

AK. RAILROAD

FISCAL  
NOTE

CSHB 512

## DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

POUCH Z  
JUNEAU, ALASKA 99811  
PHONE: (907) 465-3900OFFICE OF THE COMMISSIONER  
Alaska Railroad Transfer Team

March 23, 1984

The Honorable Bette Cato  
Chairman, House Transportation Committee  
Alaska State Legislature  
Pouch V  
Juneau, Alaska 99811

Dear Representative Cato:

Enclosed per your request is a fiscal note on the committee substitute for HB 512, an Act establishing the Alaska Railroad Corporation. Also enclosed is a detailed analysis with supporting documentation to explain its contents.

The estimates in this fiscal note are based on the results of the Alaska Railroad Transfer Team's Alaska Railroad Acquisition Assessment, released in December 1983. Although our "worst case" scenario has been used for these calculations, current indicators regarding uncertainty over potential traffic increases suggest this analysis for FY 85 is a more realistic forecast for determining actual fiscal impact.

Based on a request from the Senate Transportation Committee, the Transfer Team is re-assessing these estimates to develop a "best case" alternative for legislative consideration. This analysis will factor in the full impact of increased revenues from the export coal movement, SeaWay Express' entry into Seward, and additional special trains to meet the summer cruise ships at Whittier. This information will be provided to your committee as soon as it becomes available.

All estimates are presented in constant 1985 dollars and have been inflated from our original 1983 constant dollar estimates using an annual 6% inflation factor. The "general fund" line under the "funding component" is the projected annual shortfall to the State resulting from acquisition of the railroad. In FY 85, an overall appropriation of \$15.8 million will be needed to cover the expected shortfall.

The figures in this note are basically the same as those presented to the Senate Transportation Committee for the CS for SB 352. Another \$50,000 per year has been added to this note in response to the higher compensation levels for board members in Sec. 42.40.050, and the additional notice requirements in Sec. 42.40.090.

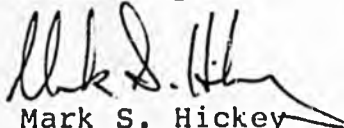
The FY 85 estimate is based on an assumption that actual transfer will occur somewhere between November and January of that fiscal year. Accordingly, most of the figures (e.g., revenues) are merely prorated for a seven month fiscal year ending in July 1985.

In addition, there are certain one-time, start-up expenditures directly attributable to the actual railroad transfer which causes the sizeable shortfall during FY 85. Included in this area are such items as \$4.9 million for replacement of the railroad's working capital fund, \$4.5 million for initiation of compliance with OSHA requirements and state and local building codes, and \$2 million for specific transition expenses to be incurred by the new corporation in taking over the railroad.

Another \$1.75 million of the 300 level contractual category is for the Alaska Railroad Transfer Team to perform its duties during FY 85. These funds are to support several one-time transition activities, most of which are already underway in this fiscal year. All other FY 85 fiscal impact to state agencies as result of enacting this legislation has also been included in this submittal.

I trust this information helps to explain the highlights of the enclosed fiscal note. If you would like any additional assistance, please do not hesitate to contact me at 465-3900.

Sincerely,



Mark S. Hickey  
State Railroad Coordinator

Enclosure

cc: Ray Gillespie, Legislative Liaison,  
Office of the Governor  
Ben Harding, Special Staff Assistant,  
Office of the Governor  
R. J. Knapp, Commissioner,  
Department of Transportation &  
Public Facilities  
House Transportation Committee Members

STATE OF ALASKA 1984 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date: \_\_\_\_\_

REQUEST

Bill/Resolution No. CSHB 512 (Trsp)  
Title: Alaska Railroad Corporation  
Act of 1984  
Sponsor: Hayes, et. al.  
Requestor: Representative Cato  
Date of Request: 3/22/84

FISCAL DETAIL

Agency Affected: \_\_\_\_\_  
Program Category Affected: \_\_\_\_\_  
BRU, Program or Subprogram(s) Affected:  
Alaska Railroad

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
<b>OPERATING</b>						
100 PERSONAL SERVICES		24,350				
200 TRAVEL		300				
300 CONTRACTUAL		4,800				
400 SUPPLIES		5,200				
500 EQUIPMENT		1,200				
600 LAND & STRUCTURES		-0-				
700 GRANTS, CLAIMS		1,500				
800 MISCELLANEOUS		-0-				
<b>TOTAL OPERATING</b>	-0-	37,350	57,800	58,050	57,350	57,950
<b>CAPITAL</b>	-0-	15,800	20,450	20,450	20,450	20,450
<b>REVENUE</b>	-0-	37,350	67,200	70,200	73,300	76,350

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	15,800	13,050	8,300	4,500	2,050
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER	-0-	37,350	67,200	70,200	73,300	76,350
<b>TOTAL</b>	-0-	53,150	78,250	78,500	77,800	78,400

POSITIONS:

FULL-TIME	-0-	478	478			
PART-TIME	-0-	38	38			
TEMPORARY	-0-	64/300	64/300			

SOURCE OF FUNDS TO OFFSET FI. IMPACT OF BILL:

General Fund (Although the legislation does not speak to this point, every indication suggests use of a general fund appropriation to offset fiscal impact.)

ANALYSIS: Attach a separate page for analysis

Prepared By: Mark S. Hickey, State Railroad Coord. Phone: 465-3900  
Division: Alaska Railroad Transfer Team Date: 3/22/84

Approved by Commissioner: R. Knapp Date: 3/22/84  
Agency: Department of Transportation & Public Facilities

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

12/1/83

STATE OF ALASKA 1984 LEGISLATIVE SESSION

FISCAL NOTE

Bill/Resolution No.: HB 512

Title: Alaska Railroad Corporation Act of 1984

BILL ANALYSIS

Overview:

This fiscal note is based upon the results of the Alaska Railroad Team's Alaska Railroad Acquisition Assessment, released in December 1983. That document provides a comprehensive analysis of the major issues concerning acquisition of the Alaska Railroad (ARR). It includes a thorough assessment of the financial exposure to the State from ensuring continued rail operations in accordance with the requirements of the Alaska Railroad Transfer Act of 1982 (ARTA).

