

HB

47

(FILE 1)

ALASKA RAILROAD CORPORATION

P.O. Box 7-2111 • Anchorage, Alaska 99510-7069



January 28, 1987

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Representative Dave Donley, Chairman
Labor & Commerce Committee
House of Representatives
P. O. Box V
Juneau, Alaska 99811

Re: HB 47, An Act Relating to the Alaska Railroad Corporation

Dear Representative Donley:

Thank you for allowing the Alaska Railroad Corporation ("ARRC") this opportunity to comment upon HB 47 which proposes significant changes to ARRC's enabling legislation.

We understand that your committee will conduct a work session on this bill and others today. I hope that our comments will be helpful as you review the legislation. Should questions arise which are not adequately addressed in our position paper, please feel to contact me. My phone number is 265-2461.

I do apologize for the length of our response and our delay in getting it to you. However, the bill recommends sweeping changes to a model of a public corporation created, as you know, by the 1984 legislature to operate the State-owned railroad. That model was intended to insure that the railroad would be a rail carrier generating, retaining, and managing its revenues to better serve Alaska's transportation and development needs. Although State leadership gave ARRC enough independence to conduct its activities as a separate and viable economic entity, a recognition of State ownership and essential governmental functions led to public accountability requirements manifested most clearly by open meetings, governor-appointed board members, financial and management audits, annual and oversight reports, legislative approval of land disposals, and long-range capital improvement and program plans. This blend of substantial financial and operational independence subject to State oversight has resulted in a quasi-public, quasi-private railroad armed with the flexibility it needs to react quickly to changing market, operational, and financial needs.

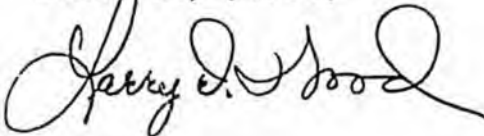
Representative Donley
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The model was created only after months, perhaps years, of research, study, discussion, and debate. If I had to choose one message to leave with you today, it would simply be that HB 47 proposes sweeping detrimental changes to the legislature's earlier vision of a financially independent, but publicly accountable, railroad only two years following transfer. The work reflected in the Alaska Railroad Corporation Act and ARRC's track record to date perhaps deserve the same commitment of time and careful deliberation before the Act's vision is in large part abandoned.

Our feeling is that in a number of ways HB 47 will restrict and curtail ARRC's ability to react meaningfully to changing freight and real estate markets to the detriment of its self-sufficiency and those many Alaskans who depend upon a viable rail transportation option in Alaska. Those who appear most likely to benefit by such changes are the railroad's water carrier, trucking, and real estate competitors.

Thank you very much.

Sincerely yours,



Larry D. Wood
General Counsel

cc: Members of the House Labor & Commerce Committee
F. G. Turpin, President & CEO

3671L

bcc: M.J. Yetter
J.B. Blasingame
P.C. Johnson, Esq.
L.J. Houle

J. Johnson
P.C.
L.J.
ARK
DRK

House Bill 47: An Act Relating to
the Alaska Railroad Corporation

I. Introduction. House Bill 47, introduced by Representatives Brown, Ellis and Boyer, proposes numerous and substantial changes to the Alaska Railroad Corporation Act, AS 42.40.010 et seq. ("ARCA"). The issues raised by the bill fall into four categories, each of which has been the subject of at least some recent media attention. All, we believe, are adequately accommodated or protected by existing laws or Alaska Railroad Corporation ("ARRC") board rules. The proposed changes will also harm the economic viability of the railroad.

These are the first major revisions of ARCA which have been proposed since 1984 when the law was enacted. The following discussions explain the sweeping limitations to ARRC's original State charter suggested by this bill. The legislature has previously directed that ARRC operate as a self-sustaining business and has blended substantial financial and operational independence with public accountability requirements. Many of HB 47's abrupt and significant changes threaten to destroy those dynamic characteristics which give ARRC the flexibility it needs to survive economically in today's declining freight markets.

ARRC strongly opposes HB 47 and respectfully recommends that ARCA remain unchanged.

II. Major Provisions of the Bill.

A. Moose Kills. One area of concern addressed by HB 47 is the effect of railroad operations on wildlife, specifically moose. The bill requires that ARRC salvage meat and consult with the State Department of Fish and Game (ADF&G) to minimize adverse effects. We believe that these proposals only duplicate present laws and ignore ARRC/ADF&G cooperation.

As a consequence of railroad, truck, and automobile operations in Alaska, moose are unfortunately killed. We explain below that ARRC has already mitigated these losses by changing some equipment and operational techniques, repeatedly discussing remedial alternatives with State Fish & Game representatives, and insuring that, where possible, meat is salvaged.

B. Confidentiality. The bill restricts those subjects which may be protected as confidential and discussed by ARRC's Board at executive sessions. Freight divisions, contract rate agreements and discussions of land acquisitions

or disposals are targeted. As explained below, public discussion and disclosure of vital railroad market data will actually injure consumers by giving railroad competitors the opportunity to make rail transportation a less competitive option in Alaska.

C. Operations. Several sections of HB 47 require the railroad board to ensure that passenger and freight services are maintained at 1985 levels. Board approval will be required for any expansion or reduction of service. Present law requires involves Board approval only where a change in service levels is "major." Although inadequate financial resources may allow the Board to forego railroad expansions, it may not reduce the 1985 services levels for financial reasons. Presumably, any such reduction may require legislative approval.

Discussion which follows points out that railroad passenger service is a major drain on ARRC revenues: \$1.5 million annually. Although State tourism needs, resident access requirements, and tradition may justify ARRC's commitment to passenger service, economics do not. Save for a few excursion lines, Alaska's is the only unsubsidized rail passenger service in America. Present State law requires ARRC to report significant and permanent service reductions to the legislature. However, despite these losses, ARRC has not reduced services. They have been increased. Innovations in equipment, scheduling, and routes have helped mitigate the \$2 million annual loss which existed before transfer.

For its economic survival, however, ARRC depends upon the flexibility of its management to immediately respond to changing freight market conditions by expanding, modifying, or in some cases, reducing service levels. To the extent this bill will detract from ARRC's marketplace resiliency it will significantly defeat the State's earlier attempts to preserve rail freight service in Alaska.

D. Land Issues. HB 47's provisions also significantly affect ARRC's leasing, easements and permitting practices. The bill proposes that railroad managers may only enter into such land use agreements for one year or less; Board approval would be required for agreements of greater duration. The Board must hold at least one public hearing not less than 60 days before entering such agreements. In addition, it must make a written finding that these contracts are in the best interest of the people of the State, taking into consideration adjacent land uses, municipal land use plans and ordinances, economic development, revenue-generating potential, and public comment received.

The bill retains the current requirement that disposals be made at fair market value, but clarifies an exception for disposals to the State and municipalities. In addition, it

requires that any disposal of natural resources (e.g., gravel, timber) be made by competitive bid.

Finally, HB 47 would require legislative approval of all leases for over 35 years. ARCA presently allows longer leases so long as a right of termination is retained if the property is needed for railroad purposes after 35 years.

To the extent these significant modifications attempt only to underscore the need for public awareness of ARRC leasing decisions, we can applaud such concern. However, a discussion which follows points out that Board policies and rules already protect the public's need to know of railroad leasing activities. The ARRC, we believe, has already struck a careful balance between public involvement in its leasing decisions and its fundamental reliance upon real estate leasing practices which can adequately and quickly respond to market opportunities. Even a brief review of financial statements emphasizes the railroad's traditional and heavy reliance upon growing real estate revenues. HB 47's modifications promise to undermine railroad financial viability by seriously inhibiting marketing opportunities. The changes work to the advantage only of ARRC's competitors and, ironically, to the probable disadvantage of Alaska's public which, we believe, will increasingly depend upon aggressive development of private and public land resources.

III. HB 47's Impact.

A. Moose Kills. Like other Alaskans, ARRC is already subject to the requirements of AS 16.30 regarding salvage of big game. Moreover, the railroad has a history of cooperation with ADF&G, as attested by the attached article from that department's own in-house magazine. Corporation personnel continue to consult with ADF&G representatives and with fish and wildlife enforcement officers of the Department of Public Safety. Procedures are already in place to help insure killed moose are salvaged.

The unfortunate fact is that moose choose to use the cleared railroad track as well as public roads in years of heavy snowfall. For example, the winter of 1985-86 was extremely mild and only 17 moose were killed by railroad operations. In the 1984-85 snowy winter, more moose were killed on southcentral Alaska highways (319) than on the railroad right-of-way (316).

We believe the legislation is unnecessary. ARRC already abides by the State's salvage laws and it will continue to work with ADF&G personnel to mitigate moose losses.

B. Executive Session/Confidentiality. Sections 4 and 5 of HB 47 propose that confidential railroad marketing and

business data, including freight divisions and contract rate agreements, be disclosable to the public. The railroad's water carrier, trucking, real estate, and port competitors would reap the greatest benefit from this relaxation of the law. Using sensitive information related to railroad freight rates, developing markets, and business opportunities to their advantage, railroad competitors may successfully eliminate ARRC's capability to offer competitive freight rates and real estate in Alaska.

The State purchased the railroad in part to preserve a rail transportation option in Alaska. Therefore, it structured a public corporation which would vigorously pursue a market presence to best serve consumer needs and avoid State financial assistance. In ARCA the Alaska legislature recognized ARRC's need to protect its proprietary information from general public scrutiny to preserve that mandate of railroad self-sufficiency. HB 47 promises to largely undo this protection.

Rate divisions and contract rate agreements explain just how much ARRC charges to haul commodities. Divisions split freight revenues for particular shipments between the railroad and its connecting carriers; contract rate agreements establish freight charges between the railroad and its shippers. Armed with information collected from ARRC's files (or Board minutes since HB 47 would also eliminate freight divisions, contract rate agreements, and proposed land acquisitions and disposals as subjects which may be discussed in the Board's executive sessions), competitors may undercut railroad charges and contracts to their financial advantage in what are already highly competitive freight and real estate markets.

Federal law may also protect the freight rate information which railroad competitors seek through passage of this legislation.^{1/} After the transfer of the railroad into

1/ Please see 49 U.S.C. § 11910: "A common carrier . . . that knowingly discloses to another person, except the shipper or consignee, . . . (A) information about the nature, kind, quantity, destination, consignee, or routing of property tendered or delivered to that carrier . . . without the consent of the shipper or consignee, and (B) that information may be used to the detriment of the shipper or consignee or may disclose improperly, to a competitor the business transactions of the shipper or consignee, shall be fined not more than \$1,000." Because divisions and contract rate agreements will contain such information, legal counsel should opine whether HB 47 will inevitably conflict with this federal mandate. Note that the Interstate Commerce Commission requires only that minimal aspects of contract rate agreements be filed with that agency.

State ownership, the federal Alaska Railroad Transfer Act ("ARTA") specified that the State-owned railroad would be a rail carrier engaged in interstate and foreign commerce subject to the jurisdiction of the ICC and entitled to all of the business opportunities available to comparable railroads, including contract rate agreements. 45 U.S.C. § 1207.

Like federal deregulation in the airline, trucking, and telephone industries, deregulation of certain rail activities in the Staggers Rail Act of 1980 was meant to promote the viability of the rail transportation option in America. The Act was passed as a response to the financial difficulties then plaguing the nation's railroads. Congress felt that much of the problem lay with excessive governmental regulations. Hence, it granted rail carriers the privilege to conduct their operations by contract as other businesses do. Instead of charging uniform tariffs of general applicability, railroads would be able to negotiate individual contracts with their shippers.

For example, no longer bound by difficult and time consuming notice and rate-making regulations in its competition for TOFC ("trailer on flat car") traffic, railroads, including ARRC, may adjust rates quickly to changing market conditions, contract directly with shippers for the movement of their freight, and offer special services and accommodations to customers on a one-to-one basis. Special care is taken to ensure that contract rate agreement information is not disclosed to competitors. The overriding thrust of the Staggers Act is to protect the confidentiality of contract provisions and to ensure to the purchasers of transportation services and to railroads a degree of confidentiality similar to that of other businesses throughout the country.

HB 47 threatens to largely eliminate legislative directions that all business opportunities available to other railroads be afforded to ARRC and that the corporation be operated "according to sound business management practices" on a self-sustaining basis. To be successful, ARRC must continue to offer competitively-priced services in the marketplace. HB 47's demand that the railroad's shipper and carrier agreements be open for inspection by its competitors may also be an indication that ARRC has made its mark as a serious competitor for freight in a diminishing Alaska market.

HB 47 also eliminates confidential Board discussions of the details related to proposed land acquisitions or disposals. The prospect of public discussion of the confidential terms of proposed real estate transactions would have a significant chilling effect on ARRC market opportunities. The bill ignores the reality that most businessmen and women do not announce land acquisitions or

development plans until all options have been quietly researched, examined, and discussed. If ARRC should ever compete with other industrial landowners for this highly competitive trade, it must have the flexibility to honor requests that proposal information be protected. Public involvement at this early stage may even go beyond what is required of State agencies. The public interest is presently and adequately protected by the current law and Board rules that require all sales of land be acted upon and approved by the Board and legislature in public session.

C. Operational Restraints. The legislature's vision that ARRC be self-sustaining will be severely impacted by HB 47's directive that passenger and freight service levels be maintained at 1985 levels. Also, present law already requires a detailed oversight report to be provided to the governor and legislature before ARRC may undertake a significant reduction in services. The report, and public Board action which proceeds it, ensures adequate protection of the public's interest and provides ample opportunity for public involvement as a recent proposed sale of exhausted rail passenger equipment demonstrated.

Although some adjustments are naturally required by changing markets and developing innovations, the corporation's commitment to existing levels of freight and passenger services is evident. In fact, ARRC has dramatically improved passenger services since transfer and is committed to the purchase of new passenger coaches and two newly refurbished self-propelled railcars. Nonetheless, passenger service amounts to a \$1.5 million drain on ARRC's financial resources (down from a \$2 million annual loss at transfer). However, to be economically viable, ARRC must have the ability to adapt to swings in the economic climate, particularly as freight markets change.

An examination of revenues from passenger service for the first 18 days of January 1987 demonstrates the need for flexibility in managing service levels. Total estimated revenues were \$12,504 while the estimated costs were \$59,900, for a loss of \$47,496. Such seasonal variations in market demand are expected and the corporation has not moved to eliminate these services.

Managerial flexibility to match the overall level of services to market demands is essential. HB 47 would eliminate that flexibility, to the marked disadvantage of ARRC's financial self-sufficiency and to the probable advantage of railroad competitors.

D. Land Issues. The corporation is the owner of a substantial amount of land (over 22,000 acres in addition to right-of-way) suitable for commercial leasing. Long-term

leases of that land are subject to the provisions of a Board policy which was developed only after significant public input. The Board's leasing policy is intended to accommodate the continued viability of competitive railroad leasing and adequate public awareness and involvement.

The additional requirements imposed by this bill would adversely affect the corporation's leasing program in many respects. In ARRC's commercial setting, its ability to act decisively is often necessary to capitalize on real estate market trends. HB 47's 60-day notice requirement would significantly destroy ARRC's marketing efforts in a highly competitive economy and seriously impact any opportunity to obtain the highest possible return on rail land.

The delay and intense public scrutiny suggested by this legislation would also discourage many potential lessees who are both eager to finalize a transaction and reluctant to prematurely reveal their financial affairs in public. The present Board policy requires public Board action to approve leases of more than three years and advance public notice of lease approvals. These public Board meetings allow concerned citizens ample opportunity to submit their comments. Proposed lease development of railroad Government Hill is a recent example of this process in action. It appears to provide an adequate balance between aggressive development of ARRC lease opportunities with public awareness and input. HB 47's attempts to significantly complicate railroad leasing procedures promises to undermine the railroad's self-sufficiency without meaningfully improving ARRC's own recognition and implementation of its public accountability obligations.

The bill's restriction of leases to 35 years in duration without legislative approval would also undermine leasing opportunities. Most long-term ground lease terms start at 55 years to allow high-quality improvements to be amortized over the entire lease term. ARRC's present policy was designed to accommodate commercial lessees who envision substantial improvements to railroad property. Financial institutions will not loan money to these lessees to build significant improvements unless a longer lease term is assured. After considerable discussions involving ARRC representatives, prospective and present lessees, and banks, ARCA's present restriction on long-term leases (they may be terminated if needed for railroad purposes after 35 years) has satisfied lending institutions. Lessees are on their way to improving lease parcels. Parenthetically, those improvements will also substantially add to the State's equity as the owner of rail property.

An additional impact of HB 47 is a logistic one. The corporation is presently lessor or permittor in some 1200

agreements. On the average, roughly two dozen such agreements are processed through the corporation's real estate department a month. Some of these transactions involve minor amendments, but a considerable number are substantial changes. Were the Board of Directors required to hold a public hearing before every agreement is made, it would be forced to devote an inordinate amount of attention to commercial, market-dictated decisions more appropriately left to the corporate officers hired to apply their experience and skill in real estate leasing. ARCA's honorariums may not begin to adequately compensate a largely volunteer Board for such new management responsibilities. On the other hand, long-term leases may require Board scrutiny, and provision has been made to present them, following public notice, to the Board for approval at its public meetings.

HB 47 also requires a detailed inventory of land and natural resources in ARRC's annual report to the legislature. This detailing of "present uses, future development plans, and known resource development potential for the land, interests in land, and natural resources" calls for extraordinary research, development and planning efforts which ARRC is presently not funded or staffed to provide. Of course, specific land use planning for large industrial areas must and is being developed to effectively respond to market needs, but the comprehensive land and natural resources planning called for here can only compel the commitment of dwindling personnel and financial resources to less vital activities.

HB 47 amends AS 42.40.350(d) to expressly permit leases to municipalities at less than fair market value. This change is also unnecessary; ARRC has consistently interpreted an existing exception for State leases to include leases to political subdivisions.

Finally, the bill proposes that any sale of railroad natural resources be made by competitive bid. This is also an unnecessary and undesirable limitation. Similar to the marketing of rail leases, ARRC needs the flexibility to establish the fair market value of any natural resources slated for sale by means in addition to competitive bid. This is particularly true when market conditions are greatly fluctuating and values are best established over time. The proposal also ignores the reality that sales of gravel and rock, for example, may not be conducive to the artificial structuring of a competitive sale format because of time constraints, remote locations, and market conditions.

ARCA already calls for the "prudent operation of the railroad according to sound business management practices" and directs ARRC's Board and management to "manage the corporation on a self-sustaining basis." A limitation on the types of

permitted sales of natural resources is at best a redundancy which also calls for prudent decision-making and, at the worst, a limitation which also threatens the railroad's financial vitality.

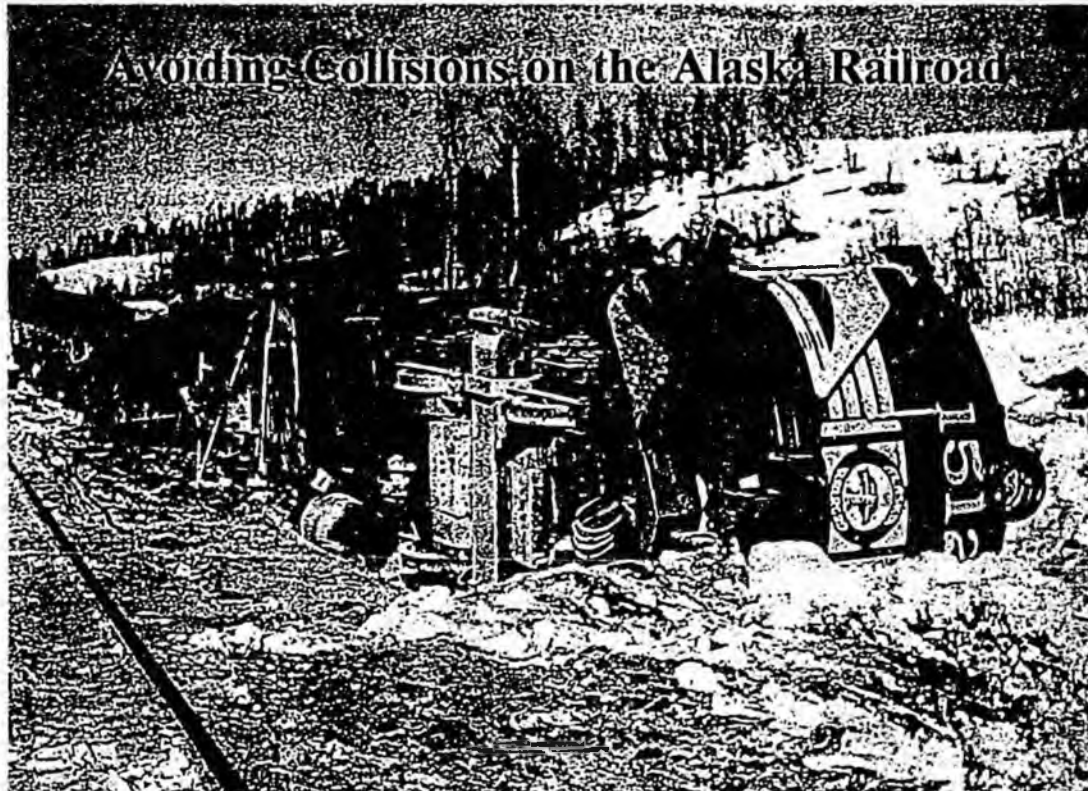
IV. Conclusion.

The Alaska Railroad Corporation opposes HB 47. The sweeping limitations it proposes upon railroad operations may not only undo the legislature's original vision of a quasi-private, quasi-public railroad armed with the flexibility it needs to survive in competitive freight and real estate markets, but seriously threaten its economic survival.

For all these reasons, we respectfully request that the bill's proposed amendments to the Alaska Railroad Corporation Act be rejected.

3654L

When Moose and Train Meet:



by Jack C. Didrickson and Raymond J. Kramer

On the last day of February 1985, Alaska Railroad Locomotive Number 3006N chugged its way out of the Anchorage railroad yards bound for Fairbanks. None of its crew realized that an unwanted record would be set before it arrived at its destination the next morning. Nineteen moose would die that trip, crushed by the locomotive, while the helpless crew watched, unable to save the victims. And, as the winter snows continued, more moose died on almost every run until the annual total for the entire length of the railroad came to 385.

Fortunately, not every year is a duplicate of the winter of 1984-85. This past winter (1985-86), 17 moose were killed along the entire length of the Alaska Railroad.

What causes these mortalities, and what can be done to lessen or prevent them? These are questions of primary importance to not only game biologists and railroad employees, but also to the public, some of whom see this as a shameful situation that could be easily remedied. Although many ideas have been proposed and tried, there is no one good solution.

Initially, both ADF&G and the Alaska Railroad presumed

that the high mortality in some years occurred simply because the moose population periodically fluctuated, with most kills occurring when the population was high. We now know this is not the case. By correlating the Alaska Railroad's daily records over the years with weather patterns which coincided with the chronology of high moose losses, we could see a pattern. In years of deep snow depth (three to five feet) for long periods of time, moose losses along the tracks drastically increased. Conversely, in winter periods of little snow, or when spring thaws decreased the snow depths, moose-train incidents significantly declined.

A majority of the 1984-85 mortalities occurred on the tracks between Willow and Talkeetna, in an area known as Game Management Unit (GMU) 14B. This is an area with a large moose population, most of which remains in the high reaches of the Talkeetna Mountains throughout the summer and fall. In winter, as snow and winds increase in these highlands, a large number of the moose move down the mountain slopes to their critical winter food supply of willows along the Susitna River.

Unfortunately, both the railroad and the main highway from Anchorage to Fairbanks bisect their migration path.

When snows exceed three feet, the moose find these man-made "trails" a convenient place to walk or rest, and therein lies the cause of the mortality. Moose are somewhat reluctant to leave these cleared areas and they have not, for the most part, learned to fear trains or autos. As a result, an additional 77 animals were killed by highway vehicles during the 1985 season. Also, many become stressed by deep snow and the lack of nearby browse. In residential areas along the highway, stressed moose belligerently chased dogs, children, and adults, with the result that another 40 were killed in defense of life and property, bringing the total loss of moose in GMU 14B to 502. Hunters, on the other hand, took only 216 animals in the following 20-day September season, before the deep snows set in.

Although a large percentage of mortalities for all years occurs between Willow and Hurricane, with a few other "hot spots," mortalities are otherwise fairly uniformly distributed along the entire length of the tracks; therefore, the problem is not merely a local one. A solution must be provided that works along the entire railroad corridor from Seward to Whittier to Fairbanks.

Meetings have been held between the Alaska Railroad personnel and ADF&G game biologists to seek answers and actions, and members of the public have enthusiastically offered innovative ideas, but no single, concrete solution has been found.

There are certain realities which must be faced where "compromise" simply won't work. The trains must run and they must run on or near schedule; too many people and businesses are dependent on the products delivered to interrupt service. Closing down the railroad in winter is no solution. Scheduling the trains to run only in daylight hours won't work, with only four to five hours of daylight present during the critical months. Accurately predicting where and when deep snows will occur is beyond human technology. We must look to the tracks and trains themselves for solutions.

Perhaps the most "far-out" solution offered so far was that of a giant cushioned rubber bumper attached to the front of the locomotive. Here, laws of physics and elasticity come to bear, causing visions of a moose being hit at 40 mph, sinking into this giant cushion, and then being sprung out in front of the train again, only to be picked up and thrust again, endlessly bouncing down the tracks.

