

HB

12



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UNIVERSITY OF ALASKA  
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February 24, 1981

Representative Bette M. Cato  
House of Representatives -  
Transportation Committee  
Pouch V  
Juneau, Alaska 99811

Dear Ms. Cato:

House Bill Number 12 appears to represent an initial attempt to address the issue of changing the status of the Alaska Railroad from that of a federal agency to a state controlled entity. As such, it is an applaudable effort to recognize the need for change and to take some type of action prior to having that change imposed from outside. However, in its present form the bill does not directly address the issue that is before the state. In particular, the following defects appear to be present:

- It tries to do too much in a single piece of legislation. It establishes a body which has the authority to acquire, operate, and expand the Alaska Railroad and, through its rate setting power, becomes an economic regulation body;
- It is premature in that it forecloses on a number of options for dealing with the railroad which may be more attractive for the state in terms of long-term operational considerations;
- It does not address many of the problems of the railroad transfer which can be dealt with only on a legislative basis.

Each of these points deserves a bit more detailed comment.

In establishing an authority with the rather broad power to acquire, operate, expand, and regulate railroad operations in the state the bill combines within a single entity responsibilities which will probably be in conflict. Acquisition of the present railroad is a function which requires both a good deal of planning and a sensitivity to the long-term economic and political goals which may be held for the railroad. The body which plans and negotiates this transfer should at the same time be designing the organization which will operate the railroad to the best advantage of the state. It cannot do this if its form is already set by legislative mandate. Likewise, an organization which is required to operate the railroad in the manner of a private business (as is implied by the bonding provisions of the bill) will inevitably find itself in conflict with the political policy aspects of both its own operational and regulatory mandates and with the political control implied by the board membership. All of these areas offer serious opportunity for potential conflict both within the rail authority and with external organizations.

In an earlier review of this issue I identified at least fifteen major policy considerations which must be addressed in any change in rail status within the state. These are as follows:

- The status of rail-related lands both in relationship to ANCSA conveyances and to the railroad's operational and industrial development requirements;
- The status of public employee unions, existing labor agreements, employee benefits and retirement programs, and employee protection conditions;
- Design of an ownership/operational structure which permits the railroad to seek investment capital;
- Design of an ownership/operational structure which avoids the public/private conflicts now inherent in the marketing of the railroad's services;
- Design of an ownership/operational structure which gives management the flexibility to make entrepreneurial decisions and to be accountable for the outcomes of these decisions;
- A determination of whether passenger service is necessary and, if so, whether it is required to continue its operation;
- A determination of whether the railroad represents an appropriate mechanism for implementing state development policy and, if so, under what types of financial, operational, political, and economic conditions;
- A determination of the present and historic financial status of the railroad particularly as this information relates to the prospect of attracting private capital, both equity and debt;
- The desirability or usefulness of establishing a state rail regulatory capability;
- The determination of tax status (federal, state, local) of revenues and for real and operating property after conveyance;
- An assessment of traffic potential for the railroad and how an institutional realignment might affect various traffic possibilities;
- A determination of responsibility and operational mechanisms for subsidies should operating revenues not be sufficient to cover operation costs and capital renewal;

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- An analysis of the different possible impacts of various institutional arrangements on potential rail extensions;
- An analysis of the impact on rail competitors of various insitutional arrangements for the railroad; and
- Determination of which federal funding programs would or would not be available under different ownership/operational structures.

Many of these are not addressed in the present bill and given the lack of information on most of the areas, it would be impossible to do so at this time.

In addition to the areas mentioned above it is important to remember that any future rail activity in the state will be largely shaped by the federal legislation which transfers control of the Alaska Railroad to the state. Given this reality, I would suggest that the most important direction that could be taken at this point in time would be to establish an organization which can negotiate transference of the railroad, can participate in the shaping of the federal legislation, can investigate the state's options in this matter, and can assist the legislature in preparing suitable legislation to address the organizational form of future state participation as well as other institutional and policy matters. I would suggest that this organization be set apart from present state agencies due to the fact that its concerns would necessarily span many of their individual interests. For example: the Departments of Transportation, Commerce and Economic Development, Natural Resources, Community and Regional Affairs, Attorney General and Labor all have concerns within their jurisdictions which would also be involved in rail transfer questions. An independent group would be better able to coordinate these concerns while still utilizing existing programs. The most important of these existing programs is the rail planning work presently being done within the Department of Transportation.

Most importantly, by taking this approach, the state would preserve all of its options. While it is clearly time to take action on this matter, it is not yet appropriate to commit the state to a particular and final course of action. House Bill 12 makes this commitment at a time when there is insufficient information to determine whether it is in the correct direction and at a time when the federal consideration is unclear. In view of this I would urge the members of the legislature to adopt a course of action which permits the state to play a major role in shaping future rail matters while postponing the details of rail operation, expansion, and regulation until an appropriate time and until the necessary information has been assembled.

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The bill in its present form has selected a means for organizing any future rail activity in the state without investigating alternative operational forms which may be much more attractive options. There are at least six major alternative ways in which the Alaska Railroad (and any extensions or other acquisitions) may be organized in the future. None of these is clearly superior to any of the others at this time. They are as follows:

- Maintain the status quo. That is, continue to function as a federal agency.
- Reorganize as a federal corporation. In form this might be somewhat similar to Canadian National Railway.
- Reorganize as a state agency. This would give the railroad somewhat the same status as the Marine Highway System.
- Reorganize as a state corporation. Such an operation might be similar to either the British Columbia Railway, the Ontario Northland Railway, or to any number of small operations developed in the eastern and mid-western U.S. during the past five years.
- Reorganize with a combination of state ownership and private operation. This would give the state ownership of some combination of the railroad's real and operating assets while a private entrepreneur would either enter into a long-term lease agreement or contract to operate the property in a manner similar to the arrangement between the Southern Railway and the city of Cincinnati for operation of several hundred miles of line owned by that city.
- Sell the railroad to a private firm who would then function in a manner similar to comparable operations elsewhere in the country.

Clearly, these options can differ substantially in the range and size of their impacts upon the state. They also would provide considerable variation in the amount of state investment required although none of them would entirely eliminate state involvement. Finally, the organizational form which evolves will determine almost entirely the degree to which rail decision making in the state will be political rather than commercial. The important point is that it is not yet necessary or in the state's best interest to foreclose on any of these options.

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The transfer of the Alaska Railroad to state control represents a major change in the transport system and its institutions. Undoubtedly the most important change since statehood placed the highway and airport system within state jurisdiction. It is important that this change proceed in an orderly manner with clear understanding of the opportunities and liabilities of various courses of action. I hope these comments have helped to further this understanding.

Sincerely,



John T. Gray  
Assistant Professor of  
Transportation

cc: Representative Brian D. Rogers - Transportation  
Representative Oral E. Freeman - Transportation  
Representative Fred F. Zharoff - Transportation  
Representative Joe L. Hayes - Transportation  
Representative Ray H. Metcalfe - Transportation  
Representative Kenneth J. Fanning - Transportation  
Representative Mike Miller - State Affairs



Dec. 1980

Bivens & Ass. for DOT

ISSUE: ALASKA RAILROAD OWNERSHIP AND OPERATIONS

The 63rd Congress passed an Act on March 12, 1914 which authorized the President to locate, construct, and operate a railroad in the Territory of Alaska. This was the beginning of the Alaska Railroad, an experiment by the federal government in railroad ownership and operations that has been carried out over more than six decades. The federal government continues to own and operate the Alaska Railroad.

The 1914 Act instructed the President that the railroad was:

"... not to exceed in the aggregate one thousand miles, to be so located as to connect one or more of the open Pacific Ocean harbors on the southern coast of Alaska with the navigable waters in the interior of Alaska, and with a coal field or fields as best to aid in the development of the agricultural and mineral or other resources of Alaska, and the settlement of the public lands therein ..." (emphasis added)

In large measure the Alaska Railroad has carried out the Congressional mandate given in its organic act. The Alaska Railroad operates 478 miles of single main line track from the deep-water ports of Seward and Whittier through Anchorage to Fairbanks, with branch lines to Eielson Air Force Base, Fairbanks International Airport, Palmer, and the Suntrana coal fields near Healy. The Railroad serves the agricultural communities in the Matanuska Valley. The settlements along the Alaska Railroad encompass the vast majority of the urban development of Alaska and have come to be known as "The Railbelt".

At the time in history when the White Pass and Yukon Railway was constructed, around the turn of the century, and a few years later when the Alaska Railroad was built, the situation in Alaska was vastly different from current conditions. Alaska was almost totally undeveloped. There were virtually no roads -- only trails -- and no automobiles or trucks, no Marine Highway System, and the railroads were the only reasonable transportation alternative to reach the interior of the territory. In short, the railroads were a transportation monopoly with essentially no competing transportation modes.

In addition, Anchorage did not exist until it was built to house the railroad construction crews on public railroad property which was sold to private interests. World-wide transportation and communication were very slow and this fact minimized the need for large military defense installations in Alaska. The principal economic activities in



Alaska were fishing, hunting, trapping, and prospecting. Industrialization was unknown and the economy was very basic, with commerce related to the major economic activities. Only the most hearty and fittest survived the harsh climatic existence.

Alaska today is a startling contrast to the conditions and situations in which the railroads were first constructed. Early railroad decisions had a driving force because railroads were the only reasonable land transportation alternatives at that time. Now, that force has been reduced and changed to defining the role that railroads play in Alaska in the context of a total transportation system. Railroads in Alaska today must meet present market demand for transportation services and define more clearly the services they can provide better or at less cost than other modes in the context of Alaskan and Northwest Canadian development.

The role, market, and service definitions of railroads in Alaska at this time must be applied and evaluated in the examination of the ownership and operational considerations. This is true, not only for the existing railroad system, but also for any railroad expansion including the frequently discussed link to Canadian railroads and through them to the continental United States.

In examining the Alaska Railroad ownership and operations alternatives, it is essential that consideration be given to the other major components of the State's transportation system. Ports, barges, ships, the Marine Highway, pipelines and the State Highway System are of prime importance. Of lesser importance relative to railroad use, development, and operations are the airports and air service (freight and passengers). This latter transportation component is extremely important in Alaska. Its primary relationship to railroads, however, is more indirect, frequently involving only fuel supplies.

Railroad investment decisions, by the federal and state governments, must be made within the framework of other transportation investment decisions. This is especially acute relative to ports and highways, both of which have historically been public investment responsibilities. Governmental decisions regarding port development, for example, will significantly impact upon rail traffic since all freight inbound to Alaska or outbound from the State use port facilities. Thus, public port investment decisions can either enhance or discourage rail traffic depending upon the nature, extent, type, and scheduling of port facilities and services.

By the same token, highway development investment decisions also have important implications on railroad investments and operations.



For example, the George Parks Highway from Fairbanks to Anchorage, completed in 1971, closely parallels the Alaska Railroad between Alaska's two major cities. The opening of this highway substantially reduced the land transportation mileages thereby enabling trucks to pick up cargo at the Port of Anchorage and deliver it more economically to Fairbanks. Therefore, the general public investment in a highway diverted traffic from the Alaska Railroad public investment. The extent of traffic diversion and an analysis of its economic impact including the resulting increase of public investment required on the Alaska Railroad is certainly beyond the scope of services of this project. However, it is clear that substantial diversion did occur and has had longterm implications on the changing role, function, and financial aspects of the Railroad.

A similar example may be found on the White Pass and Yukon Route between Skagway, Alaska and Whitehorse, Yukon. Funded by the Alaskan government and the federal government of Canada, the Skagway to Whitehorse Highway (known as the Klondike or Carcross Highway) was completed in the late summer of 1978. According to the Canadian Transport Commission "Report of Inquiry into the White Pass and Yukon Railway and Other Surface Transportation Services into and out of the Yukon", in its first complete summer of operation, this highway resulted in the erosion of twenty-eight thousand passengers from the White Pass and Yukon Route. Passenger revenues amount to 19% of the railway's total revenues. The White Pass generally carries about 60-70 thousand passengers per year. Traffic diversion due to public investment in alternative transportation modes is obviously one important factor in railroad finances.

It is within this context that the Alaska Railroad ownership and operation alternatives must be examined.

At the time the Department of Transportation and Public Facilities developed the Request for Proposals for this project, the issue of the ownership and operation of the Alaska Railroad was less important than it has become during the project development period. The attention given to this issue by the consultants has been substantially changed during the project by mutual agreement between the consultants and the Department. This change in emphasis has been necessitated by an inquiry by the Federal Railroad Administration, owners and operators of The Alaska Railroad, of the State's interest in the possible acquisition of the Railroad.



Additionally, the Alaska Legislature's interest in the feasibility of establishing a rail link between the Alaska Railroad and Canadian railroads and the continental railroads in the Lower 48 states raises other significant ownership and operational issues. These latter issues include such questions as: Who would own such a link? Who would have operational responsibilities? Is there adequate traffic to cover operational costs? Will there be a return on the capital investment? If operational costs are not covered by revenue, who will assume the responsibility for the required subsidy? If an operational subsidy is required, how long will it be before a subsidy is no longer necessary? What are the implications of such a trans-Alaska/Canada rail link on the present shipping patterns related to the ports of Seattle, Vancouver and others?

Clearly these are important questions. It is also clear that the scope, schedule, and financial resources of this project are inadequate to seek the essential answers to these questions.

It is now the intent of this project to raise key railroad, public investment, and related issues within the framework of the project research and definitional analysis that has been completed. The continuous rail planning process outlined in this project report provides an approach which will enable the decision-makers in Alaska and in the federal government, in cooperation with private interests and supported by an informed public, to have useful information on which to base vital railroad decisions.

In order to better understand the issue of ownership and operation of the Alaska Railroad, it is necessary to make some observations based upon work on this project. These observations may be summarized as follows:

1. There is a strong dedication on the part of officials and employees to the Alaska Railroad and to an effective and efficient operation.
2. The existing traffic base for the Railroad is quite small because of the sparse Alaskan population and limited manufacturing and industrial development.
3. Natural resource development in Alaskan offers opportunities for significantly expanded rail traffic.



4. The Alaska Railroad has not in the past had an effective marketing program in Alaska and in the "lower 48". Recent steps have been taken, however, to strengthen the marketing program. Governmental ownership of the Alaska Railroad makes marketing difficult. Some private transportation companies perceive the Railroad as being unfair competition because of public support for the Railroad.
5. The Alaska Railroad has been largely limited to the use of public funds for capital investments.
6. Alaska Railroad officials must function within governmental constraints such as personnel procedures, procurement practices, and public funding, leading to time delays and frustration.
7. Most employees of the Alaska Railroad are unionized public employees.
8. Much of the traffic on the Alaska Railroad has historically been for the military. Although the Railroad continues to have the capacity for military transport, the traffic in the last decade or so has shifted significantly toward private freight movement.
9. There are major questions regarding the land under the control of the Railroad. The land status is uncertain if the Railroad were to be sold.
10. The institutional, accounting, and other arrangements between the Railroad and Alaska Hydro-Train, Yutana Barge Lines and others require further examination and clarification.
11. The Alaska Railroad is taking the necessary steps to improve its management of real property, partially in response to a General Accounting Office report. These management improvements should increase the income from non-operating property and provide more uniform rental agreements.
12. Rail passenger service on the Alaska Railroad needs careful evaluation relative to the nature of the market and the determination of subsidy sources. Service improvements are planned, but the need for subsidy even with the improvements is apparent.



Further explanation and observations may be found elsewhere in this report.

There are at least four major alternatives for ownership and operation of the Alaska Railroad: (1) federal, (2) state, (3) private, and (4) combination of public and private. Obviously, there are numerous variations or combinations which could be explored. A comprehensive investigation and analysis of each of these alternatives and the longterm implications are essential, but beyond the scope of this project.

### Federal Ownership and Operation Alternative

This alternative of a continuation of federal ownership and operation is the maintenance of the status quo. Although this alternative is clearly the easiest to implement since it requires no action by anyone, it appears to be unsatisfactory. The recent inquiry by the Federal Railroad Administration of the interest of the State in acquiring the Railroad is evidence of the federal government's dissatisfaction with the present situation. In some ways it is unfortunate that such an inquiry was made while this project was being undertaken. If the information resulting from the completion of this project had been available to the State before the federal disposition inquiry was made, Alaska decision-makers would have been better prepared to cope with the issue.

Under the present situation, the Alaska Railroad cannot be operated as one would operate a private railroad for six basic reasons: (1) there is no way to seek and be sure of obtaining the much needed capital investment funds, (2) marketing efforts are difficult because of the competition issue, (3) railroad management does not have the required flexibility to make and be accountable for major decisions, (4) railroad employees are unsure whether they work for a railroad or the federal government, (5) the parameters of rail service in Alaska have substantially changed from early conditions under which the Railroad was constructed (previously discussed), and there has not been a recent evaluation of the current applicability of the basic organic act, and (6) the Railroad is unable to be as responsive as it might be in meeting the rail service needs of Alaska in such a dynamic environment.

It is possible to continue to have the federal government own and operate The Alaska Railroad. Some improvements can be made under such circumstances, but the improvements will only be minor and will not include major shifts in the responsiveness and operations of the Railroad.



## State Ownership Alternative

Ownership of the Alaska Railroad by the State of Alaska is the second major alternative. It would be possible for the State to own and operate the Railroad. However, several factors seem to favor only State ownership and not State operation, if this alternative is selected. Currently, there is no interest in state railroad operations. The State does not presently have the experience, knowledge, or personnel required to operate the Railroad. In addition, most of the basic reasons why the Railroad cannot be operated under federal jurisdiction as one would operate a private railroad apply equally to State operations. There would also be a tendency for political involvement in operational decisions. For these reasons, the consultants for this project do not consider operation by the State to be a viable or reasonable alternative. The discussion of this alternative is, therefore, confined to State ownership.

The State of Alaska could take title to the Alaska Railroad. Before making such a commitment, however, it will be essential that legal counsel for the State carefully examine the matter and determine the necessary procedures, conditions, and process for acquisition. Undoubtedly there will be many legal questions. One such question is the land issue, specifically related to the quality of the title in light of the Alaska Native Claims Settlement Act of 1971. For example, the Eklutna land decision clearly reserve the right-of-way and all areas used for railroad operations. This decision transferred some \$40 million or more in potential profits from land to Eklutna from the Railroad, thereby affecting the desirability of the property.

An alternative to direct purchase by the State could be the selection of the Railroad's land as a part of the withdrawal by the State of federal land under the Alaska Statehood Act of 1958. It appears that acquisition through selection by the State is a viable alternative if the State determines that acquiring the Alaska Railroad is in its best interest.

State ownership of railroad rights-of-way has become much more common in the last few years, particularly by states which have faced the loss of rail service due to railroad bankruptcy. While state ownership interest started in the Northeastern United States because of massive bankruptcies and abandonments, states in the Midwest and other regions have more recently been faced with similar problems due primarily to the Milwaukee and Rock Island problems.