The estimates presented in this fiscal note are derived from the "worst case" scenario of future railroad activity. Current indicators such as the continued uncertainty over the export coal contracts suggest use of this analysis as the most realistic forecast for determining actual fiscal impact. Please note that the acquisition cost of \$22.3 million for railroad purchase has been addressed in a separate fiscal note attached to the acquisition legislation.

While the data and forecasts used in both the Acquisition Assessment and this fiscal note reflect the input and work of the railroad and the United States Railway Association (USRA), the final estimates are based on independent analysis and downward adjustment by the Transfer Team. Our work includes such factors as removal of uncertain revenue increases, increased costs for compliance with state and local building codes, and additional adjustments for necessary capital rehabilitation.

This bill analysis is limited to providing explanations of the fiscal impact resulting from the proposed legislation. It should be noted that there exist policy conflicts between provisions of this legislation and the Sheffield Administration's Policy Statement of January 26, 1984.

Assumptions:

The FY 85 figures are based upon an assumption that actual railroad transfer will occur somewhere between November and January of that fiscal year. As a result, most of the estimates are merely prorated for a partial fiscal year ending in July 1985. However, there are certain one-time, start-up expenditures directly attributable to the actual railroad transfer which cause the sizeable shortfall during what is only a partial fiscal year.

Although a breakout of specific operating expenditures has been provided for FY 85 in order to provide the railroad operating entity a functioning program during its first year of operations, an actual budget structure has not been included to avoid prejudicing the new operating entity's prerogatives to formulate its own budget structure and subsequent submissions. Please note that the FY 85 submittal also contains the request for all funds needed by the Transfer Team and other state agencies to perform the duties resulting from passage of this legislation and acquisition of the railroad.

Although the current legislation places the Alaska Railroad within the Department of Commerce and Economic Development for purposes of the constitution, other sections of this bill anticipate removing it if a proposed constitutional amendment passes next November. Accordingly, this note does not address a specific "agency affected" to avoid a future conflict in this area.

Since the constitutional amendment cannot become effective until November if it passes, this note is predicated on an assumption that all funds for the corporation will be passed through by the respective line agency under which the corporation is located. Funds for all other state agencies will be passed on to the Transfer Team for further processing as appropriate.

Administrative costs incurred by the line agency under which the corporation is located should be minimal and will be covered as part of the corporation's overhead. Please note that all fiscal impact to state agencies resulting from this legislation have been coordinated by the Transfer Team and are reflected in this note.

All estimates are presented in constant 1985 dollars. An annual inflation factor of 6% has been used to convert the original 1983 constant dollar estimates in the Acquisition Assessment.

Operating Expenditures:

This estimate includes both general operating expenses and new expenditures resulting from the railroad transfer (i.e., additional costs due to potential loss of railroad gravel reserves under third-party claims). Included in the former category are costs for maintenance-of-way, maintenance of power and equipment, transportation services, communications, administration and overhead, marketing and real estate management. The latter category includes increased legal and overhead expenses, additional insurance and risk management contributions, fiscal impact to the Transfer Team and other state agencies because of railroad acquisition, and one-time, start-up costs for items such as the printing of new letterhead and the marking of personal property.

Although revenue is projected to increase during FY 87-89, costs during that period are not significantly larger than the first two years of operations due to the sizeable, one-time transfer related expenses immediately following transfer. These estimates are based on historical data provided by current railroad personnel and reflect anticipated operating expenditures needed to comply with the terms of ARTA.

Attachment A provides more details on the FY 85 submittal by object of expenditure. Some \$4 million of this estimate is to cover immediate expenditures resulting from actual transfer of the railroad. This includes the following:

- (1) \$1.750 million for the Alaska Railroad Transfer Team to perform its duties as outlined in Attachment B;
- (2) \$2 million for specific one-time, start-up costs to be incurred by the new entity for items such as the marking and inventorying of personal property, the printing of new stationery and payment warrants, additional legal costs, and certain corporation expenditures for the new Board of Directors;
- (3) \$200,000 in funds to conduct a final pre-transfer audit to establish the accuracy of balance sheets and the identification of accounting problem areas; and
- (4) \$80,000 in additional fiscal impact to the Department of Administration to ensure preservation of railroad archival records and additional labor relations work not budgeted for in the Transfer Team's FY 85 budget memo.

Another component of the FY 85 submittal includes \$270,000 in funds in direct response to the following requirements of the legislation:

- (1) \$200,000 to initiate the Special Report required in Section 9 on the feasibility of attracting private sector involvement in the railroad's operations;
- (2) \$35,000 to the Department of Natural Resources to respond to any state land request by the corporation under Section 42.40.360; and
- (3) \$35,000 to fund costs for the new railroad employees labor relations agency as provided in Section 42.40.780.

The remaining estimates in this area reflect the normal operating expenses by category for the part of FY 85 involving state operation of the railroad. These specific estimates have been prepared with the close cooperation of railroad administration and budgeting personnel. All expenditures for per diem and compensation of the Board of Directors have been included in the general estimates for the 100 and 200 categories.

Capital Expenditures:

The capital component of this fiscal note represents a combination of increased capital costs resulting from transfer and prorated expenditures for ongoing railroad operations. The analysis contained in Chapters 4 and 5 of the Acquisition Assessment serve as the basis for both of these estimates.

In addition, the results from the State's independent engineering condition assessment have been used to project an increased level of expenditure minimally acceptable to begin reversing deterioration of the railroad's physical plant, including the initiation of a systematic plan for replacing aged rolling stock. It is important to understand that engineering condition alone cannot be the basis for a projected level of sustained capital expenditure, but must be tempered by national trade-offs between long-term plant condition and available revenues.