Another more realistic attempt was to mount sonic whistles on the locomotive which might alert the animals. The experiment failed, however. When the train moved comparatively slowly, the whistles didn't whistle, and when it was very cold they froze into silence.

Slowing the train from 40 to 20 mph in "hot spot" areas was another idea. Not only did scheduling dif-

In times of heavy snow, moose make use of the cleared areas on the tracks of the Alaska Railroad for walking and resting. Here, a train has stopped for a moose bedded down on the tracks during a snowstorm in the winter of 1985.



M. Penn
Anchorage Daily News

difficulties make this impossible, but the trains couldn't climb certain grades on the icy tracks if momentum was lost.

Decking or covering the ties on trestle bridges to permit moose to safely cross was suggested, but this idea was denied because speed sensors on the train wheels reportedly will not work properly in the presence of the coverings.

One of the major problems in deep snow is that of the "tunnel" effect which trains create with their own snow plow on the front. In this situation, once a moose is on the track, after struggling in deep snow, it won't leave even with a train bearing down on it. There is little room between the train and the wall of snow and the moose are often sideswiped. "Wing plowing," where special equipment plows 20 feet on either side of the tracks seems to have merit in certain areas where topography permits, but this is not the complete answer. When the railroad bed is significantly higher than surrounding terrain, moose still prefer the track bed to jumping down into deep snow.

The best, but perhaps most complicated, scheme offered so far is to allow permit hunters to harvest moose along the railway corridor, at times when heavy snowfall occurs. Logistically, this would prove difficult. First, permits would have to be fairly allocated and there would be no guarantee in any particular year that a hunt would be held. The hunt would occur only in areas determined to be "hot spots" and then only within a narrow corridor along the tracks. When snows are deep, snowmachines bog down and would prove worthless. Furthermore, hunters riding snowmachines, or even walking down the railroad right-of-way, simply would not be safe; eventually someone would be hit by a train.

The only apparent method of getting hunters afield would be to run a "hunter train" which could stop in designated areas, let hunters off for a period of time, and pick them up later, with their harvested moose. This plan, too, offers tremendous logistical problems and would require a great deal of common sense and wintercraft knowledge on the part of each hunter. If regular train schedules were to continue, each hunter would have to be back at his designated pickup point precisely on time, as the train could not delay its schedule. A hunter who took an animal too far away would perhaps have to leave all or part of his moose behind; this is a violation of wanton waste laws and would defeat the purpose of obtaining the meat.

Based on random permit drawing, there is a chance that some inexperienced hunters might be drawn who would have no idea of the severity of camping out in -40° weather. To leave them out in these conditions overnight could prove disastrous, particularly if a storm occurred. Inevitably, someone would get lost, frostbitten, or hypothermic.

For lack of a workable solution, the problem is far from resolved. We would all like to see a harvest shift from trains to hunters. In Canada, Sweden, Norway, and Russia, game managers are also seeking answers to this problem, but as yet no economically feasible solution has been found. Fencing both sides of the railway would not only be exorbitantly expensive, but would also cut the moose off from their winter habitat. Overpasses or underpasses, with wing fences to funnel the animals onto these routes, have shown promise in Europe, but



M. Penn
Anchorage Daily News

Frank Box, boilermaker for the Alaska Railroad, welds one of two lights that were attached to the locomotives to chase moose off the tracks.

because of the great mileage involved would require literally millions of dollars to accomplish effectively in Alaska. Just such an underpass has been proposed outside Anchorage under the Glenn Highway; the results of this experiment will tell us much over the next few years.

Can our railbelt moose populations sustain these losses? The answer is a cautious "yes," with the adjustment of seasons and bag limits, but game managers would prefer to see a better use for the tons of meat that are spoiled by a train's crushing impact.

As Alaska moves into the 21st century, answers to this vexing problem may be found. In the meantime, game biologists must continue to obtain basic biological information to justify attempts at possible solutions.

Jack C. Didrickson, who has been with the department since 1959, serves as Area Game Biologist with the Division of Game, ADF&G, Palmer.

Raymond J. Kramer serves as Game Biologist, Division of Game, ADF&G, Anchorage.

Kay Brown

Alaska State Legislature House of Representatives

MEMORANDUM

TO: Rep. Dave Donley, Chairman
House Labor and Commerce Committee

DATE: January 23, 1987

FROM: Rep. Kay Brown

RE: HB 47

HB 47, An Act relating to the Alaska Railroad Corporation, has been referred to the House Labor and Commerce Committee for consideration.

Thank you for scheduling a work session on the bill at 4:30 p.m., Wednesday, January 28.

The primary purpose of the bill is to ensure that the railroad's publicly-owned lands and resources are managed in the best interest of Alaskans.

HB 47 would limit the railroad's complete discretion to dispose of public lands through long-term leases. While a sale which disposes of the railroad's entire interest in land is subject to legislative approval, the railroad's chief executive officer, acting under delegated authority, can achieve a result similar to absolute title transfer by issuing a long-term lease. From a public interest perspective, issuing a long-term lease should be subject to procedures that ensure an opportunity for public participation before the decision is made.

The attached sectional analysis by George Utermohle, Legislative Counsel, describes the bill in more detail. I have also attached a memo by Utermohle discussing confidentiality standards.

I look forward to discussing HB 47 with your committee.

Attachments

cc: Rep. Ellis
Rep. Boyer

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STATE OF ALASKA
THE LEGISLATURE

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LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

January 22, 1987

SUBJECT: Section by section analysis of HB 47, An Act relating to the Alaska Railroad Corporation

TO: Representative Kay Brown

FROM: George Utermohle *GU*
Legislative Counsel

The following is the section-by-section analysis of HB 47 which you requested.

Section 1 amends AS 42.40.100 by expanding the duties of the board of the Alaska Railroad Corporation to include:

(1) maintenance of passenger and freight operations of the railroad at the same level as when the railroad was transferred from federal to state ownership or, if funding is available, expansion of passenger and freight operations beyond the level of service at the time of transfer;

(2) management of real property interests and natural resources owned by the corporation in the best interest of the people of the state; among the information which the board must consider in making its determination of what is in the best interests of the people of the state are land use ordinances and plans of cities and boroughs affected by railroad land management decisions, adjacent land uses, the development and revenue potential of the land, and public comment on land management decisions proposed by the board.

(3) consultation with the Alaska Department of Fish and Game on ways that the railroad can reduce the effects of railroad operations on wildlife.

Section 2 amends AS 42.40.120(b) to require the board of the Alaska Railroad Corporation to delegate authority to the executive officers of the railroad to grant leases, easements, permits, or other interests in railroad land for periods not exceeding one year. A grant of a lease,

easement, permit, or other interest in land for a period exceeding one year must be approved by the board of the corporation under Section 8 of the bill. Current law allows the executive officers of the railroad, through delegated authority, to enter into long term leases (up to 35 years under any conditions and exceeding 35 years if the lease is subject to termination by the railroad).

Section 3 amends AS 42.40.120(c) to require specific approval by the board of the Alaska Railroad Corporation before railroad services can be expanded or reduced in any way and before the corporation can lease, grant easements or permits, or allow use of railroad land for a period of time that exceeds one year.

Section 4 amends AS 42.40.170(b) to remove the authority of the board of the Alaska Railroad Corporation to discuss land disposal or acquisition issues in executive session. The board's authority to discuss matters related to divisions and contract rate agreements in an executive session is also repealed.

Section 5 amends AS 42.40.220(b) by limiting the items of information which the Alaska Railroad Corporation may withhold from public disclosure to the following items:

- (a) personnel records
- (b) communications with and work product of legal counsel
- (c) information consistent with the standards and practices of the U.S. Interstate Commerce Commission for the protection of proprietary information associated with specific shippers.

The discretion of the corporation to identify additional similar types of information for non-disclosure is removed. Confidentiality is removed from information associated with divisions and contract rate agreements.

Section 6 amends AS 42.40.260 by requiring that the annual report prepared by the Alaska Railroad Corporation and provided to the governor and legislature include information on the land and natural resources held by the corporation. Pending proposals for the lease or disposal of land or natural resources must also be disclosed in the annual report.

Section 7 amends AS 42.40.285 by requiring that any lease of land by the Alaska Railroad Corporation for a period exceeding 35 years be approved by the legislature. The former exemption is repealed.

Section 8 amends AS 42.40.350(c) by permitting the Alaska Railroad Corporation to lease, grant easements in or permits for rail land for a term exceeding one year only if the board of the corporation determines that the transaction is in the best interests of the people of the state. Rail land is that land owned by the corporation that is not included in the railroad utility corridor along the main or branch lines of the railroad. At least 60 days before taking final action on the transaction, the board must prepare a written report on the proposed transaction and a determination that the transaction is in the best interests of the people of the state. The board must hold a public hearing in a city or borough affected by a lease, easement, or permit issued for a term exceeding one year.

Section 9 amends AS 42.40.350(d) by requiring that any lease or other disposal of land by the Alaska Railroad Corporation be at fair market value as determined by appraisal or by competitive bid unless the lease or disposal is to the state, a city or a borough.

Section 10 adds new language to AS 42.40.350 requiring that the disposal of natural resources from the land of the Alaska Railroad Corporation be by competitive bid unless the disposal is to the state or to a city or borough.

Section 11 adds new language to AS 42.40.420 to allow the Alaska Railroad Corporation to issue permits to individuals for temporary, short term, or emergency use of railroad land.

Section 12 adds a new section, AS 42.40.460, requiring the Alaska Railroad Corporation to salvage for human consumption the meat of big game animals killed by operations of the railroad.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
UNEAU ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

January 21, 1987

SUBJECT: AS 42.40.170(b)(7) and AS 42.40.220(b);
Information of a type treated as confidential
under the standards and practices of the
United States Interstate Commerce Commission

TO: Representative Kay Brown

FROM: George Utermohle *GU*
Legislative Counsel

This memorandum seeks to clarify the impact of certain language in AS 42.40.170(b)(7) and AS 42.40.220(b). Under the authority of these sections the Alaska Railroad Corporation may maintain the confidentiality of "information of a type treated as confidential under the standards and practices of the United States Interstate Commerce Commission." It is difficult to determine what information is kept confidential by this provision, however a review of the federal statutes and regulations pertaining to the Interstate Commerce Commission does explain what information is public.

Under 49 CFR 1001.1 the following records of carriers regulated by the Interstate Commerce Commission are available to the public:

(a) Copies of tariffs, rate schedules, quotations or tenders of a rate for transportation for the federal government, classifications, powers of attorney, concurrences, and contracts filed with the commission; however arrangements between carriers may be withheld from public disclosure if disclosure is not necessary in the public interest.

(b) Annual and other periodic reports containing answers to questions asked by the commission; the annual report must contain an account of the affairs of the carrier, in as much detail as the commission may require.

(c) Annual and other periodic reports, maps, profiles, and other data filed with the commission for the purpose of

valuing the property of the carrier; the commission may close these records to the public but must state its reasons for doing so. (49 U.S.C. 10783(d))

(d) All docket files, including pleadings, depositions, exhibits, transcripts of testimony, recommended and proposed reports, exceptions, briefs, reports and decisions of the commission in any proceeding, and carrier operating authorities granted in those proceedings.

(e) File and index of security interests in railroad property granted by carriers and required to be recorded with the commission.

Freight commodity shipment reports of railroads are also public. However reports involving the traffic of less than three shippers in a single commodity reporting class are not public. Information involving the traffic of less than three shippers must be included in supplemental reports which are confidential unless the commission approves their release. (49 CFR 1248.6)

According to the procedures of the Interstate Commerce Commission listed above, most of the information collected by the commission is public. Aside from the specific exemptions for freight commodity shipment reports involving less than three shippers in a single commodity reporting class and the discretionary exemptions for arrangements between carriers under 49 U.S.C. 10764(a)(2) and for valuation reports under 49 U.S.C. 10783(d), it is not clear what other information collected by the Interstate Commerce Commission may be withheld from public disclosure. Overall, a considerable amount of information about the operations of the Alaska Railroad is public information under the standards and practices of the Interstate Commerce Commission.

The true extent of the Alaska Railroad's power to withhold information under its authority to mirror disclosure decisions of the Interstate Commerce Commission cannot be ascertained in the abstract. Only on an issue by issue and case by case basis can the limits of the Alaska Railroad's power to withhold information be established. The ability to determine in advance what information is public is complicated by the discretionary authority of the Interstate Commerce Commission to make certain information confidential in one instance but to make it public in another instance. However, if the need should arise for information that the Alaska

Representative Brown
January 21, 1987
Page 3

Railroad lawfully withholds under the authority of AS 42.40.170(b)(7) and AS 42.40.220(b), the legislature always has the authority to force disclosure by repealing these provisions.

Confidentiality of information collected by the Interstate Commerce Commission is maintained to protect the proprietary and financial interests of carriers regulated by the commission and of third parties such as customers of the carriers. The Alaska Railroad Corporation, or the State of Alaska as owner of the corporation, may waive its right to confidentiality in proceedings before the commission and thus allow otherwise sensitive information to be made public. The primary issue that the corporation or state would want to consider once it decides that it no longer wants to keep certain information confidential, is whether the interest of third parties will be adversely affected by disclosure of the information and if so, should the information still be made public.

If I can provide further information on this subject, please contact me.

GU:mkr
m8/034

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

file copy

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

MEMORANDUM

February 9, 1987

SUBJECT: Comments on HB 47 by General Counsel to
the Alaska Railroad Corporation

TO: Representative Kay Brown

FROM: George Utermohle *GU*
Legislative Counsel

At the request of Peg Mentele of your staff, I have reviewed the letter and comments by Larry D. Wood to Representative Dave Donley, dated January 28, 1987, regarding HB 47. For the most part, Mr. Wood comments on issues related to the operation, autonomy, and competitive position of the Alaska Railroad Corporation. These issues are policy oriented matters within the purview of the legislature and are not legal issues.

However I did find two legal issues presented by Mr. Wood's letter that I could address. The first issue related to disclosure of confidential information of shippers and consignees by the railroad. 49 U.S.C. 11910(a)(1) authorizes a fine of not more than \$1,000 upon an employee of a railroad who discloses "the nature, kind, quantity, destination, consignee or routing of property" delivered to the railroad if the information could be used to injure the shipper or consignee or if the information improperly releases information about the business transactions of the shipper or consignee. This prohibition against disclosure does not apply to situations where (1) the shipper or consignee consents to the disclosure; (2) the information is given to an employee of the state; or (3) the shipment of goods is within a state and not subject to the jurisdiction of the Interstate Commerce Commission. The federal law does not prohibit the release of the rate charged for shipping the goods, however release of just the amount charged for shipping goods is useless information without knowing the kind of goods shipped, the origin, and the destination of the goods. It is the information protected by 49 U.S.C. 11910(a)(1) that

Representative Brown
February 9, 1987
Page 2

conveys information value to the pure rate data. The release of just the rate data would not provide useful information.

The most significant exception to 49 U.S.C. 11910(a)(1) involves the release of protected information with the consent of the shipper or consignee. The railroad could require that shippers and consignees consent to disclosure of certain information as a condition of doing business. Such an arrangement would avoid the prohibition against disclosure, however there may be competitive and business ramifications if the Alaska Railroad was to require disclosure of otherwise confidential information.

To the extent that HB 47 does require release of information on divisions and contract rates protected under 49 U.S.C. 11910(a)(1) there does appear to be a conflict with federal law. As a general rule, federal law will prevail over contradictory provisions of state law. The disclosure requirements of HB 47 relating to release of division and contract rate information could be tailored to comply with federal law but the value of the information available may well be useless to the public or even to a competitor.

The second issue raised by Mr. Wood's letter relates to the lease of railroad land to municipalities at less than fair market value. In regard to AS 42.40.350(d), Mr. Wood says that "ARRC has consistently interpreted an existing exception for State leases to include political subdivisions." AS 42.40.350(d) states:

(d) A lease or disposal of land approved by the legislature under AS 42.40.285 by the corporation to a party other than the state shall be made at fair market value as determined by a qualified appraiser or by competitive bid.

Since the term "state" as used in AS 42.40 is not defined, the definition of the term in AS 01.10.060(13) applies. In that section "state" means "the State of Alaska unless applied to the different parts of the United States and in the latter case it includes the District of Columbia and the territories." This definition refers only to the State of Alaska and does not include any reference to municipalities. Though municipalities, as political subdivisions of the state, draw their existence from the state, municipalities and the state are distinct legal, political, and corporate

Representative Brown
February 9, 1987
Page 3

entities. It could be argued that the term "State of Alaska" implicitly includes political subdivisions of the state, but there is not a strong case for that interpretation in my view.

Thus an ambiguity exists as to the meaning of AS 42.40.350(d). HB 42 resolves this ambiguity by expressly including municipalities within the coverage of the exception to fair market value disposals of railroad lands and resources.

GU:csh
c7/051

MAR 02 1987

C. D.

Anchorage, Alaska
February 6, 1987

ALASKA RAILROAD CORPORATION 1987 LEGISLATIVE SESSION

FISCAL INFORMATION

House Bill No. 47
Publish date: 1/19/87

Title: An Act relating to the Alaska Railroad Corporation
Sponsors: Brown, Ellis and Boyer

HB 47 proposes numerous and substantial changes to the Alaska Railroad Corporation Act ("ARCA"). The issues fall into four categories, confidentiality of railroad marketing and business data, passenger and freight service operational restraints, leasing procedures, and wildlife losses.

A position paper submitted by the Alaska Railroad Corporation ("ARRC") has explained that the issues and concerns implied by the bill's provisions have been adequately accommodated or protected by existing laws and/or ARRC Board rules and management practices. In addition, many of HB 47's abrupt and significant changes threaten to destroy those dynamic characteristics which give ARRC the flexibility it needs to survive economically in today's declining freight markets. If this occurs, the legislature's earlier vision of a financially and operationally independent railroad will in large part be undone.

We anticipate that, as a result of this legislation, revenues will be lost and expenses will be increased. ARRC will be unable to sustain its operations without State subsidies. Given the fact that ARRC projects a very modest profit in 1987, subsidy requests should be expected to closely mirror the added costs and losses attributed to legislative changes. These figures are listed below.

Although it is extremely difficult to accurately estimate just what figures should be expected, the following summary provides a reasonable projection of anticipated annual expenses/losses.

Should the economy continue its present decline, these figures should be expected to increase, perhaps by as much as 10% per year.

Passenger Service Losses

As a result of innovations in equipment and scheduling, ARRC has been able to significantly reduce its passenger service losses which existed at transfer, some \$2.2 million annually. HB 47 would require ARRC to maintain the "level of passenger...service provided at the time of transfer." If this means that ARRC would be required to add back to its passenger service the cost of a full service train to northbound winter service and replace its self-propelled rail diesel cars, an additional \$512,000 loss should be anticipated. Should ARRC lose its financial self-sufficiency as a result of this requirement and others, entire State subsidy of passenger service would be required. Without meaningful innovations, the loss could be as high as \$1.5 million annually.

Additional Real Estate Administrative Costs and Revenue Losses

The additional procedural requirements related to land leases and renewals are expected to require an additional \$50,000 in administrative costs. Estimating a growth rate of 25% in real estate revenues and a 50% reduction in lease revenues due to significant procedural requirements and time delays not common to commercial enterprises, ARRC projects an annual \$250,000 loss of real estate business.

Confidentiality of Railroad Marketing and Business Data

HB 47 proposes that, unlike other modes of transportation including truck and water barge, its confidential marketing data and proprietary business information be available for public, and competitor, inspection. Beyond the policy and legal issues raised by this suggestion, ARRC expects to lose a significant portion of its freight revenues should this proposal be implemented. These losses are directly attributed to restrictions in railroad marketing mechanisms and opportunities which would be caused by HB 47. General freight revenue losses are estimated at \$4.6 million annually.

Total Annual Fiscal Impact

Passenger Service Losses	\$1,500,000
Real Estate	300,000
General Freight Revenues	<u>4,600,000</u>
Total	\$6,400,000

ALASKA RAILROAD CORPORATION

P.O. Box 7-2111 • Anchorage, Alaska 99510-7069



February 6, 1987

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Representative Dave Donley, Chair
House Labor and Commerce Committee
Pouch V
Juneau, Alaska 99811

Re: HB 47, Labor and Commerce Committee Questions to ARRC

Dear Representative Donley,

Thank you for your January 29, 1987, letter. I do hope that the Alaska Railroad Corporation's position paper has been of some assistance to you and the Labor and Commerce Committee as HB 47 is considered.

We have answered the questions you sent with your letter. The answers and exhibits are attached. In a separate document we also provide some estimates of the bill's fiscal impact on the ARRC and the State of Alaska.

With the time available to us, some answers may not be as complete as we would have preferred. If additional questions arise, please feel free to call me at 265-2461.

Finally, we would simply reiterate that HB 47 is not remedial legislation. We believe that the concerns and issues implied by its provisions have been adequately addressed in the Alaska Railroad Corporation Act, other state or federal laws, Board rules and company policies, and management practices. Ironically, the legislation does threaten to largely undo the legislature's earlier vision of a self-sustaining, but publicly accountable, railroad.

Sincerely yours,

Handwritten signature of Larry D. Wood
Larry D. Wood
General Counsel

cc: F.G. Turpin, President & CEO

Attached

3722L

Anchorage, Alaska
February 6, 1987

ALASKA RAILROAD CORPORATION 1987 LEGISLATIVE SESSION

FISCAL INFORMATION

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Total Annual Fiscal Impact

Passenger Service Losses	\$1,500,000
Real Estate	300,000
General Freight Revenues	<u>4,600,000</u>
Total	\$6,400,000

1. How much land was transferred to the ARRC from the federal government?

Response: Approximately 40,600 acres were transferred to the state-owned Alaska Railroad Corporation ("ARRC") by the federal government on January 5, 1985. Transfer documents included interim conveyances, quit claim deeds, exclusive use easement deeds, patents and exclusive licenses, each reflecting varying quality of ownership interest. As competing claims to the parcels of land involved are adjudicated by the federal Bureau of Land Management and surveyed, the title documents will be reissued and acreages may change.

2. What percentage or what approximate number of acres is railroad utility corridors?

Response: Railroad utility corridors comprise approximately 34% of the ARRC's total acreage, or 13,800 acres.

3. What percentage or what approximate number of acres is rail land?

Response: Rail land (non-right-of-way) constitutes 66% of the total real property of the corporation, or 26,800 acres.

4. What is the approximate number of acres of rail land which is necessary for the operation of the railroad? For example, for railroad terminals, yards, and offices.

Response: This figure cannot be accurately estimated at this time. As noted below, all rail lands are needed for support of railroad operations. Lease and permit revenues are responsible for a significant portion of ARRC income. Like other American railroads, ARRC depends upon its land resources to sustain its economic viability. See responses to Questions No. 6 and No. 17 below.

5. For each of the following local government entities, state the approximate number of acres of land located within each entity, give a general description of the land and major improvements and give the estimated fair market value of the land:

- Anchorage
- Seward
- Fairbanks
- Whittier
- Palmer
- Wasilla
- Other municipalities

Response: The following figures are exclusive of the 200-foot right-of-way which runs throughout each governmental entity's jurisdiction. Fair market value figures are derived from the Jackson-Cross appraisal performed prior to transfer.

Anchorage: Approximately 660 acres in the Anchorage Terminal Reserve, of which some 300 acres are used for terminal operations. Approximately 95% of this district is zoned I-2 and intended primarily for heavy manufacturing, storage, major shipping terminals and other related uses. Uses which are generally permitted in commercial districts are also found here. Approximately 50% of the property is leased to third parties, whose improvements include warehouses, tank farms, Quonset huts and storage yards. An additional 900 acres is located at Portage and used in part for the railroad's loading facility and parking associated with the Whittier Shuttle. Fair market value estimated at \$39 million.

Seward: Approximately 300 acres, of which 50 acres are used for railroad operations (i.e. TOFC yard, railroad dock). The remainder is unimproved and submerged lands in Resurrection Bay. Fair market value estimated at \$1.4 million.

Fairbanks: Approximately 461 acres, of which some 270 acres are utilized for a TOFC yard, shops, and other railroad facilities. Approximately one-half of the remaining land is leased, for uses and with improvements similar to those found in Anchorage, i.e. warehouse, tank farms, Quonset huts, storage yards. Fair market value estimated at \$6.1 million.

Whittier: Approximately 272 acres, of which approximately 150 are used for railroad operations. Major improvements include railroad docks, barge slips, ferry terminal, shuttle ramp, small boat harbor, and several commercial buildings leased to third parties. Fair market value estimated at \$.9 million.

Palmer: Right-of-way only.

Wasilla: Right-of-way only.

Nenana: Approximately 270 acres, most of which is leased to the City of Nenana for commercial purposes. Fair market value estimated cannot readily be broken out of the "other" category in the Jackson-Cross appraisal.

Valdez: Approximately 60 acres, which includes raw and undeveloped land as well as trackage for rail barges and two lessees. Fair market value estimated at \$365,000.

6. State the fair market value of (1) all land as described above and of (2) all rail land which is not necessary to the operation of the railroad.

Response: The fair market of the lands discussed in the responses above was obtained from the Jackson-Cross appraisal that was used as a basis for evaluation prior to transfer. Because of the overall declining economy statewide, ARRC believes that this fair market value (in the neighborhood of \$51 million for the total real property now owned by ARRC) has probably decreased.

In light of the fact that revenues derived from non-operational leases and other uses of real estate by third parties represented 9.6% of the ARRC's total revenue in 1986, ARRC believes that all rail land is necessary for the operation of a financially sound railroad.