The chief advantage to Alaska of state ownership is the control of the Railroad and the more effective integration of railroads as a significant component of the State's total transportation system. With state ownership, Alaska could not only plan for the integration of its transportation system among the port, highway, barge and Marine Highway system, but more importantly, the State could more easily implement its transportation plans. As previously pointed out, public responsibilities and state interest already extends to the other transportation modes so essential to the future of the Alaska Railroad. State ownership would provide the Governor, the Legislature, the Department of Transportation and Public Facilities, and other state agency decision-makers with the opportunity to actually make and carry out major significant capital investment decisions between transportation modes. This decision-making and full implementation responsibility relative to transportation could be effectively used to reinforce state policies on land and natural resource protection and development. In this manner the State could assure local rail service to those areas where it is useful to stimulate agricultural, commercial, industrial, and resource development.

An operational agreement could be negotiated with a suitable railroad operator with the necessary conditions thereby assuring rail users with the level and quality of service the State wants and is willing to finance.

It is clear from examination of the financial records of the Railroad that capital and operating losses have occurred from time to time in the past. The data also reveals the likelihood of additional losses. There is evidence that revenue from the freight operations have been necessarily used to subsidize the passenger operations. If the State assumes the ownership and operational responsibility for the Alaska Railroad, Alaska must be prepared to cover any future capital and operating losses.

This approach would also simplify the relationship between the State and the federal government. The State is qualified to receive federal financial assistance under the 803 program of the Railroad Revitalization and Regulatory Reform Act (4R Act) of 1976 as amended unless the Railroad has increased traffic of a magnitude that prevents it from being considered a low density line. The State retains the option of participation in the 803 program as long as it is eligible. Alaska should carefully evaluate the difficulties, time, cost, and federal involvement in considering participation in this Federal Railroad Administration program. State participation in the 803 program requires



following FRA guidelines and obtaining plan and project approvals. It should be noted that this FRA program was designed to assist railroads, through the states, which were facing line abandonments of uneconomic and marginal branch lines and not to accommodate system growth. If full advantage is to be taken by Alaska of its opportunities for economic, agricultural, and resource development, rail service to areas not presently served remains an important consideration by the State.

It should be noted that there are federal funds available for branch line funding, redeemable preference shares, loans and other programs. A transfer of ownership from the federal government to the State does not impair funding eligibility. Arrangements would also be necessary for federal assistance through legislation relative to employee benefits for the current federal employees of the Railroad.

#### Private Ownership and Operation Alternative

Several years ago, the Federal Railroad Administration expressed some interest in the transfer of the Alaska Railroad from federal ownership and operation to the private sector. At that time the State did not have a Department of Transportation and Public Facilities, the financial resources, or serious interest in State ownership. Expression of interest by railroads in the continental states were sought. Some private companies did express an interest in the possible acquisition of the Railroad.

Those private companies that were most serious carefully evaluated the traffic (existing and potential), the cost of acquisition and operation, and the return on investment. Based upon their analyses, they decided that the return on their investment was insufficient to warrant the financial commitment.

Changes in the traffic base of the Alaska Railroad such as major coal export or mineral extraction and shipment could significantly change the economics of the Railroad. Such changes would make the Railroad more attractive to private investors.

This alternative must be viewed, however, from the State's perspective and not necessarily from the private enterprise view. There



are sound arguments as to why the private sector should be encouraged to own and operate the Railroad. Obviously, the private sector is much more experienced and knowledgeable in railroad ownership and operations. This private approach could potentially expand the public tax base while minimizing the necessity for governmental employment increases. Private companies have more flexibility than public agencies in the management of a business enterprise. In addition, decisions can be made more rapidly in the private sector than in government.

If the Railroad were privately owned and operated, the role of the State of Alaska changes. The State could become the regulator and not the implementor. It will be more difficult to assure the integration of the railroad with other transportation modes. Railroad expansion will be based upon a more strict test of return on investment, profit, and economic considerations.

The trade-off associated with this alternative seems to be private investment capital, know-how, experience, and ability to rapidly respond to changing markets and development in exchange for State or federal control, implementation, public rail service, policy reinforcement, public funds, and transportation system integration.

#### Public and Private Combination Alternative

The fourth alternative for the ownership and operation of the Alaska Railroad involves a combination of public and private interests. Many possible variations of this alternative appear viable depending upon the relative roles, negotiations, compromises, and decisions. Since the alternative variations are almost endless, it seems appropriate to outline one approach that illustrates the possibilities and serves as a point of departure for discussion purposes.

For purposes of discussion, it is assumed that the public would own the land and facilities. The motive power, rolling stock, and equipment could be owned either privately or by the public. Operational responsibilities are assumed to be by the private sector.

One approach within these parameters would be to have a Board of Directors appointed by the Governor (perhaps for staggered terms and confirmed by the Senate or not). The Board would be made up of



businessmen and people knowledgeable about railroads. They could be paid a reasonable stipend for serving and would be given this total responsibility for oversight of the property and the administration of the contract with the private operator. An example of this type of approach is the USRA Board created by federal legislation.

Consideration would have to be given to the total number of Board members. The responsibilities, authority, power and duties of the Board would have to be carefully determined and articulated. If such a Board is created, it seems appropriate to delineate its access to both public and private funds. Creativity and innovation will be required in the establishment of such an entity. Among the issues requiring attention are the following: (1) operator incentives, (2) source of funds if subsidy is required, (3) freight and passenger service levels and responsibilities, (4) labor provisions, (5) maintenance responsibilities and funding, (6) responsibility for liability, (7) natural disaster recovery, (8) equipment and facility acquisition and disposition, (9) industrial development and property management responsibilities, (10) accountability (to whom and when) and (11) institutional relationships with marine owners and operators. This list is illustrative and not exclusive.

The advantages of public ownership of the land and improvements are numerous. The problem of land ownership disputes would be minimized. There would be no problem of recovery of federal or state funds expended on lines which were discontinued before the expiration of their useful life. Public powers could be used, if necessary, for expansion of the railroad system. The Railroad could more effectively be integrated into the State's total transportation system.

Private operations with incentives for excellence also has advantages. It enables the railroad operations to be carried out by people with relevant experience, training, and capability. Marketing could be conducted in the way it is carried out within the private sector. Rail service requirements could be incorporated into the operational agreement and the users and public could be assured that service is at a proper level by enforcement of the requirements. A reasonable profit level needs to be achievable by the operator.

The public and private combination appears to be one viable alternative for the Alaska Railroad.

February 24, 1981

Representative Bette M. Cato  
House of Representatives -  
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Pouch V  
Juneau, Alaska 99811

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Each of these points deserves a bit more detailed comment.

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- o Reorganize as a state corporation. Such an operation might be similar to either the British Columbia Railway, the Ontario Northland Railway, or to any number of small operations developed in the eastern and mid-western U.S. during the past five years.
- o Reorganize with a combination of state ownership and private operation. This would give the state ownership of some combination of the railroad's real and operating assets while a private entrepreneur would either enter into a long-term lease agreement or contract to operate the property in a manner similar to the arrangement between the Southern Railway and the city of Cincinnati for operation of several hundred miles of line owned by that city.
- o Sell the railroad to a private firm who would then function in a manner similar to comparable operations elsewhere in the country.

Clearly, these options can differ substantially in the range and size of their impacts upon the state. They also would provide considerable variation in the amount of state investment required although none of them would entirely eliminate state involvement. Finally, the organizational form which evolves will determine almost entirely the degree to which rail decision making in the state will be political rather than commercial. The important point is that it is not yet necessary or in the state's best interest to foreclose on any of these options.

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- o An analysis of the impact on rail competitors of various institutional arrangements for the railroad; and
- o Determination of which federal funding programs would or would not be available under different ownership/operational structures.

Many of these are not addressed in the present bill and given the lack of information on most of the areas, it would be impossible to do so at this time.

In addition to the areas mentioned above it is important to remember that any future rail activity in the state will be largely shaped by the federal legislation which transfers control of the Alaska Railroad to the state. Given this reality, I would suggest that the most important direction that could be taken at this point in time would be to establish an organization which can negotiate transference of the railroad, can participate in the shaping of the federal legislation, can investigate the state's options in this matter, and can assist the legislature in preparing suitable legislation to address the organizational form of future state participation as well as other institutional and policy matters. I would suggest that this organization be set apart from present state agencies due to the fact that its concerns would necessarily span many of their individual interests. For example: the Departments of Transportation, Commerce and Economic Development, Natural Resources, Community and Regional Affairs, Attorney General and Labor all have concerns within their jurisdictions which would also be involved in rail transfer questions. An independent group would be better able to coordinate these concerns while still utilizing existing programs. The most important of these existing programs is the rail planning work presently being done within the Department of Transportation.

Most importantly, by taking this approach, the state would preserve all of its options. While it is clearly time to take action on this matter, it is not yet appropriate to commit the state to a particular and final course of action. House Bill 12 makes this commitment at a time when there is insufficient information to determine whether it is in the correct direction and at a time when the federal consideration is unclear. In view of this I would urge the members of the legislature to adopt a course of action which permits the state to play a major role in shaping future rail matters while postponing the details of rail operation, expansion, and regulation until an appropriate time and until the necessary information has been assembled.

The transfer of the Alaska Railroad to state control represents a major change in the transport system and its institutions. Undoubtedly the most important change since statehood placed the highway and airport system within state jurisdiction. It is important that this change proceed in an orderly manner with clear understanding of the opportunities and liabilities of various courses of action. I hope these comments have helped to further this understanding.

Sincerely,

John T. Gray  
Assistant Professor of  
Transportation

and expand the Alaska Railroad and, through its rate setting power, becomes an economic regulation body;

- o It is premature in that it forecloses on a number of options for dealing with the railroad which may be more attractive for the state in terms of long-term operational considerations;
- o It does not address many of the problems of the railroad transfer which can be dealt with only on a legislative basis.

Each of these points deserves a bit more detailed comment.

In establishing an authority with the rather broad power to acquire, operate, expand, and regulate railroad operations in the state the bill combines within a single entity responsibilities which will probably be in conflict. Acquisition of the present railroad is a function which requires both a good deal of planning and a sensitivity to the long-term economic and political goals which may be held for the railroad. The body which plans and negotiates this transfer should at the same time be designing the organization which will operate the railroad to the best advantage of the state. It cannot do this if its form is already set by legislative mandate. Likewise, an organization which is required to operate the railroad in the manner of a private business (as is implied by the bonding provisions of the bill) will inevitably find itself in conflict with the political policy aspects of both its own operational and regulatory mandates and with the political control implied by the board membership. All of these areas offer serious opportunity for potential conflict both within the rail authority and with external organizations.

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 26, 1981

SUBJECT: Sectional analysis of Alaska Railroad  
Authority Bill (Work Order Number 12-0866)

TO: Senator M. E. Dankworth

FROM: Randolph G. Berry *RGB*  
Legislative Counsel

In accordance with your request, the following is a section-by-section analysis of your bill establishing the Alaska Railroad Authority (Work Order No. 12-0093).

Sec. 1 of the bill:

Sec. 42.40.010 establishes the Alaska Railroad Authority as a public corporation within the Department of Transportation and Public Facilities.

Sec. 42.40.020 provides that the authority shall be governed by a board of directors.

Sec. 42.40.030 sets out the membership of the board of directors, the method of appointment, and qualifications of the members.

Sec. 42.40.040 provides for a four year term of office for directors and provisions for filling of vacancies.

Sec. 42.40.050 sets out procedures to be followed in the event of a conflict of interest by a member of the board of directors.

Sec. 42.40.050 provides for per diem and travel expenses for the directors.

Sec. 42.40.070 establishes the quorum for the board of directors.

FEB 26 1981

Sec. 42.40.080 provides that board meetings are public meetings.

Sec. 42.40.090 requires board to keep minutes of its meetings.

Sec. 42.40.100 allows the board to employ a president to manage the authority and sets out certain qualifications for the president.

Sec. 42.40.110 sets out the general powers of the authority, including operating authority and financial powers.

Sec. 42.40.120 provides that the authority shall provide for the operation of the Alaska Railroad, either operating the railroad itself or otherwise, and allows the authority to expand the operations of the railroad.

Sec. 42.40.130 provides that the board shall adopt and issue regulations pertaining to its operations and the operations of the railroad.

Sec. 42.40.140 requires the board to prepare and distribute an annual report.

Sec. 42.40.150 requires an annual audit of the authority by the legislative auditor or by an independent auditor acceptable to the legislative auditor.

Sec. 42.40.160 allows the authority to issue and sell bonds and notes to provide money for corporation purposes, including the operation, maintenance and expansion of the railroad; provides that these bonds and notes are payable from funds and assets of the corporation; allows the authority to determine the number, denomination and other matters relating to the issuance of bonds and notes; allows the authority to make pledges and guarantees with respect to the security for the bonds and notes; the payment of interest and principal, the redemption of the bonds, and the establishment of special funds for payment or redemption of the bonds or notes; and allows the

authority to make pledges with regard to the appointment and powers of a trustee or trustees to protect the interests of the holders of the bonds and notes issued by the authority.

Sec. 42.40.170 requires the authority to retain the services of an independent financial advisor when negotiating for the private sale of bonds or notes.

Sec. 42.40.180 provides that pledges of assets or revenue made by the authority as security for the payment of principal or interest on bonds or notes are binding on the authority.

Sec. 42.40.190 grants the holders of authority bonds or notes, or trustees appointed to protect the holder's interests, to enforce the rights granted under this chapter and pledges made under the trust agreement or resolution of the board.

Sec. 42.40.200 provides that bonds and notes of the corporation are negotiable instruments.

Sec. 42.40.210 provides that bonds and notes of the authority are securities which are eligible for investment of state funds and qualify for investment of reserves and other funds by insurance companies, banks and other companies maintaining reserve accounts.

Sec. 42.40.220 allows the authority to issue refunding bonds to replace previously issued and outstanding bonds and notes of the authority.

Sec. 42.40.230 provides that the authority is not allowed to pledge the taxing power of the state or assets of the state other than the assets of the authority.

Sec. 42.40.240 protects the officers and employees of the authority from personal liability for the issuance of bonds or notes by the corporation.

Sec. 42.40.250 grants tax exempt status to the authority and to bonds and notes issued by the authority.

Sec. 42.40.270 allows the board of directors to dissolve the authority after provision for repayment of all its bonds and notes, but requires legislative approval of the dissolution.

Sec. 42.40.280 provides that personnel of the authority are in the exempt state service.

Sec. 42.40.990 defines various terms used in the previous sections.

Sec. 2 establishes the terms for initial members of the board of directors appointed under sec. 42.40.030.

Sec. 3 provides for the board of directors of the Alaska Railroad Authority to enter into negotiations with representatives of the federal government for the transfer of the Alaska Railroad to the authority.

RGB:ljb

Alaska State Legislature



REPRESENTATIVE  
H. PAPPY MOSS  
P.O. BOX 182  
DELTA JUNCTION, ALASKA 99737  
(907) 885-4384

WHILE IN JUNEAU  
POUCH V  
JUNEAU, ALASKA  
99811  
(907) 465-4980

House of Representatives

February 24, 1981

The Honorable Bette Cato  
Chairman  
Transportation Committee

Dear Madam Chairman and Members of the Committee:

I would like to thank you for considering HB 12, the creation of the Alaska Railroad Authority. This authority is formed for the purpose of acquiring, constructing, operating, and maintaining railroads within the state.

An efficient rail system within the state is essential for the development of our renewable and non-renewable resources. In order for Alaska to export coal, grain, minerals, and processed products, we must continue to rely on our railroads. We must, in fact, coordinate this development with railroad development.

An authority, as envisioned in this bill, will ensure that the state can assume ownership of the Alaska Railroad, provide for line extension, keep pace with changing railroad technologies, and oversee proper maintenance and repair of the system.

It may not be the most glamorous undertaking of the 12th Legislature, but if we prepare for the orderly transfer and operation of Alaska's railroads, it will certainly be one of the most important and visionary.

Sincerely,

A handwritten signature in cursive script that reads "Pappy Moss".

H. Pappy Moss



# Alaska State Legislature

## House of Representatives

Official Business

Pouch V  
State Capitol  
Juneau, Alaska 99811

MEMORANDUM- Regarding the Alaska Railroad

TO: Representative Brian Rogers

FROM: Patrick Lawler  
Administrative Aide to Rep. Sutcliffe

Here's a rundown of the sketchy information I've gathered about the possible transfer of the Alaska Railroad to the State.

In addition to the bill cosponsored by you and Rep. Moss creating an Alaska Railroad Authority, Sen. Kertulla and Sen. Dankworth have drafted a bill yet to be introduced which would, I have been told, create a semi-autonomous corporation with a board of directors similar in structure to the Alaska Energy Center. This corporation would be empowered to own and operate the Alaska Railroad.

Mark Hickey, the State Rail Plan Manager at DOT said that legislative action towards the purchase or acquisition of the Alaska Railroad would be, in his opinion, premature. He feels that the State should first become aware of the full range of legal, administrative, technical, and especially financial aspects of the Railroad before locking itself into any particular structure. He feels, in other words, that we should keep our options open.

The Federal Railroad Administration is currently studying possible means of disposing of its control of the Alaska Railroad. The Office of Management and Budget of the Carter Administration recommended the sale or transfer of the railroad to the State of Alaska by 1983. Reagan Administration officials have given their unofficial support to these plans and Mark Hickey will meet with FRA officials concerning the matter soon.

Again, according to Mr. Hickey, DOT is gearing up to study the Alaska Railroad in detail, as well as possible options for state ownership and operation of the Railroad. He feels that by the next session of the Legislature his department will have the facts needed to draft legislation. Mr. Hickey also pointed out that any transfer of Alaska Railroad would require federal legislation and that any action by the State should work in conjunction with this legislation.

The enclosed Rail Systems Study includes in Chapter 5 some of the issues involved in the operation of the Railroad.

Contacts about the subject are; Mark Hickey at DOT  
Ron Walt, US Dept. of Transportation  
Juneau  
Jessie Dodson at the Governors Office

# Carter budget urges transfer of ARR by 1983

States News Service

WASHINGTON—The Alaska Railroad should be transferred to the State of Alaska or a private party by 1983, according to President Carter's proposed 1982 budget.

The preliminary budget, which lists Office of Management and Budget recommendations for government spending, suggests the railroad be sold or transferred as part of a general outline of transportation policy priorities of the departing Carter Administration.

The Alaska Railroad is the only federally owned railroad system in the country.

"Legislation is being proposed to Congress that would provide for takeover of the railroad," a Federal Railroad Administration spokesman confirmed today.

But the spokesman said it is doubtful Congress will approve the transfer during the current Congressional session.

The Alaska Railroad has been running at a deficit since completion of the

(See RAIL, page 11)

## RAIL...

(Continued from page 1)

trans-Alaska pipeline in 1976.

The railroad received \$10.6 million from the federal government for capital expenditures, primarily maintenance, in fiscal 1981. The preliminary fiscal 1982 budget, which begins next October, earmarks \$7 million for the railroad's capital costs. Operating expenses are paid from the railroad's revenues.

In meetings earlier this week, Sen. Frank Murkowski, R-Alaska, suggested to Transportation Secretary-designate Drew Lewis that his

department investigate turning the railroad over to the state.

The Hammond administration says the federal government has long wanted to unload the Alaska Railroad on the state and legislative proposals to at least begin the process of taking over the railroad have the support of some key legislators.

But Commissioner of Transportation and Public Facilities Bob Ward says he believes the state should study the idea in detail before making a decision.

In the last fiscal year, the railroad lost \$4 million, down from a \$6 million loss the year before.