The capital estimate of \$15.8 million includes a one-time expenditure of \$4.9 million to replace the railroad's working capital fund. ARTA establishes a process where little, if any, money will be transferred from the ARR's Revolving Fund because of pre-transfer federal claims and contingent liabilities that must be paid by the fund. As a result, an amount equal to about one month's worth of operating expenses (which is similar

to working capital requirements for other railroads) is needed to fund and maintain adequate working capital for the railroad after transfer.

Another capital expenditure resulting from railroad transfer is the initiation of compliance with Occupational Safety and Health Act (OSHA) requirements and state and local building codes. Approximately \$4.5 million per year has been set aside during the forecasted period to move toward compliance in these areas. Chapter 5.3 of the Acquisition Assessment provides more details regarding this requirement.

The remaining \$6.4 million of this estimate covers general railroad capital needs, prorated for the period of state ownership during FY 85. An additional \$7.85 million is projected for expenditure by the railroad for this program. Attachment C provides additional information regarding the capital improvement program to be performed during FY 85.

It should also be noted that based on a recent audit review of the ARR's financial statements, about \$4 million per year of capital expenditures could just as easily be categorized as operating costs (primarily maintenance-of-way expenditures) if generally accepted accounting principles are applied to the railroad. However, no adjustments have been made with our estimates to avoid creating greater confusion by conflicting with existing railroad procedures prior to a general system overhaul by the corporation upon transfer.

#### Revenue:

This estimate on a prorated basis represents projected FY 85 revenues from its freight, passenger and real property rental activities. The FY 85 revenue figure is based on a projected commodity mix fairly similar to the last two years of railroad operations. Attachment D contains some additional information from the ARR's 1983 Draft Annual Report regarding FY 82 and FY 83 operations.

These projections are based on information from the railroad and USRA, which were then adjusted downward by the Transfer Team to remove 50% of the net cash from anticipated revenue increases in export coal, interline and pipe traffic. If either of these movements were in fact to materialize in a significant way, it could sizeably reduce the need for general fund assistance during FY 87-89. Likewise, any major downswing from our projections would probably result in the need for even larger general fund assistance during those years.

Funding Source:

The "Other Funds" appearing on the fiscal note are railroad revenues.

Positions:

ARTA basically mandates a two-year period of full protection of current salaries and benefits for all employees who choose to transfer. What happens following that period becomes a matter for contractual negotiation between management and employees.

The figures presented in this part of the fiscal note are the actual number of employees in each category as of March 1, 1984. No estimate can be made of the actual number of those choosing to transfer, although it is anticipated that most employees will do so. In the case of temporary employees, the first number on this line is the actual number today, while the second estimate reflects the average number of temporary hires used in the summer for major maintenance work.

Summary:

The estimates provided in the attached fiscal note are primarily based on the Transfer Team's assessment of the likely fiscal impacts from state acquisition of the Alaska Railroad. It is important to reiterate that the acquisition cost of \$22.3 million has been addressed in a separate fiscal note attached to the acquisition legislation.

It is our view that the corporation's overall organization as currently envisioned in the proposed legislation will not have any appreciable impact immediately on the railroad's general financial condition. Beyond the increased cost for modifying the existing administrative and management systems during the first two or three years following state takeover, it is difficult to predict whether the proposed organizational arrangements in this legislation will generate cost efficiencies not enjoyed during federal ownership.

The philosophy in the current legislation is, to the extent possible, to foster a self-sustaining business orientation for railroad operations. This is consistent with the Transfer Team's analysis of the types of steps necessary to achieve a break-even position at some point during the first decade of state operations.

There is no specific mandate in this legislation for new extensions or any more services than those currently in existence. This should allow the railroad adequate time to reorganize and streamline its existing operations. In addition, although several specified planning responsibilities have been added to the railroad's duties, the long-term savings from performing these kinds of systematic assessments should more than compensate for any short-term costs resulting from performance of these efforts.

Attachment E is a ten year summary (FY 73-82) of the railroad financial operations during federal ownership. It should be noted that an additional \$66.2 million dollars in congressional appropriations was provided during this period to cover passenger expenses and certain capital needs.

ATTACHMENT A

Operating Budget - FY85

In Thousands (000) of Dollars

This operating budget is prorated for FY 85 except for the impacts to state agencies depicted in the 300 level. All amounts shown are in 1985 dollars. These estimates represent the total prorated FY 85 operating budget for the railroad following state acquisition. Projected revenues from the railroad's operations will serve as the main source of funds for these expenditures, with limited assistance from general fund appropriations.

<u>Category</u>	<u>Amount</u>	<u>Explanation</u>
100 Personal Services	\$24,350.0	This funding level is based upon current work force of 478 permanent full-time, 38 part-time and 64 temporary positions. Of this amount salary comprises \$19,980 and benefits comprise \$4,370. Also included in this estimate are the Board of Directors' compensation expenses.
200 Travel	300.0	This funding level is the estimate of travel funding needs, including the Board of Directors' travel expenses.
300 Contractual	4,800.0	This funding level includes coverage of the following areas: continuation of Transfer Team activities for FY 85 - \$1,750.0 (see Attachment B); Transfer Financial Audit - \$200.0; \$200.0 for initiation of the Special Report required in Section 9 of the bill; Department of Administration - \$80.0 for archives preservation and labor relations coordination; costs for the labor relations agency under Article 8 of the bill - \$35.0; Department of Natural Resources - \$35.0 for land designation activities under Article 5 of the bill. The remainder of these funds are for the railroad's general contractual needs resulting from capital improvement, operations and financial planning activities.

400 Supplies	5,200.0	This funding level is required for the day-to-day operations of the railroad, supporting all facets of operations from administration to maintenance of way.
500 Equipment	1,200.0	This item is the complement of the supply item also supporting day-to-day railroad operations.
700 Grants & Claims	1,500.0	This item provides for funds for the railroad's risk management expenses, payment of damage claims, workmen's compensation expenses and other money claims against the railroad. No grants are anticipated.
TOTAL:	<u>37,350.0</u>	

ALASKA RAILROAD TRANSFER PROJECT

FY 85 PROJECT BUDGET

The goal of the Alaska Railroad Transfer Team is to provide an orderly and informed decision-making process for possible transfer of the Alaska Railroad from federal ownership, thus ensuring continuation of essential rail services in Alaska. If a decision is reached to pursue state take-over of the railroad, then it is also the goal of the Alaska Railroad Transfer Team to organize and oversee a systematic transition from federal ownership.