7. If the ARRC is unable to provide the fair market value as requested in the preceding questions, give the railroad's most accurate estimate of the fair market value, describe the basis of the estimate, and describe what steps have been taken, if any, to determine the actual fair market value.

Response: Since transfer, the ARRC has not commissioned a full fair market value appraisal of its properties. Individual appraisals are being done in accordance with the requirements of some lease agreements. These recent appraisals on individual parcels of leased land show a decline in value over the past two years.

8. Describe each lease affecting rail land, specifically including a general description of the land involved, the term of the lease, and the lease rate.

Response: The ARRC is presently the lessor in approximately 300 leases and permit or grantor in some 700 other permits, road crossing agreements, easements or other land use agreements. ARRC will be happy to provide the Committee with a computerized listing summarizing the 1000 total agreements if it desires, but for convenience furnishes the following general information.

Revenues in 1986 from ground leases was approximately \$5.5 million. Generally speaking the railroad lands are located in industrial zoned districts where the intended use is primarily for heavy manufacturing, storage, major shipping terminals and other related uses. The term of these ground leases ranges anywhere from 10 to 55 years. The average lease rate among the 300 tenants would fall between 8.5 and 9.5% per year. The annual rate being set in new leases is 9.5%, as established in a study performed for ARRC (copy attached).

9. Describe the leasing policy of the railroad for rail lands, including any factors considered and procedures followed

to determine whether the lease is for the benefit of the people of the state, is in conflict with the land use plans of local governments, is compatible with adjacent land uses, or to otherwise communicate with local governments and adjacent land owners.

Response: The attached copy of the ARRC's long-term lease policy indicates that the corporation considers all the factors listed in the Committee's question. The procedures followed are also addressed.

It is the policy of the ARRC Real Estate Department to approve of those leases, subdivisions, plats, and land uses that are consistent with local municipal ordinances and land use regulations. For example, for rail lands within the Municipality of Anchorage, Title 21 of the Municipality's ordinances, "Land Use Regulations", would be strictly adhered to with respect to leasing and approved activities of lessees, just as any other commercial enterprise.

10. What individual(s) is in charge of implementing the policies or procedures described in the preceding question?

Response: The ARRC's Director of Real Estate, Larry J. Houle, is the individual in charge of implementing the policies or procedures described in the preceding question. His actions are subject to the chain of approval expressed in the corporation's Approval Authority Guide (relevant pages are attached).

11. Is the ARRC currently considering any leases in addition to those identified or those to which ARRC is currently a party? If so, describe.

Response: There are presently five requests before the Real Estate Department to lease ARRC property. Three of these requests pertain to land located in the Fairbanks Terminal Reserve, each parcel approximately 5 acres in size. The fourth request to lease has been made by the Municipality of Anchorage for a tract ranging from 61.4 acres to as much as 120 acres in size located south of the mouth of Ship Creek. The fifth relates to acreage at the head of Passage Canal in Whittier.

12. Is the ARRC considering any development, sale or disposal of rail land or of any resources thereon? If so, describe.

Response: Presently, the only such activity being considered is the potential land trade with the Municipality of Anchorage for the Government Hill bluff area. There is a remote possibility that the Municipality of Anchorage may also be interested in the 12 acres of land underlying the Panoramic View Apartments also located on Government Hill.

13. What is the current status of the previously contemplated development of the bluff surrounding Government Hill, referred to by the residents as the Government Hill Greenbelt or West Bluff?

Response: In accordance with the ARRC Board of Directors' wishes expressed at its September 1986 monthly meeting, there is no development presently contemplated as to the bluff lands adjacent to the Government Hill area of Anchorage.

14. Describe any negotiations the ARRC is conducting with the Municipality of Anchorage regarding the above described development and any potential resolutions.

Response: There are no on-going negotiations between the Municipality and ARRC, although both parties have expressed interest in the concept of an exchange of lands which would permit the Municipality to administer the site as a greenbelt or park.

15. Is the ARRC currently negotiating or has the ARRC been requested to negotiate with any local governments regarding lease, transfer of interest, sale or other disposition of rail land? If so, please describe the local governments involved and issues raised in such negotiations or requests.

Response: The ARRC has worked with all of its host local governments in the past regarding uses of railroad land. For example, the City of Whittier requested a lease for a camper park located on railroad land. A lease was offered to the City but was never executed because funding for the project evaporated. A lease was finalized with the City of Seward for property underlying the new U.S. Coast Guard Shore Support Facility. At the request of the Tri-Valley community located in the Healy area, a long-term lease for a cemetery site was granted. The ARRC is presently finalizing a lease with the City of Palmer for expanded use of the old depot and beautification of the right-of-way through town. Negotiations are proceeding with the City of Nenana over the issue of periodic fair market rental value adjustments under its existing lease.

ARRC has also worked with local governments regarding historic sites. The City of Talkeetna and ARRC cooperated in the leasing of the German Bachelor's Cabin, although the lease was executed by ARRC and the Talkeetna Historical Society. The ARRC also worked with the state Department of Natural Resources in leasing property currently occupied by the Potter Section House south of Anchorage.

Finally, the ARRC has worked with the Municipality of Anchorage to achieve the development and construction of a portion of the Coastal Trail along and within the railroad right-of-way adjacent to Knik Arm in Anchorage. Negotiations are still underway regarding some aspects of this use. The Municipality of Anchorage has also initiated discussions with ARRC concerning its desire to assume a lease presently held by Anchorage Dredge and Dock. The Municipality plans a Ship Creek Landing development at the site, and has proposed that ARRC grant it a new lease for the property.

ARRC is involved in negotiations with several Native corporations regarding land entitlements under the Alaska Native Claims Settlement Act and the Alaska Railroad Transfer Act. Settlement of one of these matters was recently reached with Eklutna, Inc.

16. Describe the procedures the ARRC follows when a local government requests communication with the ARRC regarding rail land located within local government boundaries.

Response: When a local government communicates with ARRC for leasing purposes, the corporation responds either in writing or in person, at times by telephone. Responses may come from either the President and CEO or the Director of Real Estate. Communications regarding other activities on rail lands, either existing or proposed, such as road crossings or utility easements, are customarily assessed first by the appropriate technical department (e.g., Engineering, Telecommunications). The final permitting document is executed by the Real Estate Director.

17. Describe all natural resources, including without limitation, sand, gravel, oil, gas, timber and minerals on rail land, and any existing or planned inventory of those natural resources.

Response: No inventory has yet been taken, nor is one presently planned. Railroad lands do contain sand, gravel, timber, and coal reserves.

18. Describe all disposals of interest in, development of, or lease of any of the resources identified in response to the above question.

Response: The only agreement relating to disposal of such resources to date has been an entry permit granted to the Usibelli Coal Mine Company for exploratory analysis upon railroad properties located in the Healy area.

19. Describe all changes in the levels of freight and passenger service which have been implemented since the transfer from the federal government.

Response:

Changes in freight service since the transfer from the federal government:

a) ARRC has added daily scheduled overnight freight service between Anchorage and Fairbanks which is particularly important for shipments of petroleum products, trailers on flat cars, and general commodities.

b) ARRC has added unit trains for export coal service between Healy and Seward.

Changes in level of passenger services since transfer from the federal government:

a) ARRC found that ridership between Anchorage and Fairbanks in the winter was primarily from persons needing access to their homes and cabins between Anchorage and Hurricane. Consequently, ARRC increased the number of trips through the north local area (Anchorage to Hurricane) from eight per month during the 1984/85 winter to fourteen per month during the winter of 1986/87. With this increase in local service, ARRC found that a reduction in number of winter trips each month to Fairbanks from four to two served customers' needs.

b) The northline trains were split into an express and a local train during the summer season. This increased the number of trains on the north line from fourteen to twenty per week from 1984 to 1986.

c) The Budd car, a self-propelled rail diesel passenger coach (RDC), is used on the north local trains instead of full service trains.

d) The number of shuttles between Portage and Whittier increased from twenty-five per week during the summer of 1984 to thirty-four per week during the summer of 1986.

e) During the winter, the number of Portage/Whittier shuttles increased from six to eight per week from 1984/85 to 1986/87 with the addition of the Saturday Budd service.

f) Buses instead of passenger rail cars are used on the Whittier Shuttle and between Anchorage and Portage. This enables ARRC to provide faster service with direct pick-up and drop-off at many Whittier locations. This change was partially due to the retirement of an antiquated passenger train set. At Portage, the buses are driven onto flat cars for the rail trip to Whittier. There, the buses disembark and make various stops in the community.

g) Anchorage to Seward service was provided by Budd car one day a week during the summer of 1986 versus none in 1984.

20. Describe all currently proposed or planned changes in the levels of freight and passenger service which have been implemented since the transfer from the federal government.

Response:

Proposed changes in the level of freight service:

There are no proposed changes in the level of freight service at this time. ARRC plans to change its service level as and when needed to serve its customers and meet market demand.

Proposed changes in passenger services:

a) ARRC plans to purchase a new passenger train to arrive in 1988 which will increase the available seats in the summer season. The retirement of an antiquated train set may result in additional "sold-out" days during the 1987 summer season.

b) Seven more private rail passenger cars will arrive in 1987. This will add four hundred and twenty more available seats per day in the summer of 1987, between Anchorage and Fairbanks.

c) The number of Portage/Whittier shuttles increased from 25 per week during the summer of 1984, to 34 in 1986, and will probably increase to 42 in 1987.

d) If the Whittier citizens and other shuttle customers desire, the ARRC may replace two full train shuttles per week during the 1986/87 winter with four Budd car shuttles per week during the winter of 1987/88.

e) The Seward summer service will increase to three Budd car roundtrips per week in 1987 from one in 1986 and none in 1984.

f) ARRC may add one roundtrip per week to Seward during the 1987/88 winter.

21. Describe the procedures which the ARRC follows and the factors considered when it evaluates the need to change levels of freight or passenger service.

Response: Management reviews ARRC's costs, competitive factors, market demands, and customer and community needs before making a change in level of either freight or passenger

service. In some cases, ARRC management has attempted to elicit community input through public hearings.

22. Describe all changes in the rates charged by the railroad for hauling freight since the transfer from the federal government.

Response: ARRC has used contract rate agreements and exempt rate quotations in an effort to take better advantage of opportunities under deregulation as well as to respond to competitive pressures. As a result, individual rates have varied upward and downward. There have been no across-the-board changes in tariff rates. With regard to specific rate amounts that are not set forth in ARRC's tariff, please see answer to Question No. 29.

23. Describe all currently proposed or planned changes in the rates charged for hauling freight since the transfer from the federal government.

Response: ARRC plans to restructure its exempt rate quotes for intermodal traffic to simplify that segment of ARRC's business. ARRC plans to restructure exempt rate quotes for other segments in the future for the same reasons. Otherwise, ARRC does not have any present plans to change its rates other than to change them when necessary to meet competition and improve profitability.

24. Has the Board invoked an executive session to discuss the policy aspects (as opposed to the financial details) of acquisition or disposal of any interest in land? If so, please state when, describe the land affected, and the action discussed.

Response: No, the Board has not invoked an executive session to discuss the policy aspects of any land acquisition or disposal.

25. Why does the Board believe it is necessary to invoke executive session to discuss the policy aspects of acquisition or disposal of an interest in land?

Response: It would be necessary to invoke an executive session for discussion of land acquisition and disposal when the financial details of proposed transactions would have a significant chilling effect on the marketability or viability of the proposal. Depending upon the financial, operational, or legal aspects of a transaction, early public disclosure may discourage interest by responsible developers, afford real estate competitors an opportunity to frustrate ARRC plans, and/or increase or decrease market values to ARRC's detriment. Please note that no Board action can take place in executive session.

26. Describe each instance since February 1985 in which the Board has invoked an executive session to discuss the subjects described in A.S. 42.40.170(b)(7).

Response: Those instances included the following Board meetings:

February 15, 1985 - Board Mtg. - Tariff Increase
November 21, 1985 - Board Mtg. - Corporation Marketing Plan
- Costing Procedures
December 19, 1985 - Board Mtg. - Corporation Marketing Plan
February 20, 1986 - Board Mtg. - Marketing Update
April 17-18, 1986 - Board Mtg. - Marketing and Financial
Projections
May 21, 1986 - Board Mtg. - Marketing Update

Such information was also discussed in executive session as part and parcel of litigation reports. For example, a state case, City of Valdez v. ARRC, unsuccessfully sought protected pipe rate costing information, and an ICC boxcar exemption proceeding was an unsuccessful effort by watercarriers to deny ARRC the benefit of ICC deregulation of railroad boxcar movements.

27. Describe those specific categories of documents which the ARRC does not make public.

Response: ARRC does not specifically designate by type those documents that are open for public inspection and those that are not. Rather, when a particular request for information is received, ARRC first determines the nature of the request and then provides the information if it is not within the scope of those matters set forth in AS 42.40.210(b) and Board Rule No. 4.

ARRC's Board of Directors has adopted Rule 4, a copy of which is attached as an exhibit, which elaborates upon matters not available for public inspection.

28. Describe those specific categories of documents which the ARRC does make public.

Response: See response to Question No. 27.

29. Describe the specific types of documents which ARRC withholds from the public as being "proprietary information" associated with specific shippers consistent with the standards and practices of the ICC.

Response: The types of documents which fall into the category relating to proprietary information, divisions and

contract rate agreements would include cost studies, cost data, contract rate agreements, exempt rate quotations, divisions sheets, bills of lading, waybills, any documents relating to a shipper's business, and any notes or correspondence relating to any of the above.

30. Describe the specific types of documents which ARRC withholds from the public as being "proprietary information" associated with divisions consistent with the standards and practices of the ICC.

Response: See response to Question No. 29.

31. Describe the specific types of documents which ARRC withholds from the public as being "proprietary information" associated with contract rate agreements consistent with the standards and practices of the ICC.

Response: See response to Question No. 29.

32. Other than the specific types of documents described, describe other specific types of documents which the ARRC withholds from the public as "proprietary information" consistent with the standards and practices of the ICC.

Response: See response to Question No. 29.

33. List each rule pursuant to which the ARRC has designated documents as privileged or proprietary under A.S. 42.40.220 or otherwise, and describe the types of documents and information withheld from the public pursuant to each rule.

Response: See response to Question No. 27.

34. Describe the rationale of the ARRC in refusing to provide the Transportation Committee with documents requested by that committee in 1985 and 1986.

Response: It is our recollection that the information requested was operating costs for movement of freight via trailers on flat cars. Railroads in the United States have not been required by law to divulge costs. Such information has always been considered proprietary, and confidentiality has been protected. Clearly, such rules promote competition by allowing railroads the same business advantages and marketing mechanisms enjoyed by other transportation modes. In those instances where it was necessary for the Interstate Commerce Commission to have the costs in order to arrive at a conclusion, the cost data was submitted to the Commission on a confidential basis, was not divulged to the complainant, or to the public, and did not appear in any printed report. Federal and state laws provide ARRC the same rights and benefits to

protect confidential information. This enables the company to price and contract its services on a businesslike basis and to respond quickly to market conditions.

35. Describe the documents and categories of information the ARRC refused to give to the Transportation Committee.

Response: Although we are not certain at this date what documents were refused, they were most probably those which would divulge confidential contract rates or operating costs, and which could be attributed to any freight service segment.

Categories of information which must remain confidential:

- contract rates
- operating costs for specific freight moves
- any information which would identify shipments concerning one shipper or consignee

36. Describe all procedures and practices by which the ARRC attempts to minimize the adverse effect of the operation of the railroad on wildlife.

Response: In cooperation with the Alaska Department of Fish and Game ("ADF&G"), the ARRC has experimented with numerous methods to minimize the adverse effects of its operations on wildlife, specifically big game. Historically, moose are the game population most affected by the railroad, primarily in years of deep snow (3 to 5 feet) for long periods of time. Unfortunately, many of the experiments have failed to demonstrate a reliable way to discourage moose usage of the plowed track (see response to Question No. 39 below). Presently, the effort is concentrated on plowing the right-of-way as wide as possible, and a combination of lights, horns and bells to frighten them away from the track. Where possible, the train engineers slow down to reduce the chance of a strike.

ARRC is again cooperating with ADF&G in its ongoing study of the moose mortality along the tracks. For example, arrangements are being made for game biologists to accompany a locomotive on several trips north this season. The corporation has also engaged a private consultant to develop electronic equipment to frighten the moose and drive them away from the track. Research and equipment design under that contract are scheduled for completion within the current winter season, with construction and installation of equipment to follow depending on the results of research.

37. Describe all actions taken by the ARRC if a train hits a moose, including names of people to whom the information is reported, reports made, and attempts to salvage meat.

Response: The ARRC has, at least since the early 1980's, cooperated with the ADF&G and fish and wildlife enforcement officers of the Department of Public Safety ("DPS") to ensure the retrieval and salvage of moose hit by trains. Since 1983, this process has been refined and carried on under an informal understanding by which railroad crews immediately reported a strike to the train dispatcher, who called the appropriate fish and wildlife number for the game management unit involved. If the moose was salvageable (that is, sufficiently intact after the collision), the railroad section crew was under instructions to transport the carcass to the nearest public road crossing, where DPS had notified the next eligible charity to pick it up. The process was completed within 20 hours after the collision and in most cases (when the section crew could be immediately contacted), within only a few hours. ADF&G game biologists have assured ARRC that game retrieval within this time frame is sufficient, so long as the air temperatures are as cold as is generally the case during the period when moose strikes occur.

The train which strikes a moose is required to stop and make an inspection unless it is clear that the animal is free of the track and presents no danger to train movement. The crew evaluates the condition of the animal (i.e. is it alive and crippled? is it salvageable if already dead?) and immediately notifies the Dispatcher by radio. The local section crew is then notified of the necessity to either dispatch a crippled moose and/or salvage the carcass. The carcass is field dressed, with the ARRC providing necessary equipment for this purpose, and delivered to crossings as discussed below.

This procedure was formalized for the current season with an addition to the ARRC's Timetable No. 120, a set of operating rules utilized by all operations personnel. A copy of the procedure is attached as an exhibit. It generally restates the process which had been previously developed by ARRC and DPS officers and includes the specific telephone numbers used by the Dispatcher to notify DPS. In addition, for the Gold Creek area where DPS has not in the past maintained a charity list (due to the area's isolation from the public road system), the ARRC has worked with DPS to distribute sign up sheets among area residents and return those sheets to DPS to compile a list of eligible recipients. In these areas, the ARRC crew retrieving a moose is authorized by DPS to transport the carcass to a convenient spot along the track for access by the next eligible recipient. The section crew members, residents of the area themselves, are well aware of the best locations for such pick-up.

Such salvage activities cost ARRC money and divert employees from other necessary duties. For example, in

calendar year 1986 (a year of light snowfall), approximately 200 man-hours were expended, for an estimated \$5,000 in additional labor costs.

38. How many moose were hit by trains in each calendar year from 1980 through 1986?

Response: Rather than using figures for calendar years, the following statistics encompass the winter season of the indicated year, which is when most moose strikes occur. Figures for the years before 1984 were compiled by the ADF&G.

1979-80	-	54
1980-81	-	24
1981-82	-	50
1982-83	-	144
1983-84	-	63
1984-85	-	384
1985-86	-	37
1986-87 (to 2/6/87)	-	91

39. Describe all other procedures of which the ARRC is aware which would additionally minimize the risk of hitting moose and state why the ARRC has not implemented such procedures.

Response: The ARRC is not aware of any other procedures it could employ which would fulfill the criteria addressed in this question. There have been other suggestions but in our experience they have proven unfeasible. Among the failed experiments are sonic whistles, which did not sound when the trains moved at slow speeds and froze when it was very cold; slowing the train, which raised havoc with schedules, made it impossible to climb certain grades on the icy track, and lead to many more crippled animals; and decking between ties on bridges so that moose can safely cross, which caused federally-required speed sensors on the train wheels to work improperly. Other, even less feasible ideas have been considered and rejected, such as installing a "bumper" on the front of locomotives. Operating the train only in daylight hours is equally impractical, since the problem arises in winter when those hours are too short to allow the shipping business of the railroad to survive. In addition, to meet shippers' arrival time requirements, night operations are essential.

Another suggestion, which does not appear feasible and has thus not been implemented by ADF&G and the ARRC, is a special "hunting season" to thin moose in the area when heavy snowfall occurs. This concept would be difficult to administer and has been soundly criticized by ADF&G personnel. See Dickerson, J.C. & Kramer, R.J., "When Moose and Train Meet: Avoiding

Collisions on the Alaska Railroad," Alaska Fish & Game (Sep.-Oct. 1986). A copy of this article is attached as an exhibit.

40. Describe all pesticides used by the ARRC, and the areas in which such pesticides are applied. Describe any complaints the ARRC has received regarding the use of pesticides, and describe the procedures the ARRC has or intends to implement to discuss such complaints in public.

Response: Beginning in the 1950's, the federal Alaska Railroad conducted a herbicide program to control vegetation along the railroad right-of-way. Vegetation maintenance is periodically required to ensure safe railroad operations. The state-owned ARRC has not applied any such chemicals since it took over operation of the railroad in 1985. It applied to the state Department of Environmental Conservation in 1985 for a permit to apply a herbicide known as hexazinone on the right-of-way. After public hearings, a working draft of ARRC's proposed Vegetation Maintenance Management Program study was distributed to interested parties for comment. To allow sufficient time for public and agency input, ARRC withdrew its application for spraying in 1985. No application was filed for the 1986 spraying season and thus the right-of-way has not been treated for some time.

Because of the likelihood of harm to its roadbed (vegetation allows water to seep in among ballast and gravels, weakening support of ties and rails) and the encroachment of brush along the right of way which blocks train crews' view (particularly to see dangers in time to avoid collisions), ARRC expects to file an application for a permit to apply hexazinone in the coming summer. All the comments received on the draft study will be used in the preparation of the permit application.

Hexazinone is low in toxicity to mammals, fish, birds, and invertebrates and has been fully tested to EPA standards. The permitting process will, of course, comply with the public notice and opportunity to comment required by state law and DEC regulations. See AS 42.40.440. ARRC has received complaints regarding the proposed use of any herbicide, including hexazinone, from a group of Talkeetna area residents in the past and expects they, as well as any others, will again have an opportunity to express their concerns on the matter in the public notice process.

41. Describe any action the ARRC has undertaken to determine alternate methods of vegetation control other than pesticides actions undertaken in the past.

Response: The working draft referred to in the response to Question No. 40 was commissioned from the Corps of Engineers and included an assessment of alternative methods of vegetation

control. The study concluded that the available alternatives, which included general expansion of roadbed maintenance, manual labor, and mechanical control, among others, were either cost prohibitive or not feasible to completely eliminate the need for herbicide application. ARRC does mechanically remove vegetation outside the ballast section of the roadbed.

42. Describe the current situation in Moose Pass.

Response: The current situation in Crown Point has remained largely unchanged during the fall and winter of 1986. Exhaustive environmental monitoring in addition to work already performed by ARRC has been ongoing by State of Alaska contractors. Currently Dames & Moore, a contractor working on behalf of the state, is completing work on a study to determine what chemical residues may still remain in the Crown Point impact area. The final report is due on March 2, 1987.

Despite study results which indicate that suspect chemicals are not present in homes or appear at or below ordinary household levels, complaints persist by some residents that the March 2, 1986 tank car release has a continuing detrimental effect on their health. Many other residents have returned to their "pre-release" lifestyles, and appear not to be impacted whatsoever. In an effort to determine the health and property issues, and to assist those who remain displaced, the defendants in a lawsuit brought by some 50 Crown Point residents have brought in experts to assist in the monitoring of ongoing problems. In addition, some claims have settled.

43. How many residents are still not living in their homes as a result of the incident at Moose Pass?

Response: It is difficult to determine precisely the number of residents that are currently out of their homes because of the gas release. Most residents of the area returned to their homes immediately after the incident. In the following months, some individuals moved back in the area on their own volition. Others have reaccommodated themselves in the area in new or renovated living quarters. Approximately 45 people remain out of their homes at the present time, which makes up approximately 18 families.

44. How much money has the State of Alaska paid to attempt to rectify the adverse effects at Moose Pass?

Response: In December 1986, the State of Alaska estimated that expenditures were in the neighborhood of \$650,000.00. Estimates of the overall expenditure for the state by the time it ceases making payments exceed \$850,000.00.

45. How much money has the ARRC paid to attempt to rectify the adverse effects at Moose Pass?

Response: Approximately \$650,000.00 was initially spent in assisting Crown Point residents immediately after the release, and in clean up and environmental monitoring. Ongoing expenses are accruing as claims are settled, and costs are incurred for professional and outside services.

46. Describe the procedures the ARRC has implemented to prevent a recurrence of the type of incident that occurred at Moose Pass?

Response: New steam track heating procedures have been implemented which are intended to greatly reduce any risk of human error in the heating of tank car commodities. It must be noted, however, that the March 1986 release was not simply a case of the overheating of a tank car commodity. Once the error had been realized, railroad personnel properly contacted the consignee and shipper and explained the situation. The shipper's disastrous advice was that the product was probably not harmed and the car could be safely moved to its designation, where its load would cool. After the event, ARRC soon learned that the exothermic chemical reaction which resulted could have been easily avoided by cooling the shipment by running cold water through the car's steam coils. Procedures will also insure that accurate and reliable information concerning heating is received from shippers and/or manufacturers. Finally, UF-85, the commodity in the March tank car, is now heated by the consignee at the delivery point when necessary to offload it into tanker trucks. Rather than heating the entire load at once, the consignee heats the material as it enters the exit hoses. Temperatures are also well within safety ranges.