## Carter: Give railroad to state

Empire Washington Bureau

WASHINGTON.—The Alaska railroad should be handed over to the state or a private party by 1983, according to President Carter's proposed 1982 budget.

The preliminary budget, which lists Office of Management and Budget recommendations for government expenditures, suggests the railroad sale or transfer as part of an outline of transportation policy priorities of the departing President.

The Alaska Railroad is the only federally owned rail system in the country.

"Legislation is being proposed to Congress that would provide for takeover of the railroad," a Federal Railroad Administration spokesman said Thursday, adding that Democrats are not holding out great hopes of Congressional approval of the transfer in this session.

The Alaska Railroad has been running at a deficit since completion of the Trans-Alaska Pipeline in 1976.

The railroad received \$10.6 million from the federal government for capital expenditures in fiscal 1981, including \$4.5 million for new passenger cars.

The preliminary budget for fiscal 1982 earmarks \$7 million for the railroad's capital costs. Operating costs are paid from the railroad's revenues.

In meetings earlier this week, Alaska Sen. Frank Murkowski suggested to Secretary of Transportation-designate Drew Lewis that his department investigate turning the railroad over to the state.

Sen. Ted Stevens, R-Alaska, has in the past supported transfer of the railroad to the state, but is concerned about the terms. A spokesman for Stevens said he expressed his concerns to the Reagan transition team.

Washington — President Carter's proposed 1982 fiscal budget calls for the sale or transfer of the Alaska Railroad by 1983 and attempts to block reconstruction of the Alaska Highway.

The spending plan, released today, says Alaska is the only state that benefits from the two transportation systems. It also says the state can afford to bankroll the railroad.

(See related story, page A-8)

"The benefits from operating the Alaska Railroad are largely concentrated in that state, making continued federal funding inappropriate," the document says. "Moreover, the state has sufficient funds with which to support and improve the railroad's operation."

The Alaska Railroad is operated by the federal government under a law enacted in 1914. The 1982 budget for the railroad is \$7 million, down from nearly \$10.7 million in 1981.

Alaska Railroad Assistant Manager Arnie Polanchek said today the railroad has technically been up for sale since the early 1970s.

"It's really nothing other than a continuing question that comes up," he said. "It's just the federal government's policy that they would like to see the railroad transferred to the state."

Past attempts to sell the line to private railroad corporations have been unsuccessful.

"Someday it may happen but it's going to take legislation by both the federal government and the state government. A lot of things will have to be worked out."

Polanchek had no idea of the government's asking price for its only railroad. "It'll depend on the legislation and what the federal govern-

ment thinks they should receive for it," he explained.

Carter's budget now moves to Congress is expected to be revised by the incoming Reagan administration.

Earlier this week, incoming Transportation Secretary Drew Lewis promised to work with the Alaska congressional delegation and the state on the possible transfer of the railroad from the federal government to state control. The commitment came at a hearing of the Senate Environment and Public Works Committee.

Carter's budget notes that freight tonnages will continue below the peak achieved during construction of the Alaska pipeline, but that the railroad hopes to achieve some increase in 1982.

The railroad made its last official "profit" during the pipeline years of 1977-78, Polanchek explained. Since then, the system has been showing a paper loss due to depreciation of the physical plant and the railroad's steady reinvestment of funds into improvements.

But fiscal 1981, said Polanchek, has been "a good year."

As in the past, Carter's budget also tries to bar the congressionally authorized reconstruction of the Alaska Highway by not including any funds for the project.

The 1973 Federal-Aid Highway Act authorized \$58.7 million for the reconstruction of the Alaska Highway from the Alaskan border to Haines Junction, Canada, and the Haines Cutoff Highway from Haines Junction to the south Alaskan border.

The costs of the project have skyrocketed to \$180 billion.

(See RAILROAD, page A-3)

(Continued from page A-1)

"No appropriation is being requested for 1982 because the benefits from construction of the highway accrue primarily to one state — Alaska, the budget says.

In other items of interest to Alaska, the budget seeks:

— \$36.6 million for the office of Federal Inspector of the Alaska gas line to coordinate the issuing of permits, carry out environmental and engineering reviews and conduct field surveillance on the project. This represents an increase from the fiscal 1981 total of \$21.5 million.

— \$3.5 million for the Alaska Power Administration, which operates and markets hydroelectric power from two federal projects in the state — Ekjutna near Anchorage and Snettisham near Juneau. This is up from \$3 million in fiscal 1981.

— \$2.2 billion for Coast Guard operations in fiscal 1982, up from \$2 billion last year. The money would be used for search and rescue opera-

tions, maintenance of navigation aids, ice breaking, prevention and cleanup of marine pollution, and inspections of offshore drilling rigs.

The money would allow the replacement of three aging cutters, the purchase of 41 jet surveillance aircraft and 90 new rescue helicopters.

The Carter administration wants to defer until 1983 major efforts to improve and modernize several Coast Guard training and shore facilities, but it supports increases in pay and benefits for Coast Guard personnel in 1982.

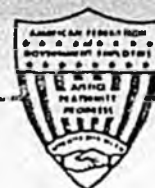
— \$7.1 billion for Comprehensive Employment and Training Act programs nationwide, including \$3.8 billion for public service employment (an increase of \$7 million from 1981), \$3 billion for general training and employment (a \$144-million increase), and \$314 million to support job placements in the private sector.

FOR

# American Federation of Government Employees

LOCAL 183

\*\*\*\*\*  
AFFILIATED WITH THE AFL-CIO WASHINGTON, D.C.



LOCAL 183  
POST OFFICE BOX 35  
ANCHORAGE, ALASKA 99510  
TELEPHONE 272-8316

REFER TO FILE:

February 18, 1981

The Honorable Brian Rogers  
State House of Representatives  
Pouch V  
Juneau, AK 99811.

Dear Mr. Rogers:

The American Federation of Government Employees, Local 183, being the largest bargaining unit of The Alaska Railroad supports the idea of State ownership of the Railroad.

Through the years we have had the experience of watching the Railroad deteriorate to the point where it strains to fulfill its mission and purpose. We have often been neglected and treated like an illegitimate part of the Federal Government. We have had to listen to bureaucrats in Washington, D.C. make the usual excuses as to why the line could not be properly funded.

The Alaska Railroad is important to the State of Alaska, and in our opinion Alaska can no longer afford this type of irresponsibility if it expects to develop its mineral resources which are dependent upon a heavy transportation system.

We are asking you to support with legislation the transfer of The Alaska Railroad to State ownership so that we along with the other citizens of Alaska can determine our own destiny.

The people of Alaska, The Alaska Railroad, and the employees of The Alaska Railroad are worthy of this consideration. We believe that now is the time to start in that direction.

Sincerely,

Jack F. Burton  
President

*Dodson*



DEPARTMENT OF TRANSPORTATION  
FEDERAL RAILROAD ADMINISTRATION  
WASHINGTON, D.C. 20590

OFFICE OF  
THE ADMINISTRATOR

RECEIVED AUG 27 1980  
SEP 02 1980

The Honorable Jay S. Hammond  
Governor of Alaska  
Juneau, Alaska 99801

GOVERNOR'S OFFICE

Dear Governor Hammond:

On July 24, 1980, officials from the Federal Railroad Administration including the General Manager of the Alaska Railroad met in Juneau with Mr. Bob Ward, Commissioner of Transportation and Ms. Jessie Dodson from your office to discuss the Alaska Railroad. The meeting provided an opportunity to review a number of current and long range Railroad issues including the State's support for passenger service, the Railroad's efforts to cut costs and the federal goal of transferring the Railroad to State ownership. I am pleased that this dialogue has begun and am hopeful that it can lead to an orderly resolution of our respective concerns. I am particularly encouraged by Commissioner Ward and Ms. Dodson's interest in the future of the Alaska Railroad and their willingness to begin active consideration of our proposals.

A summary of the subjects discussed at the meeting and our proposals for State involvement follows.

State Support for Passenger Service

We appreciate the State decision to provide \$1 million in the current budget to purchase a new passenger car for the Railroad. However, we request the State to redirect this money so that it can be used to pay for refurbishing passenger cars on the Anchorage-Fairbanks line rather than the purchase of one new "Budd car" on the Whittier line. We have decided against the purchase of new self-propelled Budd cars in favor of continuing conventional passenger trains on both lines because of the high cost and technical problems with the Budd cars for use in Alaska. The Railroad has purchased eight additional conventional passenger cars from the Southern Railroad and plans to refurbish these cars as well as existing equipment.

We expect federal funds will be available to refurbish at most eight cars and ask the State to provide \$1 million to refurbish another four cars. Once these cars are refurbished, the Anchorage-Fairbanks service will be more reliable and economical to operate and extra cars will become available to replace the much older Whittier cars. Unless the \$1 million in State funds can be redirected to assist in this effort, the Railroad will be unable to refurbish sufficient cars to continue existing service. Moreover, the Railroad will have to refuse the State funds if they can only be used to purchase a Budd car. Acquisition of one Budd car would be inconsistent with the decision to continue conventional passenger train service and the costs to operate and maintain a single Budd car would be prohibitive. I understand Commissioner Ward agreed to seek a redirection of State funds as we requested, and I urge your active support for this effort. In our view, this approach will provide the optimum benefit for passengers who use both the Anchorage-Fairbanks and the Whittier lines.

In addition to redirecting the available \$1 million to refurbishing costs, we also request that the State provide funds to cover the 1981 passenger service operating losses that are estimated to be about \$1 million. In the past, the Railroad has been able to make up passenger losses from freight revenues. However, the Railroad cannot continue this cross subsidization of passenger service because there has been a steady decline in freight revenue since the Trans Alaska Pipeline was completed. In 1980 a one-time federal subsidy of \$1.5 million was provided for passenger operating losses, but no funds are included in the 1981 federal budget for this purpose. Unless the State makes up these losses in the coming year, the Railroad may be forced to drastically curtail passenger service.

#### Alaska Railroad Efforts to Cut Costs

Over the past few years the Railroad has taken many steps to cut costs. For example, the number of employees has been reduced to less than half the number employed during the peak pipeline construction years and locomotives have been modified to reduce fuel consumption. During the meeting on July 24, two new actions to cut costs were explained.

Beginning this winter, the Railroad will attach a single passenger car to a freight train for two round trips per week between Anchorage and Fairbanks. This will be a reduction from the three-car consist that operated last winter, but the frequency of service will remain the same as last winter. The single passenger car will be cheaper to operate and it will be more than adequate to handle the low winter ridership.

In another effort to cut costs and remove the Railroad from activities that are not vital federal interests, a decision has been made to terminate the present contract for providing freight barge service on the Tanana and Yukon Rivers. The ARR plans to sell its river equipment, including a tugboat and several barges, and is willing to lease its dock facilities and other land holdings that may be needed for the State or a private business to continue operating the barge service.

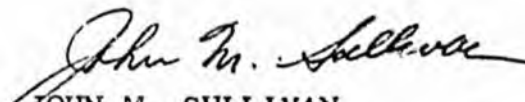
Proposed Transfer of the Alaska Railroad to State  
Ownership

It has been the policy of the past three Administrations to cease federal operation of the Railroad by transferring it to the State or a private buyer. Private companies have expressed an interest in the Railroad in the past and several concerns have recently contacted the General Manager. We suggest that this is a good time to begin serious discussion of State take-over because (1) the Railroad is essentially an intrastate railroad primarily serving the freight and tourist needs of the State, (2) the State is in a strong fiscal condition and would be able to support the Railroad's capital and operating needs, and (3) the transfer process, which will probably take two to three years to implement, should begin now while the Railroad is in a slump before the natural gas pipeline construction activity begins in a few years.

?  
Commissioner Ward indicated that there has been some discussion within the State about eventual State acquisition of the Railroad. I would hope that these discussions can now lead to a decision to assume State responsibility for the Railroad so that we can begin the complex process of transferring ownership. I firmly believe it is in the State's interest to actively press for State ownership at this time for both the transportation needs of the State and to preserve the public services that the Railroad provides in Alaska.

We look forward to continuing this important discussion and are hopeful it will lead to increased State support for the passenger service in the coming year as well as ultimate transfer of the Railroad to State ownership. If I can be of further assistance to you or provide additional information, please let me know. Both the Alaska Railroad and Federal Railroad Administration staffs are available to meet with and assist State officials in this regard.

Sincerely,

  
JOHN M. SULLIVAN  
Administrator

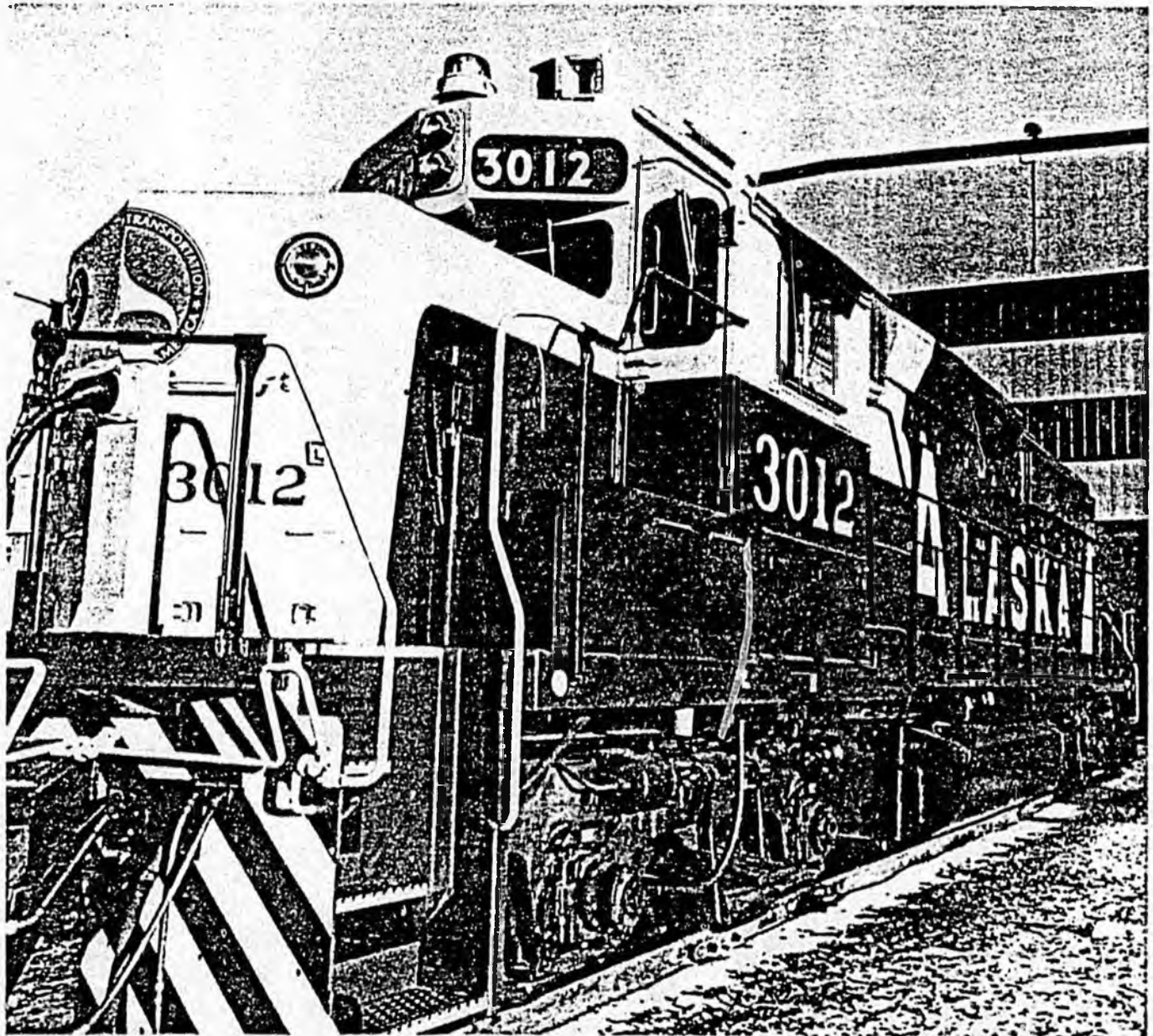


U.S. Department  
of Transportation  
Federal Railroad  
Administration

Fiscal Year 1979

# THE ALASKA RAILROAD

Annual Report by The Secretary of Transportation  
To The President For Transmittal To The Congress



# Overview

## THE ECONOMY

The Alaskan economy, at a low level following completion of the trans-Alaska oil pipeline, contracted still further during 1979. Construction was down, vacancy rates for single family rental units reached 25 percent in Anchorage, and the State population dropped by several thousand persons. Uncertainty over the Alaska lands issue has caused corporations to defer capital investments in the State. Alaska, as it enters the 1980's, remains an underdeveloped area.

The construction of a 4,800-mile natural gas pipeline from Alaska's North Slope is an increasingly likely prospect and would be the principal stimulant of the economy in the 1980's. Because Alaska is rich in natural resources other than petroleum, there are other possibilities for expanding Alaska's economic base. These include copper and coal mining, fishing and seafood processing, forestry products, and hydropower. In the near term, the State, using its surplus oil revenues, is expected to increase the funding of capital improvement projects in 1980. Tourism, up 10 percent in 1979, continues to grow; and commercial fishing, up 20 percent over 1978, also promises to grow rapidly as the offshore-bottom fishing industry develops.

In years past, traffic and revenues on The Alaska Railroad have risen and fallen with the Alaskan economy, and this pattern will continue. Because there is no manufacturing activity in Alaska, and no immediate prospects for its development, the Alaskan economy will continue to fluctuate throughout the 1980's. Alaska Railroad financial results during the decade will reflect these fluctuations.

## THE RAILROAD

Fiscal year 1979 saw a continuation of the decline in freight traffic (Table I) that began in 1977 following the completion of the trans-Alaska oil pipeline. All major commodities hauled in FY 1979 dropped from FY 1978 (Table II); as in FY 1978, the largest decline was in petroleum products because the refinery located near Fairbanks increased its bulk petroleum market share and thereby lessened the surrounding area's dependence on shipments via the Railroad. If the anticipated construction activity increases and an export coal movement is started, FY 1980 should reflect a modest upturn in freight traffic. No substantial gains are expected in the long-haul traffic to Fairbanks, however, until the gas pipeline project begins.

Non-freight revenues increased, led by passenger revenues which were up 35 percent. Non-operating revenues were up 26 percent; and other

operating revenues increased 3 percent—from \$3.3 million to \$3.4 million. Total expenses were reduced almost \$2 million; but revenues primarily reflecting the drop in freight traffic declined by nearly \$4 million. These losses were incurred despite a 14-percent reduction in employment. Increased labor costs and material prices tended to offset the personnel reductions and the higher tariffs.