This document discusses the major work components of the FY 85 budget submittal. The need to pursue some of these efforts is entirely contingent on a decision to acquire, while other work efforts are separate from that decision. Attachment A provides the FY 85 budget submittal as introduced by the Governor. Attachment B is the project budget for FY 84 and provides considerable detail regarding several work tasks, many of which are ongoing in 1985.

The following breakdown is structured on a component or agency basis, versus reiterating specific details regarding ongoing work tasks. As a result, some of this explanation should be read in conjunction with Attachment B in order to fully understand all of the scheduled work efforts.

Work Component #1 - Alaska Railroad Transfer Team Staff

As indicated in Attachment A, funding is needed to support four positions in the Office of the Commissioner, Department of Transportation and Public Facilities. These positions are as follows: a State Railroad Coordinator (Special Assistant II); a Planner IV; a Planner III; and a Correspondence Secretary III. These four individuals comprise the Transfer Team Staff with direct responsibility for performance and coordination of all team activities. This group reports directly to the Commissioner of DOT&PF in the performance of their duties. The following breakdown represents expenditures directly related to this area by object of expenditure.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Personal Services	4 Positions - DOT&PF	\$195,100
Travel	4 Positions - DOT&PF	66,000
Contractual	Printing/limited Professional Services	35,000
Supplies	Miscellaneous	<u>8,000</u>
	Total	\$304,100

Work Component #2 - Department of Natural Resources Assistance

An existing Reimbursable Services Agreement with the Department of Natural Resources will be continued during FY 85. Work efforts covered by this assistance include ongoing support activity by the Division of Technical Services for conveyance documents and related title review work. Additional support by DNR will be provided for coordination with the Bureau of Land Management's cadastral survey work and assistance from the Division of Land and Water Management to implement the railroad transfer. The following breakdown by object of expenditure presents the needed funding for these services.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Personal Services	4 Positions - DNR	\$191,900
Travel	4 Positions - DNR	20,000
Contractual	Miscellaneous Professional Services	30,000
Supplies	Miscellaneous	8,100
	Total	\$250,000

Work Component #3 - Department of Labor Assistance

Specific assistance is still needed by the Department of Labor to perform an extensive survey of the railroad's physical facilities in relation to federal and state occupational safety and health laws, regulations and standards. Although this was scheduled for performance during FY 84, insufficient funding required postponement of this work effort until FY 85. Scheduled funds during FY 84 for this effort were diverted to cover additional labor relations work by the Department of Administration and the use of an Engineer-in-Training position to assist with the engineering condition assessment. The following breakdown provides an estimate for this activity by object of expenditure.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Personal Services	2 Full-time - DOL 2 part-time	\$142,700
Travel	2 Full-time - DOL	7,300
Training	2 Full-time	5,200
Contractual	Miscellaneous Professional Services	39,800
Supplies	Miscellaneous	6,500
Equipment	Health Sampling Equipment/ Memory Typewriter	12,000
	Total	\$213,500

Work Component #4 - Department of Administration Assistance

Activity in the area will consist of continuing work efforts initiated during FY 84 explained under task #6 of Attachment B. Particular attention must be paid to the analysis of the five collective bargaining agreements, which will support the full scale initiation of the two-year renegotiation process in conjunction with the new entity established to operate the railroad. Another important work effort will be to conduct an orderly transition from federal to state ownership for all personnel matters and ensure that all of the specified requirements from the federal transfer legislation are properly met by the new organization established to operate the railroad. Other efforts include assistance with insurance and risk management needs. The following breakdown by object of expenditure presents the necessary funding for this area.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Personal Services	1 Full-time Position	\$105,000
	2 Part-time Positions	45,000
Travel	1 Full-time, 2 Part-time	<del>105,000</del>
Contractual	Liaison Assistance/	105,000
	Miscellaneous	
	Professional Services	
Supplies	Miscellaneous	<u>2,400</u>
	Total	\$257,400

Work Component #5 - Department of Law Assistance

Assistance from the Department of Law is needed for several tasks to be performed by existing AG staff and retained special counsel. Included are the following work efforts: (1) legal work pertaining to the 3(e) (ANCSA) claims against railroad property by native village corporations, including ongoing negotiation and staff work to support the State's position during the adjudication process; (2) legal assistance for the preparation of transfer documents and attention to related land conveyance problems; (3) resulting from the response to various court actions by third parties because the railroad transfer; (4) ongoing legal assistance with issues involving regulation by the Interstate Commerce Commission (ICC); and (5) support of efforts relating to personnel/labor relation matters. The following breakdown by object of expenditure presents the needed funding for this area.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Personal Services	Staff Attorneys	\$180,000
Travel	Staff Attorneys	20,000
Contractual	Wickwire Lewis	150,000
	David Walsh	75,000
	David Rogers	<u>75,000</u>
	Total	\$500,000

Work Component #6 - ICC Rate Valuation/Capital Plan Activity

Work efforts under this component will consist of the following: (1) initiation of planning work necessary to file the appropriate valuation studies before the ICC for purposes of rate-making justification; and (2) performance of ongoing capital planning analysis. This second task will be a continuation of efforts performed under task #5 in Attachment B. It will be coordinated with the initiation of the ICC valuation studies to maximize generation of a data base useful to both efforts. Funding in this area is needed for contractual assistance, which will be directly managed by the Transfer Team Staff.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Contractual	Consulting Assistance	<u>\$225,000</u>
	Total	\$225,000

ALASKA RAILROAD TRANSFER PROJECT BUDGET

PROJECT BUDGET

The following depicts the project budget by work component and amount:

	<u>Amount</u>
(1) Alaska Railroad Transfer Team Staff	\$ 304,100
(2) Department of Natural Resources Assistance	250,000
(3) Department of Labor Assistance	213,500
(4) Department of Administration Assistance	257,400
(5) Department of Law Assistance	500,000
(6) ICC Rate Valuation/Capital Plan Activity	<u>225,000</u>
Project Total	\$1,750,000

ATTACHMENT C

Capital Improvement Program - FY85

In Thousands (000) of Dollars

This CIP is prorated for FY 85. All amounts shown are in 1985 dollars. These estimates represent costs to the State, and are only part of the ARR's total capital budget. Revenues from the ARR for capital improvements will be added to State funding.