47. What is the policy of the ARRC with regard to hiring Alaskan residents?

Response: The ARRC was one of the first businesses in Alaska to join the Governor's Council on Alaskan Hire. ARRC recruits almost exclusively with Alaska Job Service offices throughout the state. The only positions which are advertised outside Alaska are those positions for which a highly qualified candidate cannot reasonably be expected to be found in the state or positions in our Seattle office.

Attached is Board Resolution No. 85-5: Relating to the policy of Hiring Alaska Residents.

48. What is the policy of the ARRC with regard to purchasing Alaskan goods and services?

Response: ARRC's Procedure 33-72.01, adopted at the July 18, 1985 ARRC Board Meeting states:

3.5 Female, Minority, and Alaskan Vendors. It is the policy of the ARRC to encourage meaningful participation of female, minority, and Alaskan owned vendor sources to provide useful and acceptable quality services or materials at competitive prices. Procurement personnel are responsible for making practical efforts to locate and solicit minority vendor bids for products or services. The Manager of Procurement is responsible for the effective implementation of this guideline in ARRC procurement activities.

This policy was subject to public review and input prior to adoption by the Board of Directors. A public hearing was conducted June 21, 1985 at ARRC Headquarters which was attended by approximately thirty local vendors. Their input was considered in the procedure subsequently presented to the Board on July 18, 1985, at which time public comment was allowed by the Board and considered prior to adoption. This procedure follows the legislature's mandate in ARCA "that the procurement procedures of the corporation meet accepted railroad industry standards." AS 42.40.100(8).

49. Who is the individual in charge of implementing the policies described above?

Response: The Manager, Procurement or his or her equivalent.

50. What percentage of ARRC employees are Alaskan residents?

Response: As of February 6, 1987, 98% of ARRC employees are Alaskan residents (some employees are located in Seattle).

51. What percentage of the goods and services (other than services rendered by employees) purchased by the ARRC are of Alaskan origin, production or manufacture?

Response: ARRC purchased approximately \$8,000,000.00 in goods during 1986. Of this figure \$4,000,000.00 represents locomotive and other fuels which are all of Alaska origin, production and manufacture. All office supplies, lumber and other building materials are purchased on the local market. Whether these are of Alaskan origin, production or manufacture is not known, except with respect to wooden railroad ties. During 1985-86, the ARRC purchased approximately 35,000 hardwood ties from Wrangell Forest Products Ltd. in southeast Alaska for its summer maintenance programs. Goods which are peculiar to the ARRC, such as locomotive parts, passenger car parts, and the like, are not obtainable on the local market and

must be purchased from vendors outside Alaska. Additionally, the majority of such parts must be obtained from the original manufacturer to maintain warranties.

Services purchased by ARRC include engineering expertise, legal counsel, risk management services, adjusters, printing and binding services, employee counseling services and medical referral services. To the greatest extent possible and available, these services are obtained through competitive procurement practices. In most cases these services are obtained from the local market.

52. Provide a copy of the 1985 budget of the ARRC.

Response: Attached (1985 Budget Prepared by Federal Railroad).

53. Provide a copy of the 1986 budget of the ARRC.

Response: Attached.

54. Provide a copy of the proposed 1987 budget of the ARRC.

Response: Attached.

55. To the extent it is not clearly reflected in the above budgets, state the percentage of total budget and dollar amount for each year identified above expended on or allocated to:

- administration of the ARRC
- travel expenses for executive level employees
- salary levels for each executive level employee
- fringe benefits for executive level employees

Response:

			<u>Percentage</u>
<u>1985</u>	<u>1986</u>	<u>1987</u>	
21.9	20.5	19.2	administration of the ARRC
0.5	0.8	0.5	travel expenses (total management)
--	11.9	11.8	salary of non-represented employees
			<u>Thousands of Dollars</u>
<u>1985</u>	<u>1986</u>	<u>1987</u>	
13,209	11,909	10,826	administration of the ARRC
322	450	300	travel expenses (total management)
--	6,919	6,668	salary of non-represented employees

Above percentages are approximate.

Salary Levels*:

<u>Range</u>	<u>Number of Positions</u>	<u>Position</u>
\$125,000	1	President/CEO
\$70,000-92,000	16	Vice Presidents and Department Managers (3 levels)
\$58,000-64,000	40	Mid Level Managers (3 levels)
\$22,000-53,000	56	First Level Managers and Professional Staff

* Information only for February 1987; prior years have not yet been compiled. Please advise if this is needed.

56. What was the final net profit or loss of the ARRC in 1985, 1986, and projected for 1987?

Response:

<u>Thousands of Dollars</u>		
<u>1985</u>	<u>1986</u>	<u>1987</u>
7,133	(1,500) Estimated Loss	354 Estimated Income

57. What percentage of the ARRC's income for calendar years 1985 and 1986 was derived from passenger and freight operations, and how much from rail lands?

Response:

<u>Percentage</u>			
<u>Income 1985</u>	<u>Revenue 1985</u>	<u>Income 1986</u>	<u>Revenue 1986</u>
42.6	93.6	91.9	(440.0) - Passenger and Freight
57.4	6.4	9.1	340.0 - Real Estate
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u> - Total Percent

58. What was the actual dollar effect of the reduction of inventory (as described in the Performance Audit dated July 28, 1986) undertaken by the ARRC in 1985 and in 1986 on the figures identified in response to the above question?

Response:

	<u>Balance (Millions of Dollars)</u>	
<u>1-06-85</u>	<u>12-31-85</u>	<u>6-30-86</u>
7.5	4.6	4.6

*Inventory was revalued during 1985 to compensate for obsolete items as well as remove from inventory those items of no value.

59. What dollar amount, including allocable overhead, was spent during each year of operation by the ARRC on

- management of rail lands
- provision of passenger and freight service
- other operations (describe)

Response:

	<u>Thousands of Dollars</u>	
<u>1985</u>	<u>1986</u>	
500	650	Management of rail lands (estimated)
59,601	57,242	Passenger and freight service

3702L

EXHIBITS

- Response to Question No. 8
Exhibit A Market Analysis to Establish Fair Market Rental Rate Applicable to Alaska Railroad Corporation Leased Lands -- March 1986, Prepared by Franklin M. King, Jr., MAI,
- Response to Question No. 9
Exhibit B Alaska Railroad Corporation
Long Term Lease Policy
- Response to Question No. 10
Exhibit C Alaska Railroad Corporation
Approval Authority Guide, May 1985
- Response to Question No. 27
Exhibit D Rule 4 - Public Disclosure of Information
- Response to Question No. 37
Exhibit E Operating Circular No. 37
Engineering Bullention No. 87-01
Policy for Moose That Have Been Struck By Trains
- Response to Question No. 39
Exhibit F Article from Alaska Fish & Game
"When Moose and Train Meet:
Avoiding Collisions on the Alaska Railroad" by Jack C. Didrickson and Raymond J. Kramer
- Response to Question No. 47
Exhibit G Resolution -No. 85-5: Relating to the policy of Hiring Alaska Residents
- Response to Question No. 52
Exhibit H 1985 Budget Prepared by Federal Railroad
- Response to Question No. 53
Exhibit I 1986 Budget
- Response to Question No. 54
Exhibit J 1987 Approved Operating and Capital Budget

MARKET ANALYSIS TO ESTABLISH
FAIR MARKET RENTAL RATE
APPLICABLE TO ALASKA RAILROAD CORPORATION
LEASED LANDS -- MARCH 1986

PREPARED FOR:

Alaska Railroad Corporation
Larry J. Houle, Asst. V.P.
Realty Policy & Planning

PREPARED BY:

Franklin M. King, Jr., MAI
Executive Vice President
Real Estate Services Co.

File #86-16

EXHIBIT A

Real Estate Services Company

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CERTIFICATION

I certify that, to the best of my knowledge and belief,...

- 1.-- the statements of fact contained in this report are true and correct.
- 2.-- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions, and conclusions.
- 3.-- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- 4.-- my compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.
- 5.-- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the American Institute of Real Estate Appraisers.
- 6.-- the use of this report is subject to the requirements of the American Institute of Real Estate Appraisers relating to review by its duly authorized representatives.
- 7.-- I am currently certified under the voluntary continuing education program of the American Institute of Real Estate Appraisers.



Franklin M. King, Jr., MAI

STUDY OBJECTIVE

The objective of this study is to estimate the current "fair market rental rate" applicable to lands leased under the terms and conditions of the Alaska Railroad Corporation's newly-drafted, Long-Term Lease Policy. The estimated rental rate (a/k/a lease rate) is to be applied to the market value of land (fee simple interest) to determine the annual rent payment. A copy of the Long-Term Lease Policy is included in the addenda to this report.

SCOPE OF INVESTIGATION

The appraiser reviewed the ARR Long-Term Lease Policy and, for comparison purposes, secured information on land leases throughout the State. The comparative lease data are divided into private and public sector categories.

Private Sector Leases:

Data was gathered on over 50 land leases between private parties. A breakdown of the leases by locale is: Anchorage - 46%; Juneau - 23%; Fairbanks - 17% and; other areas - 14%. When possible, the appraiser reviewed the lease instrument but, in some cases, it was necessary to rely on interviews of the parties and prior "write-ups" by other appraisers. A tabular summary of the private sector lease data is set forth later in this report. Additional details, leases copies, etc., are on file.

Public Sector Leases:

Various public entities have active land leasing programs and information on same was obtained through interviews and review of lease documents. Data sources included: State of Alaska (Department of Natural Resources); Municipality of Anchorage; City of Cordova; Fairbanks North Star Borough; City & Borough of Juneau; City of Kenai and; City of Seward. A summary of pertinent public sector lease data is contained later in this report.

SUMMARY OF LAND LEASE RATES

Private Sector Land Leases

Lease No.	Rent As % FMV	Eff. Date	Lease No.	Rent As % FMV	Eff. Date	Lease No.	Rent As % FMV	Eff. Date
A-1	10.0%	7-85	A-18	9.0%	7-81	J-2	10.0%	11-85
A-2	7.0%	1-84	A-19	10.0%	9-79	J-3	9.0%	12-84
A-3	9.0%	6-84	A-20	8.0%	8-79	J-4	10.0%	5-84
A-4	10.0%	7-84	A-21	8.5%	6-78	J-5	9.0%	7-83
A-5	10.0%	9-84	A-22	8.0%	6-77	J-6	10.0%	8-83
A-6	8.0%	1-84	A-23	8.0%	10-75	J-7	11.0%	9-82
A-7	7.6%	3-84	A-24	9.0%	4-73	J-8	8.0%	11-82
A-8	8.0%	1-84	F-1	10.0%	8-84	J-9	11.0%	1-79
A-9	5.8%	3-83	F-2	10.0%	7-84	J-10	10.0%	10-78
A-10	8.4%	3-83	F-3	10.0%	8-84	J-11	9.0%	9-76
A-11	10.5%	9-83	F-4	12.0%	1983	J-12	8.0%	4-72
A-12	14.0%	8-83	F-5	9.8%	10-82	O-1	6.8%	9-84
A-13	9.0%	3-83	F-6	13.0%	10-82	O-2	12.0%	11-84
A-14	10.0%	12-81	F-7	7.0%	1983	O-3	10.0%	4-83
A-15	13.0%	8-81	F-8	5.3%	2-78	O-4	8.0%	3-83
A-16	10.0%	4-81	F-9	7.7%	1978	O-5	10.0%	10-83
A-17	12.0%	4-81	J-1	12.0%	1-86	O-6	10.0%	7-81
						O-7	10.0%	12-81

Range of Lease Rates: 5.3% --- 14.0%
 Average: 9.5%
 Median: 10.0%
 Mode: 10.0%

Public Sector land leases

State of Alaska (DNR)	6.0% --- 15.0%	(Eff. 1981 - 86)
Muni. of Anchorage (Port)	8.0% --- 10.0%	(Since late 1970's)
City of Cordova	9.0%	(Since mid-1970's)
Fairbanks N. Star Borough	10.0%	(7-84)
City & Borough of Juneau	9.0% --- 12.0%	
City of Kenai	6.0%	(Since mid-1960's)
City of Seward	8.0%	(Since mid-1970's)

MARKET DATA ANALYSIS

Lease Rates:

Private sector annual ground rents tend to be set within a range of about 5% to 14% of fair market value (FMV) as depicted on the facing page. The mean of the sample considered in this study was 9.5% and two-thirds of the private sector leases were at 8% to 10% of FMV. Nearly all of the leases involved commercial sites.

Unlike private sector lease rates which are normally determined through open-market negotiations, public sector rates are most often established by appraisal. Not surprisingly, the indicated lease rate range of 6% to 15% closely approximates that of the private sector. This range is demonstrated by State Department of Natural Resources (DNR) leases but, narrows when one considers that the low-end rates are applicable to residential and recreation lands and the high-end rates are for 25-year fixed rent leases.

It should also be noted that: (1) All but one of the Port of Anchorage leases are at 9% to 10% of FMV; (2) The most recent lease rates for City & Borough of Juneau lands are at 10% and; (3) The City of Kenai deliberately maintains a relatively low lease rate of 6%.

From all indications, lease rates are not locationally-sensitive but are fairly uniform in range around the State. There is also an apparent uniformity of rates over the past 10 or so years.

Lease Term:

The standard ARR long-term ground lease will be for 35 years (longer periods may be negotiated). Excluding five short-term leases (1 to 5 years), the private sector leases have an average term of 53.71 years (including optional renewal periods), with a median and mode of 50 years. The public sector lease terms were:

State of Alaska (DNR)	25 -- 55 yrs.
Port of Anchorage	19 -- 61 yrs., typ. 50 yrs.
City of Cordova	20 yrs.
Fairbanks N. Star Bor.	50 yrs.
City & Bor. of Juneau	35 yrs.
City of Kenai	55 -- 99 yrs.
City of Seward	30 yrs. typically

The five private short-term leases demonstrate lease rates of: 7.6% (A-1); 8.4% (A-10); 10.5% (A-11); 10% (A-14) and; 7% (F-6). These rates are in the central data range and there is no evidence that the term of lease has a measurable impact on the selection of a lease rate.

Rent Adjustment Method:

The standard ARR lease will provide for rent adjustments at 5-year intervals based on appraisal of fair market rental value. Rent revisions are to be regulated by a rent "floor" determined by changes in the CPI (All Urban Consumers - U.S. Cities Average) and a rent "ceiling" or "cap" established through negotiation.

Nearly one-half of the private sector long-term leases (confirmed cases) call for rent adjustments at 5-year intervals. The others varied with the frequency of rent adjustments ranging from annually to as seldom as 10-year intervals. Rent floors were typically set at prior rent amounts, although there were a few leases specifying minimum annual increases of 5%. Several of the leases have rent caps whereby maximum rent is determined by an annual percentage increase in the previous rent. The maximum rates of increase ranged from 4% to 15%/year with the average being 8.74%.

Most of the private sector, 5-year adjustable leases provide for rent revisions in line with CPI variations and a lesser number call for adjustments based on reappraisals. Since land value appreciation has usually exceeded inflation in most Alaskan cities, it would seem reasonable for reappraisal leases to carry lower rental rates than those of indexed leases. This is supported by a matched pair of leases (A-2 and A-5) which are similar except that the former is a reappraisal lease with a going in lease rate of 7% and the latter is an indexed lease with a rate of 10%. As can be expected of an imperfect market, paired leases O-2 (reappraisal with 12% rate) and O-3 (indexed with 10% rate) are contradictory.

The data are also inconsistent with respect to rent caps (see A-1 vs. A-2, A-6 vs. O-2 & A-5 vs. A-18) but, all other things being equal, a lease with reasonable limits on potential rent increases should reflect a higher going in rate than one without limitations.

All of the public sector leases surveyed call for periodic rent adjustments based on reappraisals and this is predominantly done at 5-year intervals. The newer State DNR leases do not provide for rent adjustments during the first 25 years and, predictably, their lease rates (9.5% to 15%) are normally higher than rates for leases that are updated to market rent levels on a more frequent basis. Relatively few of the public sector leases include rent floors or caps.

Lessee Expenses:

Long-term land leases are usually structured so that lessees pay all property expenses, i.e., land rent is net to the lessor. This is true of all the public sector leases surveyed and also of over 80% of the private sector leases (confirmed cases).

The standard ARR lease will require lessees to pay all property expenses and, as such, fits the market norm.

Subordination, Assignment & Subleasing:

The standard ARR lease will not permit subordination of the lessor's interest (leased fee estate) but will allow assignment and subleasing with lessor approval. These are typical features as over 80% of confirmed private sector leases do not provide for subordination and 97% allow assignment and subleasing. Those leases allowing subordination to lessee financing exhibit lease rates ranging from 8% to 10% with an average rate of 8.6%. These rates seem low considering the added risk normally associated with subordination. However, it is recognized that there are factors blended into the rates.

Public sector leases do not allow subordination of the leased fee but usually permit assignment and subleasing with lessor consent.

Option to Purchase:

The ARR standard lease will not provide the lessee with an option to purchase the premises and, as would be expected, this is normally true of public sector leases. In those confirmed instances, 75% of private sector leases do not include an option to purchase either.

Although the sample data are inconclusive on this point, it would seem that an option to purchase should not affect lease rates if the price is at current market value. Other prices and unusual purchase terms could justifiably influence rental value.

Reversion of Lessee Improvements:

About 86% of the confirmed reversion clauses in the long-term private sector leases provide that either the improvements revert to the lessor upon expiration of the lease or the lessor may opt to remove same at lessee's expense. Notably, in these instances, the lease term (including renewal periods) approximates or exceeds the economic life expectancy of the improvements. This is also true in those few instances where the lessee has the option of removing the improvements.

Public sector reversion clauses vary, but most frequently call for tenant removal of improvements. Here again, lease periods are generally scheduled to approximate anticipated improvement economic life.

The ARR's standard reversion clause parallels that of the typical private lease in that, "...Lessor may, at its option, become the owner of all improvements located on the demised premises, or may require lessee, at the expense of lessee, to remove, demolish, or otherwise dispose of such improvements....".

Assuming that: (1) ARR lease periods will be negotiated to coincide with the normal useful life of lessee improvements and; (2) Salvage value will tend to be offset by the cost of removing improvements; then neither lessor nor lessee would benefit or lose from retention of the improvements upon expiration of the lease. Accordingly, lease rates would not be measurably affected by the reversion clause.

Condemnation Clause:

Private and public sector leases typically provide for awards based on the respective interests of the parties and, at a minimum, entitle lessees to awards for their improvements. The eminent domain provisions of the ARR lease are not unusual in that they specify lessee compensation to be governed by State law.

Arbitration:

The ARR lease provides for binding arbitration of disputes involving rent revisions, condemnation aspects and assignments of lessee's interest. Only 37% of the private sector leases (confirmed instances) allow for some form of arbitration and public sector leases do not normally include arbitration clauses.

Arbitration is normally a less expensive method of settling disputes than litigation and, as such, can benefit both landlord and tenant. Unfortunately, the sample data are mixed as to the effects of arbitration provisions (see A-2 & A-3 vs. A-6 and also A-18 vs. O-3). Even though there is no quantifiable market support, it seems reasonable that a small lease rate premium would accrue to an arbitration clause like that of the ARR lease.

LEASE RATE RECOMMENDATIONS

Although land leases constitute a large part of the market in some areas of the country, their limited use in Alaska makes it difficult to quantify differences in specific conditions and provisions. However, in spite of market irregularity, there is a relatively uniform range of lease rates around the State.

Private sector leases that are most comparable to the standard ARR lease are as follows:

Lease No.	Rate	Comparability
A-6	8.0%	Most similar
A-2	7.0%	Very similar but no arbitration
A-3	9.0%	Very similar but no arbitration
O-2	12.0%	Very similar but no rent cap
O-5	10.0%	Very similar but no rent cap
O-6	10.0%	Very similar but no rent cap
A-1	<u>10.0%</u>	Very similar but no rent cap or arbitration
Average=	9.4%	

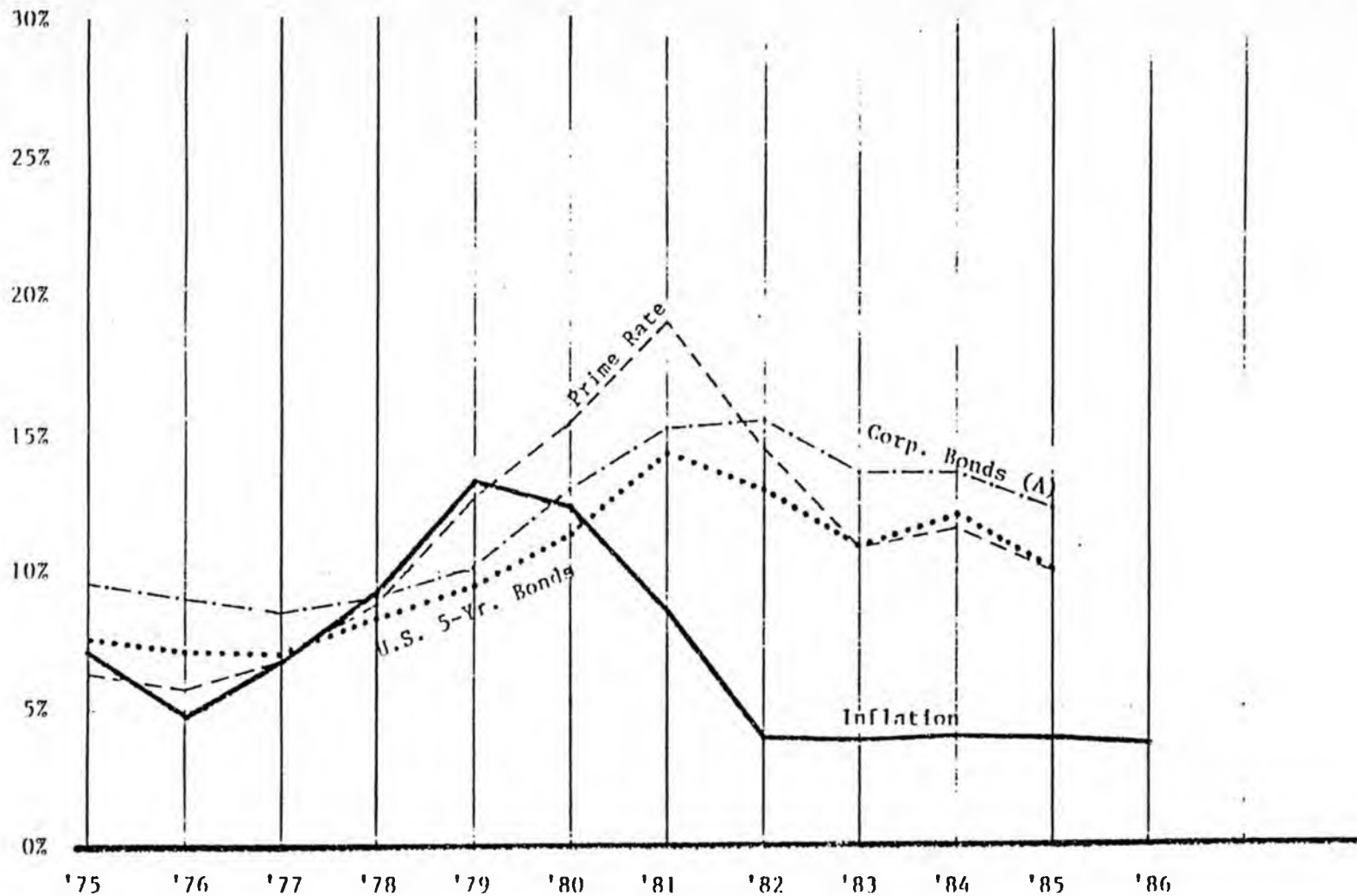
These leases epitomize market imperfection and, interestingly, their average rental rate is nearly the same as the average of the total private sector sample.

Based on analysis of private and public sector leases, a fair rental rate for ARR long-term leases would be at 9% to 10% or, say, 9.5% of market value. This lease rate is considered appropriate for all railbelt locales from Seward to Fairbanks (locational variations in land rents would, of course, be a function of land value).

This rate is based on the assumption that: (1) Lease periods will be negotiated to coincide with economic lives of lessee improvements; (2) The cost of removing such improvements at the end of a lease will be offset by their salvage value and; (3) Rent caps will be negotiated to limit rent increases to 5% to 10% per year.

It is recognized that methods of leasehold taxation vary within the State and those jurisdictions utilizing valuation of "possessory interests" tend to be more costly to lessees of tax-exempt lands than those that rely on appraisal of "rent savings". Nevertheless, the recommended lease rate of 9.5% is considered appropriate regardless of taxation method since it is consistent with the market norm, i.e., land rents are typically net to the lessor with the tenant being responsible for all property operating expenses.

SELECTED ECONOMIC INDICATORS



— INFLATION: % change in C.P.I. (Dec. over Dec.). 1986 forecast of 3.7% by TIME magazine's Board of Economists.

- - - PRIME RATE (yearly average).