TABLE I: RAILROAD STATISTICAL HIGHLIGHTS

ITEM	1979 FY	1978 FY	% CHANGE
Total Revenues (million \$)	25.2	29.1	- 13.4
Total Expenses (million \$)	31.8	33.6	- 5.5
Gain (Loss) (million \$):			
Before Depreciation (gross)	(3.4)	(1.3)	-151.8
After Depreciation (net)	(6.6)	(4.5)	- 45.3
Capital and Major Maintenance Program (million \$)	9.4	3.6	+161.1
Average No. Employees	648	753	- 13.9
Freight:			
Revenue (million \$)	18.2	23	- 21
Revenue-Tons Carried (million)	1.8	2.2	- 16.9
Revenue Ton-Miles (million)	257	330	- 22.1
Revenue per Ton-Mile (cents)	7.1	7	+ 1.4
Average Distance Carried (miles)	142	152	- 6.6
Carloads Handled	36,499	40,557	- 10
Total Train-Miles (thousand)	370	375	- 1.4
Passengers:			
Revenue (million \$)	1.6	1.2	+ 35.3
Miles (million)	13.8	12	+ 15.5
Gross Ton-Miles (million)	878	915	- 4.8

**TABLE II: FREIGHT TRAFFIC BY COMMODITY**

COMMODITY	1979 FY	1978 FY	% CHANGE
Revenue Tons Carried (thousand):			
Sand & Gravel	637.5	727.2	-12.3
Coal	523.9	593.3	-11.7
Manufactures & Misc.	276.9	307.8	-10.0
Petroleum, Oil, Lubricants	219.6	373.9	-41.3
TOFC/COFC (Piggyback)	88.7	99.5	-10.9
Products of Forests	55.2	67.8	-18.6
Products of Agriculture	7.1	8.2	-13.4
<b>Total Tonnage</b>	<b>1,808.9</b>	<b>2,177.7</b>	<b>-16.9</b>
Revenue Dollars (thousands):			
Sand & Gravel	\$ 1,009	\$ 972	+ 3.8
Coal	3,207	3,507	- 8.6
Manufactures & Misc.	6,738	8,413	-19.9
Petroleum, Oil, Lubricants	3,877	6,362	-39.1
TOFC/COFC (Piggyback)	2,327	2,484	- 4.4
Products of Forests	886	1,231	-28.0
Products of Agriculture	114	72	+58.3
<b>Total Revenue</b>	<b>\$18,158</b>	<b>\$22,991</b>	<b>-21.0</b>

The Railroad's working ratio (expense/revenue, excluding depreciation) was 123 percent, up from 110 percent in FY 1978. Although expenses of all three operating departments—Transportation, Engineering, and Mechanical—were \$2 million less than expenses incurred in FY 1978, the 21-percent drop in freight revenues more than offset the economies.

The FY 1979 breakdown of revenues and expenses by percentages is shown in Figure 1. Freight revenues constituted 72 percent of total revenues, with the remaining 28 percent accruing from other than freight movements.

The capital and major maintenance program rose sharply because of the \$6.3 million appropriation by Congress for repairs to the Railroad's Seward and Whittier dock facilities.

Table III shows revenues, expenses, gains (losses), and cash flow for each quarter of fiscal years 1978-79. It reflects the declines in traffic which occur during the winter months, and the increases which occur during the summer months.

Although expenses are closely controlled and monitored, the Railroad will probably not show a profit until the construction equipment and material for the natural gas pipeline start to move into Alaska.

**TABLE III: QUARTERLY FINANCIAL RESULTS  
FISCAL YEARS 1978-79  
(Million dollars)**

QUARTER	REVENUE	EXPENSE	GAIN (LOSS)	CASH FLOW
FY 1978:				
1	\$ 7.1	\$ 8.9	\$(1.8)	\$(1.0)
2	5.7	8.3	(2.6)	(1.8)
3	7.1	8.4	(1.3)	(0.5)
4	9.2	8.0	1.2	2.0
<b>Total Oct. 1977- Sept. 1978</b>	<b>\$29.1</b>	<b>\$33.6</b>	<b>\$(4.5)</b>	<b>\$(1.3)</b>
FY 1979:				
1	\$ 5.4	\$ 7.9	\$(2.5)	\$(1.7)
2	5.7	7.7	(2.0)	(1.2)
3	6.7	8.2	(1.5)	(0.7)
4	7.4	8.0	(0.6)	0.2
<b>Total Oct. 1978- Sept. 1979</b>	<b>\$25.2</b>	<b>\$31.8</b>	<b>\$(6.6)</b>	<b>\$(3.4)</b>

The Railroad is taking active measures to reduce expenses further while continuing essential service to the public. Rising costs will continue to have a detrimental effect on the financial situation in FY 1980. The perennial deficits from passenger service will be offset in FY 1980 by an agreement recently signed by the Railroad and the State to cover losses associated with the Whittier shuttle service, and by a Federal appropriation which included \$1.5 million for the Anchorage-Fairbanks passenger service.

To build community and shipper awareness of the Railroad, the Railroad, with the support of the State and the numerous communities along the Railbelt, celebrated Alaska Railroad Week from September 10 through 16. The following noteworthy events took place: the Railroad ran special trains; a poster was produced; officials gave speeches; an Anchorage newspaper prepared a special section on the Railroad; the Anchorage museum presented an exhibit; and communities sponsored a variety of special events.

Since the Government of the State of Alaska has substantial surplus funds because of the growth of oil revenues, the Federal Government believes that ownership of The Alaska Railroad should be with the State Government. The Federal Government believes that The Alaska Railroad exists primarily for the benefit of the residents and shippers in Alaska; they need and deserve a much larger voice in determining the role that they want the railroad to play.

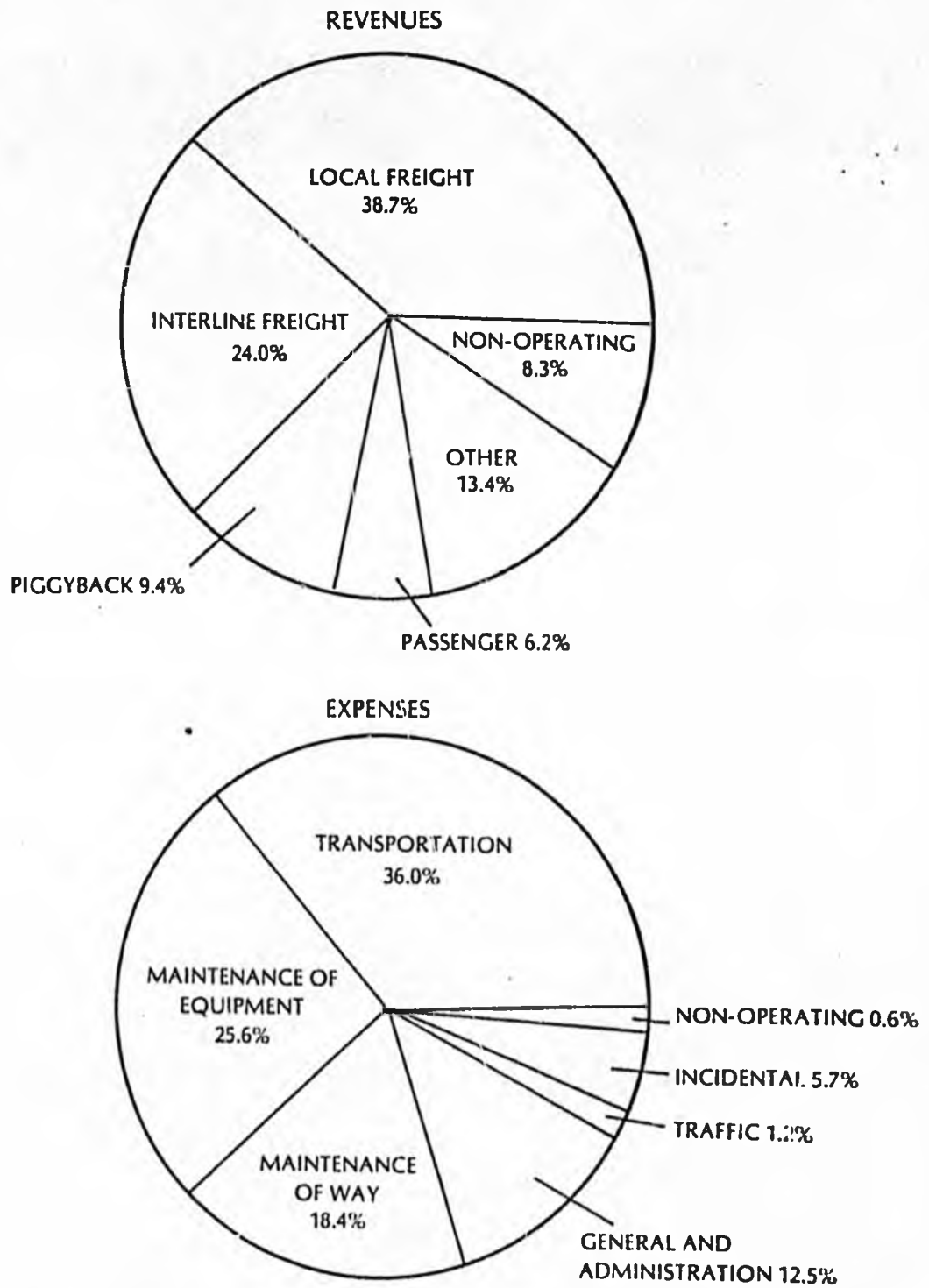


FIGURE 1: FY 1979 TOTAL REVENUES AND EXPENSES.

PROPOSED (Buchholdt)

LETTER OF INTENT

HB 12

A task force consisting of (1) the directors of the Alaska Railroad Authority; (2) a representative from each of the departments of Commerce and Economic Development, Natural Resources, Community and Regional Affairs, Law, and Labor, the division of policy development and planning, and the University of Alaska appointed by the head of each agency; and (3) three members of the public appointed by the governor, shall study the options for transfer of the Alaska Railroad to nonfederal control. The task force shall make recommendations to the legislature by March 1, 1982.

The Alaska Railroad Authority shall construct railroad facilities between Fairbanks and Delta and shall plan railroad facilities between Delta and the Alaskan and Canadian border.

The Alaska Railroad Authority shall consider the extension of railroad facilities to the Beluga, Susitna, and Matanuska-Susitna coal fields.

The Alaska Railroad Authority shall initiate discussions with the representatives of the White Pass and Yukon Railroad concerning the participation of the state in the ownership and control of that railroad.

Proposed Amendment: Delete Sec 6, pg 10; place in Sec. 44.87.030, pg 3

PURPOSE OF AUTHORITY (Hayes)

Proposed Amendment: Should amendment by Hayes to include Sec. 7, 8, & 9, pg 10 in Letter of Intent fail, Zharoff proposes to include the word "consider" after the word "shall" in the aforementioned sections.

Proposed Amendment: Delete Sec. 1 (2); replace with Sec 1 (a) of HB 312 (Hayes)

Section 1. LEGISLATIVE FINDINGS. (a) The legislature finds that there is a vast potential in Alaska natural resources and that extension of the Alaska railroad into natural resource areas is necessary for the achievement of the goals of lower freight costs and long-term economic growth.

Development of natural resources in the state will be accelerated and facilitated by the creation of an instrumentality of the state with power to incur debt for construction, and with power to own and operate railroads.

Proposed Amendment: Pg 2, line 2, Membership of Authority: delete "or"  
after industries add "," insert "regional corporations"  
(Zharoff).

Sunset Provision in HB 12, as requested by Committee of Tom Sofo, Legal Dept.

For Committe's information: Sunset provision may included in the bill in numerical sequence; amend AS 44.66.010 to include new paragraph for the Alaska Railroad Authority. If Committee desires a sunset provision, the Committee must determine date.



# Alaska State Legislature

## House of Representatives

Pouch V  
State Capitol  
Juneau, Alaska 99811

Official Business

MEMORANDUM- Regarding the Alaska Railroad

TO: Representative Brian Rogers

FROM: Patrick Lawler  
Administrative Aide to Rep. Sutcliffe

Here's a rundown of the sketchy information I've gathered about the possible transfer of the Alaska Railroad to the State.

In addition to the bill cosponsored by you and Rep. Moss creating an Alaska Railroad Authority, Sen. Kertulla and Sen. Dankworth have drafted a bill yet to be introduced which would, I have been told, create a semi-autonomous corporation with a board of directors similar in structure to the Alaska Energy Center. This corporation would be empowered to own and operate the Alaska Railroad.

Mark Hickey, the State Rail Plan Manager at DOT said that legislative action towards the purchase or acquisition of the Alaska Railroad would be, in his opinion, premature. He feels that the State should first become aware of the full range of legal, administrative, technical, and especially financial aspects of the Railroad before locking itself into any particular structure. He feels, in other words, that we should keep our options open.

The Federal Railroad Administration is currently studying possible means of disposing of its control of the Alaska Railroad. The Office of Management and Budget of the Carter Administration recommended the sale or transfer of the railroad to the State of Alaska by 1983. Reagan Administration officials have given their unofficial support to these plans and Mark Hickey will meet with FRA officials concerning the matter soon.

Again, according to Mr. Hickey, DOT is gearing up to study the Alaska Railroad in detail, as well as possible options for state ownership and operation of the Railroad. He feels that by the next session of the Legislature his department will have the facts needed to draft legislation. Mr. Hickey also pointed out that any transfer of Alaska Railroad would require federal legislation and that any action by the State should work in conjunction with this legislation.

The enclosed Rail Systems Study includes in Chapter 5 some of the issues involved in the operation of the Railroad.

Contacts about the subject are; Mark Hickey at DOT  
Ron Walt, US Dept. of Transportation  
Juneau  
Jessie Dodson at the Governors Office

Carter budget  
urges transfer  
of RAIL by 1983

States News Service

WASHINGTON—The Alaska railroad should be transferred to the state of Alaska or a private party by 1983, according to President Carter's proposed 1982 budget.

The preliminary budget, which lists the Office of Management and Budget recommendations for government spending, suggests the railroad be sold or transferred as part of a general outline of transportation policy priorities of the departing Carter Administration.

The Alaska Railroad is the only federally owned railroad system in the country.

"Legislation is being proposed to Congress that would provide for takeover of the railroad," a Federal Railroad Administration spokesman confirmed today.

But the spokesman said it is doubtful Congress will approve the transfer during the current Congressional session.

The Alaska Railroad has been running at a deficit since completion of the

(See RAIL, page 11)

## RAIL...

(Continued from page 1)

trans-Alaska pipeline in 1976.

The railroad received \$10.6 million from the federal government for capital expenditures, primarily maintenance, in fiscal 1981. The preliminary fiscal 1982 budget, which begins next October, earmarks \$7 million for the railroad's capital costs. Operating expenses are paid from the railroad's revenues.

In meetings earlier this week, Sen. Frank Murkowski, R-Alaska, suggested to Transportation Secretary-designate Drew Lewis that his

department investigate turning the railroad over to the state.

The Hammond administration says the federal government has long wanted to unload the Alaska Railroad on the state and legislative proposals to at least begin the process of taking over the railroad have the support of some key legislators.

But Commissioner of Transportation and Public Facilities Bob Ward says he believes the state should study the idea in detail before making a decision.

In the last fiscal year, the railroad lost \$4 million, down from a \$6 million loss the year before.

## Carter: Give railroad to state

Empire Washington Bureau

WASHINGTON.—The Alaska railroad should be handed over to the state or a private party by 1983, according to President Carter's proposed 1982 budget.

The preliminary budget, which lists the Office of Management and Budget recommendations for government expenditures, suggests the railroad sale or transfer as part of an outline of transportation policy priorities of the departing President.

The Alaska Railroad is the only federally owned rail system in the country.

"Legislation is being proposed to Congress that would provide for takeover of the railroad," a Federal Railroad Administration spokesman said Thursday, adding that Democrats are not holding out great hopes of Congressional approval of the transfer in this session.

The Alaska Railroad has been running at a deficit since completion of the Trans-Alaska Pipeline in 1976.

The railroad received \$10.6 million from the federal government for capital expenditures in fiscal 1981, including \$4.5 million for new passenger cars.

The preliminary budget for fiscal 1982 earmarks \$7 million for the railroad's capital costs. Operating costs are paid from the railroad's revenues.

In meetings earlier this week, Alaska Sen. Frank Murkowski suggested to Secretary of Transportation-designate Drew Lewis that his department investigate turning the railroad over to the state.

Sen. Ted Stevens, R-Alaska, has in the past supported transfer of the railroad to the state, but is concerned about the terms. A spokesman for Stevens said he expressed his concerns to the Reagan transition team.

Washington — President Carter's proposed 1982 fiscal budget calls for the sale or transfer of the Alaska Railroad by 1983 and attempts to block reconstruction of the Alaska Highway.

The spending plan, released today, says Alaska is the only state that benefits from the two transportation systems. It also says the state can afford to bankroll the railroad.

(See related story, page A-8)

"The benefits from operating the Alaska Railroad are largely concentrated in that state, making continued federal funding inappropriate," the document says. "Moreover, the state has sufficient funds with which to support and improve the railroad's operation."

The Alaska Railroad is operated by the federal government under a law enacted in 1914. The 1982 budget for the railroad is \$7 million, down from nearly \$10.7 million in 1981.

Alaska Railroad Assistant Manager Arnie Polanchek said today the railroad has technically been up for sale since the early 1970s.

"It's really nothing other than a continuing question that comes up," he said. "It's just the federal government's policy that they would like to see the railroad transferred to the state."

Past attempts to sell the line to private railroad corporations have been unsuccessful.

"Someday it may happen but it's going to take legislation by both the federal government and the state government. A lot of things will have to be worked out."

Polanchek had no idea of the government's asking price for its only railroad. "It'll depend on the legislation and what the federal govern-

ment thinks they should receive for it," he explained.

Carter's budget now moves to Congress is expected to be revised by the incoming Reagan administration.

Earlier this week, incoming Transportation Secretary Drew Lewis promised to work with the Alaska congressional delegation and the state on the possible transfer of the railroad from the federal government to state control. The commitment came at a hearing of the Senate Environment and Public Works Committee.

Carter's budget notes that freight tonnages will continue below the peak achieved during construction of the Alaska pipeline, but that the railroad hopes to achieve some increase in 1982.

The railroad made its last official "profit" during the pipeline years of 1977-78, Polanchek explained. Since then, the system has been showing a paper loss due to depreciation of the physical plant and the railroad's steady reinvestment of funds into improvements.

— But fiscal 1981, said Polanchek, has been "a good year."

As in the past, Carter's budget also tries to bar the congressionally authorized reconstruction of the Alaska Highway by not including any funds for the project.

The 1973 Federal-Aid Highway Act authorized \$58.7 million for the reconstruction of the Alaska Highway from the Alaskan border to Haines Junction, Canada, and the Haines Cutoff Highway from Haines Junction to the south Alaskan border.

The costs of the project have skyrocketed to \$180 billion.

(See RAILROAD, page A-3)

(Continued from page A-1)

"No appropriation is being requested for 1982 because the benefits from construction of the highway accrue primarily to one state — Alaska, the budget says.

In other items of interest to Alaska, the budget seeks:

— \$36.6 million for the office of Federal Inspector of the Alaska gas line to coordinate the issuing of permits, carry out environmental and engineering reviews and conduct field surveillance on the project. This represents an increase from the fiscal 1981 total of \$21.5 million.

— \$3.5 million for the Alaska Power Administration, which operates and markets hydroelectric power from two federal projects in the state — Eklutna near Anchorage and Snettisham near Juneau. This is up from \$3 million in fiscal 1981.

— \$2.2 billion for Coast Guard operations in fiscal 1982, up from \$2 billion last year. The money would be used for search and rescue opera-

tions, maintenance of navigation aids, ice breaking, prevention and cleanup of marine pollution, and inspections of offshore drilling rigs.