<u>Item</u>	<u>Amount</u>	
Working Capital Fund	\$ 4,900	As with all businesses, the ARR will need working capital. It is estimated that one month's worth of operating expenses will be adequate working capital for the ARR.
OSHA/Code Compliance	\$ 4,500	As a federal agency, the ARR has not been subject to many health, safety, and building code standards that would otherwise apply. These codes will apply upon transfer, and initial surveys conducted by the State have been used to determine necessary compliance levels. See Appendix C of the Alaska Railroad Acquisition Assessment for more details.
Other Capital Improvements	\$ 6,400	These expenses represent the minimal expenditure necessary for the ARR to maintain current levels of service, while initiating efforts to reverse deterioration of physical plant condition. Component priorities have been selected using the findings of the State's independent condition assessment. As indicated in the attached supplement, most capital improvements are for track and roadbed, upgrade of certain cargo handling facilities, and motive power and equipment purchases.
TOTAL	<u>\$15,800</u>	

Supplement to Item #3, Attachment C

Track & Roadbed - \$6,185,000

Ties - Install 50,000 @ \$42.00 ea.	= \$2,100,000
Rail - Install 6 miles @ \$350,000 ea.	= \$2,100,000
Ballast - Install 85,000 yd <sup>3</sup> @ \$14 yd <sup>3</sup>	= \$1,190,000
Other - (Turnouts, sledding, culverts, ditching)	= \$ 795,000

Bridges - \$883,000

Replace stringers, bents, and spans  
Reset bearings, piles, and abutments

Tunnels - \$1,060,200

Line with multi-plate  
Excavate rock fall areas

Docks - \$706,800

Preliminary work to rebuild barge slip #1 at Whittier

Communications - \$570,000

Complete microwave system  
Remove pole lines  
Acquire equipment

Motive Power & Equipment - \$4,845,000

Locomotives	= \$2,250,000
Upgrade Facilities	= \$1,845,000
Equipment	= \$ 750,000

Note: This totals \$14.25 million and is the ARR's overall FY 85 capital budget, of which \$6.4 million is covered under this fiscal note.



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TABLE IX: BALANCE SHEET  
 SEPTEMBER 1982-83  
 (Thousand dollars)

CATEGORY	1983	1982
<b>ASSETS:</b>		
Current Assets:		
Cash (Note 8)	\$9,646	\$14,966
Trust and Deposit Funds (Note 9)	32	7
Accounts Receivable	14,195	13,105
Materials and Supplies (Note 10)	10,143	7,040
Prepaid Expenses	20	0
	<u>34,036</u>	<u>35,118</u>
Properties:		
Land (Note 11)	265	265
Buildings	12,943	12,921
Roadway Structures & Facilities	127,215	125,000
Equipment	57,895	49,864
Non-Operating Property	1,947	1,877
Total Properties	200,265	189,927
Less Accumulated Depreciation:	<u>60,516</u>	<u>57,678</u>
Properties - Net	139,749	132,249
Additions & Betterments in Progress (Note 12)	11,599	12,059
	151,348	144,308
Other Assets and Deferred Charges	2,524	3,029
Total Assets	<u>\$187,910</u>	<u>\$182,455</u>
<b>LIABILITIES &amp; PROPRIETARY INTEREST OF THE U.S. GOVERNMENT:</b>		
Current Liabilities:		
Accounts Payable	\$4,721	\$3,416
Accrued Payrolls Payable	1,320	1,056
Trust and Deposit Funds (Note 9)	32	7
	<u>6,073</u>	<u>4,479</u>
Other Liabilities and Unadjusted Credits	2,209	3,152
Total Liabilities	<u>\$8,282</u>	<u>\$7,631</u>
Proprietary Interest (Note 13):		
Net Investment	200,621	192,995
Retained Earnings from July 1, 1954	(18,171)	(23,578)
Current Year Operating Results	2,824	9,561
Extraordinary Items (Note 6)	(5,646)	(4,154)
Total Proprietary Interest (Note 13)	<u>179,628</u>	<u>174,824</u>
Total Liabilities & Proprietary Interest	<u>\$187,910</u>	<u>\$182,455</u>

Notes follow Table XI

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TABLE X: STATEMENT OF CHANGES IN FINANCIAL POSITION  
 FISCAL YEARS 1982-83  
 (Thousand dollars)

CATEGORY	1983	1982
Funds were provided by:		
Revenues and Other Receipts	\$56,438	\$58,699
Appropriations from Congress (Note 14)	<u>7,600</u>	<u>6,160</u>
Total Funds Provided	64,038	64,859
Funds were used for:		
Labor	35,579	33,221
Other	14,044	17,839
Capital Improvements & Replacements	<u>16,348</u>	<u>11,821</u>
Total Funds Used	65,971	62,881
Increase (Decrease) in Government Equity	(1,933)	1,978
Other Increases (Decreases):		
Undelivered Orders	(2,924)	3,983
Supplies and Materials	3,103	1,119
Properties	7,040	3,964
Other	<u>(482)</u>	<u>513</u>
Total, Other	6,737	9,579
Total Increase (Decrease) in Government Equity	<u>\$4,804</u>	<u>\$11,557</u>
Proprietary Interest:		
Beginning Balance	\$174,824	\$163,267
Increase (Decrease)	<u>4,804</u>	<u>11,557</u>
Ending Balance (Note 13)	\$179,628	\$174,824