..... U.S. 5-Yr. BONDS - Taxable

- · - · - CORPORATE BONDS (A)

YIELD ANALYSIS

Ongoing inflation and land value increases over the term of most leases result in internal rates of return (IRR) or yield rates in excess of actual lease rates. Three possible scenarios involving an ARR lease with a fair market rental rate of 9.5% are as follows:

- Assumptions: (1) Initial Land Value = \$100,000
 (2) Lease Term = 35 Years
 (3) Reversion Value of Lessee Improvements = 0

	EXAMPLE A Inflation & Land Apprec. @ 3%/Yr. (compounded)	EXAMPLE B Rent Cap @ +25% Over Prior Amt. & Land Apprec. @ 5%/Yr. (comp.)	EXAMPLE C Rent Cap @ +50% Over Prior Amt. & Land Apprec. @ 10%/Yr. (comp.)
	<u>Annual Rent</u>	<u>Annual Rent</u>	<u>Annual Rent</u>
1st 5 Yrs.	\$ 9,500	\$ 9,500	\$ 9,500
2nd " "	11,013	11,875	14,250
3rd " "	12,767	14,844	21,375
4th " "	14,800	18,555	32,063
5th " "	17,157	23,193	48,094
6th " "	19,890	28,992	72,141
7th " "	23,058	36,240	108,211
Land Rever. End 35th Yr	281,386	551,602	2,810,244
YIELD =	12.01%	13.42%	17.05%

Example A is believed to be on the conservative side as annual inflation has been closer to 4% since 1982 and is forecast at 3.7% for 1986 (see chart on facing page). Example C could be more representative of yield on urban lands such as those in Anchorage where the average compound rate of appreciation for commercial and industrial sites was 10.0% and 8.7%, respectively, over the past ten years (per survey data published annually by our firm).

Pre-tax yields in the range of 12% to 17% for ARR leases would certainly be in line with returns on competitive investments:

	<u>4th Qtr. '85</u>	<u>3rd Qtr. '85</u>	<u>2nd Qtr. '85</u>	<u>4th Qtr. '84</u>
Real Estate Yield	12.75-15%	12.75-15%	12.75-15%	13-15.5%
	<u>December</u>	<u>September</u>	<u>June</u>	<u>December</u>
Bond Yields				
Corp. (Aaa)	10.16%	11.07%	10.94%	12.13%
Corp. (A)	11.19%	11.99%	11.98%	12.92%
Corp. (Baa)	11.58%	12.48%	12.48%	13.48%

The real estate yields are on a pre-tax basis and are published by Real Estate Research Corporation. They primarily reflect IRR on unleveraged investments in prime properties such as major office buildings, industrial and R&D facilities, and large apartment complexes.

The bond yields are those of major corporations as reported by Moody's Bond Survey. Real estate capital requires greater yields than corporate bonds due to relative risk factors.

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

APPROXIMATE AREA	No. A-1	No. A-2	No. A-3	No. A-4	No. A-5
Lessor/Lessee	Sanchis/Fifth & "F" Bldg. Corp.	Murray & Scott/Racheff & Bright	Korpi/Newcore Partnership	Tsakres/Kakaras	Toppeas Oil/Northshore Partnership
Land Area/Use	41,914 s.f./Bank-office bldg.	2 acres/car wash	29,247 s.f./office bldg.	30,258 s.f./Retail bldg.	10,000 s.f./Convenience store
Lease Date	9-1-85	1-16-84	6-7-84	10-1-84	12-1-84
Term	25 years	25 years	75 years	55 years	25 years
Renewal Option	Three (5 yrs. ea.)	None	None	One (55 yrs.)	Four (5 yrs. ea.)
Annual Rent Effective Date	\$1.55/s.f. 7-85	\$.69/s.f. 1-84	\$1.37/s.f. 6-84	\$.79/s.f. 7-84	\$2.40/s.f. 9-84
Rent Basis	10% FMV (est.)	7% FMV (stated)	9% FMV (stated)	10% FMV (est.)	10% FMV (est.)
Rent Adjustment	@ 5 yr. intervals. Greater of 10% FMV or CPI	11.7% step-up after 3rd yr.; 5th yr. & every 5 yrs. thereafter by appraisal.	@ 5 yr. intervals by agreement or appraisal.	5% annual increase, implemented @ 3 yr. intervals.	CPI @ 5 yr. intervals.
Rent Floor/Ceiling	Floor @ prior rent	Limited to 50% increase over previous level	+ 50% ceiling on first adjustment		min. 5% increase annually; cap @ 8% annually.
Lessee Expenses	All	All	All	All	All
Assign/Sublet	Requires lessor consent	Requires lessor consent	Requires lessor consent	Yes (without lessor approval)	Requires lessor consent
Subordination	No	No	No	No	No
Option to Purchase	No	No	No	No	No
Reversion of Improvements	@ lessor's option	Removal @ lessee's option	@ lessor's option	To lessor	To lessor
Condemnation	Lessee award limited to improvements	Typical	Lessee award limited to improvements	Typical	All awards to lessor
Arbitration Clause	No.	No	No	No	No
Other					

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

EXCHANGE AREA	No. A-6	No. A-7	No. A-8	No. A-9	No. A-10
Lessor/Lessee	Riendl/George & Ferrara	Von Wichman/ Kiester, et al	Tsakres/Chambers, et al	Calais Co./ Saent Ltd.	Arctic Plaza/Cook Inlet Natives
Land Area/Use	64,825 s.f./ commercial	33,064 s.f./Med- ical office bldg.	39,146 s.f./strip mall	75,360 s.f./ commercial	20,000 s.f./ parking
Lease Date	7-1-84	3-2-84	2-1-84	3-83	3-83
Term	35 years	2 yrs. & 7 mos.	40 years	55 years	yr.-to-yr.
Renewal Option	Three (5 yrs. ea.)	Long-term replace.	Five (10 yrs. ea.)	Two (10 yrs. ea.)	
Annual Rent Effective Date	\$.56/s.f. 1-84	\$1.51/s.f. 3-84	\$1.07/s.f. 1-84	\$1.15/s.f. 3-83	\$1.26/s.f. 3-83
Rent Basis	8% FMV (stated)	7.6% FMV (est.)	8% FMV (est.)	5.8% FMV (est.)	8.4% FMV (est.)
Rent Adjustment	@ 5 yr. intervals by agreement or appraisal	10% increase in 2nd year		Level 10 yrs.; then @ 5 yr. in- tervals based on 8.5% of agreed value	Nego. ea. yr.
Rent Floor/Ceiling	Floor @ orig. rent & ceiling @ +20% ea. adjustment			Floor @ initial rent; ceilings for 3 adjust. periods = 100%, 50% & 50%. No ceiling thereafter	
Lessee Expenses	All	All		All	All but taxes
Assign/Sublet	Requires lessor approval	Requires lessor approval		Requires lessor approval	No
Subordination	No	No		No	No
Option to Purchase	No	No		No	No
Reversion of Improvements	Removal @ lessee's option			@ lessor's option	N/A
Condemnation	Lessee award limited to improve- ments	All awards to lessor		Lessee award limited to improve- ments	No clause
Arbitration Clause	Yes-condemn.	No		No	No
Other		Method of Financing			Land not to be

SYMBOLS OF LAND LEASES - PRIVATE SECTOR

ANCHORAGE AREA

	No. A-11	No. A-12	No. A-13	No. A-14	No. A-15
Lessor/Lessee	Alaska Sales & Service/MacNutt	Dickerson/Freeman	Bailey & Fredric J./Bowden	Hickel Investment Co./E. Drage	CIR Real Estate Co./Bond
Land Area/Use	47,475 s.f./open storage	18,975 s.f./Auto motive services	75,111 s.f./office condos.	Service station	25,000 s.f./Fast Food Restaurant
Lease Date	9-1-83	8-8-83	3-30-83	12-4-81	11-15-81
Term	1 year	45 years	75 years	5 years	45 years
Renewal Option	None				Three (10 yrs. ea.)
Annual Rent Effective Date	\$.63/s.f. 9-83	\$2.53/s.f. 8-83	\$1.92/s.f. 3-83	\$19,440/12-81	\$1.56/s.f. 8-81
Rent Basis	10.5% FMV (est.)	14% FMV (est.)	9% FMV (est.)	10% FMV (est.)	13% FMV (est.)
Rent Adjustment	None	@ 3 yr. intervals based on CPI-U.S. avg.	@ 5 yr. intervals alternate % increase & appraisal	17.8% increase 2nd yr.; + 8% ea. yr. thereafter	Annual based on CPI changes (U.S. avg.)
Rent Floor/Ceiling		Floor @ orig. rent. Ceiling = +20% prior rent	Floor @ 5%/yr. increase. Ceiling @ 10%/yr. increase		
Lessee Expenses Assign/Sublet	All but taxes		All	Requires lessor approval	All Requires lessor approval
Subordination	No			Yes	No
Option to Purchase				No	No
Reversion of Improvements	N/A			Removal @ lessee's option	@ lessor's option
Condemnation					Lessee award limited to improvements
Arbitration Clause	No				No
Other	Land not to be built on			Use restricted to filling station	

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

ANCHORAGE AREA	No. A-16	No. A-17	No. A-18	No. A-19	No. A-20
Lessor/Lessee	Chugach Investments/Maropix	Olympic Inc./Maropix Alaska	Miller, et al/Taco Johns of AK	Glenn Mall Assoc./Pizza Hut	Armstrong/Pines Corporation
Land Area/Use	35,280 s.f./Fast Food restaurant	30,000 s.f./Fast Food restaurant	13,674 s.f./Fast Food restaurant	Fast Food restaurant	48,852 s.f./Parking Lot
Lease Date	4-29-81	4-1-81	7-1-81	8-1-80	8-79
Term	45 years	45 years	5 years	20 years	55 years
Renewal Option	Three (5 yrs. ea.)	Three (10 yrs. ea.)	One (5 yrs.)		Three (5 yrs. ea.)
Annual Rent Effective Date	\$1.13/s.f. 4-81	\$1.30/s.f. 4-81	\$.79/s.f. 7-81	\$36,000/9-79	—/9-79
Rent Basis	10% FMV (est.)	12% FMV (est.)	9% FMV (est.)	10% FMV +4% gross	8% FMV (stated)
Rent Adjustment	@ 5 yr. intervals based on CPI (all-alaska)	Annually based on CPI-All AK	Upon renewal; based on CPI change	2nd 10 yrs. set @ \$45M/yr. (25% increase) plus 4% of gross over \$825M	@ 5 yr. intervals by appraisal value
Rent Floor/Ceiling	Ceiling @ +15% per year		Floor @ original rent		
Lessee Expenses	All	All	All	All	All
Assign/Sublet	Requires lessor approval	Requires lessor approval	Requires lessor approval	Requires lessor approval	Yes (without lessor consent)
Subordination	No		No		Yes-w/limits
Option to Purchase	After 3 yrs @ MAI appraisal		No		Yes @ scheduled prices
Reversion of Improvements			@ lessor's option		
Condemnation			Lessee award limited to improvements		
Arbitration Clause			No		Yes
Other					

LEASE AGREEMENT

	No. A-21	No. A-22	No. A-23	No. A-24
Lessor/Lessee	Gilmore/Gain & Watkins	S.S. Fuller/Walsh	Turnagain Holding/Gittins Const.	NBA-Icussac/5th & D Ltd.
Land Area/Use	21,750 s.f./apartments	87,579 s.f./mini-storage	Office Bldg.	6,500 s.f./commercial
Lease Date	6-78	6-77	10-75	4-73
Term	55 years	57 years	55 years	75 years
Renewal Option	None	None	None	None
Annual Rent Effective Date	\$.47/s.f. 6-78	—/6-77	—/10-75	—/4-73
Rent Basis	8.5% FMV (est.)	8% FMV (stated)	8% FMV (stated)	9% FMV (est.)
Rent Adjustment	25% increase begin year 6. Then rent sched. @ 8.5% of val ?	Level rent for 7 yrs. Then every 5 yrs. set @ 8% assessed value	@ 5 yr. intervals based on 8% appraised value	Every 5 years per CPI
Rent Floor/Ceiling				
Lessee Expenses				
Assign/Sublet	Requires lessor approval			
Subordination	Yes-w/conditions	Yes-w/limits	Yes	Yes
Option to Purchase	Yes @ scheduled prices	No	Yes @ FMV	Yes @ FMV
Reversion of Improvements		To lessor		
Condemnation				
Arbitration Clause	Yes	Yes	Yes	No
Other	Method of Financing			

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

PATERSONS AREA

	No. F-1	No. F-2	No. F-3	No. F-4	No. F-5
Lessor/lessee	Rockstad & Briskie/ Freeman	Bentley Trust/ Linck	Bentley Trust/ Sadco	Sexton/Taco Bell	Alexander/First Nat'l Bank
Land Area/Use	22,707 s.f./auto- motive	41,000 s.f./Fast Food restaurant	34,430 s.f./strip mall	30,001 s.f./Fast Food restaurant	40,000 s.f./Branch Bank
Lease Date	8-84	7-84	8-84	1983	10-82
Term	15 years	20 years	20 years	20 years	55 years
Renewal Option		Two (10 yrs. ea.)	Two (10 yrs. ea.)	Three (5 yrs. ea.)	
Annual Rent Effective Date	\$.90/s.f. 8-84	\$1.20/s.f. 7-84	\$1.20/s.f. 8-84	\$1.20/s.f. 1983	\$1.08/s.f. 10-82
Rent Basis	10% FMV (est.)	10% FMV (est.)	10% FMV (est.)	12% FMV (est.)	9.8% FMV (est.)
Rent Adjustment	Annually per CPI-Anch.				CPI every 5 years
Rent Floor/Ceiling	Floor @ - 5% & ceiling @ 7.5% of prior rent				
Lessee Expenses				All but taxes	All but taxes
Assign/Sublet					
Subordination					
Option to Purchase					
Reversion of Improvements					
Condemnation					
Arbitration Clause					
Other					

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

FALLBANKS AREA

	No. F-6	No. F-7	No. F-8	No. F-9
Lessor/Lessee	Wometco & Lathrop Co./Wendy's	North Star Terminal/ARCO	New State Lands/Northland Hub	Frontier Investors/Fred Meyer
Land Area/Use	25,000 s.f./Fast Food restaurant	20 acres/Open storage	5.5 acres/Discount Grocery store	4.25 acres/retail store
Lease Date	10-82	1983	2-78	1978
Term	30 years	5 years	50 years	30 years
Renewal Option		None	None	Five (5 yrs. ea.)
Annual Rent Effective Date	\$1.44/s.f. 10-82	\$3,000/ac. 1983	\$.21/s.f. 2-78	\$.54/s.f. 1978
Rent Basis	1% FMV (est.)	7% FMV (est.)	5.3% FMV (est.)*	7.7% FMV (est.)
Rent Adjustment		Successive annual increases of 20%, 17%, 14%, & 25%.	Up 56% 2nd yr.; +7.7% 4th yr.; then CPI.	
Rent Floor/Ceiling				
Lessee Expenses	All but taxes	All but taxes	All	
Assign/Sublet				
Subordination				
Option to Purchase			Yes & scheduled prices	
Reversion of Improvements		N/A		
Condemnation				
Arbitration Clause				
Other		Land not to be built on	*0.1% FMV 2nd year	Sublease

SYNOPSIS OF LAND LEASES -- PRIVATE SECTOR

JUNEAU AREA

	No. J-1	No. J-2	No. J-3	No. J-4	No. J-5
Lessor/lessee	Fred Meyer/ Wendy/s	Smith/Freeman	Fluke, et al/ Taco Bell	Valley Centre Dev. Co./Howard, et al	Valley Centre Dev. Co./Juneau Motel
Land Area/Use	28,000 s.f./Fast Food restaurant	34,426 s.f./auto- motive svcs.	44,867 s.f./Fast Food restaurant	3.6/ac./Shop- ping mall	69,454 s.f./ Motel
Lease Date	1-86	11-12-85	12-84	9-1-83	7-12-83
Term	25 years	35 years	35 years	55 years	30 years
Renewal Option	Three (5 yrs. ea.)		Three (5 yrs. ea.)	One (10 yrs.)	Two (10 yrs. ea.)
Annual Rent Effective Date	\$1.80/s.f. 1-86	\$1.20/s.f. 11-85	\$1.00/s.f. 12-84	\$.96/s.f. 5-84	\$.72/s.f. 7-83
Rent Basis	12% FMV (est.)	10% FMV (est.)	9% FMV (est.)	10% FMV (est.)	9% FMV (est.)
Rent Adjustment	Fixed 5 yrs. +25% 2nd 5 yrs. +20% @ 5 yr. intervals + 2 1/2% gross	Annually per CPI increase	Annually by CPI	Annually by CPI-Seattle	Annually by CPI-Seattle
Rent Floor/Ceiling		Ceiling @ 5%/yr.			
Lessee Expenses		All		All	All
Assign/Sublet		Requires lessor approval		Requires lessor approval	Requires lessor approval
Subordination		No		No	No
Option to Purchase		No		No	No
Reversion of Improvements		To lessor		To lessor	To lessor
Condemnation		Typical		Award allocated according to law	Award allocated accord. to law
Arbitration Clause		No		No	No
Other				Hamburger rest- aurant prohibited	

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

JUNEAU AREA

	No. J-6	No. J-7	No. J-8	No. J-9	No. J-10	9 11
Lessor/Lessee	Smith, et al/ Tatham	Valley Centre Dev. Co./Smith, et al	Erwin Ent./ Winton, et al	Erwin Ent./ Fed Alaska	Valley Centre Dev. Co./Almgren, et al.	
Land Area/Use	15,200 s.f./mini storage	3.25 ac./office conks	40,426 s.f./ commercial	7,150 s.f./ Branch Bank	19,412 s.f./con- venience store	
Lease Date	8-83	9-20-82	11-1-82	1-79	10-1-78	
Term	50 years	55 years	50 years	40 years	15 years	
Renewal Option		One (10 yrs.)			One (10 yrs.)	
Annual Rent Effective Date	\$.84/s.f. 8-83	\$.66/s.f. 9-82	\$.52/s.f. 11-82	\$2.49/s.f. 1-79	\$.30/s.f. 10-78	
Rent Basis	10% FMV (est.)	11% FMV (est.)	8% FMV (est.)	11% FMV (est.)	10% FMV (est.)	
Rent Adjustment	Annually by CPI-Seattle	Every 3 yrs. by CPI-Seattle	@ 5 yr. intervals CPI-Anch.	@ 5 yr. intervals CPI-Anch.	@ 2 yr. intervals, +6%	
Rent Floor/Ceiling			Floor @ orig. rent	Floor @ orig. rent		
Lessee Expenses	All	All	All but land tax	All but land tax	All	
Assign/Sublet	Requires lessor approval	Requires lessor approval	Requires lessor approval	Requires lessor approval	Requires lessor approval	
Subordination	No		No	No	No	
Option to Purchase	No		No	No	Yes @ scheduled price	
Reversion of Improvements	To lessor		To lessor	To lessor	N/A	
Condemnation	Award allocated according to law				Lease ends. Award silent	
Arbitration Clause	No		Yes	Yes	No	
Other						

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

JUNEAU AREA	No. J-11	No. J-12	No.	No.	No.	21
Lessor/lessee	Erwin Ent./ Vavalis	Smith/Bros./ C.E. Loveless				
Land Area/Use	12,000 s.f./ commercial	12 acres/Shop- ping center				
Lease Date	9-76	4-24-72				
Term	40 years	55 years				
Renewal Option		Five (10 yrs. ea.)				
Annual Rent	\$2.04/s.f. 9-76	\$.08/s.f. 4-72				
Effective Date						
Rent Basis	9% FMV (est.)	8% FMV (est.)				
Rent Adjustment	@ 5 yr. intervals CPI-Anchorage	Annually per CPI increase				
Rent Floor/Ceiling	Floor @ orig. rent					
Lessee Expenses	All but land tax	All				
Assign/Sublet	Requires lessor approval	Requires lessor approval				
Subordination	No	No				
Option to Purchase	No	Yes				
Reversion of Improvements	To lessor					
Condemnation						
Arbitration Clause	No	No				
Other						

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

OTHER AREAS

	No. O-1	No. O-2	No. O-3	No. O-4	No. O-5
Lessor/Lessee	Johnson/McLure	Withheld by request	Withheld by request	Kanakanen/Spenard Builders	Ottle/Collins
Land Area/Use	6.53 ac./commercial	1.37 ac./Fishing Lodge	21 acres/commercial	5 acres/Bldg. Supply store	/Retail & office bldg.
Lease Date	10-20-84	11-84	4-12-83	3-83	10-1-83
Term	55 years	5 years	25 years	30 years	22 1/2 years
Renewal Option	One (55 yrs.)	Five (5 yrs. ea.)	One (25 yrs.)	Two (10 yrs. ea.)	One (25 yrs.)
Annual Rent Effective Date	\$.27/s.f. 9-84	\$3,500/11-84	\$.03/s.f. 4-83	— /3-83	\$7,200/10-83
Rent Basis	6.8% FMV (est.)	12% FMV (stated)	10% FMV (est.)	8% FMV (est.)	10% FMV (stated)
Rent Adjustment	@ 5-yr. intervals by CPI-Anch.	@ 5 yr. intervals by appraisal	@ 5 yr. intervals CPI-Anch.	@ 5 yr. intervals by appraisal	@ 4 yr. intervals based on agreed value or by appraisal
Rent Floor/Ceiling	Floor @ prior rent	Floor @ orig. rent	Floor @ orig. rent	Ceiling @ 10% per year increase.	Floor @ previous rent level.
Lessee Expenses	All	All	All		All
Assign/Sublet		Requires lessor & BIA consent	Requires BIA approval		Requires lessor approval
Subordination		No	No		No
Option to Purchase		No	No		No
Reversion of Improvements	@ lessee's option	To lessor	To lessor		Lessor's option to retain or have removed
Condemnation		Award according to interests	Award according to interests		Lessee award limited to improvements-
Arbitration Clause		Yes	Yes		Yes, as to rent dispute
Other	Wasilla	Bristol Bay	Houston area	Eagle River	Wasilla

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

OTHER AREAS

	No. O-6	No. O-7
Lessor/Lessee	Cottle/Persinger	U.I.C./H.W. Blackstock Co.
Land Area/Use	/Retail & office bldg.	--/commercial
Lease Date	4-1-81	12-8-81
Term	25 years	10 years
Renewal Option	One (25 yrs.)	Four (10 yrs. ea.)
Annual Rent Effective Date	\$12,000/7-81	\$4,800/12-81
Rent Basis	10% FMV (stated)	10% FMV (stated)
Rent Adjustment	@ 4-yr. intervals based on agreed value or by appraisal	@ end of 6 yrs., then @ 3 yr. intervals agreed or appr. value
Rent Floor/Ceiling	Floor @ pre- vious rent level	
Lessee Expenses	All	
Assign/Sublet	Requires lessor approval	
Subordination	No	
Option to Purchase	No	
Reversion of Improvements	Lessor's option to retain or have removed	
Condemnation	Lessee award limited to improvements	
Arbitration Clause	Yes, as to rent dispute	
Other	Wasilla	Barrow

STATE OF ALASKA LAND LEASES (Dept. of Natural Resources)

<u>ADL#</u>	<u>General Location</u>	<u>Type of Property</u>	<u>Lease Rate</u>	<u>Date Set</u>	<u>Rent Adjustment</u>
1318	Seward	Tidelands	9% FMV	6-85	5-yr. intervals
19278	"	Comm. Site	" "	"	" "
32266	Kodiak	Tidelands	8% FMV	"	" "
---	Fairbanks	Rural Rec.	6% FMV	6-82	" "
<hr/>					
103832	Juneau	Tidelands	12% FMV	1-86	Fixed 25 yrs., then @ 10 yr. intervals
203934	Valdez	"	13% FMV	10-85	"
101598	Juneau	Waterfront	15% FMV	9-85	"
410040	Tok	Rural Ac.	10% FMV	7-85	Fixed for 10 yrs
100835	Wrangell	Tidelands	12% FMV	8-85	Fixed 25 yrs., then @ 10 yr. intervals
102826	Ketchikan	"	" "	5-85	"
103824	Craig	"	" "	"	"
74170	Glennallen	Lib. Site	13% FMV*	3-85	"
62472	Fairbanks	Comm. Site	9.5% FMV**	6-84	Fixed for 25 yrs
102934	Juneau	Tidelands	12% FMV	4-84	" " " "
---	"	"	15% FMV	7-82	" " " "
30526	"	"	12.5% FMV	5-81	Fixed 25 yrs., then @ 10 yr. intervals

* Per appraisal. Actual rent administratively set at much lower rate.

** Reduced rate for remote location.

STATE OF ALASKA LAND LEASES

Various State agencies are involved in ground leasing but, in some cases, rents are not at market levels. For example, current land rents at the Anchorage International Airport were administratively-established some 15 years ago. State officials are aware that these rents are less than could be obtained in an open market atmosphere and a rent study was commissioned some time ago. Indications are that there will be an increase in the near future. However, airport officials believe it unlikely that rents will be brought to market levels as such would hamper efforts to promote the aviation industry.

Considered more pertinent are ground leases granted by the Department of Natural Resources (DNR). A tabular summary of data from several DNR leases is on the facing page.

The first four examples are old leases executed in the 1960's wherein annual land rents are adjusted at 5-year intervals based on reappraisals. Recent reappraisals of these and other similar leased properties have established rents at 6% to 9% of market value with residential and recreation land rents typically falling in the lower end of the lease rate range. Most updated rents for commercial and industrial ground are based on rates of 8% and 9%.

The last twelve examples are newer State leases wherein land rents are level for the first 25 years (10 years in one case). Annual rent for each 10-year period thereafter is set at market rent but cannot be greater than a 50% increase in the preceding rent. As would be expected, the rate range of 9.5% to 15% set for these leases is higher than typical rates for the 5-year adjustable DNR leases.

Some other characteristics of the typical DNR lease are briefly noted as follows:

Lease Period:

25 to 55 years.

