with a case like that in the railroad hire.
3325	Co-Chair Mulder	Asked if there was a program with the Alaska Vocational Center training people for railroad hire.
3307	Major Gamble	Acknowledged that it was the preference that the employee has some pre-training. He noted that some are hired with no training. The employees are owed a piece of training on the job and that is work that has not been done very well. He noted that they are in the process of rebuilding their training program. He referenced computer based trainings and the community college component.
3130	Co-Chair Mulder	Thought that the two would be able to satisfy the needed space in the railroad.

3108	Representative Davies	Mentioned the University courses and the community college courses and how they could meet the needs for the trainings for the railroad. He added the efficiency of the high school training program.
2936	Co-Chair Mulder	Referenced Page 12 of the handout - The planned capital expenditures.
2907	Major Gamble	Stated that the railroad did not anticipate making \$37.1 for the FY03 budget. The budgeting horizon does not really move that far. The projects in the out years are ambitious. There will be tough decisions that need to be decided. FY02 & FY03 will be "watershed" years for the Alaska Railroad. The number is higher than can be met.
2735	BILL LEARY, VICE PRESIDENT OF FINANCE, ALASKA RAILROAD CORPORATION, ANCHORAGE	Stated that the internal generated funds would be similar as FY02.
2706	Co-Chair Mulder	Commented that the dividend would postpone the projects.
2652	Co-Chair Mulder	Asked how the legislation could help get there.
2638	Mr. Leary	Replied external revenue. The fiscal fate of the railroad is tied to the State's economy. It is up to the railroad to keep expenses at a manageable level.
2558	Co-Chair Mulder	Commented on the gap between the \$12 million dollars versus the \$37 million dollar gap. He noted his concern. He asked if that was the way business was usually done.
2527	Major Gamble	Did not believe that the State could do anything to help the railroad. The railroad is a "slave" to what is happening with the State's economy. There is a measurable dam of hope. The net earnings can only be so much. The net earnings grow, however, the expenses are growing faster than the revenues. That is the trouble with the net earnings versus the expenses. The operating ratios are not good for the railroad. The ability to go out and lease the land is essential.
2302	Co-Chair Mulder	Asked if the deferred maintenance and depreciation was a sinking fund.

2243	Mr. Leary	Replied that there is not a "sinking fund". The historic way has been to "pay as you go".
2213	Major Gamble	The railroad has protected and preserved its on going cash flow.
2151	Co-Chair Mulder	Thought that the true value of having depreciation is having a "sinking fund" in order to continue to do business.
2124	Representative Lancaster	Pointed out that they have a mission and five-year forecast which is more than the legislature has.
2103	Co-Chair Mulder	Noted the Governor's proposal to help spur the gas pipeline.
2000	Major Gamble	Replied that was not his field of expertise. He noted that it is "big" financial business. He added that the research done by the Governor, the idea of using the railroad as a conduit, is a classic idea, however, the railroad will be "bumped" up to create revenue. It could require a bigger hire. When the dust settles, the railroad will need to put together a bond deal. The railroad will be very busy to do justice to the deal. The deal is being taken very seriously.
1814	Major Gamble	Thought that the concept indicates the potential value of the railroad. The transfer language has been done well. The concept is good by keeping the track capacity for whatever comes. Hopefully it will be profitable for the railroad. It has a potential to create very much for the good of the country. He noted that the Alaska Railroad supports the project. A lot of homework will need to be done if the project happens.
1600	Major Gamble	Continued that he too is waiting to see if the Board would approve the bonds and the project. He voiced caution on any proposed projects and the cooperative working of the Legislature and the Governor. He acknowledged that this is not a simple project.
1505	Co-Chair Mulder	Asked if the Board of Directors has taken a position.
1450	Major Gamble	Stated that the board has not taken a position. He noted that they hoped for success.
1432	Representative Hudson	Spoke to connecting the Canadian rail system.

1351	Major Gamble	Stated that the Alaska Railroad does not have any contact with the Canadians. He noted that they feed off the "contacts". There have been office visits and debriefs regarding these concerns between the two countries. From a railroad perspective, the concern is pushing forward for development. Alaska only has so many opportunities. The resources will be at the forefront of those decisions. He commented that the idea is not going to go away. It could be a project for the railroad. It could come at the same time as other projects for the railroad.
952	Representative Hudson	Applauded the railroad for the considerations being addressed.
926	Major Gamble	Commented that the physical movement of materials is a delicate task. The capacity of taking on additional jobs has not been adequately considered. Other considerations to be determined are the bridges and the amount of tonnage that they can handle. Projects as proposed could accelerate the catch-up.
807	Co-Chair Mulder	Agreed that it could cost money at the front end to get the money at the rear end. He addressed the financial commitment of the railroad.
733	Major Gamble	Referenced the type of land, the fair market value and the leased value. The idea given to the alternative sections of land is a major consideration. He noted that the railroad charge fair market value for a lease.
540	Co-Chair Mulder	<u>ADJOURNMENT:</u> The meeting was adjourned at 3:47 P.M.