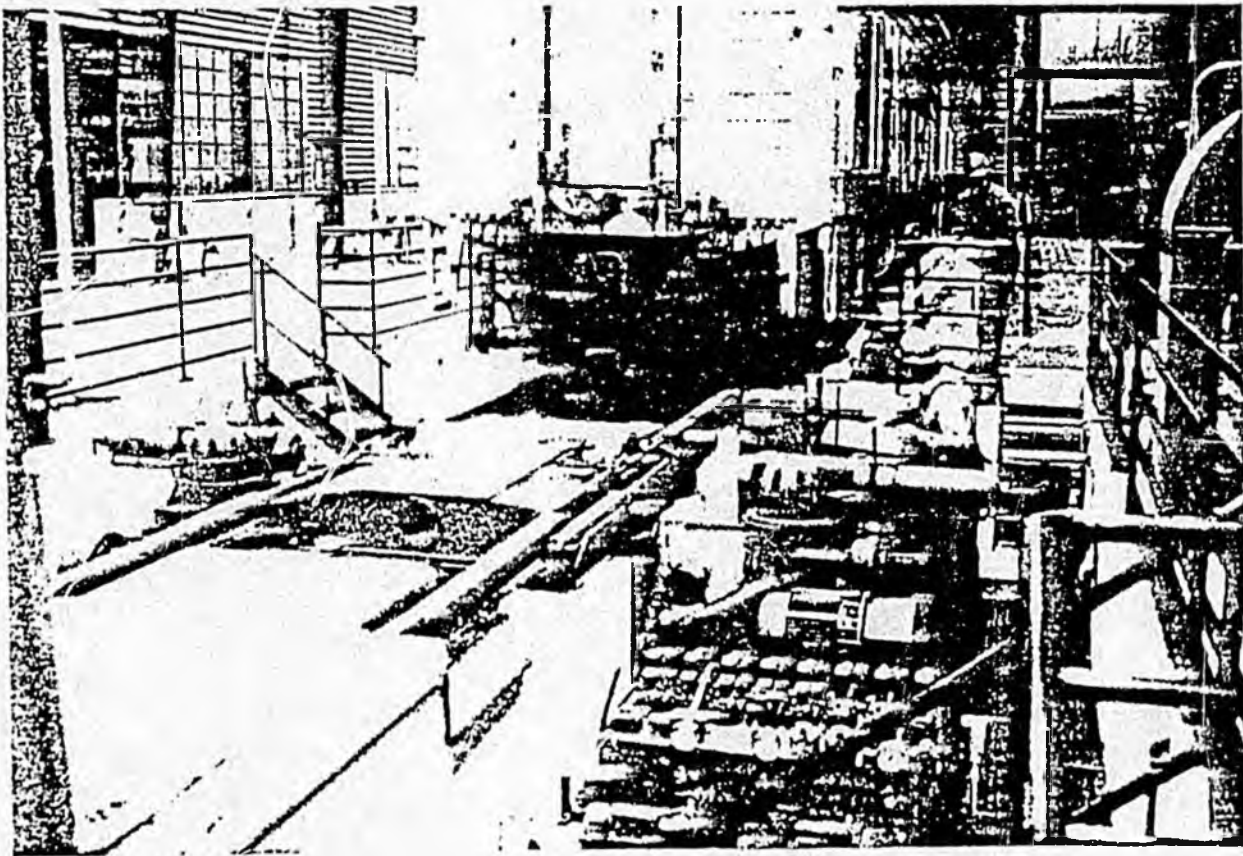
Notes follow Table XI

**DRAFT**

TABLE XI: FIVE-YEAR CONDENSED SUMMARY OF OPERATIONS  
 FISCAL YEARS 1979-83  
 (Thousand dollars)

CATEGORY	1983	1982	1981	1980	1979
<b>REVENUES:</b>					
Operating	\$52,397	\$55,445	\$40,782	\$26,737	\$23,200
Non-Operating (Note 16)	<u>3,697</u>	<u>3,352</u>	<u>3,159</u>	<u>2,155</u>	<u>2,081</u>
Total Revenues	\$56,094	\$58,797	\$43,941	\$28,892	\$25,181
<b>EXPENSES:</b>					
Operating	\$52,993	\$48,978	\$40,358	\$34,380	\$31,285
Non-Operating (Note 17)	<u>277</u>	<u>258</u>	<u>273</u>	<u>344</u>	<u>204</u>
Total Expenses	\$53,270	\$49,236	\$40,631	\$34,724	\$31,489
<b>NET PROFIT (LOSS)</b>	\$2,824	\$9,561	\$3,310	(\$5,832)	(\$6,308)
Less Extraordinary Items (Note 6)	<u>(\$5,646)</u>	<u>(\$4,154)</u>	<u>(\$204)</u>	<u>(\$692)</u>	<u>(\$319)</u>
Annual Retained Earnings	(\$2,822)	\$5,407	\$3,106	(\$6,524)	(\$6,627)
Expense/Revenue Ratio	94.97%	83.74%	92.47%	120.19%	125.05%

Notes follow Table XI



A modern wheel truing machine was installed in a newly constructed shop building in 1983.

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF ACCOUNTING POLICIES

The Alaska Railroad uses the generally accepted principles, standards, and related requirements of governmental accounting as approved by the Comptroller General of the United States. Operations are conducted in a manner consistent with related commercial enterprises and, at the same time, in conformance with the requirements incumbent upon a Government agency.

As is the customary practice of the industry, the Railroad uses betterment and retirement accounting instead of depreciation accounting for roadbed and track. Under this method, prescribed by the Interstate Commerce Commission, the cost of replacing tracks and structures--less salvage recovered--is charged to the appropriate operating expense account and only the cost of betterments is capitalized. These capitalized items are not depreciated, but upon retirement of the tracks and structures, the entire capitalized amounts--less salvage recovered--are charged to expense.

The accounting system and related procedures disclose financial condition and operating results to provide full accountability of the Government's investment in the Railroad and to afford management the necessary data to carry out its responsibility in the most efficient and economical manner.