Rent Adjustments:

Typically based on reappraisal wherein appraiser estimates both current market value of land and the applicable annual rate of return or lease rate.

Rent Floor/Ceiling:

Typically no floor. Ceiling identified in those leases adjustable after 25 years.

Lessee Expenses:

All expenses paid by lessees (rents are net to the State).

Subordination/Assignment/Subleasing:

Subordination of leased fee to lessee financing not permitted.
Assignment and subleasing permissible with lessor approval.

Option to Purchase:

None.

Reversion of Lessee Improvements:

Lessee to remove within 60 days or lessor may dispose of.

Condemnation:

Lessee entitled to award for lessee-owned improvements.

Arbitration:

Not typically provided for in lease.

PORT OF ANCHORAGE INDUSTRIAL LOTS

LEASE DATA

December 31, 1985

<u>Lot No.</u>	<u>Lessee</u>	<u>Area</u>	<u>Current Annual Rent</u>	<u>Rental Rate</u>	<u>Most Recent Adjustment</u>	<u>Lease Date</u>	<u>Term</u>
1D	TOTE	116,067 s.f.	\$.675/s.f.	10%	6-17-85	5-1-77	19 yrs., 3 mos.
2B & 3A	TOTE	374,990 s.f.	\$.600/s.f.	10%	7-24-85	8-1-75	21 yrs.
4A	Columbia Cement	230,497 s.f.	\$.450/s.f. (1)	10%	2-1-84	2-1-69	30 yrs., plus two 10 yr. options
5D-1	Sea-Land	258,263 s.f.	\$.347/s.f.	9.5%	12-10-80	8-1-70	21 yrs., plus 4 yr., 10 yr. option
5F-1	Sea-Land	141,490 s.f.	\$.525/s.f.	9%	10-1-83	9-30-63	10 yrs., plus eight 5 yr. options
6C-1	Sea-Land	422,550 s.f.	\$.405/s.f. (2)	9.5%	10-1-81	10-1-65	31 yrs., plus two 10 yr. options
6D-1	Sea-Land	303,508 s.f.	\$.298/s.f. (2)	8%	2-1-80	2-1-65	31 yrs., plus two 10 yr. options
7B	Texaco	380,559 s.f.	\$.337/s.f.	10%	2-1-82	7-1-64	30 yrs., plus four 5 yrs. options
8B & 8C	Anchorage Fueling & Service Co.	486,033 s.f.	\$.374/s.f. (3)	10%	3-5-82	3-5-62	10 yrs., plus eight 5 yr. options

(1) Based on original unfilled condition.

(2) Includes contribution of paving.

(3) Average amount based on \$.425/s.f. of filled land (9.1 acres) and \$.150/s.f. of unfilled and easement encumbered land (2.06 acres)

01-051P

MUNICIPALITY OF ANCHORAGE LAND LEASES

Two major areas of municipal land leasing activity are the Merrill Field Airport and the Port of Anchorage. Merrill Field rents are administratively set to fund the operation of the airport and the data from those leases are not of much use in this study.

The Port of Anchorage subdivision is 100% leased and a tabular summary of lease data is presented on the facing page. The leases date back to the early 1960's and, for the most part, are similar in content. Some key characteristics are as follows:

Rental Rate:

Annual land rents are set at 8% to 10% of fair market value by agreement of the parties or by appraisal.

Lease Period:

Typically 50 years including renewal options.

Rent Adjustments:

Annual land rents are typically adjusted at 5-year intervals to fair rental value by mutual agreement or independent reappraisal.

Rent Floor/Ceiling:

Leases do not provide for rent minimums or caps.

Lessee Expenses:

All expenses paid by lessee (ground rents are net to the lessor).

Subordination/Assignment/Subleasing/Purchase Option:

No subordination of leased fee to lessee financing is allowed. Assignment and subleasing is permitted with lessor approval. Option to purchase is not granted.

Reversion of Lessee Improvements:

Newer leases provide that lessor may consent to retain improvements or may require their removal at lessee expense.

Condemnation:

Lessee entitled to award for value of lease and lessee improvements.

Arbitration:

Not provided for in leases but, lessees may appeal rent increases to the Port Commission.

CITY OF CORDOVA LAND LEASES

The City of Cordova has about 15 acres of industrial land under lease. This ground is subdivided into 15,000 to 80,000 s.f.+-lots and leased to various parties. Another 17 acres is expected to be available for lease in 1986. A summary of lease data is as follows:

Rental Rate:

Annual land rents are set at 9% of assessed value as determined by contract assessor. This rate is stated in the leases and has been in effect for many years.

Lease Period:

Typically 20 years with negotiable renewal options.

Rent Adjustments:

Annual land rents are adjusted at 3-year intervals based on "9% of the valuation as determined by a qualified appraiser". In practice, the stated rate is applied to the assessed land value which is normally updated annually.

Rent Floor/Ceiling:

Typically none.

Lessee Expenses:

All expenses paid by lessees (rent is net to the lessor).

Subordination/Assignment/Subleasing:

No subordination of leased fee to lessee financing allowed. Assignment and subleasing permitted with lessor's consent.

Option to Purchase:

Typically none.

Reversion of Lessee Improvements:

Typically the lessee must remove within 90 days or lessor may retain or remove at lessee's expense.

Condemnation & Arbitration Clauses:

Normally not in leases.

FAIRBANKS NORTH STAR BOROUGH LAND LEASE

The FNSB land leasing program is in it's infancy although the land base exceeds 100,000 acres. Most of the acreage is in remote locations but there are 200 acres +- near Fairbanks which will be concentrated on for disposition by leasing. At present, there are two land leases with another two or three expected to be consummated this year. One of the existing leases is 50% below market by assembly approval. The other lease is summarized as follows:

Lessor/Lessee:

FNSB/McKee Meats, Inc.

Rental Rate:

Annual land rent was set at 10% of the appraised value and this rate is stated in the lease.

Lease Period:

30 years beginning 7/23/84 plus two options to renew at 10 years each.

Rent Adjustments:

Annual land rent is adjusted at 5-year intervals based on 10% of appraised value. Land to be valued at time of reappraisal as if it were in the same state as at the beginning of the lease term excluding any improvements by the tenant.

Rent Floor/Ceiling:

None.

Lessee Expenses:

Rent is reportedly net to lessor (lease is silent on this point).

Subordination/Assignment/Subleasing:

Lease is silent on these items.

Option to Purchase:

None.

Reversion of Lessee Improvements:

Fixtures and structures shall be removed by lessee at end of lease.

Condemnation/Arbitration:

Not addressed in lease instrument.

CITY & BOROUGH OF JUNEAU LAND LEASES

The City & Borough of Juneau leases out some 50 parcels of land to various entities. The leasing program began many years ago and lease provisions have changed over time. A summary of lease data is as follows:

Rental Rate:

In recent years, new and revised leases reflect annual land rents based on 9% to 12% of fair market value. Most current rates are about 10%.

Lease Period:

Varies. Newer leases have maximum terms of 35 years.

Rent Adjustments:

Annual land rents are adjusted annually in some instances and at 3-year intervals in others. In the case of newer leases, adjusted rents are based on the City Assessor's recommendations as to both the market value of the land and the applicable rate of return.

Rent Floor/Ceiling:

Not typically provided in leases.

Lessee Expenses:

All expenses usually paid by lessee (rent is net to lessor).

Subordination/Assignment/Subleasing:

Subordination of leased fee to lessee financing is not permitted. Assignment and subleasing is usually permitted with lessor's approval.

Option to Purchase:

None.

Reversion of Lessee Improvements:

Typically lessee may remove or title reverts to lessor.

Condemnation:

Varies but lessee is normally entitled to award for improvements.

Arbitration:

Not typically provided for in leases.

CITY OF KENAI LAND LEASES

The City of Kenai leases out some 110 parcels of land (mostly city lots) to various private parties. The leasing program began in the mid-1960's and at present there are only 4 or 5 lots and some undeveloped acreage that are not leased. A summary of lease data is as follows:

Rental Rate:

Annual land rents are set at 6 $\frac{1}{2}$ % of fair market value and this rate, which is stated in the leases, has been in effect since the inception of the leasing program. City officials acknowledge this is below rates utilized in other areas, but do not anticipate any changes in the foreseeable future. The most recent leases incorporating the 6 $\frac{1}{2}$ % rate were executed in 1985.

Lease Period:

Typically 55 to 99 years.

Rent Adjustments:

Annual land rents are adjusted at 5-year intervals based on 6 $\frac{1}{2}$ % of fair market value which is estimated by a "qualified independent appraiser". Fair market value is based on the condition of the lands on the date of lease plus the value of improvements made by the City subsequent to the date of lease.

Rent Floor/Ceiling:

City code provides that redetermined annual rent shall be limited to a 50% increase over the prior rent until the 30th anniversary, after which the cap provision shall no longer apply. This rent ceiling provision acknowledges that investors and developers need a reasonable assurance of stability in future rents.

Lessee Expenses:

All expenses paid by lessees (rent is net to the lessor).

Subordination/Assignment/Subleasing:

No subordination of leased fee to lessee financing allowed. Assignment and subleasing permitted with consent of lessor.

Option to Purchase:

None.

Reversion of Lessee Improvements:

Varies. Early leases provide for removal of improvements by lessee within 60 days or sale to succeeding lessee with lessor

approval. Recent leases provide that title to improvements automatically vests in City upon termination.

Condemnation:

Rent abatement and award allocated by agreement or determined by arbitration if disputed.

Arbitration:

Not provided for in leases except in connection with condemnation clause.

CITY OF SEWARD LAND LEASES

The City of Seward leases out some 27 land parcels to private parties. These parcels are in or close to town. Lands still available for lease include 80 acres +- within the Seward Marine Industrial Center and 80 acres +- at the Fourth of July Creek industrial area. A summary of lease data is as follows:

Rental Rate:

Annual land rents are established at 8% of fair market value by appraisal. Although not stated in the leases, this rate has been in effect for the past 10-years and the City's appraiser does not expect any change in the near future. Most recent rents based on this rate were set in 1985. A summary of lease data is as follows:

Lease Period:

Typically 30 years. There are some shorter-term leases and a few in excess of 30 years, e.g. Suneel Alaska Corporation @ 55 years.

Rent Adjustments:

Annual land rents are adjusted at 5-year intervals based on MAI appraisal of fair market rental value exclusive of lessee's improvements.

Rent Floor/Ceiling:

Typically none.

Lessee Expenses:

All expenses paid by lessee (rent is net to lessor).

Subordination/Assignment/Subleasing:

No subordination of leased fee to lessee financing allowed. Approval of lessor required for assignment and subleasing.

Option to Purchase:

None.

Reversion of Lessee Improvements:

Lessee to remove prior to expiration of lease or title to improvements vests in City.

Condemnation/Arbitration:

Award to be allocated as provided by law/Controversies or claims relating to leases to be settled in accordance with Uniform Arbitration Act of Alaska.

ALASKA RAILROAD CORPORATION

P.O. Box 7-2111 • Anchorage, Alaska 99510-7069



ALASKA RAILROAD CORPORATION

LONG TERM LEASE POLICY

The Alaska Railroad Corporation (referred to below as "Lessor" and "ARRC") will adhere to the following policies and guidelines when leasing real property for terms of five or more years. The policies and guidelines contained in this statement may be changed from time to time when the Alaska Railroad Corporation determines a change is appropriate.

1. PURPOSE

The purpose of this policy statement is to set forth guidelines and principles upon which the Alaska Railroad Corporation's standard long-term lease will generally be based. This statement is intended to give prospective Lessees and other interested persons information about the ARRC's policy with respect to its land lease program. However, this statement is not intended to provide the precise language that will appear in a lease or to substitute for or override any terms of a lease. It is important for prospective Lessees and other persons interested in a particular lease to carefully review the terms of the particular lease itself, because the lease (and not this policy statement) creates the legal relationship between Lessor and Lessee and defines the rights of each of the parties.

This policy governs new leases entered by the Alaska Railroad Corporation. Section 4 of the policy identifies circumstances under which an existing lease will be replaced by a new lease conforming to this policy statement.

2. PRE-LEASE MATTERS

2.01 COMMITMENTS. Long-term lease agreements require formal approval by ARRC Management. Neither letter proposals nor lease drafts will constitute a formal offer from Lessor. Such documents constitute nonfinal negotiating proposals by Lessor's representative and indicate the terms and conditions the representative is willing to recommend to Management. Lessor becomes bound only upon the execution of the typewritten lease by ARRC.

2.02 PUBLIC NOTICE AND RECORDATION OF LEASE. This provision relates to required public notice and public recording with respect to individual leases. It does not govern publication or relate to Lessor's marketing or leasing policies.

(a) Published Notice. Notice will be published in a newspaper of general circulation, serving the community where the property is located, for three (3) consecutive days, ending fifteen (15) days prior to the effective date of the proposed

long-term lease. The notice will only describe the parcel to be leased, the proposed Lessee, date of proposed action, and the name, address, and telephone number of the Alaska Railroad Corporation representative.

(b) Memorandum of Lease. Upon the execution of this Agreement, both parties agree to execute a Memorandum Short Form Lease suitable for recording purposes.

2.03 ADMINISTRATIVE FEE. With Lessee's formal application to lease, Lessee will include payment of an administrative fee of Two Hundred Dollars (\$200.00). The fee will apply to the first month's rental if a lease is executed. If the application is denied, the fee will be retained to defray administrative costs. Lessor may increase the administrative fee from time to time when an increase becomes necessary to cover costs.

2.04 PERFORMANCE OR CONSTRUCTION BONDS. At Lessor's option, Lessee will, before commencing construction of any improvement, including but not limited to subsurface improvements on the premises, deposit with the Lessor a bond or certificate thereof, in a sum not less than the cost of such construction and in form and with surety satisfactory to the Lessors, guaranteeing the completion of such construction free and clear of all mechanics' and materialmen's liens, together with such information and evidence as Lessors may reasonably require to assure that the Lessee is able to and will make all payments required by contract to be made as and when the Lessee is required to do so. The performance assurance, if required, may be in the form of surety, cash, assigned deposit, or irrevocable letter of credit.

2.05 PERMITS. All permits required by municipal, state or federal law are to be secured by and at the expense of Lessee.

2.06 PARCEL MAPS. The Lessor does not require the recording of parcel or subdivision maps. However, if a parcel or subdivision map is required by municipal ordinance, it must be approved by the proper governmental body and recorded by Lessee prior to execution of the lease or option to lease. Preparation of parcel or subdivision maps will be the responsibility of the Lessor; however, a nonrefundable deposit may be required of the Lessee to cover the cost of preparation.

2.07 CONDITION OF PROPERTY. Lessor will lease property "as is, with all faults", and without any representations or warranties by Lessor as to the characteristics or suitability of the Premises. Prior to execution of the Lease, Lessee will be given an opportunity to independently investigate the Premises, and to assess:

(i) the feasibility of developing the Premises for the purposes intended by Lessee;

(ii) the size and dimensions of the Premises;

(iii) the availability and adequacy of water, sewage and any utilities serving Premises;

(iv) the presence and adequacy of infrastructure or other improvements on, near, or affecting the Premises;

(v) the extent and condition of any grading or other site work already performed or hereafter required for Lessee's possible development of the Premises;

(vi) any surface, soil, subsoil or other physical conditions of or affecting the Premises, such as climate, geological, drainage, air, water or mineral conditions;

(vii) easements and reservations of record affecting the title;

(viii) the existence of governmental laws, regulations, ordinances, restrictions or requirements concerning the use density, location or suitability of the Premises for any existing or proposed development including such matters as zoning, building, subdivision, environmental and other regulations;

(ix) the necessity or availability of any rezoning, zoning variances, conditional use permits, building permits, environmental impact reports, parcel or subdivision maps, public reports and any other governmental approval;

(x) the necessity or existence of any dedications, taxes, fees, charges, costs or assessments that may be imposed in connection with any regulation or authorization or the obtaining of any required Permits; and

(xi) all matters concerning the condition, use and development of the Premises.

2.08 RELOCATION OF FACILITIES. Any necessary or desired relocation of Lessor's facilities will be made at the sole expense of Lessee. Lessee must communicate any request for relocation of Lessor's facilities before the lease is entered.

2.09 STORAGE OF HAZARDOUS MATERIALS. No leases will be granted for storage of hazardous materials (including gasoline and diesel fuel) unless Lessee first exhibits full compliance with municipal, state, and federal environmental laws and regulations, produces proof of satisfactory liability insurance naming Lessor as co-insured, and agrees to indemnify and save Lessor harmless from claims related to storage of such materials. Lessee is required to advise Lessor of intended storage of such materials before a lease is entered or extended. Lessee will schedule a pre-lease conference with Lessor to discuss the proposed storage, safety questions and compatibility of the proposed storage with adjoining land use; Lessee must furnish to Lessor copies of all permit applications, permits issued, denials of permits, and other actions on permit applications. Lessee whose use or storage of small quantities of hazardous materials is only incidental to business operations will be required to indemnify and save Lessor harmless from claims related to storage of such materials.

3. TERMS OF LEASES

3.01 PRINCIPLES GOVERNING RENT DETERMINATION. The following general principles govern rent determination by Lessor.

(a) **Rent at Fair Market Value.** Rent will be established at fair market value as agreed to by Lessor/Lessee and determined by a qualified appraiser or by competitive bid.

(b) Protection Against Inflation. Lessor will be protected against inflation by periodic revision of rent. Lessee will be protected against unforeseeable inflation by maximum rent revision limits.

(c) Predictability of Rent. Rent revision should be accomplished in a manner that permits Lessee to engage in reasonable business planning and provides sufficient predictability to facilitate financing of Lessee's activities.

(d) Recognition of Value Contributed by Lessee. Permanent value contributed by Lessee to Lessor's ownership interest (such as nondepreciable improvements) should be recognized through appropriate amortization methods, including but not limited to credits against rent. Depreciable structures ordinarily will not represent such value, as the Lessee will be expected to amortize the full value of such structures over the Lease Term.

3.02 DETERMINATION OF RENT.

(a) Establishment of Initial Rent. Initial rent will be established at fair market value as agreed to by Lessor/Lessee and determined by a qualified appraiser, or by competitive bid, at Lessor's option. The initial rent will be adjusted during the term of the lease in the manner specified and prenegotiated in the lease. The standard long-term ground lease is for a period of thirty-five (35) years. However, lease terms that extend beyond the thirty-five (35) year period may be negotiated.

(b) Rent Revision Parameters. The long-term master lease will incorporate the following parameters establishing upper and lower limits for revision of rent.

(i) Minimum Revised Rent ("Rent Floor"). The new rent established by the rent revision procedure for a particular period will not be less than the prior period rent period.

(ii) Maximum Revision Rate ("Rent Cap"). A percentage rate establishing a maximum rate of rent revision (rent cap) to apply at the time of each revision will be predetermined and incorporated in the long-term lease.

(iii) Rental Rate and Rent Caps. ARRC's Board of Directors will periodically review the rental rate and rent caps. The rental rate will remain constant throughout the original Lease Term and will be stated in the lease.

(c) Rent Revision Process.

(i) Appraisal. The rent will be revised at a minimum every five (5) years or as otherwise negotiated in the lease. Lessor shall obtain a fair market value appraisal from an independent qualified appraiser. Appraisal instructions for each reopen period will be defined in the master lease document. At the end of the original Lease Term, the property is to be appraised at the highest and best use compared with similar properties within the community.

(ii) Arbitration. An arbitration clause will be incorporated into the lease to provide an equitable means of resolving disputes concerning the appraised value of the premises. The arbitrator's decision with respect to a rent revision shall be final.

(iii) Determination of Fair Market Value Rent By Use of Fixed Rental Rate. The rental rate used for rent revision under a lease will remain fixed during the term of the lease and the same rate will be employed in connection with all revisions. The rental rate will be based on an independent study of relevant Alaska markets to be periodically commissioned by ARRC and reviewed by the ARRC Board of Directors. The revised rent will be determined by applying to the appraised value a percentage representing the general return or rental rate in effect for ARRC properties on the date the lease is executed.

3.03 RENT CREDITS. Rent credits or rental offsets may be negotiated PRIOR to the installation of certain nondepreciable improvements. Upon installation, these improvements immediately become the property of the Lessor and are to be considered in any future rent modification. Examples of nondepreciable improvements include, but are not limited to, excavation, backfill, and gravel.

3.04 EFFECTIVE DATE OF RENT ADJUSTMENTS. Until any increase in the original rent rate (called the "Base Rent") is determined, Lessee shall pay the same Base Rent as was applicable the previous year. When an adjustment of Base Rent has been determined and Lessee notified, such adjusted Base Rent as so determined shall be due and payable to Lessor, retroactive to the commencement of the lease year for which such rental adjustment is made, and any deficiency resulting from such rent adjustment shall be payable within thirty (30) days after the giving of such notice to Lessee. Lessee will be responsible for NO MORE THAN NINETY (90) days of unbilled retroactive rent at the increased level.

3.05 PUBLIC ENTITIES. As a public corporation, the Alaska Railroad Corporation is exempt from taxation by local governments. In recognition of the Alaska Railroad Corporation's position as a participating member within each host community, the Alaska Railroad Corporation may lease its lands to the State and its political subdivisions at less than fair market value. Specific requests will be negotiated on a case-by-case basis. (The Alaska Railroad Corporation will also institute a fee-use permit system for municipalities for various kinds of land use that do not require leases. This program is not covered by this policy.)

3.06 TAXES AND ASSESSMENTS. Lessee will (a) pay all taxes on Lessee's improvements directly to the taxing authority, and (b) all assessments agreed to in the lease benefits of assessments not agreed to in the lease for public improvements levied against the property shall be paid for by Lessor.

3.0 INDEMNIFICATION AND LIABILITY INSURANCE.

(a) Indemnification. Lessee will be required to defend, and hold Lessor harmless against all liability, damages, costs, losses, and expenses arising out of Lessee's use or occupancy of the Premises.

(b) Liability Insurance. Lessee will, at his own expense, obtain and maintain in effect, during the whole of the Lease Term, comprehensive general liability insurance in respect to the leased premises, under policies naming Lessor as additional assureds, issued by an insurance company authorized to do business in Alaska with minimum limits of not less than the amounts specified by Lessor.

Satisfactory evidence of insurance will be furnished to the Lessor prior to the execution of the lease. This evidence will provide for thirty (30) days prior notice to Lessor of any written cancellation, nonrenewal, or material change in the policy.

3.08 TRACKAGE.

(a) Use of Lessee-Owned Trackage. A separate, standard form of track agreement will cover the installation, maintenance, and operation of trackage.

(b) Use of Lessor-Owned Trackage. Where Lessee desires use of Lessor-owned trackage, the lease form will provide such rights. Use of Lessor-owned trackage may be restricted to the extent Lessor deems necessary. The rental rate will be a standard, system-wide charge which may be revised by Lessor, from time to time. The current charge is \$6.00 per track foot, per annum.

3.09 ENVIRONMENTAL AND OTHER LAWS AND REGULATIONS. Lessee, at its own expense, will comply with all laws, regulations, rules and orders applicable to its property and operations, regardless of when they become or became effective, including, without limitation, those relating to health, safety, noise, environmental protection, waste disposal, and water and air quality.

Should any discharge, leakage, spillage, emission, and pollution of any type occur upon or from the premises due to Lessee's own use and occupancy including subleasing and uses by others, Lessee, at its expense, will be obligated to clean the premises to the satisfaction of Lessor and any governmental body having jurisdiction thereover.

(Note: Lessor's ENVIRONMENTAL POLICY prohibits new leases for gasoline service stations or assignment of existing service station leases from the present Lessee to a third party having a substantially lesser net worth. Use of underground storage tanks for any purpose requires Lessor's specific approval. Oil and gasoline bulk plant leases will be written with Lessor's commercial lease indemnity and insurance provisions.)

3.10 USE OF PREMISES. Lessee's failure to commence use of the premises for the purposes specified in the Lease, or discontinuance of such use for a period to be specified in the lease, will constitute an event of default.

3.11 SUBORDINATION. Lessor will not agree to subordinate its legal title to land; however, Lessee may assign the lease to an institutional lender as security for a loan to finance development, subject to the provisions of Paragraph 3.14.

3.12 ASSIGNMENT. Assignment of the Leased Premises for any reason will require Lessor's prior written consent. Lessor will consent to an assignment only when Lessor is satisfied that Lessor's interests will not be adversely affected. Requests for consent to assignment of the Lease are to include the proposed assignee's current and complete financial statement as prepared by a certified public accountant in accordance with generally accepted accounting principles or the prior two (2) years' tax returns. An administrative fee will be charged by the ARRC to cover the cost of processing a request for assignment. The financial considerations of the assignment need not be disclosed to the ARRC. Approval of assignment will not be unreasonably withheld by the ARRC.

3.13 SUBLEASING. Lessor's written consent to a sublease is required before the Lessee enters the sublease. Copies of any sublease approved must be filed with Lessor and will be subject to the terms of the Master Lease relating to the terms and subleases. Any financial considerations can be "blocked out" by the Lessee and is not required to be disclosed to the ARRC.

3.14 OWNERSHIP OF SUBSURFACE IMPROVEMENTS. Tenant improvements to the subsurface estate, including excavation and backfill, become the property of Lessor upon installation and will be considered in all future rental modifications. Rental credits or offsets may be negotiated for certain nondepreciable improvements in accordance with Paragraph 3.03, above. Means and methods of construction must be of mutual benefit to Lessee and Lessor; for example, the economics of excavation and fill may be weighed against the economics of alternative piling construction methods. The type of improvement and method of installation must be approved by Lessor in advance.