The money would allow the replacement of three aging cutters, the purchase of 41 jet surveillance aircraft and 90 new rescue helicopters.

The Carter administration wants to defer until 1983 major efforts to improve and modernize several Coast Guard training and shore facilities, but it supports increases in pay and benefits for Coast Guard personnel in 1982.

— \$7.1 billion for Comprehensive Employment and Training Act programs nationwide, including \$3.8 billion for public service employment (an increase of \$7 million from 1981), \$3 billion for general training and employment (a \$144-million increase), and \$314 million to support job placements in the private sector.

FOR

Options --

A. Status Quo

B. Change in operational oversight within the Federal Government.

1. Place Railroad into independent agency status within U. S. Department of Transportation and no longer under the Federal Railway Administration

2. Make Railroad a semi-independent federal corporation

C. State Ownership:

1. A division of the State Department of Transportation and Public Facilities similar to Marine Highways.

2. A semi-independent State corporation.

D. Private Operation

1. Sole ownership

2. A regulated public utility

Amendments offered by Representative Pappy Moss:

HOUSE BILL NO. 12

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWELFTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An act creating the Alaska Railroad Authority."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

\* Section 1. AS 44 is amended by adding a new chapter to read:

Chapter 87. ALASKA RAILROAD AUTHORITY

ARTICLE 1. CREATION AND ORGANIZATION

Sec. 44.87.010. ALASKA RAILROAD AUTHORITY CREATED. There is created the Alaska Railroad Authority. The authority is a public corporation of the state in the Department of Transportation and Public Facilities, but with a separate and independent legal existence.

p | line 15 Sec. 44.87.015. MEMBERSHIP OF THE AUTHORITY. The authority consists of a five member board of directors: four public members appointed by the Governor and confirmed by the legislature in joint session, one member to have experience in each of the following user industries in Alaska: agriculture, minerals, petroleum, and tourism: **AND** The Commissioner of Transportation, The Commissioner of Revenue and the Commissioner of Commerce and Economic Development shall serve as ex-officio non voting members of the authority.

Sec. 44.87.020. OFFICERS AND QUORUM. The board shall elect one member as chairman. Other officers may be elected as the board determines. The powers of the authority are vested in the board. Three directors of the authority constitute a quorum. Action may be taken and motions and resolutions adopted by the authority at a meeting by the affirmative vote of at least three directors. The directors serve without compensation, but they are entitled to the same travel expenses and per diem provided by law for board members.

Page 2, line 8: develop a long range rail transportation plan for Alaska to assist development of the states resources and provide for inter-community transportation: and initiate dedication of corridor rights-of-way over federal, state, and private lands in conformance with the plan.

A M E N D M E N T

OFFERED IN THE HOUSE:

By: Rogers

To: \_\_\_\_\_ HOUSE BILL No. 12

SENATE BILL No. \_\_\_\_\_

PAGE: 1

LINE: 17

Delete ", the commissioner of revenue, and the commissioner of commerce and economic development."

Insert in its place "and two members of the public who represent the petroleum, mining, agriculture, or tourism industries or other railroad user groups. The two public members shall be appointed by the governor and shall serve staggered two-year terms."



JUNEAU ALASKA

# Alaska State Legislature

## House

### TRANSPORTATION COMMITTEE

HB 12 An Act creating the Alaska Railroad Authority (Moss)

The Bill adds a new section to the Statutes, inserted between the Alaska Municipal Bond Bank Authority Act and Alaska Industrial Development Authority. The ARA establishes a three member Board of Directors that designates the Commissioners of the Department of Transportation and Public Facilities, Revenue, and Commerce and Economic Development as members (no compensation except travel and per diem expenses--standard).

#### Article 3 Financial Provisions

This article incorporates the general bonding authority language that is standardized in all Authority Acts. The following is an outline of the specific Sections:

*Powers of* Bonding Authority --standardized language with 40 yr maturity

Trust Inductures & Agreements

Validity of Pledge -intent to make pledge of bonds valid & binding from time pledge is made

Nonliability of Bonds--no liability or accountability of authority members. Bond indebtedness is the liability of the authority only--not state or political subdivision

Pledge of State--Agrees not to impair, limit, or alter rights and powers vested in authority; and bond holders; as well as contracts made by authority with federal agencies.

Exemption from Taxation---intent of this section is to lower interest rate, improve bonding status. This section basically states that real & personal property, income, assets, & receipts of the authority is declared the property of the political subdivision of the state, and is exempt from all taxes and

HB 12 (cont'd.)

and special assessments of State (including bonds, except for inheritance and estate taxes and taxes on transfers by or in contemplation of death.

Bonds legal Investments for Fiduciaries--bonds of authority are securities and fiduciaries may legally invest funds, including capital in their control. Bonds of authority may also be deposited with state and municipal entities for any purpose that is or may be authorized.

Comments from Pappy Moss:

This bill will install an infrastructure (Commission) as a preliminary to an eventual State owned & operated railroad. Pappy has been working on this bill for approximately six months and has extensive research and back-up materials prepared for the Committee's hearings. He also mentioned that he has had conversations with Frank Jones (head of the Alaska Railroad) and remembers that this Federal Agency was receptive to a transfer of authority--but his comments were very general and mentioned that he would have Pete (his A.A.) review the notes from these discussions to provide a clearer indication of what may lay ahead. Pappy's office will also be preparing a fiscal note during the coming week.

REgarding the fiscal, monies to establish bonding capability negotiations.

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. House Bill #12  
 Title An Act Creating the Alaska Railroad Authority  
 Requested by Representative P. Moss Date 2/10/81

II. FISCAL DETAIL

Agency Affected Department of Transportation & Public Facilities  
 Program Category Affected Transportation  
 BRU, Program, or Subprogram(s) Affected Planning & Programming  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES		/	/	/	/	/
200 TRAVEL		/	/	/	/	/
300 CONTRACTUAL		/	/	/	/	/
400 COMMODITIES		/	/	/	/	/
500 EQUIPMENT		/	/	/	/	/
600 LAND & STRUCTURES		/	/	/	/	/
700 GRANTS, CLAIMS, ETC.		/	/	/	/	/
TOTAL		0	0	0	0	0

FUNDING (Thousands of Dollars)

GENERAL FUND	/	/	/	/	/	/
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME	/	/	/	/	/	/
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Intent and purpose can be accomplished through existing funding and staff.

IV. DATE 2/13/81 PREPARED BY Dennis Dooley *Jim Bentley for*  
 AGENCY DOT/PF  
 PHONE 465-2470  
 Original: Legislative Finance  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)

A M E N D M E N T

OFFERED IN THE HOUSE:

BY: Rogers

TO: \_\_\_\_\_ HOUSE BILL No. 12

SENATE BILL No. \_\_\_\_\_

PAGE: 1

LINE: 17

Delete ", the commissioner of revenue, and the commissioner of commerce and economic development."

Insert in its place "and two members of the public who represent the petroleum, mining, agriculture, or tourism industries or other railroad user groups. The two public members shall be appointed by the governor and shall serve staggered two-year terms."

3/16/81

K. R.

## Red Swanson

Int'l Dev Commission - app'd by Bradner  
in '75

Yukon - B.C. - Yukon pay for B.C. rail  
- Mineral deposits in Yukon -  
Aluminium Co on Yukon River created Int'l Dev. Comm.

if all 3 involved - feasible?  
Swanson introd. resol. to bring all rail entities  
together

possible for int'l rail connections viable as  
result of conference - didn't know much as to  
resources, Corridor etc.

Commerce Committee approp to \$50,000 for report  
back to legisl working w/ B.C. + Yukon.  
put into econ dev.

Report gave indication of possibility  
\$865,000 HB 48+47 B.C.I. - Woody Johansen - aerial  
photos from Eielson AFB to Canadian border -  
Gov vetoed \$600,000 - <sup>legisl</sup> overrode Gov's veto  
Gov again line-itemed - Woody already had it  
encumbered in contracts - Gov Legist Council  
Holman → \$265,000 SB 440 - Ray - directed Legist  
encl to update (Orsini's) - [Moore. Enc]

Swanson - 5000 from legist encl last yr

Moore + Swanson went thru Canada + int'l connection  
w/ Can. transp officials

Ottawa - Canadian - Ken Henderson -

→ In Dec, Swanson wrote synopsis of Orsini's report  
to Reagan - Ed ~~Meese~~ Meese

# Alaska State Legislature

## House of Representatives

### Committee on Transportation

Pouch V  
State Capitol  
Juneau, Alaska 99811  
(907) 465-4858

Rep. Bette Cato, Chairman

#### Alaska Railroad

HB 12 (now in House Finance)

establishes state authority, with 5-member board including Commissioner of DOT/PF or designee and four members of the public appointed by Governor. The purpose of the authority is to plan, finance, acquire, construct, operate, maintain, or sell railroad facilities and contract to provide rail service in the state as provided in bill.

Authority has bonding authority--Transportation committee strengthened considerably the bonding section of HB 12.

Authority is required to furnish the governor and the legislature a comprehensive report describing operations, income and expenditures for the preceding fiscal year; annual audit is also prescribed. (Rail bill is now in drafting in D.C.----  
Congress will pass bill this year for transfer--good news tip for media)

HJR 20, CSSJR 18

Both resolutions are essentially the same.

HJR 20 is now in Senate Transportation; CSSJR 18 is in House Transportation.

The resolutions request the President to direct Secretary of Transportation (in HJR 20) or the Secretary of Interior (CSSJR 18) to create a utility corridor the extension of the Alaska Railroad to the Canadian border.

The resolutions generally portray that the corridor will provide an essential international transportation link, that both parties are similar in the need for rail for further development, members of the Canadian government have expressed a willingness for talks concerning an international rail connection.

Resolution passed by Resource Development Council on April 9 regarding Alaska Railroad (ARR) ---attached.

Exportation issues:

SunEl of Korea -coal; Thailand and Japan also interested in coal for concrete

production. Ag Council re grain marketing system.  
State's control of resource should complement with state control of rail  
service at this time.

Revised Edition not  
forwarded

POLICY STATEMENT ON THE ALASKA RAILROAD  
PROPOSED BY THE RAILROAD STUDY COMMITTEE

Based upon this committee's study, the Resource Development Council supports the following:

- (1) That the State of Alaska take <sup>enter into negotiations</sup> the necessary steps to <sup>(transfer)</sup> acquire ownership of the Alaska Railroad from the federal government.
- (2) That the Alaska Legislature enact legislation establishing an autonomous authority, separate and apart from existing state agencies, to act on behalf of the State.
- (3) That the operation and management of the railroad be placed with a qualified private enterprise firm.

*eventually*

4) Ultimate goal of RDC as soon as econ feas  
& goals have been met

24-18



4/20  
 Bute -  
 if it operates h.f.  
 strong effort to  
 maintain fair & competitive  
 tariffs - not predatory  
 pricing situation that  
 now exists in lower 48.

# City of Galena

Antoski Hall  
P.O. Box 149  
Galena, Alaska 99741  
Telephone (907) 656-1281

APR 20 1981

## MEMORANDUM

TO: Senators and Representatives  
Alaska State Legislature

FROM: City Manager James R. Filip

SUBJECT: City of Galena Resolution No. 81-9

DATE: April 16, 1981

On behalf of Mayor Vernon White and members of the Galena City Council I am pleased to enclose a copy of Resolution No. 81-9 supporting State purchase and operation of the Alaska Railroad.

The Council also supports extension of the Railroad to the Yukon River Bridge crossing and retention of barge operations on the river.

Thank you for considering these thoughts.

# City of Galena

Antaki Hall  
P.O. Box 149  
Galena, Alaska 99741  
Telephone (907) 656-1281

## RESOLUTION NO. 81-9

### A RESOLUTION SUPPORTING THE PURCHASE OF THE ALASKA RAILROAD BY THE STATE OF ALASKA

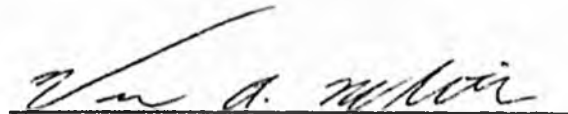
WHEREAS, the Alaska Railroad has played a vital and continuing role in the development of Alaska along its route, and;

WHEREAS, the United States government has indicated a willingness to sell the railroad;

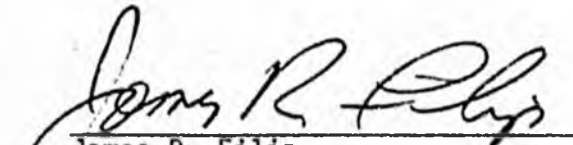
NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Galena that members of the Alaska State Legislature are encouraged to provide funds for the purchase and operation of the Alaska Railroad by the State of Alaska including retention of the barge operations on the Yukon River and extension of the railroad to the Yukon River Bridge site.

This resolution takes effect immediately upon passage and approval.

PASSED AND APPROVED by the City Council of the City of Galena, this 14th day of April, 1981.

  
Vernon White  
Mayor

ATTEST:

  
James R. Filip  
City Manager/Clerk

ALASKA STATE LEGISLATURE



HOUSE OF REPRESENTATIVES

REPRESENTATIVE SALLY SMITH • 321 CHURCH STREET • FAIRBANKS, ALASKA 99701 • IN JUNEAU: POUCH V • JUNEAU, ALASKA 99811

March 16, 1981

MAR 17 1981

Oscar L. Venable  
330 Wedgewood, #7  
Fairbanks, Alaska 99701

Dear Oscar,

Thank you for your letter supporting a state-owned railroad. State ownership of the Alaska Railroad is being discussed, but a bill has not been introduced that would appropriate money to actually buy it.

You have made some very good points in your letter, and I thoroughly agree with your position. House Bill 12 and Senate Bill 221 have been introduced which would establish an Alaska Railroad authority whose goal would be to work with the federal government toward purchasing the Alaska Railroad. House Bill 12 is in the House Transportation Committee and a copy of your letter has been sent to Committee Chair Bette Cato. Senate Bill 221 is in the Senate Transportation Committee so I've sent a copy of your letter to Committee Chair Bill Ray as well. Your letter will show public support to the Committee members. If you have further comments about these bills, I urge you to contact Representative Cato and Sentaor Ray at Pouch V, Juneau, 99811.

Thanks for taking the time to write and express your opinion on this issue.

Sincerely,

A handwritten signature in cursive script that reads "Sally".

Sally Smith  
Alaska State Representative

cc: Rep. Cato ✓  
Sen. Ray

Dear Oscar

Sally Smith  
House of Rep.

I thought  
Oscar

3/6/81

Dear Sally:

I kinda envied you in Miami on Meade  
that cold North Slope.

Sally I hope you will look into the purchase  
of the railroad an Gov. get by a State Corp. I am sure  
it would have to be subsidized but look at the Ferry System  
in you know a little money will be coming from the Fed.  
Grant for Gov. Maint & etc.

I am sure if the road Bed, services Equip were  
updated business would be good, I presume you  
have been to Europe, just look at their railway  
system how fast the Trains go, Freight & Passenger  
I think it would be a worth while project for the  
State

Sincerely  
Oscar Venable

Oscar L. Venable  
330 Wedgewood, 7  
Fairbanks, AK 99701

P.S. The Govt. might give it away to get  
rid of it.

Return to Finance  
13-16  
(Hanger)

# AMENDMENT

OFFERED IN THE HOUSE:

By: \_\_\_\_\_

To: CS HOUSE BILL No. 12 (Fin)

SENATE BILL No. \_\_\_\_\_

PAGE: 1

LINE: 8

Delete Sections 1 through 7.

Insert in its place:

\* Section 1. ALASKA RAILROAD NEGOTIATING COMMISSION.

(a) There is established in the Department of Transportation and Public Facilities the Alaska Railroad Negotiating Commission.

(b) The Alaska Railroad Negotiating Commission consists of the following members: the commissioner of transportation and public facilities or his designee and four public members appointed by the governor who represent petroleum, mining, agricultural, tourism industries, regional corporations or other railroad user groups. A member of the commission must be a resident and qualified voter of the state and shall comply with the requirements of AS 39.50 (conflict of interest) relating to members of state boards and commissions. Members of the commission serve without compensation but are entitled to per diem and travel expenses authorized by law for boards and commissions.

~~conduct~~ <sup>conduct</sup> (c) The Alaska Railroad Negotiating Commission shall ~~initiate~~ <sup>conduct</sup> discussions with the federal government concerning the transfer of ownership of the Alaska Railroad to the state <sup>from fed's ownership</sup> [or to private enterprise] and ~~concerning~~ <sup>concerning</sup> additional <sup>rail</sup> access to other areas of Alaska not presently served by the Alaska Railroad. The commission shall also ~~initiate~~ <sup>conduct</sup> discussions with the federal, provincial and territorial governments of Canada [as well as interested private parties] concerning the incorporation of the Alaska Railroad into a transcontinental rail system. The commission shall report its findings and recommendations concerning the transfer of ownership to the legislature as soon as possible or, if the legislature is not in session at the

A M E N D M E N T

OFFERED IN THE HOUSE:

By: \_\_\_\_\_

To: \_\_\_\_\_ CS \_\_\_\_\_ HOUSE BILL No. 12 (Fin) \_\_\_\_\_

SENATE BILL No. \_\_\_\_\_

PAGE: \_\_\_\_\_

LINE: \_\_\_\_\_

Amendment No. \_\_\_\_\_ continued

time of the report, to each member of the legislature.

(d) The House Committee on Transportation and the Senate Committee on Transportation shall have oversight responsibilities for the on-going work of the Alaska Railroad Negotiating Commission.

## ALASKA STATE LEGISLATURE



## HOUSE OF REPRESENTATIVES

REPRESENTATIVE SALLY SMITH • 321 CHURCH STREET • FAIRBANKS, ALASKA 99701 • IN JUNEAU, POUCH V • JUNEAU, ALASKA 99811

March 31, 1981

Bruce E. Carr  
Box 81023  
Fairbanks, Alaska 99708

APR 2 1981

Dear Mr. Carr:

Thank you for your message concerning your opposition to a state-owned railroad. State ownership of the Alaska Railroad is being considered, but a bill has not been introduced that would appropriate money to actually buy it.

You have made some very good points, and they definitely deserve consideration. House Bill 12 and Senate Bill 221 have been introduced which would establish an Alaska Railroad Authority whose goal would be to work with the federal government to determine if purchasing the Alaska Railroad is feasible. House Bill 12 is in the House Transportation Committee and a copy of your letter has been sent to Committee Chair Bette Cato. Senate Bill 221 is in the Senate Transportation Committee, so I've sent a copy of your letter to Committee Chair Bill Ray as well. Your message will show public support to the Committee members. If you have further comments about these bills, I urge you to contact Representative Cato and Senator Ray at Pouch V, Juneau, 99811.

Thanks for taking the time to express your opinion.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sally".