The Railroad is financed from a revolving fund.

### 2. REVENUES

Revenues from rail operations are included in income on an accrual basis upon the completion of service.

### 3. EXPENSES

Expenses are accrued or applied or both on a basis consistent with generally accepted accounting principles.

### 4. MAINTENANCE OF WAY AND STRUCTURES

Maintenance of way and structures include expenses incurred by engineering (\$9,207,000) and communications (\$652,000).

### 5. GENERAL AND ADMINISTRATION

General and administration accounts include expenses for headquarters and staff (\$1,378,000) and the administration department (\$4,485,000).

### 6. EXTRAORDINARY ITEMS

Extraordinary items include the loss on excess current inventories (\$23,000), deferred outlays (\$3,760,000), prior-year adjustments (\$697,000), and costs associated with the transfer evaluation (\$1,166,000).

## 7. DEPRECIATION

Depreciation is computed using the straightline method and is based on estimated service lives of depreciable properties, except for the railway track and structures, which are computed using the industry betterment method. Depreciation charges are determined by using the composite or group rates applicable to various classes of property.

The following is a list of depreciation charges in FY 1983:

	(Thousand dollars)
Mechanical - equipment	\$2,807
Engineering - buildings and structures	892
Transportation - docks	438
Communications	170
Non-operating	66
Other	31
Total	<u>\$4,404</u>

## 8. CASH

Cash refers to the fund balance with the U.S. Treasury, which is the net amount of cash receipts, e.g., revenues, proceeds from sales, and amounts of congressional appropriations, less disbursements.

## 9. TRUST AND DEPOSIT FUNDS

Trust and deposit funds include special deposits and other collections not covered by the revolving fund and cleared by disbursement or transfer, as appropriate. A contra account to this asset account is reflected in the liability section.

## 10. MATERIALS AND SUPPLIES

Inventories, consisting of replacement or repair parts for equipment and road property, construction materials, and fuel, are valued at average cost, including freight.

## 11. LAND

Land includes only property purchased by the Railroad from private owners and carried at acquisition cost. The Railroad owns over 38,000 acres withdrawn from the public domain at no cost; this land is not included in the financial records.

## 12. ADDITIONS AND BETTERMENTS IN PROGRESS

This is a control account for authorized capital projects during the period of construction or procurement. Upon completion of the capital project, the related costs are transferred into the appropriate fixed asset property account.

### 13. PROPRIETARY INTEREST OF THE U.S. GOVERNMENT

The proprietary interest shows the Federal Government's net interest in The Alaska Railroad. At the end of FY 1983, it is summarized as follows:

	(Thousand dollars)
Appropriation by Congress	\$259,496
Allotments from other agencies, sales of lots, etc.	1,724
Property transferred or donated (not public domain)	19,903
Earthquake losses	(16,738)
Deficits from operations and capital losses to 6/30/54	(63,764)
Retained earnings (7/1/54 to 9/30/82)	(18,171)
FY 1983 operating results	2,524
Extraordinary Items (Note 6)	<u>(5,646)</u>
 Total proprietary interest of the U.S. Government	 \$179,628

### 14. CONGRESSIONAL APPROPRIATIONS

Funds appropriated by Congress were obligated within the fiscal year, as shown below:

	(Million dollars)	
	<u>FY 83</u>	<u>FY 82</u>
Congressional appropriations received	\$7.60	\$6.16
Obligated during fiscal year	<u>\$7.60</u>	<u>\$6.16</u>
 Amount unobligated at end of fiscal year	 \$0.00	 \$0.00

### 15. OTHER OPERATING REVENUES

Other operating revenues include those revenues that were neither freight nor passenger. Individual accounts exceeding \$90,000 in FY 1983 were:

	(Thousand dollars)
Reimbursable services	\$2,036
Sale of non-invested property	1,301
Reimbursements - real estate, utilities, and equipment	541
Whittier shuttle - vehicles	533
Wharfage and handling	148
Mail	145
Switching	116
Equipment rentals	90
All other	<u>395</u>
 Total	 \$5,305

16. NON-OPERATING REVENUES

Non-operating revenues in FY 1983 were:

(Thousand dollars)

Miscellaneous rentals	\$3,466
Interest earned	144
All other	<u>87</u>
Total	\$3,697

17. NON-OPERATING EXPENSES

Non-operating expenses in FY 1983 were:

(Thousand dollars)

Buildings	\$199
Depreciation	60
Equipment	10
All Other	<u>2</u>
Total	\$277



At a re-enactment of the original golden spike ceremony Governor Sheffield wields the same maul used by President Harding in 1923.

### FREIGHT

Table II shows freight revenue tons and freight revenue dollars by major classification of commodities for fiscal years 1983 and 1982. Total tonnage for fiscal year 1983 exceeded fiscal year 1982 by 34 percent. For the third consecutive year sand and gravel led all other commodities in percentage gains. The primary cause of the 60-percent escalation was a vigorous private and business construction year plus increases in public works projects in Anchorage. The drop in movements of iron and steel products from Seward to Fairbanks destined for the North Slope from its peak in 1982 accounted for the return of manufacturers and miscellaneous products to a lower level, but still above FY 1981.