3.15 REMOVAL AND OWNERSHIP OF ABOVE-SURFACE IMPROVEMENTS. Ownership of such above-surface improvements at the end of the Lease Term will be governed by the terms of the lease. The appropriate disposition of above-surface improvements as specified in the lease at the end of the Lease Term will depend on the circumstances surrounding a particular lease, including the length of the lease, the nature and value of the improvement contributed by the Lessee, the likelihood that the Lease will be renewed, and Lessor's assessment of the best use of the property following the expiration of the Lease.

3.16 LESSEE'S OBLIGATIONS WITH RESPECT TO IMPROVEMENTS. The Lessee will agree not to remove, destroy, waste or substantially modify improvements on the Premises without Lessor's prior written authorization. This policy is intended to protect the Lessor's security interest in the improvements on the Premises and to enhance land-use planning. Approval of improvements will not be unreasonably withheld by ARRC.

4. REPLACEMENT OF CERTAIN EXISTING LEASES

The Alaska Railroad Corporation will honor the binding terms of existing leases it acquired from the Federal Government. However, it is the policy of the Alaska Railroad Corporation, to the extent feasible, to bring existing leaseholds under the new standard long-term lease reflecting the principles set forth in this statement. This policy is adopted to implement the legislature's determination that fair market value should be obtained for leases, to make the administration of the leasing program more efficient and equitable as a whole, to promote uniformity, and to eliminate unnecessary controversy and uncertainty concerning the terms of leases issued by the Federal Government before the sale of The Alaska Railroad to the State of Alaska. To implement this policy, the following actions, among others, will be taken:

(a) If a Lessee desires extension of a Lease Term, and Lessor is agreeable to such extension, the existing lease will be terminated and a new lease consistent with this policy statement will be issued.

(b) If Lessee desires to change the area under lease by increasing or decreasing acreage, and Lessor is agreeable to such change, the existing lease will be terminated and a new lease consistent with this policy statement will be issued.

(c) All existing leases containing a provision allowing Lessor to terminate a lease upon ninety (90) days notice will be terminated after providing the required notice to the Lessee, and, at the time notice of termination is given, Lessor will offer Lessee an opportunity to enter a new lease consistent with this policy statement.

(d) Existing Lessees, at their option, will be given the opportunity to terminate their current leases and enter into the new Alaska Railroad Corporation long-term lease contract.

In appropriate cases, as determined by Lessor, an existing lease may be amended and restated, rather than replaced, by substitution of terms consistent with this policy statement. For example, Lessor will offer Lessee an amended lease in lieu of a new lease in cases where termination of the existing lease would cause the Lessee's note to become due and payable at the time of termination.

5. RENEWAL OF LEASES

It is the policy of the Alaska Railroad Corporation to approve a Lessee's request for renewal of a lease made no less than six (6) months prior to the end of the Lease Term when:

- (a) The Lessee has faithfully complied with the requirements of the existing Lease;
- (b) The Lessee's continuing use of the property is consistent with surrounding land use, any relevant land-use or development plans of Lessor, and the highest and best use of the property; and
- (c) Lessor does not require the property for Railroad purposes.

The rental terms and renewed leases will be adjusted to incorporate the then-prevailing fair market rental value and will include rent revision requirements, in accordance with the lease policy and relevant provisions of law in effect at the time of renewal. To the extent terms of the existing lease are inconsistent with policy or law in effect at the end of the Lease Term, or are otherwise obsolete, the renewed lease will be modified to eliminate such inconsistent obsolete provisions.

6. REGULATORY AUTHORITY OF ALASKA RAILROAD CORPORATION

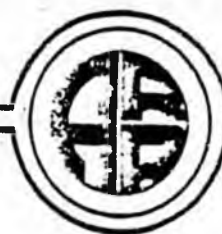
Under Section 390 of the Alaska Railroad Corporation Act (AS 42.40-390), the Board of Directors of the Alaska Railroad Corporation is given governmental authority to adopt exclusive rules governing use of Railroad lands by Lessees and others having interest in such lands. The terms of leases issued by the Alaska Railroad Corporation do not limit the Board's authority to adopt land-use rules governing activities on the leaseholds. Lessees will be given reasonable advance notice of any rule proposed to or under consideration by the Board that might affect activities on leasehold property or impose an obligation on Lessees.

The foregoing terms and conditions constitute, in part, guidelines and standards on which Lessor's long-term industrial lease is based. Many terms are not negotiable, and applicants are urged to study them very carefully. Please address all questions to Lessor's representative at the outset of negotiations:

Director, Real Estate
Alaska Railroad Corporation
P.O. Box 7-2111
421 West First Avenue
Anchorage, AK 99510-7069
(907) 265-2465 (telephone)
(907) 276-4495 (telecopy)

ARRC Board Approved 09/30/88

ALASKA RAILROAD CORPORATION



APPROVAL AUTHORITY GUIDE

MAY 1985

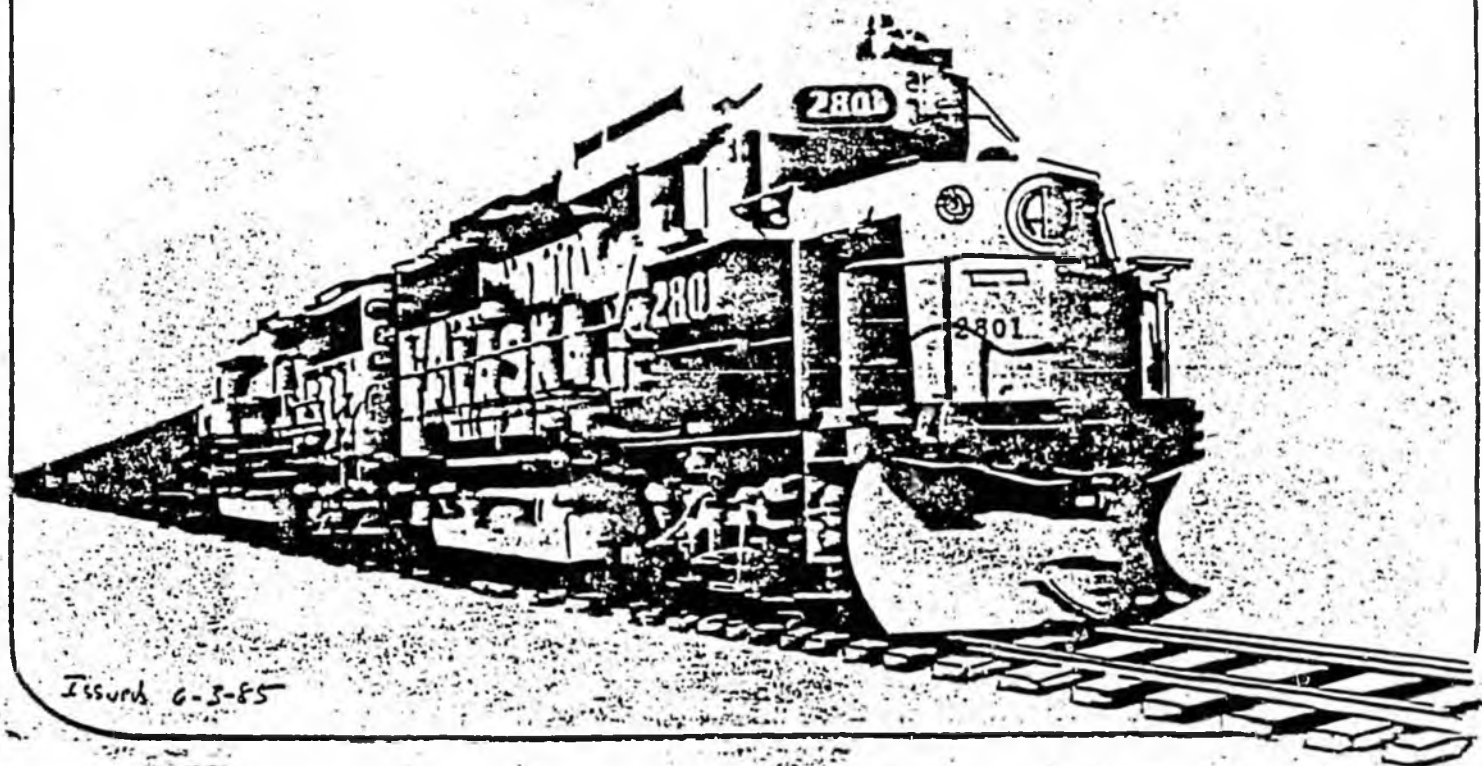


EXHIBIT C

Management

	Board of Directors	President & CEO	V.P., Finance	V.P., Operations	V.P., Marketing	Director, Administration	Director, Human Resources	Chief Counsel	Manager, Corporate Communications	Manager, Internal Control
Salary Actions - continued										
All Employees										
Approve Termination by ARRC for Any Reason (9) (16)	A	A	A	A	A	A	A/E	A		
Approve Promotion (9) (16)	A	A	A	A	A	A	A/E	A		
Approve Leave Without Pay	A	A	A	A	A	A	A	A	15 days	5 days
Approve Suspension for Any Reason (9) (16)	A	A	A	A	A	A	A/E	A		
Approve Memberships, Attendance at Professional Meetings, Seminars and Reimbursable Course of Study	A	A	A	A	A	A	A	A	A	
Represented Employees										
Labor Agreements Negotiable with Unions (9)			E		E			E(17)		
Sign Labor Agreements (9) F	E			E			E(17)	E		
Public Relations										
Speeches, Publications, Press Releases, Advertising										
Having Significant Financial or Public Affairs Implications on the Railroad	A	E	E	E	E	E	E	E	A	
All Others	A	A	A	A	A	A	A	E	A	
Approve Company Position and Technical Papers on Internal Operations for Use by Company Personnel in Making Public Speeches, Answering Inquiries, Granting Press Interviews, Etc.	A	A	A	A	A	A	A	E	E	
Presentation of Company Position to Government and Other Agencies in Proceedings, Hearings or Pending Court Actions	A	A	A	A	A	A	A	A	E	
Miscellaneous										
Assign Company Vehicle	A	A	A	A	A	A				
Assign Company Take Home Vehicle	A									
Approve Issue of Firearms	A									
Approve Destruction of Corporate Records	A		E			A		E		
Approve Tours of Railroad Facilities	A	A	A	A	A	A	A			E
Operational Changes										
Extend Railroad Lines (22)	E	E	E	E						
Tariffs - Freight Rates (12)										
Establishing Tariffs			E		A					
Exempt Rates			E		A			E		
Contract Rates			E		A			E		
General Rate Increase			E		A					
Real Estate										
Approve Lease of Corporation Property										
Less than 3 yrs		A	E	E	E					
Over 3 yrs	A	E	E	E	E					
Over 35 yrs (23)	E	E	E	E	E			E		
Exercise Eminent Domain (24)										
Execute the Contract										
Less than 10 yrs		A						E		
Over 10 yrs	A		E					E		E

Department Managers

	Superintendent, Transportation	Chief Engineer	Chief Mechanical Officer	Chief, Security	Manager, Sales	Manager, Marketing	Manager, Passenger Services	Director, Real Estate	Manager, Financial Services	Manager, Procurement	Manager, Supply	Manager, Administrative Services	Manager, Accounting	Manager, Information Systems
Authorization for Expenditures														
Capital AFE (Approved Budget) (1)	100k	100k	100k	10k	10k	10k	10k	10k	25k	10k	10k	10k	10k/E	10k
Expense AFE (Approved Budget)	250k	250k	250k	100k	100k	100k	100k	100k	100k	100k	100k	100k	100k	100k
Contracts & Letters of Agreement (3)	25k	25k	25k	10k	10k	10k	10k	10k	5k	5k/E(2)	5k	5k	5k	5k
Request for Contract														
Request for Sole Source Contract (Approved Budget)	10k	10k	10k	10k	2k	2k	2k	2k	2k	2k/E	2k	2k	2k	2k
Request for Personal Services Contract	5k	5k	5k	5k	5k	5k	5k	5k	5k	5k	5k	5k	5k	5k
Approve Contractor Time Sheets for Reimbursement	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Execution of Contracts (4)														
Issue ARRC Equid to others for less than one year														
Purchasing (Approved Budget) (5)														
Material Requisition	25k	25k	25k	10k	5k	5k	5k	5k	5k	5k/E(2)	5k	5k	5k	10k
EPD Establishment	1k	1k	1k	1k	5k	5k	5k	5k	5k	5k	5k	5k	5k	10k
Establish PPO Releaseor (17)	A	A	A	A	A	A	A	A	A	A	A	A	A	A
P.O.'s and Amendments (4)														
Transportation (Approved Budget)														
Authorized Transportation - Business and Traveling (8)														
Interstate (May Approve Own Travel Authorization)	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Approve Use of Charter Aircraft (Emergency)	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Rail Trip Pass	A	A	A	A	A	A	A	A				A		
Disbursements														
Invoices														
Covered by Contracts	50k(15)	50k	50k	20k	5k	5k	25k	10k	10k	5k	5k	10k	10k(7)	10k
Transportation - MTL5														
Charter Aircraft	5k	5k	5k	5k				75k						
Property Damage & Injury Claim														
All Other (Including Check Requests Without Invoice)	1k	1k	1k	1k	1k	1k	1k	1k	1k	1k	1k	1k(9)	1k	1k
Payroll (Replacement Checks)													2,500	
Expense Accounts														
Regular Travel, Training Travel & Business Expense	1,500	1,500	1,500	1k	2k	1k	1k	1k	500	500	500	500	500	500
Expense Advances														
Regular Travel, Training Travel & Business Expense	1k	1k	1k	1k	1k	1k	1k	1k	500	500	500	500	500	500
Utility Bills														
Party Cash Reimbursement														
Manual Checks														
Journal of Material & Equipment														
Declare Excess to Department (Book Value)	10k	10k	10k	5k	A	A	A	A	A	A	A	A	A	A
Declare MTL5 & Equipment Surplus to the ARRC														
Approve Sales														
Execute Sales Agreement														
Sign Title Certificate														
Savings and Finance														
Transfer Funds														
Establish Petty Cash Funds														
Request to Borrow Funds														
Procure/Reconcile/Execute Loan Contracts														
Execute Master Loan Agreements														
Litigation, Claims, & Insurance														
Claims Against Vendors, Suppliers, Contractors, Common Carriers														
Send Customer Credit/Reduce Invoices Write off Bad Debt														

RULE NO. 4 - PUBLIC DISCLOSURE OF INFORMATION

(Adopted 12-17-84
Amended 7-18-85)

A. Public Information:

As provided in AS 42.40.220, information in the possession of the Corporation is public and available to public inspection at reasonable times.

B. Restrictions on Disclosure:

As further provided under such provision and as required by the Alaska Railroad Transfer Act of 1982 (ARTA) (45 U.S.C. 1204), the following information is hereby designated to be of a privileged or proprietary nature and shall be withheld from public inspection:

- 1.) As required under Sec. 605(b) (ARTA), certain information of the Federal Alaska Railroad available to the Corporation, including, "proprietary business data, personnel records, and other information, the public disclosure of which is prohibited by law;"
- 2.) personnel records of the Corporation including but not limited to each employee's original application for employment and employment memorandum, resume, any and all salary information, reports of other employment investigations, tests, any letters of recommendation, reports of work performance, reports of the employee's progress, disciplinary actions, and such other records as may be created in the employee's initial employment and continued service to the Alaska Railroad Corporation. Personnel records may be released upon receipt of written authorization from the employee, former employee, or applicant whose records are requested. Such authorization shall specifically identify the information authorized for release.

For employees who transferred to the Corporation pursuant to P.L. 97-468, personnel records shall include the employee's Official Personnel Folder, Emergency Medical Folder, and any copies thereof. Disclosure of information contained in the Official Personnel Folder and Emergency Medical Folder shall be governed by applicable Federal law and regulation;
- 3.) communications with and work product of counsel;
- 4.) all other records, documents, data or information of a privileged or proprietary nature, including but not limited to proprietary information associated with specific shippers, divisions and contract rate agreements, and specifically including all information that may be withheld or protected from discovery in proceedings before the Interstate Commerce Commission consistent with the Commission's standards and practices;
- 5.) other information the subject of which could be discussed in executive session under AS 42.40.170;
- 6.) any other information or records required to be kept confidential by Federal or State law or regulations.

ALASKA RAILROAD CORPORATION
TRANSPORTATION/ENGINEERING

January 14, 1987

OPERATING CIRCULAR NO. 37
ENGINEERING BULLETIN NO. 87-01

To: All Concerned

From: Supt. of Transportation
Chief Engineer

Subject: Policy for Moose That Have Been Struck by Trains

In addition to Special Instruction No. 6 of Timetable No. 120, the following will apply.

Crews of trains that strike moose will evaluate the condition of the moose and report to the train dispatcher, i.e. is it dead, crippled, or has it run away?

When the train crew reports the moose dead, the train dispatcher will notify the appropriate on duty section foreman. If after section work hours, the train dispatcher will arrange to have the foreman notified at morning lineup.

If the moose was reported as crippled, the train dispatcher will notify the appropriate section foreman so that the wounded animal may be humanely dispatched. Overtime is authorized for this purpose. If unable to reach the appropriate section foreman, the train dispatcher will try to contact an adjacent section foreman, Engineering Department supervisor, or call a District Roadmaster as applicable.

The section foreman will evaluate the carcass. If salvageable, the carcass will be field dressed. The foreman will advise the train dispatcher the road crossing the carcass will be delivered or that the carcass is not salvageable.

The train dispatcher will call the appropriate number below to advise that a moose was struck by a train and that a carcass is available for a charity to pick up at a particular crossing or that the carcass was not salvageable.

The disposal of salvageable moose meat is directed by the Division of Fish and Wildlife Protection of the State of Alaska Department of Public Safety (FWP). They will arrange for the carcass to be picked up at the applicable road crossing.

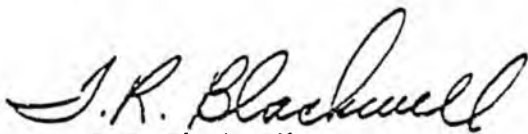
<u>ARRC LOCATION</u>	<u>ALASKA STATE TROOPER DISPATCHER</u>	
Seward to Portage	262-4453	Soldotna
Whittier Branch	269-5711	Anchorage
Portage to Matanuska	269-5711	Anchorage
Matanuska to Cantwell	745-4247	Palmer
(7:30 a.m. - 4:30 p.m. Monday through Friday; after hours call Anchorage)		
Cantwell to Eielson	452-2114	Fairbanks

Neither FWP nor any employee of the ARRC may authorize any non-employee to enter upon Railroad property except at road crossings.

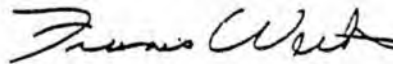
No employee may utilize any portion of a train killed moose nor give any part to any person except as designated by FWP.

When the salvaged carcass is taken into Whittier, the train dispatcher will contact Whittier Chief of Police who will arrange for the disposal of the carcass. FWP will be advised of the kill and disposition of the moose. The number for the Chief of Police is 474-2340.

If the initial report from the train crew was that the moose ran off, only a report to the designated telephone number is required.



T. R. Blackwell
Supt. of Transportation



F. C. Weeks
Chief Engineer

Distribution B, D, & F

DATE AND TIME POSTED _____

POSTED BY _____

ALASKA RAILROAD CORPORATION

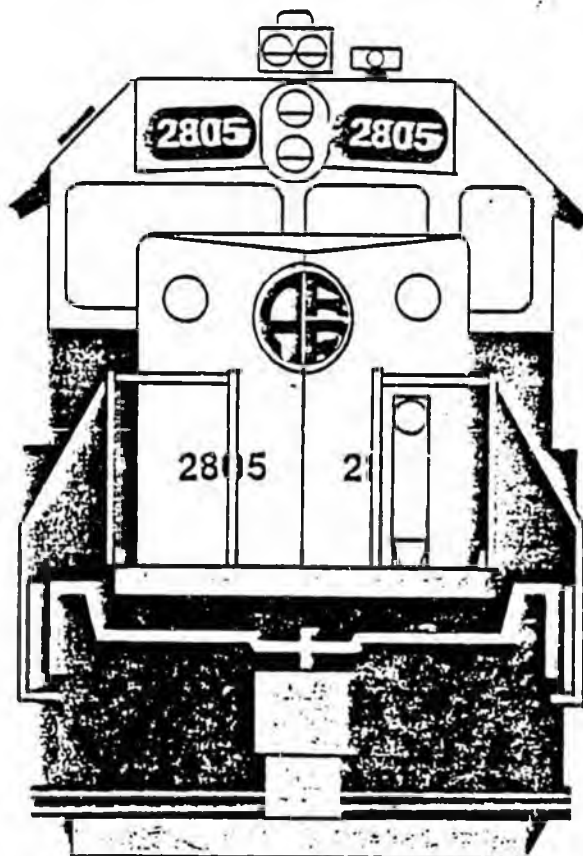
TIME TABLE NO. 120

In Effect at 12:01 A.M.
Alaska Daylight Savings Time
Sunday, July 20, 1986

F.G. TURPIN
President
and
Chief Executive Officer

A.T. POLANCHEK
Vice President, Operations

T.R. Blackwell
Superintendent of Transportation



GULF of ALASKA

SPECIAL INSTRUCTIONS

4. HANDLING OF CARS CONTAINING HAZARDOUS MATERIALS:

For train placement, switching restrictions, emergency actions by train crews, shipping paper information and inspection requirements, refer to the Hazardous Materials chart in the back of this timetable.

Switching restrictions for cars placarded with Flammable Gas placard and Poison Gas placard apply to empty as well as loaded cars. Switching restrictions for TOFC/COFC also apply to flat cars with any placarded lacing.

It will be the yard conductor's responsibility to know if any placarded cars are on a track before releasing any other cars into that track.

Conductors will review train consist for proper placement of all placarded cars. Cars improperly placed will be switched out to obtain proper placement prior to train movement.

The Emergency Response Identification number located in the center of each placard or on each waybill, switch ticket, or other document used to move hazardous materials, provides information and actions to be taken in the event of an accident or unintentional release of hazardous materials.

Should an accident occur, locate the waybills for cars involved or refer to the number on the placard. This four digit number is referenced in DOT Publication P.5800.3 or subsequent issues, Emergency Response Guidebook. The book, utilizing the four digit number, will provide vital information, the most significant potential hazards and gives guidance for initial actions to be taken by personnel involved or engaged in the initial response to an accident. Yardmasters, Chief Dispatcher and Trainmasters can provide the necessary response information from the guide book.

Emergency Response Personnel, police, fire, and/or medical, will be assisted and allowed access to accidents and/or incidents involving hazardous materials.

5. BLOCKING WYES/SIDINGS:

No siding or wye will be blocked with cars, engines, or on-track equipment unless authorized by the Train Dispatcher.

6. GAME ANIMALS/LIVESTOCK:

When trains hit any large animals, train will come to a complete stop and train inspection will be made except when it is known animal is clear of track and will cause no danger to movement of trains.

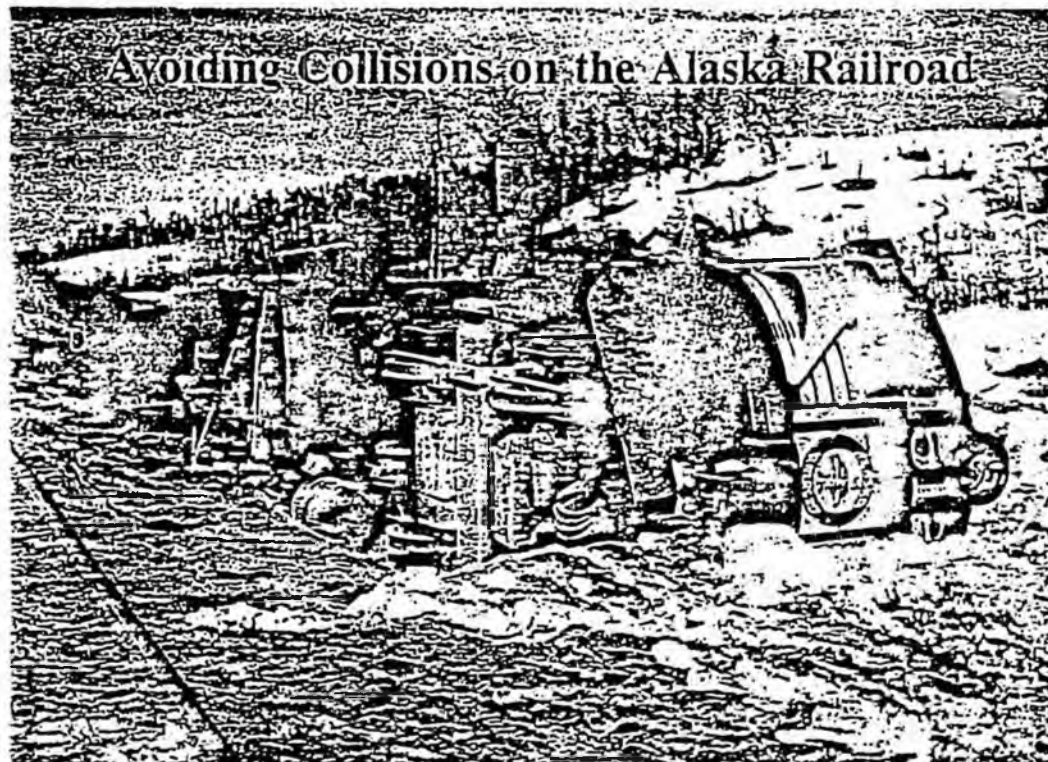
Whenever any animals are struck or killed by trains, a report must be made to the Train Dispatcher immediately.