Sally Smith  
Alaska State Representative

cc: Rep. Cato  
Sen. Ray

-MSG '81-00009745 PRTY 1 03/25/81 15:45:21 ORIG: LF00 IN= 0009 OUT= 0064  
FROM: ANNIE IN FAIRBANKS TO: JUNEAU INFO.  
TARGET: LJH2 SUBJ: POM PAGE 0001

---

TO: REPS. BETTISWORTH, BROWN, FANNING, RANDOLPH, ROGERS AND SMITH  
SENS. BENNETT, FAHRENKAMP AND PARR

FROM: BRUCE E. CARR, BOX 81023, FAIRBANKS 99708 479-3747

RE: STATE OF ALASKA BUYING THE ALASKA RAILROAD

I AM AGAINST THE STATE BUYING THE RAILROAD. GOVERNMENT SHOULD NOT BE IN  
COMPETITION WITH PRIVATE ENTERPRISE. TRANSPORTATION IS THE LARGEST PRIVATE  
EMPLOYER IN THE FAIRBANKS AREA AND THE RAILROAD COMPETES WITH AND TAKES  
BUSINESS AWAY FROM THE PRIVATE TRUCKING COMPANIES, BUS COMPANIES, SHIP AND  
AIRLINE COMPANIES. THE TAXES PRIVATE ENTERPRISE PAYS SUBSIDIZES THEIR  
COMPETITOR.

~~PROPOSED (Bachholdt)~~

LETTER OF INTENT

HB 12

A task force consisting of (1) the directors of the Alaska Railroad Authority; (2) a representative from each of the departments of Commerce and Economic Development, Natural Resources, Community and Regional Affairs, Law, and Labor, the division of policy development and planning, and the University of Alaska appointed by the head of each agency; and (3) three members of the public appointed by the governor, shall study the options for transfer of the Alaska Railroad to nonfederal control. The task force shall make recommendations to the legislature by March 1, 1982.

The Alaska Railroad Authority shall construct railroad facilities between Fairbanks and Delta and shall plan railroad facilities between Delta and the Alaskan and Canadian border.

The Alaska Railroad Authority shall consider the extension of railroad facilities to the Beluga, Susitna, and Matanuska-Susitna coal fields.

The Alaska Railroad Authority shall initiate discussions with the representatives of the White Pass and Yukon Railroad concerning the participation of the state in the ownership and control of that railroad.

*Adopted*

---

*Rep Bette Cato, Chairman  
House Transp Comm.*

Proposed Amendment: Delete Sec 6, pg 10; place in Sec. 44.87.030, pg 3

PURPOSE OF AUTHORITY (Hayes)

Proposed Amendment: Should amendment by Hayes to include Sec. 7, 8, & 9, pg 10 in Letter of Intent fail, Zharoff proposes to include the word "consider" after the word "shall" in the aforementioned sections.

~~is~~ not needed

Proposed Amendment: Delete Sec. 1 (2); replace with Sec 1 (a) of HB 312 (Hayes)

Section 1. LEGISLATIVE FINDINGS. (a) The legislature finds that there is a vast potential in Alaska natural resources and that extension of the Alaska railroad into natural resource areas is necessary for the achievement of the goals of lower freight costs and long-term economic growth. Development of natural resources in the state will be accelerated and facilitated by the creation of an instrumentality of the state with power to incur debt for construction, and with power to own and operate railroads.

*Adopted*

Proposed Amendment: Pg 2, line 2, Membership of Authority: delete "or"  
after industries add "," insert "regional corporations"  
(Zharoff).

*adopted*

Sunset Provision in HB 12, as requested by Committee of Tom Sofo, Legal Dept.

For Committee's information: Sunset provision may included in the bill in numerical sequence; amend AS 44.66.010 to include new paragraph for the Alaska Railroad Authority. If Committee desires a sunset provision, the Committee must determine date.

*Disapproved*

3/21/11  
SB 212 - Dankworth's Railroad Bill

[definition of covenant] formal sealed contract; a clause of such a contract

pro. for conflict of interest

powers & duties 1) exist continuously

pg 4, line 13 (13)

pg 4, line 13 - subject to all laws

Annual audits - LB+R pg 5 line 10 | line 14

Covenant sections

Issuance of refunding bonds

Ugh!

- Minutes of mtgs - certified copy to Gov
- detail with W/in dot
- Only 1 Comm, + 6 public members
- prior for Pres - job description in Stats!

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT

*Caral*

page 1

line 17 - Delete ", the commissioner of revenue, and the commissioner of commerce and economic development." and insert in its place "and four members of the public who represent the petroleum, mining, agriculture, or tourism industries or other railroad user groups. The four public members shall be appointed by the governor and shall serve staggered four-year terms."

line 20 - before "member" insert "public".

line 21 and 24 - change "two" to "three".

line 27 - Delete entire section and insert in its place new section "Qualifications, powers, and duties of officers and directors." (See attachment A.)

page 2

line 6 - Delete entire section and insert in its place "PURPOSE OF THE AUTHORITY. The purpose of the authority is to plan, acquire, construct, operate, and maintain, or sell railroad facilities in the state, as provided for by law."

page 3

after line 13 - insert

- "(15) recommend to the legislature
  - (A) methods of expanding and improving railroad facilities in the state, and
  - (B) financing proposals if the authority finds that a project cannot be financed by revenue bonds of the authority.
- (16) develop a long-range state rail transportation plan to assist development of the state's resources and provide for transportation between communities."

Include new sections:

- Annual audit
  - Limitations on issuance of bonds by the authority
  - Annual report
  - Appropriations and reports
  - Public records; open meetings
- (See attachment B.)

Include new section:

"Section 2. (a) A task force, consisting of the directors of the Alaska Railroad Authority, representatives of the ~~Departments of Transportation~~, Commerce and Economic Development, Natural Resources, Community and Regional Affairs, Law, and Labor, ~~[the Division of Planning and the Development of Policy]~~ and the University of Alaska, shall consider all the options for transfer of the Alaska Railroad to non-federal control. The task force shall present its recommendations to the legislature on or before ~~April 1, 1982.~~ <sup>March</sup> (b) The Alaska Railroad Authority shall ~~construct~~ <sup>construct</sup> railroad facilities between Fairbanks and Delta and shall plan railroad facilities between Delta and the Alaska border.

*3 members  
of priv  
sector  
appt'd by  
Gov*

*& Submit recommend*

*(Fanning)  
delete and before*

(c) The authority shall initiate discussions with the principals of the Whitepass and Yukon Railroad concerning state participation in the ownership and control of that railroad.

(d) The authority shall consider additional railroad extensions within the state and shall report its findings and recommendations to the legislature.

(e) The authority may purchase rolling stock, terminals, and any associated storage and transportation facilities, including but not limited to grain and coal handling facilities, as are needed to fulfill its purposes.

~~(f) The authority shall initiate dedication of corridor rights-of-way over federal, state, and private lands.~~

*including extensions to*  
*Beluga, Mat-Su + Susitna coal fields*  
*acquisition - Hayes*  
*explore <sup>deepwater</sup> tidewater ports*

*Dozo 4656*

A

§ 44.83.040

ALASKA STATUTES

§ 44.83.076

**Sec. 44.83.040. Officers and quorum.** The director shall elect ~~one~~ of the directors at large as chairman and other officers they determine desirable. The powers of the authority are vested in the directors, and three directors of the authority constitute a quorum. Action may be taken and motions and resolutions adopted by the authority at a meeting by the affirmative vote of at least three directors. The directors of the authority serve without compensation, but they shall receive the same travel pay and per diem as provided by law for board members (§ 1 ch 278 SLA 1976; am § 3 ch 156 SLA 1978)

Effect of amendment. — The 1978 amendment substituted "directors at large" for "public members" in the sentence.

**Sec. 44.83.045. Qualifications, powers, and duties of officers and directors.** (a) The directors at large must be residents and qualified voters of Alaska and shall comply with the requirements of AS 39.50 (conflict of interests). The directors at large shall serve four-year terms. The four original directors at large have terms of one, two, three, and four years, respectively.

(b) A vacancy in a directorship occurring other than by expiration of a term shall be filled in the same manner as the original appointment but for the unexpired portion of the term only.

(c) The authority shall employ an executive director who may, with the approval of the authority, employ additional staff as necessary. In addition to its staff of regular employees, the authority may employ and engage the services of legal and bond counsel, consultants, experts, and financial and technical advisors the authority deems necessary for the purpose of conducting studies, investigations, hearings, or other proceedings. The board of directors shall establish the compensation of the executive director. The executive director of the authority is subject to the provisions of AS 39.25. (§ 1 ch 156 SLA 1978)

**Sec. 44.83.050. Staff.**  
Repealed by § 23 ch 156 SLA 1978.

Editor's note. — The repealed section derived from § 1 ch. 278, SLA 1976.

**Article 2. Purpose and Powers.**

Section  
70. Purpose of the authority  
80. Powers of the authority

Section  
90. Power contracts and the Alaska Public Utilities Commission

§ 44.83.080

STATE GOVERNMENT

§ 4

constructing, acquiring, financing and operating power production facilities limited to fossil fuel, wind power, tidal, geothermal, hydroelectric, or solar energy production and waste conservation facilities. (§ 1 ch 278 SLA 1976; am § 5 ch 156 SLA 1978)

Effect of amendment. — The 1978 amendment substituted the language "hydroelectric and fossil fuel projects" at the end of the section beginning "power production facilities" for

**Sec. 44.83.080. Powers of the authority.** In furtherance of its corporate purposes, the authority has the following powers in addition to its other powers:

- (1) to sue and be sued;
- (2) to have a seal and alter it at pleasure;
- (3) to make and alter bylaws for its organization and its management;
- (4) to make rules and regulations governing the exercise of its corporate powers;
- (5) to acquire, whether by construction, purchase, gift or lease, to improve, equip, operate, and maintain power projects;
- (6) to issue bonds to carry out any of its corporate purposes, including the acquisition or construction of a project owned or leased, as lessor or lessee, by the authority, or by any person, or the acquisition of any interest in a project or any part of a project, the establishment or increase of reserves to pay the bonds or interest on them, and the payment of all costs or expenses of the authority incident to and necessary or convenient to carry out its corporate purposes and powers;
- (7) to sell, lease as lessor or lessee, exchange, donate, convey, or otherwise dispose in any manner by mortgage or by creation of any security interest, real or personal property owned by it, or in which it has an interest, when, in the judgment of the authority, the action is in furtherance of its corporate purposes;
- (8) to accept gifts, grants or loans from, and enter into contracts and other transactions regarding them, with any person;
- (9) to deposit or invest its funds, subject to agreements with the holders;
- (10) to enter into contracts with the United States or any person, subject to the laws of the United States and subject to concurrent review by the legislature, with a foreign country or its agencies, for the financing, construction, acquisition, operation and maintenance of all or any part of a power project, either inside or outside the state, and for the sale or transmission of power from a project or projects.

(B)

§ 44.83.190

ALASKA STATUTES

§ 44.83.224

STATE (

(2) repair or reconstruction of a project or  
(3) design, acquisition or construction necessary to complete a project for which bonds have been issued. (§ 24 ch 83 SLA 1980)

Sec. 44.83.190. Annual audit. The authority shall have its financial records audited annually by a certified public accountant. The legislative auditor may prescribe the form and content of the financial records of the authority and shall have access to these records at any time. (§ 1 ch 278 SLA 1976)

Sec. 44.83.191. Limitations on issuance of bonds by the authority. The authority may not issue bonds except after 60 days notification of its intent to issue bonds is given to the governor and to the legislature, if the legislature is in session, or to the Legislative Budget and Audit Committee, if the legislature is not in session. (§ 24 ch 83 SLA 1980)

Sec. 44.83.195. Operation of projects. (a) When a project is operated by the authority, the authority shall enter into one or more contracts for the sale of electrical power from the project. A contract entered into under this section shall meet all requirements of AS 44.83.090.

(b) If, at the expiration of a contract entered into by the authority under (a) of this section, revenues earned by the authority under the contract exceed expenses of the authority for the project, an amount equal to the excess shall be used by the authority to reduce rates or improve services to consumers served by the power project. (§ 24 ch 83 SLA 1980)

Sec. 44.83.200. Annual report. Before March 1 of each year, the authority shall submit to the governor and the legislature a comprehensive report describing operations, income and expenditures for the preceding 12-month period. (§ 1 ch 278 SLA 1976)

Sec. 44.83.210. Appropriations and reports. (a) Notwithstanding any other provision in this chapter, the authority is subject to the provisions of the Executive Budget Act (AS 37.07).

(b) The authority shall, by the 15th day of each regular legislative session, present to the legislature a report detailing project status, original costs and projected costs, particularly highlighting any costs in excess of the original cost estimates submitted for each project when that project was originally approved by the legislature. (§ 1 ch 278 SLA 1976; am § 19 ch 156 SLA 1978)

Effect of amendment. — The 1978 amendment rewrote this section.

Sec. 44.83.220. Public records; open meetings. The provisions of AS 09.25.110 — 09.25.120 and AS 44.62.310 — 44.62.312 apply to the

authority. The authority shall publish a proposed agenda of its meetings and afford the public an opportunity to be heard in accordance with AS 44.62.312. (§ 1 ch 278 SLA 1976)

§ 44.83.224

authority. The authority shall meetings and afford the public accordance with AS 44.62.312. (§ 1 ch

Sec. 44.83.224. Long-term Commerce and Economic Development shall, after public hearings, prepare an energy plan. The plan, and its amendments, shall be approved by the commissioners of the department of government for review and to the approval, the plan shall be submitted on or before February 1 of each year. The plan shall include

(1) an "end-use" study examining the amount of energy used and the cost of energy;  
(2) an energy development plan, including thermal, electrical and transport energy, at the lowest reasonable cost, including consideration of nuclear fuels, consistent with acceptable standards of safety and environmental consideration as practicable to all based on nuclear fuels) which are designed to promote the efficient use of facilities and energy conservation goals, and the conservation of energy;

(3) an energy conservation component, including:  
(A) conservation goals for identifying the region for which energy to which the goals are applicable;  
(B) specific methods and means for achieving the goals;

(4) a component for emergency energy applicable during times of emergency;  
(5) a report on areas or subjects for demonstration projects involving energy sources, and energy conservation. (§ 25 ch 83 SLA 1980)

Effect of amendment. — The 1980 amendment rewrote the section.  
Editor's note. — As 44.83.180, referred to in this section, is repealed.

Sec. 44.83.230. Definitions. requires otherwise,

(1) "authority" means the Alaska Electric Light and Power Authority as defined in this chapter;

(2) "bonds" means bonds, notes or debentures issued under this chapter;

A M E N D M E N T

OFFERED IN THE HOUSE:

By: Ken Fanning

To: Transportation Comm. HOUSE BILL No. 12

SENATE BILL No. \_\_\_\_\_

PAGE: 2

LINE: \_\_\_\_\_

Line 6 - as provided for [by law] in this Act.

Include new section

*delete  
DOT*

Section 2 (a) A task force ..... [and] the University of Alaska and  
three members of the private sector, appointed by the Governor.

(b) .... The Alaska Railroad Authority shall submit  
recommendations to the legislature and construct railroad facilities  
between Fairbanks and Delta.

\* new subsection (f) - subsections a, b, c, and d of this section  
require legislative approval prior to any final action.

Introduced: 2/4/81  
Referred: Transportation  
and State Affairs

BY MOSS, ROGERS, BROWN AND  
BETTISWORTH

1 IN THE HOUSE

2 HOUSE BILL NO. 12

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act creating the Alaska Railroad Authority."

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8 \* Section 1. AS 44 is amended by adding a new chapter to read:

9 CHAPTER 87. ALASKA RAILROAD AUTHORITY.

10 ARTICLE 1. CREATION AND ORGANIZATION.

11 Sec. 44.87.010. ALASKA RAILROAD AUTHORITY CREATED. There is  
12 created the Alaska Railroad Authority. The authority is a public cor-  
13 poration of the state in the Department of Transportation and Public  
14 Facilities, but with a separate and independent legal existence.

15 Sec. 44.87.015. MEMBERSHIP OF THE AUTHORITY. The authority con-  
16 sists of the following board of directors: the commissioner of trans-  
17 portation and public facilities, the commissioner of revenue, and the  
18 commissioner of commerce and economic development.

19 Sec. 44.87.020. OFFICERS AND QUORUM. The board shall elect one <sup>insert</sup>  
20 member as chairman. Other officers may be elected as the board deter-  
21 mines. The powers of the authority are vested in the board. ~~Two~~ <sup>three</sup>  
22 directors of the authority constitute a quorum. Action may be taken  
23 and motions and resolutions adopted by the authority at a meeting by  
24 the affirmative vote of at least ~~two~~ <sup>three</sup> directors. The directors serve  
25 without compensation, but they are entitled to the same travel expenses  
26 and per diem provided by law for board members.

27 Sec. 44.87.025. STAFF. The authority shall employ an executive  
28 director who may employ additional staff as necessary. In addition to  
29 its staff of regular employees, the authority may contract for and

1 engage the services of the bond counsel, consultants, experts, and  
2 financial advisors it considers necessary for the purpose of developing  
3 information, or conducting studies, investigations, hearings, or other  
4 proceedings.

5 ARTICLE 2. PURPOSE AND POWERS.

6 Sec. 44.87.030. PURPOSE OF THE AUTHORITY. The purpose of the  
7 authority is to <sup>plan</sup> acquire, construct, operate and maintain <sup>or sell</sup> railroad  
8 facilities in the state, *as provided by law*

9 Sec. 44.87.035. POWERS OF THE AUTHORITY. In furtherance of its  
10 corporate purposes, the authority may

- 11 (1) sue and be sued;
- 12 (2) have a seal and alter it at pleasure;
- 13 (3) make and alter bylaws for its organization and internal  
14 management;
- 15 (4) adopt regulations governing the exercise of its corporate  
16 powers;
- 17 (5) acquire by construction, purchase, gift or lease; facili-  
18 ties in the state;
- 19 (6) improve, equip and operate railroad facilities in the  
20 state;
- 21 (7) issue revenue bonds for the acquisition, construction,  
22 or improvement of railroad facilities in the state;
- 23 (8) sell, lease as lessor or lessee, exchange, donate,  
24 convey or encumber by mortgage or by creation of any other security  
25 interest, real or personal property owned by it, or in which it has an  
26 interest, when, in the judgement of the authority, the action is in  
27 furtherance of its corporate purposes;
- 28 (9) accept gifts, grants or loans from, and enter into con-  
29 tracts with a federal agency or an agency of the state, a municipality,

1 a private organization or other source;

2 (10) deposit or invest its funds, subject to agreements with  
3 bondholders;

4 (11) contract with any person for the improvement, construc-  
5 tion, acquisition, operation and maintenance of its railroad facilities,  
6 or for the security of bonds issued by the authority;

7 (12) establish, levy, and collect fares and other charges for  
8 the use of its railroad facilities;

9 (13) enter into contracts or agreements with respect to the  
10 exercise of any of its powers, and do all things necessary to carry out  
11 its corporate purposes and exercise the powers granted in this chapter;

12 (14) exercise the power of eminent domain in accordance with  
13 AS 09.55.250 - 09.55.410.

14 ARTICLE 3. FINANCIAL PROVISIONS.

15 Sec. 44.87.040. BONDS OF THE AUTHORITY. (a) The authority may  
16 issue bonds in accordance with AS 44.87.035(7) on which the principal  
17 and interest are payable

18 (1) exclusively from the income or other money derived from  
19 its railroad facilities; or

20 (2) from its income and receipts or other assets generally,  
21 or a designated part of them.