TABLE II: FREIGHT TRAFFIC BY COMMODITY

COMMODITY	1983 FY	1982 FY	% CHANGE
REVENUE TONS CARRIED (000's)			
Sand and Gravel	4,397.7	2,753.8	+ 59.7
Coal	625.8	653.6	- 4.2
Petroleum, Oil, Lubricants	462.2	439.4	+ 5.2
Manufacturers and Misc.	323.1	449.9	- 28.2
TOFC/COFC (Piggyback)	98.0	122.4	- 19.9
Products of Forests	105.1	77.0	+ 36.5
Products of Agriculture	<u>6.1</u>	<u>6.8</u>	- 10.3
Total Tonnage	6,018.0	4,502.9	+ 33.7
REVENUE DOLLARS (000's)			
Sand & Gravel	6,647	4,556	+ 45.9
Coal	5,007	5,072	- 1.3
Petroleum, Oil, Lubricants	9,723	8,376	+ 16.1
Manufacturers and Misc.	15,704	22,512	- 30.2
TOFC/COFC (Piggyback)	3,625	4,915	- 26.2
Products of Forests	2,955	2,301	+ 28.4
Products of Agriculture	<u>126</u>	<u>145</u>	- 13.1
Total Revenue	43,787	47,877	- 8.5

## PASSENGER

Aggressive and expanded advertising and marketing resulted in an overall increase of 21 percent in passenger ridership as shown in Table II. The marketing efforts included active promotion of tour packages which attracted, for the first time, nine cruise ships to stop at the Railroad's Port of Whittier, and provided over 14,000 of the special train riders.

TABLE III: PASSENGERS HANDLED

SERVICE	1983 FY	1982 FY	% CHANGE
Anchorage-Denali-Fairbanks	61,887	60,810	+ 1.8
Anchorage-Portage-Whittier (Shuttle)	117,740	95,449	+ 23.4
Specials	<u>31,732</u>	<u>18,857</u>	+ 68.3
Total Passengers Handled	211,359	175,116	+ 20.7

The number of vehicles carried on the Anchorage-Portage-Whittier (shuttle) service was 19,516, up 10 percent over FY 1982.

## TARRIFS

The major rate adjustments made in FY 1983 are reflected in Table IV:

TABLE IV: FY 1983 TARIFF CHANGES

TYPE	DATE	% INCREASE
Interline	1-17-83	5
Intrastate:		
General Commodities	2-12-82	5
Gravel	4-19-83	3
Passenger:		
Anchorage - Fairbanks	1-01-83	10
Whittier Shuttle	7-01-83	10

Attachment E  
3/14/84

ALASKA RAILROAD OPERATIONS SUMMARY  
(Dollar Amounts in Thousands)  
Fiscal Years 1973-1982\*

	<u>FY 1973</u>	<u>FY 1974</u>	<u>FY 1975</u>	<u>FY 1976</u>	<u>FY 1977</u>	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>
Operating Revenue	\$16,996	\$20,783	\$41,416	\$52,517	\$33,376	\$27,440	\$23,100	\$26,737	\$40,782	\$55,445
Non-Operating Revenue	681	703	871	1,161	1,646	1,651	2,081	2,155	3,159	3,352
<u>Total Revenues</u>	<u>17,677</u>	<u>21,486</u>	<u>42,287</u>	<u>53,678</u>	<u>35,022</u>	<u>29,091</u>	<u>25,181</u>	<u>28,892</u>	<u>43,941</u>	<u>58,797</u>
Operating Expenses	\$20,057	\$22,389	\$35,883	\$49,387	\$35,703	\$33,301	\$31,285	\$34,380	\$40,358	\$48,978
Non-Operating Expenses	153	158	272	191	255	213	204	344	273	258
<u>Total Expense</u>	<u>20,210</u>	<u>22,547</u>	<u>36,155</u>	<u>49,578</u>	<u>35,958</u>	<u>33,514</u>	<u>31,489</u>	<u>34,724</u>	<u>40,631</u>	<u>49,236</u>
<u>Gain (Loss)</u>										
Before depreciation - cash flow (\$ 7)		\$ 1,300	\$ 8,513	\$ 6,628	\$ 2,186	(\$ 1,227)	(\$ 3,089)	(\$ 2,306)	\$ 6,567	\$13,274
After depreciation (\$ 2,533)		(\$ 1,061)	\$ 6,132	\$ 4,100	(\$ 936)	(\$ 4,423)	(\$ 6,308)	(\$ 5,832)	\$ 3,310	\$ 9,561
<u>Capital Expenditure</u>	<u>\$ 1,260</u>	<u>\$ 313</u>	<u>\$ 2,772</u>	<u>\$ 8,602</u>	<u>\$ 8,316</u>	<u>\$ 5,823</u>	<u>\$ 8,181</u>	<u>\$ 6,893</u>	<u>\$11,409</u>	<u>\$11,821</u>
<u>Revenue Tons of Major Commodities</u> (in thousands of tons)										
Sand and Gravel	2	1	1	104	700	727	637	396	1,797	2,754
Bulk Petroleum	363	414	557	624	532	374	220	252	379	439
Coal	565	563	584	607	550	593	524	590	653	654
Iron & Steel Pipe & Fittings	11	15	107	174	16	28	33	37	83	165
Piggyback	48	57	95	114	100	100	99	92	113	122
Forest Products	49	56	120	124	82	68	55	109	101	77
Manufactured Iron & Steel	18	37	60	89	19	12	12	10	8	19
Cement	15	14	25	32	42	33	33	32	43	51
Machinery and Machines	12	21	60	31	47	47	24	16	28	24
Hfms. & Misc. NOS	32	34	44	29	17	13	25	26	11	**
Other	216	165	209	260	200	183	156	181	146	198
<u>TOTAL</u>	<u>1,331</u>	<u>1,337</u>	<u>1,862</u>	<u>2,188</u>	<u>2,305</u>	<u>2,178</u>	<u>1,808</u>	<u>1,741</u>	<u>3,362</u>	<u>4,503</u>
<u>Passengers</u>	<u>74,000</u>	<u>84,000</u>	<u>81,000</u>	<u>84,500</u>	<u>103,632</u>	<u>126,277</u>	<u>151,045</u>	<u>150,678</u>	<u>161,068</u>	<u>175,116</u>

\* The Federal Government changed its fiscal year from July 1-June 30 to October 1-September 30 beginning in FY 1977, resulting in a transition quarter in 1976. To avoid a 15-month fiscal year for comparisons, these statistics use July 1, 1975 through June 30, 1976 as FY 1976, and October 1, 1976 through September 30, 1977 as FY 1977, dropping the transition quarter.

\*\*Hfms. & Misc. NOS. (not otherwise specified) discontinued, now included in specific categories.