22 (b) Bonds shall be authorized by resolution of the authority, and  
23 shall be dated and shall mature as the resolution may provide, except  
24 that no bond shall mature more than 40 years from the date of its  
25 issue. Bonds shall bear interest at the rate or rates, be in the  
26 denominations, be in the form, either coupon or registered, carry the  
27 registration privileges, be executed in the manner, be payable in the  
28 medium of payment, at the place or places, and be subject to the terms  
29 of redemption which the resolution or a subsequent resolution may

1 provide.

2 (c) All bonds, regardless of form or character, shall be negoti-  
3 able instruments for all the purposes of the Uniform Commercial Code.

4 (d) All bonds may be sold at public or private sale in the manner,  
5 for the price or prices, and at the time or times which the authority  
6 may determine.

7 (e) The superior court has jurisdiction to hear and determine  
8 actions or proceedings relating to the authority, including actions or  
9 proceedings brought by or for the benefit or security of a holder of  
10 its bonds or by a trustee for or other representative of the holders.

11 Sec. 44.87.045. TRUST INDENTURES AND TRUST AGREEMENTS. In the  
12 discretion of the authority, an issue of bonds may be secured by a  
13 trust indenture or trust agreement between the authority and a corporate  
14 trustee (which may be a trust company, bank, or national banking  
15 association, with corporate trust powers, located inside or outside the  
16 state) or by a secured loan agreement or other instrument or under a  
17 resolution giving powers to a corporate trustee by means of which the  
18 authority may

19 (1) make and enter into any covenants and agreements with  
20 the trustee or the holders of the bonds which the authority may deter-  
21 mine to be necessary or desirable, including, without limitation,  
22 covenants, provisions, limitations and agreements as to

23 (A) the application, investment, deposit, use and dis-  
24 position of the proceeds of the bonds of the authority or of money  
25 or other property of the authority or in which it has an interest;

26 (B) the terms and conditions upon which additional  
27 bonds of the authority may be issued;

28 (2) pledge, mortgage or assign money, leases, agreements,  
29 property or other assets of the authority; and

1           (3) provide for any other matters which affect the security  
2 or protection of the bonds.

3           Sec. 44.87.050. VALIDITY OF PLEDGE. It is the intention of the  
4 legislature that a pledge made in respect of bonds be valid and binding  
5 from the time the pledge is made; that the money or property so pledged  
6 and thereafter received by the authority be immediately subject to the  
7 lien of the pledge without physical delivery or further act; and that  
8 the lien of the pledge be valid and binding as against all parties  
9 having claims of any kind in tort, contract or otherwise against the  
10 authority irrespective of whether the parties have notice. Neither the  
11 resolution, trust agreement nor any other instrument by which a pledge  
12 is created need be recorded or filed under the provisions of the  
13 Uniform Commercial Code to be valid, binding or effective against the  
14 parties.

15           Sec. 44.87.055. NONLIABILITY ON BONDS. (a) Neither the members  
16 of the authority nor a person executing the bonds is liable personally  
17 on the bonds or subject to personal liability or accountability by  
18 reason of the issuance of the bonds.

19           (b) The bonds issued by the authority do not constitute an  
20 indebtedness or other liability of the state or of a political sub-  
21 division of the state, except the authority, but are payable solely  
22 from the income and receipts or other funds or property of the  
23 authority. The authority may not pledge the faith or credit of the  
24 state or of a political subdivision of the state (except the authority)  
25 to the payment of a bond and the issuance of a bond by the authority  
26 does not directly, indirectly or contingently obligate the state or a  
27 political subdivision of the state to levy or pledge any form of  
28 taxation to the payment of a bond.

29           Sec. 44.87.060. PLEDGE OF THE STATE. (a) The state pledges to

1 and agrees with the holders of bonds issued under this chapter that the  
2 state will not limit or alter the rights and powers vested in the  
3 authority by this chapter to fulfill the terms of any contract made by  
4 the authority with the holders. The state also pledges to and agrees  
5 not to impair the rights and remedies of the holders until the bonds,  
6 interest on them, interest on unpaid installments of interest on them,  
7 and all costs and expenses in connection with any action or proceeding  
8 by or on behalf of the holders, are fully met and discharged.

9 (b) The state pledges to and agrees with a federal agency that  
10 loans or contributes money for railroad facilities of the authority,  
11 that the state will not limit or alter the rights and powers vested in  
12 the authority by this chapter to fulfill the terms of any contract made  
13 by the authority with the federal agency.

14 (c) The authority is authorized to include the pledge and agree-  
15 ment of the state contained in (a) and (b) of this section, insofar as  
16 it refers to holders of bonds of the authority, in a contract with the  
17 holders, and insofar as it relates to a federal agency, in a contract  
18 with a federal agency.

19 Sec. 44.87.065. EXEMPTION FROM TAXATION. The real and personal  
20 property of the authority and its assets, income and receipts are de-  
21 clared to be property of a political subdivision of the state and,  
22 together with the railroad facilities under the jurisdiction of the  
23 authority is exempt from all taxes and special assessments of the state  
24 or a political subdivision of the state. The bonds of the authority  
25 are declared to be issued by a political subdivision of the state for  
26 an essential public and governmental purpose and the bonds, and the  
27 interest on them, the income from them and the transfer of the bonds,  
28 and all assets, and income pledged to pay or secure the payment of the  
29 bonds, or interest on them, are exempt from taxation by or under the

1 authority of the state, except for inheritance and estate taxes and  
2 taxes on transfers by or in contemplation of death.

3 Sec. 44.87.070. BONDS LEGAL INVESTMENTS FOR FIDUCIARIES. The  
4 bonds of the authority are securities in which all public officers and  
5 bodies of the state and all municipalities, all insurance companies and  
6 associations and other persons carrying on an insurance business, all  
7 banks, bankers, trust companies, savings banks, savings associations,  
8 including savings and loan associations and building and loan associa-  
9 tions, investment companies and other persons carrying on a banking  
10 business, all administrators, guardians, executors, trustees and other  
11 fiduciaries, and all other persons who are or who may be authorized to  
12 invest in bonds or other obligations of the state, may properly and  
13 legally invest funds including capital in their control or belonging to  
14 them. The bonds of the authority are also securities which may be  
15 deposited with and may be received by all public officers of this state  
16 and all municipalities for any purpose for which the deposit of bonds  
17 or other obligations of the state is or may be authorized.

18 ARTICLE 4. GENERAL PROVISIONS.

19 Sec. 44.87.075. DEFINITIONS. In this chapter

- 20 (1) "authority" means the Alaska Railroad Authority;  
21 (2) "board" means the board of directors of the authority;  
22 (3) "railroad facilities" includes rights-of-way, trackbed,  
23 engines, cars, freight and passenger terminals, and any other facili-  
24 ties or equipment used for the operation of a railroad.  
25  
26  
27  
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**PLEASE NOTE: THE PRECEDING PAGES WERE TREATED  
AS A UNIT IN THE ORIGINAL DOCUMENT.**



THE LEGISLATURE OF THE STATE OF ALASKA  
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB 12 (Moss, Rogers, Brown and Bettisworth)  
 Title An Act creating the Alaska Railroad Authority  
 Requested by Representative Moss Date 2/9/81

II. FISCAL DETAIL

Agency Affected DOT/PF  
 Program Category Affected Commissioner's Office  
 BRU, Program, or Subprogram(s) Affected Transportation  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
100 PERSONAL SERVICES		190.5	293.7			
200 TRAVEL		18.0	21.0			
300 CONTRACTUAL		218.0	218.0			
400 COMMODITIES				(See Footnote #1)		
500 EQUIPMENT		4.0	1.5			
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
<b>TOTAL</b>		<b>430.5</b>	<b>534.2</b>			

FUNDING (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
GENERAL FUND (See Footnote #2)		430.5	534.2			
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
FULL TIME		3	5			
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

ASSUMPTIONS/EXPENDITURE BREAKDOWNS:

- A) All cost estimates are in FY 81 dollars.
- B) Expenditures will not commence prior to FY 82. (The Act carries no effective date.)
- C) 100 Personal Services: FY 82

Position	Range	Salary	Overhead (77%)	Total
Executive Director	24	\$49,200	\$37,800	\$87,000
Executive Secretary	10	\$18,700	\$14,400	\$33,100
Planner V	21	\$39,800	\$30,600	\$70,400
				<b>\$190,500</b>

IV. DATE 2/19/81 PREPARED BY Mark S. Hickey  
 AGENCY DOT/PF - S.E. Planning and Programming  
 PHONE 465-2470  
 Original: Legislative Finance  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)

*Mark S. Hickey* JB

100 Personal Services (cont.): FY 83

<u>Position</u>	<u>Range</u>	<u>Salary</u>	<u>Overhead (77%)</u>	<u>Total</u>
Executive Director	24	\$53,100	\$40,900	\$94,000
Executive Secretary	10	\$20,300	\$15,600	\$35,900
Planner V	21	\$43,200	\$33,300	\$76,500
Planner III	17	\$32,300	\$24,900	\$57,200
Clerk Typist II	07	\$17,000	\$13,100	\$30,100
				\$293,700

(These positions reflect the authority noted in the legislation allowing the Executive Director to employ additional staff as necessary. The staff growth in FY 83 is based on the assumption of increased duties following organizational structuring in the FY 82 year.)

D) 200 Travel: FY 82

Quarterly meeting of the board of directors, with an assumption of two additional officers elected by the board (average attendance = 6):

Round-trip air fare @ \$300 x 6 = \$1,800

Two days per diem @ \$67 per day x 6 = \$800

Incidental meeting expenses = \$100

Total per meeting = \$2,700 x 4 meetings = \$10,800

Additional travel requirements of board and staff:

12 trips per year @ \$600 air fare and per diem = \$7,200

FY 82 Total = \$18,000

FY 83 travel budget reflects a small increase due to additional staff and greater duties: \$21,000

E) 300 Contractual: FY 82 and 83

Office Space Rental: 1,000 net square feet @ \$18 annual nsf cost = \$18,000

Bond counsel and consultant requirements: \$200,000 Total: \$218,000 per year

(These latter contractual requirements reflect the authority noted in the legislation and are based on the assumption of needed expertise to establish the appropriate bonding authorities and the organizational format of this public corporation.)

F) 500 Equipment: Minor expenditures for the necessary business machines are indicated under this category.

FOOTNOTES:

- 1 No actual estimates are provided for subsequent fiscal years because of the difficulty in predicting levels of responsibility beyond initial organizational structuring of the authority. It can be expected that expenditures will at least remain equivalent with the FY 83 level, with the necessary adjustments for inflation, and depending on future action by the Legislature, actual expenditures may be considerably higher.
  
- 2 The legislation does not address a specific source of funding for the establishment of this public corporation. Consequently, the first two years of funding are depicted under the General Fund category. Although no funding is shown under the Federal Fund category, there are both planning and operational assistance grants available from the Federal Railroad Administration, U.S. Department of Transportation, to aid local rail operations. DOT/PF is currently the recipient of rail planning funds, which represents the major source of funds of DOT/PF's rail studies. However, while it is apparent that if this public corporation is formed, it will become the administrator of these funds, it is doubtful that the State of Alaska would be allowed to use these funds other than for technical rail planning. As a result, these funds are not depicted as a source of funding for the contractual requirements noted above.

I. REQUEST  
 Bill/Resolution No. House Bill #12  
 Title An Act Creating the Alaska Railroad Authority  
 Requested by Representative P. Moss Date 2/10/81

II. FISCAL DETAIL  
 Agency Affected Department of Transportation & Public Facilities  
 Program Category Affected Transportation  
 BRU, Program, or Subprogram(s) Affected Planning & Programming  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES		/	/	/	/	/
200 TRAVEL		/	/	/	/	/
300 CONTRACTUAL		/	/	/	/	/
400 COMMODITIES		/	/	/	/	/
500 EQUIPMENT		/	/	/	/	/
600 LAND & STRUCTURES		/	/	/	/	/
700 GRANTS, CLAIMS, ETC.		/	/	/	/	/
TOTAL		0	0	0	0	0

FUNDING (Thousands of Dollars)

GENERAL FUND		/	/	/	/	/
FEDERAL FUNDS		/	/	/	/	/
OTHER (Specify Fund Source)		/	/	/	/	/

POSITIONS

FULL TIME		/	/	/	/	/
PART TIME		/	/	/	/	/
TEMPORARY		/	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Intent and purpose can be accomplished through existing funding and staff.

IV. DATE 2/13/81 PREPARED BY Dennis Dooley *Jim Bentley for*  
 AGENCY DOT/PF  
 PHONE 465-2470  
 Original: Legislative Finance  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)

MEMORANDUM

January 9, 1981

TO: Lee Gorsuch

FROM: John Gray *JG*

SUBJECT: Policy Questions Requiring Examination Prior to a Change in Institutional Status of the Alaska Railroad

There now exists a fairly high probability that the Alaska Railroad will undergo some form of change in its institutional framework over the course of the next two to four years. This expectation is based on the perception by federal decision makers that:

- The Alaska Railroad no longer serves its original function (a frontier development tool) but has become a component in a more mature transport and economic system;
- The state now possesses the resources to assume responsibility for the operation and, if necessary, subsidization of the railroad;
- Mid- to long-term traffic prospects suggest that private capital might find some degree of involvement in the railroad increasingly attractive; and
- The railroad would be capable of providing more effective support to both public and private objectives under a revised organizational and institutional structure.

Clearly, the types of changes which could evolve from the modification which these perceptions represent could have considerable influence on both federal and state transport policy and the potential for utilization of the railroad as a development tool by or in the state. To understand the breadth of the possible changes it is first necessary to identify the issues which are critical to the parties potentially involved and how various scenarios of the railroad's future could influence these issues.

The consultant's report to the Department of Transportation and Public Facilities on the preliminary phase of the Statewide Rail Systems Study identified a number of questions requiring consideration prior to decision making on this issue. These, and a number of others listed below, include:

- The status of rail-related lands both in relationship to ANCSA conveyances and to the railroad's operational and industrial development requirements;
- The status of public employee unions, existing labor agreements, employee benefits and retirement programs, and employee protection conditions;
- Design of an ownership/operational structure which permits the railroad to seek investment capital;
- Design of an ownership/operational structure which avoids the public/private conflicts now inherent in the marketing of the railroad's services;
- Design of an ownership/operational structure which give management the flexibility to make entrepreneurial decisions and to be accountable for the outcomes of these decisions;
- A determination of whether passenger service is necessary and, if so, whether it is a public good which should be subsidized if the railroad is required to continue its operation;
- A determination of whether the railroad represents an appropriate mechanism for implementing state development policy and, if so, under what types of financial, operational, political, and economic conditions;
- A determination of the present and historic financial status of the railroad particularly as this information relates to the prospect of attracting private capital, both equity and debt;
- The desirability or usefulness of establishing a state rail regulatory capability;
- The determination of tax status (federal, state, local) of revenues and for real and operating property after conveyance;
- An assessment of traffic potential for the railroad and how an institutional realignment might affect various traffic possibilities;
- A determination of responsibility and operational mechanisms for subsidies should operating revenues not be sufficient to cover operation costs and capital renewal;

- An analysis of the different possible impacts of various institutional arrangements on potential rail extensions;
- An analysis of the impact on rail competitors of various institutional arrangements for the railroad; and
- Determination of which federal funding programs would or would not be available under different ownership/operational structures.

While many of these questions have already been identified none have undergone any detailed examination. Although there are fifteen areas of interest identified above they seem to group themselves into several broad categories each of which is somewhat interrelated to the others.

The first and central of these concerns the ownership, operational, and political form of any scheme for rail status revision. This form may place important limitations on the scope of management decision making flexibility, responsiveness to state policy making and the ability to operate the railroad in a manner acceptable to the various potentially interested parties. A variety of options appear to be available including:

- Maintain the status quo. That is, continue to function as a federal agency.
- Reorganize as a federal corporation. In form this might be somewhat similar to Canadian National Railway.
- Reorganize as a state agency. This would give the railroad somewhat the same status as the Marine Highway System.
- Reorganize as a state corporation. Such an operation might be similar to either the British Columbia Railway, the Ontario Northland Railway or to any number of small operations developed in the Eastern and Mideastern U.S. during the past five years.
- Reorganize with a combination of state ownership and private operation. This would give the state ownership of some combination of the railroad's real and operating assets while a private entrepreneur would either enter into a long-term lease agreement or contract to operate the property in a manner similar to the arrangement between the Southern Railway and the city of Cincinnati for operation of several hundred miles of line owned by that city.
- Sell the railroad to a private firm who would then function in a manner similar to comparable operations elsewhere in the country.

Clearly, these options can differ substantially in the range and size of their impacts upon the state. They also would provide considerable variation in the amount of investment by the state (although none of them would necessarily entirely eliminate state involvement). Finally, the form chosen for the railroad would determine almost entirely the degree to which rail decision making in the state would be political rather than commercial.

A second group of the decision questions might be termed institutional. These include the labor, lands, regulatory, federal relationship and, to some degree, the intermodal competition questions. While these are related to the structural matters outlined above, they are grouped separately since they have substantial portions which are applicable to any of the forms noted above. Their solutions may also take several forms in any one of the cases noted above. These may also be among the most difficult questions to answer since they tend to involve a variety of rather vocal political constituencies.

The final set of areas are those involving finance and traffic. Clearly, they cannot be separated from the structural matters outlined, however, much of the content of these questions can be relevant to any of the potential forms. As such, they may serve as descriptive baselines against which to evaluate alternatives. Much of the background for these areas already exist in two documents:

- "The Preliminary Statewide Rail Systems Study"
- "The Alaska Railroad - Future Freight Markets"

The latter item would require a good deal of updating.

The principal area which is lacking is a solid understanding of the railroad's financial structure. I would suspect that much of the accounting data which one might need to compare the ARR operations with those of other carriers will not exist since the railroad has been required to maintain its books on the basis of federal government accounting practices rather than industrial practices. Additionally, valuing existing capital assets could be very difficult because of the railroad's federal status. However, it will be necessary to perform such an evaluation, particularly if private capital is to be brought into the concept.

I would suggest that the following study procedure would produce most quickly results of value to decision makers. It is based on the premise that the central element in the analysis is the structural ownership/operational form that would result from the decision making. The first step would appear to be the careful and complete definition of each of the potential structural forms including any subtypes. These definitions would then be compared to each of the fifteen questions.

each of the fifteen questions raised earlier. To as great an extent as possible, these relationships should be quantified, however, this is clearly not possible in all of the areas. In some cases qualitative assessment will be necessary with, if possible, some thought given to a (relatively) subjective weighting of alternatives. As mentioned, many of the institutional matters may require considerations outside a specific structural form and should thus be evaluated and defined in the same manner as the forms with the results then used to judge the interaction of institutional alternatives with structural forms.

For strict decision making purposes, it is not usually of great value to have large volumes of detailed quantitative information. Therefore, I believe that the final product should be in the form of a matrix with the structural forms on one axis and decision questions (or sub-questions) on the second axis. The contents of each matrix location would be a weighting factor which would compare the quality of the forms in addressing the question. It would probably not be appropriate to suggest a best solution (although it would be possible to do so) rather, it would be more useful to indicate a best course of action in regards to each question. The text would be both a qualitative and quantitative analysis which would support the entries in the matrix.

Finally, I would emphasize that any work in this area should be coordinated with the continuing DOTPF rail planning program. This information and contacts available through their office are much more extensive than we could possibly develop within a reasonable timeframe. Further, individuals in that office have been involved in various aspects of this work for almost six months and have begun to develop a good deal knowledge in the field. They would also probably be involved in any plan of execution that in any way concerned an expenditure of state funds for the capital or operating acquisition or subsidies and would, in any case, be a part of intermodal planning efforts related to the railroad.



Dec. 1980

Bivens & Ass. for DOT

ISSUE: ALASKA RAILROAD OWNERSHIP AND OPERATIONS

The 63rd Congress passed an Act on March 12, 1914 which authorized the President to locate, construct, and operate a railroad in the Territory of Alaska. This was the beginning of the Alaska Railroad, an experiment by the federal government in railroad ownership and operation; that has been carried out over more than six decades. The federal government continues to own and operate the Alaska Railroad.

The 1914 Act instructed the President that the railroad was:

"... not to exceed in the aggregate one thousand miles, to be so located as to connect one or more of the open Pacific Ocean harbors on the southern coast of Alaska with the navigable waters in the interior of Alaska, and with a coal field or fields as best to aid in the development of the agricultural and mineral or other resources of Alaska, and the settlement of the public lands therein ..." (emphasis added)

In large measure the Alaska Railroad has carried out the Congressional mandate given in its organic act. The Alaska Railroad operates 478 miles of single main line track from the deep-water ports of Seward and Whittier through Anchorage to Fairbanks, with branch lines to Eielson Air Force Base, Fairbanks International Airport, Palmer, and the Suntrana coal fields near Healy. The Railroad serves the agricultural communities in the Matanuska Valley. The settlements along the Alaska Railroad encompass the vast majority of the urban development of Alaska and have come to be known as "The Railbelt".

At the time in history when the White Pass and Yukon Railway was constructed, around the turn of the century, and a few years later when the Alaska Railroad was built, the situation in Alaska was vastly different from current conditions. Alaska was almost totally undeveloped. There were virtually no roads -- only trails -- and no automobiles or trucks, no Marine Highway System, and the railroads were the only reasonable transportation alternative to reach the interior of the territory. In short, the railroads were a transportation monopoly with essentially no competing transportation modes.

In addition, Anchorage did not exist until it was built to house the railroad construction crews on public railroad property which was sold to private interests. World-wide transportation and communication were very slow and this fact minimized the need for large military defense installations in Alaska. The principal economic activities in



Alaska were fishing, hunting, trapping, and prospecting. Industrialization was unknown and the economy was very basic, with commerce related to the major economic activities. Only the most hearty and fittest survived the harsh climatic existence.

Alaska today is a startling contrast to the conditions and situations in which the railroads were first constructed. Early railroad decisions had a driving force because railroads were the only reasonable land transportation alternatives at that time. Now, that force has been reduced and changed to defining the role that railroads play in Alaska in the context of a total transportation system. Railroads in Alaska today must meet present market demand for transportation services and define more clearly the services they can provide better or at less cost than other modes in the context of Alaskan and Northwest Canadian development.

The role, market, and service definitions of railroads in Alaska at this time must be applied and evaluated in the examination of the ownership and operational considerations. This is true, not only for the existing railroad system, but also for any railroad expansion including the frequently discussed link to Canadian railroads and through them to the continental United States.

In examining the Alaska Railroad ownership and operations alternatives, it is essential that consideration be given to the other major components of the State's transportation system. Ports, barges, ships, the Marine Highway, pipelines and the State Highway System are of prime importance. Of lesser importance relative to railroad use, development, and operations are the airports and air service (freight and passengers). This latter transportation component is extremely important in Alaska. Its primary relationship to railroads, however, is more indirect, frequently involving only fuel supplies.

Railroad investment decisions, by the federal and state governments, must be made within the framework of other transportation investment decisions. This is especially acute relative to ports and highways, both of which have historically been public investment responsibilities. Governmental decisions regarding port development, for example, will significantly impact upon rail traffic since all freight inbound to Alaska or outbound from the State use port facilities. Thus, public port investment decisions can either enhance or discourage rail traffic depending upon the nature, extent, type, and scheduling of port facilities and services.

By the same token, highway development investment decisions also have important implications on railroad investments and operations.



For example, the George Parks Highway from Fairbanks to Anchorage, completed in 1971, closely parallels the Alaska Railroad between Alaska's two major cities. The opening of this highway substantially reduced the land transportation mileages thereby enabling trucks to pick up cargo at the Port of Anchorage and deliver it more economically to Fairbanks. Therefore, the general public investment in a highway diverted traffic from the Alaska Railroad public investment. The extent of traffic diversion and an analysis of its economic impact including the resulting increase of public investment required on the Alaska Railroad is certainly beyond the scope of services of this project. However, it is clear that substantial diversion did occur and has had longterm implications on the changing role, function, and financial aspects of the Railroad.

A similar example may be found on the White Pass and Yukon Route between Skagway, Alaska and Whitehorse, Yukon. Funded by the Alaskan government and the federal government of Canada, the Skagway to Whitehorse Highway (known as the Klondike or Carcross Highway) was completed in the late summer of 1978. According to the Canadian Transport Commission "Report of Inquiry into the White Pass and Yukon Railway and Other Surface Transportation Services into and out of the Yukon", in its first complete summer of operation, this highway resulted in the erosion of twenty-eight thousand passengers from the White Pass and Yukon Route. Passenger revenues amount to 19% of the railway's total revenues. The White Pass generally carries about 60-70 thousand passengers per year. Traffic diversion due to public investment in alternative transportation modes is obviously one important factor in railroad finances.

It is within this context that the Alaska Railroad ownership and operation alternatives must be examined.

At the time the Department of Transportation and Public Facilities developed the Request for Proposals for this project, the issue of the ownership and operation of the Alaska Railroad was less important than it has become during the project development period. The attention given to this issue by the consultants has been substantially changed during the project by mutual agreement between the consultants and the Department. This change in emphasis has been necessitated by an inquiry by the Federal Railroad Administration, owners and operators of The Alaska Railroad, of the State's interest in the possible acquisition of the Railroad.



Additionally, the Alaska Legislature's interest in the feasibility of establishing a rail link between the Alaska Railroad and Canadian railroads and the continental railroads in the Lower 48 states raises other significant ownership and operational issues. These latter issues include such questions as: Who would own such a link? Who would have operational responsibilities? Is there adequate traffic to cover operational costs? Will there be a return on the capital investment? If operational costs are not covered by revenue, who will assume the responsibility for the required subsidy? If an operational subsidy is required, how long will it be before a subsidy is no longer necessary? What are the implications of such a trans-Alaska/Canada rail link on the present shipping patterns related to the ports of Seattle, Vancouver and others?

Clearly these are important questions. It is also clear that the scope, schedule, and financial resources of this project are inadequate to seek the essential answers to these questions.

It is now the intent of this project to raise key railroad, public investment, and related issues within the framework of the project research and definitional analysis that has been completed. The continuous rail planning process outlined in this project report provides an approach which will enable the decision-makers in Alaska and in the federal government, in cooperation with private interests and supported by an informed public, to have useful information on which to base vital railroad decisions.

In order to better understand the issue of ownership and operation of the Alaska Railroad, it is necessary to make some observations based upon work on this project. These observations may be summarized as follows:

1. There is a strong dedication on the part of officials and employees to the Alaska Railroad and to an effective and efficient operation.
2. The existing traffic base for the Railroad is quite small because of the sparse Alaskan population and limited manufacturing and industrial development.
3. Natural resource development in Alaskan offers opportunities for significantly expanded rail traffic.



4. The Alaska Railroad has not in the past had an effective marketing program in Alaska and in the "lower 48". Recent steps have been taken, however, to strengthen the marketing program. Governmental ownership of the Alaska Railroad makes marketing difficult. Some private transportation companies perceive the Railroad as being unfair competition because of public support for the Railroad.
5. The Alaska Railroad has been largely limited to the use of public funds for capital investments.
6. Alaska Railroad officials must function within governmental constraints such as personnel procedures, procurement practices, and public funding, leading to time delays and frustration.
7. Most employees of the Alaska Railroad are unionized public employees.
8. Much of the traffic on the Alaska Railroad has historically been for the military. Although the Railroad continues to have the capacity for military transport, the traffic in the last decade or so has shifted significantly toward private freight movement.
9. There are major questions regarding the land under the control of the Railroad. The land status is uncertain if the Railroad were to be sold.
10. The institutional, accounting, and other arrangements between the Railroad and Alaska Hydro-Train, Yutana Barge Lines and others require further examination and clarification.
11. The Alaska Railroad is taking the necessary steps to improve its management of real property, partially in response to a General Accounting Office report. These management improvements should increase the income from non-operating property and provide more uniform rental agreements.
12. Rail passenger service on the Alaska Railroad needs careful evaluation relative to the nature of the market and the determination of subsidy sources. Service improvements are planned, but the need for subsidy even with the improvements is apparent.



Further explanation and observations may be found elsewhere in this report.

There are at least four major alternatives for ownership and operation of the Alaska Railroad: (1) federal, (2) state, (3) private, and (4) combination of public and private. Obviously, there are numerous variations or combinations which could be explored. A comprehensive investigation and analysis of each of these alternatives and the longterm implications are essential, but beyond the scope of this project.

### Federal Ownership and Operation Alternative

This alternative of a continuation of federal ownership and operation is the maintenance of the status quo. Although this alternative is clearly the easiest to implement since it requires no action by anyone, it appears to be unsatisfactory. The recent inquiry by the Federal Railroad Administration of the interest of the State in acquiring the Railroad is evidence of the federal government's dissatisfaction with the present situation. In some ways it is unfortunate that such an inquiry was made while this project was being undertaken. If the information resulting from the completion of this project had been available to the State before the federal disposition inquiry was made, Alaska decision-makers would have been better prepared to cope with the issue.

Under the present situation, the Alaska Railroad cannot be operated as one would operate a private railroad for six basic reasons: (1) there is no way to seek and be sure of obtaining the much needed capital investment funds, (2) marketing efforts are difficult because of the competition issue, (3) railroad management does not have the required flexibility to make and be accountable for major decisions, (4) railroad employees are unsure whether they work for a railroad or the federal government, (5) the parameters of rail service in Alaska have substantially changed from early conditions under which the Railroad was constructed (previously discussed), and there has not been a recent evaluation of the current applicability of the basic organic act, and (6) the Railroad is unable to be as responsive as it might be in meeting the rail service needs of Alaska in such a dynamic environment.

It is possible to continue to have the federal government own and operate The Alaska Railroad. Some improvements can be made under such circumstances, but the improvements will only be minor and will not include major shifts in the responsiveness and operations of the Railroad.



## State Ownership Alternative

Ownership of the Alaska Railroad by the State of Alaska is the second major alternative. It would be possible for the State to own and operate the Railroad. However, several factors seem to favor only State ownership and not State operation, if this alternative is selected. Currently, there is no interest in state railroad operations. The State does not presently have the experience, knowledge, or personnel required to operate the Railroad. In addition, most of the basic reasons why the Railroad cannot be operated under federal jurisdiction as one would operate a private railroad apply equally to State operations. There would also be a tendency for political involvement in operational decisions. For these reasons, the consultants for this project do not consider operation by the State to be a viable or reasonable alternative. The discussion of this alternative is, therefore, confined to State ownership.

The State of Alaska could take title to the Alaska Railroad. Before making such a commitment, however, it will be essential that legal counsel for the State carefully examine the matter and determine the necessary procedures, conditions, and process for acquisition. Undoubtedly there will be many legal questions. One such question is the land issue, specifically related to the quality of the title in light of the Alaska Native Claims Settlement Act of 1971. For example, the Eklutna land decision clearly reserve the right-of-way and all areas used for railroad operations. This decision transferred some \$40 million or more in potential profits from land to Eklutna from the Railroad, thereby affecting the desirability of the property.

An alternative to direct purchase by the State could be the selection of the Railroad's land as a part of the withdrawal by the State of federal land under the Alaska Statehood Act of 1958. It appears that acquisition through selection by the State is a viable alternative if the State determines that acquiring the Alaska Railroad is in its best interest.

State ownership of railroad rights-of-way has become much more common in the last few years, particularly by states which have faced the loss of rail service due to railroad bankruptcy. While state ownership interest started in the Northeastern United States because of massive bankruptcies and abandonments, states in the Midwest and other regions have more recently been faced with similar problems due primarily to the Milwaukee and Rock Island problems.



The chief advantage to Alaska of state ownership is the control of the Railroad and the more effective integration of railroads as a significant component of the State's total transportation system. With state ownership, Alaska could not only plan for the integration of its transportation system among the port, highway, barge and Marine Highway system, but more importantly, the State could more easily implement its transportation plans. As previously pointed out, public responsibilities and state interest already extends to the other transportation modes so essential to the future of the Alaska Railroad. State ownership would provide the Governor, the Legislature, the Department of Transportation and Public Facilities, and other state agency decision-makers with the opportunity to actually make and carry out major significant capital investment decisions between transportation modes. This decision-making and full implementation responsibility relative to transportation could be effectively used to reinforce state policies on land and natural resource protection and development. In this manner the State could assure local rail service to those areas where it is useful to stimulate agricultural, commercial, industrial, and resource development.

An operational agreement could be negotiated with a suitable railroad operator with the necessary conditions thereby assuring rail users with the level and quality of service the State wants and is willing to finance.

It is clear from examination of the financial records of the Railroad that capital and operating losses have occurred from time to time in the past. The data also reveals the likelihood of additional losses. There is evidence that revenue from the freight operations have been necessarily used to subsidized the passenger operations. If the State assumes the ownership and operational responsibility for the Alaska Railroad, Alaska must be prepared to cover any future capital and operating losses.

This approach would also simplify the relationship between the State and the federal government. The State is qualified to receive federal financial assistance under the 803 program of the Railroad Revitalization and Regulatory Reform Act (4R Act) of 1976 as amended unless the Railroad has increased traffic of a magnitude that prevents it from being considered a low density line. The State retains the option of participation in the 803 program as long as it is eligible. Alaska should carefully evaluate the difficulties, time, cost, and federal involvement in considering participation in this Federal Railroad Administration program. State participation in the 803 program requires



following FRA guidelines and obtaining plan and project approvals. It should be noted that this FRA program was designed to assist railroads, through the states, which were facing line abandonments of uneconomic and marginal branch lines and not to accommodate system growth. If full advantage is to be taken by Alaska of its opportunities for economic, agricultural, and resource development, rail service to areas not presently served remains an important consideration by the State.

It should be noted that there are federal funds available for branch line funding, redeemable preference shares, loans and other programs. A transfer of ownership from the federal government to the State does not impair funding eligibility. Arrangements would also be necessary for federal assistance through legislation relative to employee benefits for the current federal employees of the Railroad.

#### Private Ownership and Operation Alternative

Several years ago, the Federal Railroad Administration expressed some interest in the transfer of the Alaska Railroad from federal ownership and operation to the private sector. At that time the State did not have a Department of Transportation and Public Facilities, the financial resources, or serious interest in State ownership. Expression of interest by railroads in the continental states were sought. Some private companies did express an interest in the possible acquisition of the Railroad.

Those private companies that were most serious carefully evaluated the traffic (existing and potential), the cost of acquisition and operation, and the return on investment. Based upon their analyses, they decided that the return on their investment was insufficient to warrant the financial commitment.

Changes in the traffic base of the Alaska Railroad such as major coal export or mineral extraction and shipment could significantly change the economics of the Railroad. Such changes would make the Railroad more attractive to private investors.

This alternative must be viewed, however, from the State's perspective and not necessarily from the private enterprise view. There



are sound arguments as to why the private sector should be encouraged to own and operate the Railroad. Obviously, the private sector is much more experienced and knowledgeable in railroad ownership and operations. This private approach could potentially expand the public tax base while minimizing the necessity for governmental employment increases. Private companies have more flexibility than public agencies in the management of a business enterprise. In addition, decisions can be made more rapidly in the private sector than in government.

If the Railroad were privately owned and operated, the role of the State of Alaska changes. The State could become the regulator and not the implementor. It will be more difficult to assure the integration of the railroad with other transportation modes. Railroad expansion will be based upon a more strict test of return on investment, profit, and economic considerations.


The trade-off associated with this alternative seems to be private investment capital, know-how, experience, and ability to rapidly respond to changing markets and development in exchange for State or federal control, implementation, public rail service, policy reinforcement, public funds, and transportation system integration.

#### Public and Private Combination Alternative

The fourth alternative for the ownership and operation of the Alaska Railroad involves a combination of public and private interests. Many possible variations of this alternative appear viable depending upon the relative roles, negotiations, compromises, and decisions. Since the alternative variations are almost endless, it seems appropriate to outline one approach that illustrates the possibilities and serves as a point of departure for discussion purposes.

For purposes of discussion, it is assumed that the public would own the land and facilities. The motive power, rolling stock, and equipment could be owned either privately or by the public. Operational responsibilities are assumed to be by the private sector.

One approach within these parameters would be to have a Board of Directors appointed by the Governor (perhaps for staggered terms and confirmed by the Senate or not). The Board would be made up of



businessmen and people knowledgeable about railroads. They could be paid a reasonable stipend for serving and would be given this total responsibility for oversight of the property and the administration of the contract with the private operator. An example of this type of approach is the USRA Board created by federal legislation.

Consideration would have to be given to the total number of Board members. The responsibilities, authority, power and duties of the Board would have to be carefully determined and articulated. If such a Board is created, it seems appropriate to delineate its access to both public and private funds. Creativity and innovation will be required in the establishment of such an entity. Among the issues requiring attention are the following: (1) operator incentives, (2) source of funds if subsidy is required, (3) freight and passenger service levels and responsibilities, (4) labor provisions, (5) maintenance responsibilities and funding, (6) responsibility for liability, (7) natural disaster recovery, (8) equipment and facility acquisition and disposition, (9) industrial development and property management responsibilities, (10) accountability (to whom and when) and (11) institutional relationships with marine owners and operators. This list is illustrative and not exclusive.

The advantages of public ownership of the land and improvements are numerous. The problem of land ownership disputes would be minimized. There would be no problem of recovery of federal or state funds expended on lines which were discontinued before the expiration of their useful life. Public powers could be used, if necessary, for expansion of the railroad system. The Railroad could more effectively be integrated into the State's total transportation system.

Private operations with incentives for excellence also has advantages. It enables the railroad operations to be carried out by people with relevant experience, training, and capability. Marketing could be conducted in the way it is carried out within the private sector. Rail service requirements could be incorporated into the operational agreement and the users and public could be assured that service is at a proper level by enforcement of the requirements. A reasonable profit level needs to be achievable by the operator.

The public and private combination appears to be one viable alternative for the Alaska Railroad.

Options --

- A. Status Quo
- B. Change in operational oversight within the Federal Government.
  - 1. Place Railroad into independent agency status within U. S. Department of Transportation and no longer under the Federal Railway Administration
  - 2. Make Railroad a semi-independent federal corporation
- C. State Ownership:
  - 1. A division of the State Department of Transportation and Public Facilities similar to Marine Highways.
  - 2. A semi-independent State corporation.
- D. Private Operation
  - 1. Sole ownership
  - 2. A regulated public utility