7. LOADING AND HANDLING HEAVY EQUIPMENT:

Trains handling cranes, draglines, shovels, and similar equipment set up with or without boom attached, must be handled under special arrangement.

Yardmasters or agents will insure proper placement of steel underframe flat cars of not less than 100,000 pounds capacity for loading of equipment specified above. It will be the responsibility of the Mechanical Department to inspect and accept such loads, advising the Yardmaster or Agent of acceptance, giving car number and maximum speed at which car may be moved. It will be the responsibility of the Yardmaster or Agent to see that no loads such as specified above will be placed in trains for movement until they have been accepted by the Mechanical Department and the Dispatcher has been notified of speed restrictions. Dispatcher will issue instructions covering restrictions. Equipment with boom attached must be loaded with boom trailing unless approval from Dispatcher is obtained for movement in forward position. Conductors handling loads with boom in forward position, except on work trains, will be authorized to do so by message from Dispatcher.

When Moose and Train Meet:



ADF&G S/11

by Jack C. Didrickson and Raymond J. Kramer

EXHIBIT F

On the last day of February 1985, Alaska Railroad Locomotive Number 3006N chugged its way out of the Anchorage railroad yards bound for Fairbanks. None of its crew realized that an unwanted record would be set before it arrived at its destination the next morning. Nineteen moose would die that trip, crushed by the locomotive, while the helpless crew watched, unable to save the victims. And, as the winter snows continued, more moose died on almost every run until the annual total for the entire length of the railroad came to 385.

Fortunately, not every year is a duplicate of the winter of 1984-85. This past winter (1985-86), 17 moose were killed along the entire length of the Alaska Railroad.

What causes these mortalities, and what can be done to lessen or prevent them? These are questions of primary importance to not only game biologists and railroad employees, but also to the public, some of whom see this as a shameful situation that could be easily remedied. Although many ideas have been proposed and tried, there is no one good solution.

Initially, both ADF&G and the Alaska Railroad presumed

that the high mortality in some years occurred simply because the moose population periodically fluctuated, with most kills occurring when the population was high. We now know this is not the case. By correlating the Alaska Railroad's daily records over the years with weather patterns which coincided with the chronology of high moose losses, we could see a pattern. In years of deep snow depth (three to five feet) for long periods of time, moose losses along the tracks drastically increased. Conversely, in winter periods of little snow, or when spring thaws decreased the snow depths, moose-train incidents significantly declined.

A majority of the 1984-85 mortalities occurred on the tracks between Willow and Talkeetna, in an area known as Game Management Unit (G.M.U.) 14B. This is an area with a large moose population, most of which remains in the high reaches of the Talkeetna Mountains throughout the summer and fall. In winter, as snow and winds increase in these highlands, a large number of the moose move down the mountain slopes to their critical winter food supply of willows along the Susitna River.

Unfortunately, both the railroad and the main highway from Anchorage to Fairbanks bisect their migration path.

When snows exceed three feet, the moose find these man-made "trails" a convenient place to walk or rest, and therein lies the cause of the mortality. Moose are somewhat reluctant to leave these cleared areas and they have not, for the most part, learned to fear trains or autos. As a result, an additional 77 animals were killed by highway vehicles during the 1985 season. Also, many become stressed by deep snow and the lack of near-by browse. In residential areas along the highway, stressed moose belligerently chased dogs, children, and adults, with the result that another 40 were killed in defense of life and property, bringing the total loss of moose in GMU 14B to 502. Hunters, on the other hand, took only 216 animals in the following 20-day September season, before the deep snows set in.

Although a large percentage of mortalities for all years occurs between Willow and Hurricane, with a few other "hot spots," mortalities are otherwise fairly uniformly distributed along the entire length of the tracks; therefore, the problem is not merely a local one. A solution must be provided that works along the entire railroad corridor from Seward to Whittier to Fairbanks.

Meetings have been held between the Alaska Railroad personnel and ADF&G game biologists to seek answers and actions, and members of the public have enthusiastically offered innovative ideas, but no single, concrete solution has been found.

There are certain realities which must be faced where "compromise" simply won't work. The trains must run and they must run on or near schedule; too many people and businesses are dependent on the products delivered to interrupt service. Closing down the railroad in winter is no solution. Scheduling the trains to run only in daylight hours won't work, with only four to five hours of daylight present during the critical months. Accurately predicting where and when deep snows will occur is beyond human technology. We must look to the tracks and trains themselves for solutions.

Perhaps the most "far-out" solution offered so far was that of a giant cushioned rubber bumper attached to the front of the locomotive. Here, laws of physics and elasticity come to bear, causing visions of a moose being hit at 40 mph, sinking into this giant cushion, and then being sprung out in front of the train again, only to be picked up and thrust again, endlessly bouncing down the tracks.

Another more realistic attempt was to mount sonic whistles on the locomotive which might alert the animals. The experiment failed, however. When the train moved comparatively slowly, the whistles didn't whistle, and when it was very cold they froze into silence.

Slowing the train from 40 to 20 mph in "hot spot" areas was another idea. Not only did scheduling dif-

In times of heavy snow, moose make use of the cleared areas on the tracks of the Alaska Railroad for walking and resting. Here, a train has stopped for a moose bedded down on the tracks during a snowstorm in the winter of 1985.



M. Penn
Anchorage Daily News

difficulties make this impossible, but the trains couldn't climb certain grades on the icy tracks if momentum was lost.

Decking or covering the ties on trestle bridges to permit moose to safely cross was suggested, but this idea was denied because speed sensors on the train wheels reportedly will not work properly in the presence of the coverings.

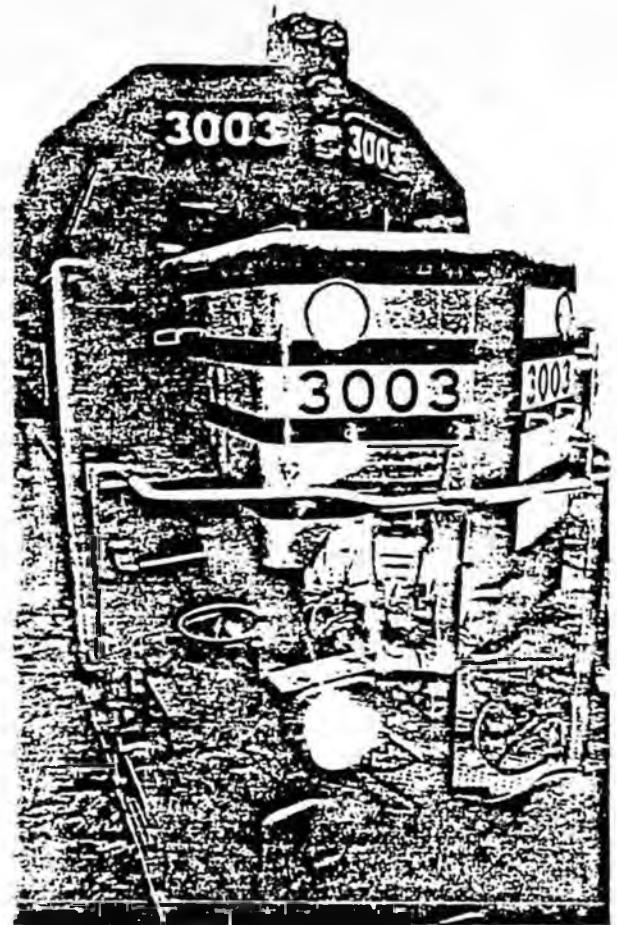
One of the major problems in deep snow is that of the "tunnel" effect which trains create with their own snow plow on the front. In this situation, once a moose is on the track, after struggling in deep snow, it won't leave even with a train bearing down on it. There is little room between the train and the wall of snow and the moose are often sideswiped. "Wing plowing," where special equipment plows 20 feet on either side of the tracks seems to have merit in certain areas where topography permits, but this is not the complete answer. When the railroad bed is significantly higher than surrounding terrain, moose still prefer the track bed to jumping down into deep snow.

The best, but perhaps most complicated, scheme offered so far is to allow permit hunters to harvest moose along the railway corridor, at times when heavy snowfall occurs. Logistically, this would prove difficult. First, permits would have to be fairly allocated and there would be no guarantee in any particular year that a hunt would be held. The hunt would occur only in areas determined to be "hot spots" and then only within a narrow corridor along the tracks. When snows are deep, snowmachines bog down and would prove worthless. Furthermore, hunters riding snowmachines, or even walking down the railroad right-of-way, simply would not be safe; eventually someone would be hit by a train.

The only apparent method of getting hunters afield would be to run a "hunter train" which could stop in designated areas, let hunters off for a period of time, and pick them up later, with their harvested moose. This plan, too, offers tremendous logistical problems and would require a great deal of common sense and wintercraft knowledge on the part of each hunter. If regular train schedules were to continue, each hunter would have to be back at his designated pickup point precisely on time, as the train could not delay its schedule. A hunter who took an animal too far away would perhaps have to leave all or part of his moose behind; this is a violation of wanton waste laws and would defeat the purpose of obtaining the meat.

Based on random permit drawing, there is a chance that some inexperienced hunters might be drawn who would have no idea of the severity of camping out in -40° weather. To leave them out in these conditions overnight could prove disastrous, particularly if a storm occurred. Inevitably, someone would get lost, frostbitten, or hypothermic.

For lack of a workable solution, the problem is far from resolved. We would all like to see a harvest shift from trains to hunters. In Canada, Sweden, Norway, and Russia, game managers are also seeking answers to this problem, but as yet no economically feasible solution has been found. Fencing both sides of the railway would not only be exorbitantly expensive, but would also cut the moose off from their winter habitat. Overpasses or underpasses, with wing fences to funnel the animals onto these routes, have shown promise in Europe, but



Al. From
Anchorage Daily News

Frank Box, boilermaker for the Alaska Railroad, welds one of two lights that were attached to the locomotives to chase moose off the tracks.

because of the great mileage involved would require literally millions of dollars to accomplish effectively in Alaska. Just such an underpass has been proposed outside Anchorage under the Glenn Highway; the results of this experiment will tell us much over the next few years.

Can our railbelt moose populations sustain these losses? The answer is a cautious "yes," with the adjustment of seasons and bag limits, but game managers would prefer to see a better use for the tons of meat that are spoiled by a train's crushing impact.

As Alaska moves into the 21st century, answers to this vexing problem may be found. In the meantime, game biologists must continue to obtain basic biological information to justify attempts at possible solutions.

Jack C. Didrickson, who has been with the department since 1959, serves as Area Game Biologist with the Division of Game, ADF&G, Palmer.

Raymond J. Kramer serves as Game Biologist, Division of Game, ADF&G, Anchorage.

Adopted July 18, 1985

Resolution No. 85-5:
Relating to the policy of
Hiring Alaska Residents

WHEREAS the Board of Directors of the Alaska Railroad Corporation has examined corporate statistics to determine the ratio of Alaska residents hired to non-residents; and

WHEREAS this examination reveals that nearly all new employees were Alaskans at the time of employment; and

WHEREAS sound justification existed for the employment of those non-residents;

NOW, THEREFORE, BE IT RESOLVED that management of the Corporation continue this performance in hiring Alaska residents to develop and to maintain a viable and stable workforce for both the Corporation and the State of Alaska.

BEC/CASHFLOW
C:BUDGET86The Alaska Railroad Corporation
Cash Flow Analysis
1985

	January	February	March	April	May	June	July	August	September	October	November	December	Total
Income													
Freight	\$3,445	\$3,993	\$4,150	\$5,157	\$5,363	\$6,357	\$6,178	\$6,113	\$5,643	\$4,784	\$4,894	\$4,894	\$59,671
Passenger	30	30	30	40	290	1,100	1,200	1,100	540	50	50	60	4,520
Real Estate	340	340	340	340	340	340	340	340	340	340	340	340	4,080
Other	418	418	418	418	418	418	418	418	418	418	418	418	4,920
Total Income	\$4,225	\$4,773	\$4,938	\$5,947	\$7,083	\$7,907	\$8,128	\$7,963	\$6,933	\$5,584	\$4,894	\$4,904	73,191
Expenditures													
Freight	\$4,220	\$4,445	\$4,520	\$4,450	\$4,515	\$4,915	\$4,915	\$4,915	\$4,615	\$4,565	\$4,350	\$4,350	\$54,775
Passenger	60	60	60	150	450	1,515	1,535	1,505	655	150	150	150	6,640
Real Estate	24	25	25	30	30	30	30	30	30	30	30	30	344
Other	310	310	310	310	310	310	310	310	310	310	310	310	3,720
Total Expenditures	\$4,614	\$4,840	\$4,915	\$4,940	\$5,305	\$6,770	\$6,790	\$6,760	\$5,510	\$5,055	\$4,840	\$4,840	65,479
Net Income													
Freight	(\$775)	(\$452)	(\$370)	\$707	\$1,448	\$1,142	\$1,263	\$1,198	\$1,028	\$219	(\$256)	(\$256)	\$4,396
Passenger	(30)	(30)	(30)	(110)	(160)	(415)	(335)	(405)	(315)	(100)	(100)	(50)	(2,120)
Real Estate	316	315	315	310	310	310	310	310	310	310	310	310	3,736
Other	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Cash Flow	(\$389)	(\$67)	\$15	\$1,307	\$1,698	\$1,137	\$1,338	\$1,203	\$1,123	\$529	\$54	\$64	\$7,712
preciation	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$4,800
Net Income (Loss)	(\$789)	(\$467)	(\$385)	\$687	\$1,298	\$737	\$938	\$883	\$723	\$129	(\$346)	(\$336)	\$2,912
Accumulated Cash Flow	\$4,511	\$4,444	\$4,459	\$5,466	\$7,164	\$8,301	\$9,639	\$10,842	\$11,565	\$12,494	\$12,548	\$12,612	\$12,612

NOTE: Assumes Starting January balance of \$4,900,000 working capital fund provided by state.
Does not include interest earned on cash flow

ALASKA RAILROAD CORPORATION

4

Pouch 7-2111
Anchorage, Alaska 99510 - 7069

November 27, 1984

The Honorable Bill Sheffield
Governor
State of Alaska
Pouch A
Juneau, AK 99811

Dear Governor Sheffield:

Enclosed for your information and consideration is the budget submittal for the Alaska Railroad Corporation. This document was approved at our November 21 Board meeting and includes our funding requests for the upcoming Legislative session.

In accordance with the authority granted in the Alaska Railroad Corporation Act, we established the calendar year as the Railroad's fiscal year for both its operating and capital budget cycles. This approach avoids placing a burden on the Railroad to perform end-of-year reporting during its busy summer activity, and provides greater ease for capital planning consistent with the Railroad's annual cycle of activity.

The first part of the enclosure contains the Railroad's CY-85 (calendar year) and CY-86 capital budget. The two-year program is for approximately \$44.1 million. Projected revenues and available appropriations will be used to fund about \$24.4 million. The remaining \$19.7 million is being requested as part of the State's FY-86 capital budget.

The second part of this enclosure addresses the question of anticipated operating loss from continued passenger service. It is estimated that approximately \$1.7 million in additional revenue in CY-85 and \$1.9 million in CY-86 will be needed to cover operating costs for the Railroad's passenger operations. Consistent with the Alaska Railroad Corporation Act, we are submitting a report detailing the costs associated with the continued provision of these services. However, we have decided against requesting any subsidy at this time, but will cover these losses with other available revenues. In addition, it should be noted that about \$7.5 million of the CY-86 capital budget includes capital assistance related to the continued provision of passenger service.

Due to our recent decision to switch to a calendar year fiscal year, the necessary material explaining the complete CY-85 and CY-86 operating budgets has not been completed. Another package with the detailed information on the operating budgets for these two years will be forwarded shortly.

The Honorable Bill Sheffield
November 27, 1984


2.

Due to time constraints, the Board has not had an ample opportunity to become familiar with all components of the enclosed submittal. We anticipate the need to make some adjustments during the weeks ahead as we become better acquainted with this information and receive greater specificity on transfer-related costs and liabilities. By transmittal of this letter, the Board of Directors of the Alaska Railroad Corporation respectfully requests your concurrence with the capital funding request contained in this material.

If we can be of any further assistance in helping you review this matter, or if you would like us to be available in Juneau to discuss this further, please let us know.

Thank you for your consideration of this matter.

Sincerely,



James O. Campbell
Chairman of the Board

Enclosure

cc:

Frank Chapados, VChairman, ARR Corp. Board of Directors
Gerald Valinske, Member, ARR Corp. Board of Directors
Lewis Dickinson, Member, ARR Corp. Board of Directors
Myron Christy, Member, ARR Corp. Board of Directors
Richard Knapp, Commissioner, State DOT/PF
Richard Lyon, Commissioner, State DCED
Mark Hickey, State Railroad Coordinator
Arnold Polanchek, ARR Actg. General Manager

THE ALASKA RAILROAD
 CALENDAR YEAR 1985 AND 1986 CAPITAL PROJECTS
 \$ IN MILLIONS

	CALENDAR YEAR 1985				CALENDAR YEAR 1986		
	Total CY '85	ARR FY '84	State FY '85	State FY '86	Total CY '86	ARR CY '85	State FY '86
BUILDINGS							
1. Energy Conservation-Phase IV	1.250	1.250					
2. Warehouses	.110	.110					
3. Computer Air Conditioning	.065	.065					
4. Fuel Station Fairbanks					.100	.100	
	<u>\$1.425</u>	<u>\$1.425</u>			<u>\$.100</u>	<u>\$.100</u>	
ROADBED, TRACK & OTHER FACILITIES							
5. Ballast Placing	1.250	1.250			1.500	1.500	
6. Bank Widening	.450	.200		.250	.800	.800	
7. Rail Lubricators	.060		.060		.060		.060
8. Palmer Branch Rehabilitation	.400	.200		.200			
9. Rail/Tie Fasteners	.500	.200		.300	.750	.750	
10. Microwave Radio	.425		.425		.250	.250	
11. Bridges	.800	.500		.300	1.000	1.000	
12. Tunnels	1.500	.325	.115	1.060	1.000	1.000	
13. Utility Systems	.650			.650	.400		.400
14. Fuel Station Additions-Anchorage	.250			.250			
15. Whittier Ramp and TOFC Facilities	.475	.300		.175			
16. Eielson Branch Rehab	2.100	1.000		1.100	1.900		1.900
17. Barge Slip #2-Whittier	.300	.300					
18. Hot Box and Drag Detectors					.500		.500
19. TOFC Terminal Upgrade					1.500	1.500	
	<u>\$9.160</u>	<u>\$4.275</u>	<u>\$.600</u>	<u>\$4.285</u>	<u>\$9.660</u>	<u>\$6.800</u>	<u>\$2.860</u>

THE ALASKA RAILROAD
 CALENDAR YEAR 1985 AND 1986 CAPITAL PROJECTS
 \$ IN MILLIONS

	CALENDAR YEAR 1985				CALENDAR YEAR 1986		
	Total CY '85	ARR FY '84	State FY '85	State FY '86	Total CY '86	ARR CY '85	State FY '86
	<u>\$18.0</u>	<u>\$6.4</u>	<u>\$6.0</u>	<u>\$ 5.6</u>	<u>\$26.1</u>	<u>\$12.0</u>	<u>\$14.1</u>
EQUIPMENT							
20. Locomotives	1.500		1.500		.700	.700	
21. Hopper Cars	1.150		1.150		.490	.490	
22. TWC Cars	.920		.920		.385	.385	
23. Covered Hoppers-Cement	.125		.125		.125	.125	
24. Passenger Car Upgrade	.300		.300				
25. Engineer Construction	.950	.415		.535	2.000	1.510	.490
26. Snow Removal	.900		.900		1.100	1.100	
27. Locomotive Crane	.800			.800	.800		.800
28. Material Handling	.085	.085					
29. Telecommunications Test	.125		.125		.100	.100	
30. Upgrade Radios	.200	.200					
31. Locomotive Rebuild					1.600		1.600
32. Tank Cars					.550	.230	.320
33. Flat Cars-Chain Tie Down					.400	.160	.240
34. Axle Lathe					.100	.100	
35. Wheel Lathe					.200	.200	
36. Repair Dock Crane (Sew.)					.300		.300
	<u>\$7.055</u>	<u>\$.700</u>	<u>\$5.020</u>	<u>\$1.335</u>	<u>\$8.850</u>	<u>\$5.100</u>	<u>\$3.750</u>
OTHER PROJECTS							
37. Passenger Service Glazing, Platforms, Repairs Main Line	.300		.300				
38 -Denali Park					.100		.100
39 -Remanufacture 10 Cars					5.000		5.000
40 Shuttle Improvements					2.400		2.400
	<u>\$.300</u>		<u>\$.300</u>		<u>\$7.500</u>		<u>\$7.500</u>
TOTALS	<u>\$18.020</u>	<u>\$6.400</u>	<u>\$6.000</u>	<u>\$5.620</u>	<u>\$26.110</u>	<u>\$12.000</u>	<u>\$14.110</u>

THE ALASKA RAILROAD
CALENDAR YEAR 1985 PRIORITY CAPITAL PROGRAM

BUILDINGS

1. Energy Conservation-Phase IV	\$1,250,000
2. Warehouses	110,000
3. Computer Air Conditioning	<u>65,000</u>
	\$1,425,000

ROADBED, TRACK & OTHER FACILITIES

4. Ballast Placing	1,250,000
5. Bank Widening	450,000
6. Rail Lubricators	60,000
7. Palmer Branch Rehabilitation	400,000
8. Rail/Tie Fastners	500,000
9. Microwave Radio	425,000
10. Bridges	800,000
11. Tunnels	1,500,000
12. Utility Systems	650,000
13. Fuel Station Additions - Anchorage	250,000
14. Whittier Ramp and TOFC Facilities	475,000
15. Eielson Branch Rehabilitation	2,100,000
16. Barge Slip #2 - Whittier	<u>300,000</u>
	\$9,160,000

EQUIPMENT

17. Locomotives (5) - Financed	1,500,000
18. Hopper Cars (65) - Financed	1,150,000
19. TOFC Cars (30) - Financed	920,000
20. Covered Hoppers - Cement (5)	125,000
21. Passenger Car Upgrade (17)	300,000
22. Engineer Construction	950,000
23. Snow Removal	900,000
24. Locomotive Crane	800,000
25. Material Handling	85,000
26. Telecommunications Test	125,000
27. Upgrade Radios	<u>200,000</u>
	\$7,055,000

OTHER PROJECTS

28. Passenger Service - Glazing, Platforms, Repairs	<u>380,000</u>
	\$380,000

TOTAL

\$18,020,000

THE ALASKA RAILROAD
CALENDAR YEAR 1985 PRIORITY CAPITAL PROGRAM

BUILDINGS

1. Energy Conservation - Phase IV \$1,250,000

Funds requested are part of a larger project approved in 1980. To date, \$5.45 million has been obligated for this project. This \$1.25 million will complete construction of Anchorage Railroad heating plants and eliminate dependence on the high-cost outmoded Knik Arm Power Plant for heat supply. Chugach Electric Association has stopped electricity generation at this plant and scheduled the shut down of steam production in 1985. This phase will install modern, efficient, and properly sized heating plants that will realize significant energy savings, and improve working conditions. Large sections of the 30-year-old steam distribution system with high heat losses and maintenance cost will be eliminated. The installed system will permit utilization of waste oil burners for shop heat and the processing of steam. The return on investment based on a \$3.2 million investment is 27 percent.

2. Anchorage Warehouses \$110,000

Provide for the fencing and paving of the Materials Yard in Anchorage. Relocation of the Material Yard will provide critically-needed space in the Anchorage train yard as well as co-locating this activity with the rest of the warehousing operation. Paving and fencing will allow material handling with forklifts instead of rail cranes and provide required security. The return on investment for this project will be 29 percent.

3. Computer Air Conditioning \$65,000

Replace computer room air conditioner and upgrade Wang Room air conditioning capacity. The computer room air conditioner is in poor condition and not expected to operate reliably during the 1985 summer season. The Wang computer equipment operation has grown beyond the capacity of the existing air conditioning unit. Adequate air conditioning is essential for the computers to remain operational and to protect the Railroad's contracts and lease agreements with equipment suppliers.

ROADBED, TRACK AND OTHER FACILITIES

4. Ballast Placing \$1,250,000

Annual restoration of track surface and alignment with ballast is required to maintain proper track structure in accordance with FRA Track Safety Standards, maintain safe train speeds, and to prevent accelerating maintenance costs due to deteriorating track structure. Distortions of track surface which occur due to frost action, permafrost melt, normal compaction and degradation of ballast require raising and realigning, and placing of new ballast. Additional select crushed ballast is used to improve drainage in order to decrease further distortions as well as prevent lateral displacement of the track structure due to increased train speeds, increased traffic, and thermal stresses.

5. Bank Widening

\$450,000

Provide 120,000 cubic yards of aggregate which is considered the minimum essential in an annual program to increase the stability of the Railroad's mainline embankment, reduce permafrost melt, and prevent waste of crushed ballast. Bank widening along the main line has been minimal since the earthquake repairs of 1964 and 1965. Approximately 250 miles of main-line subgrade requires widening of shoulders to standard width to maintain the track to line and grade, provide walkways for trainmen and permit maintenance of the track structure to FRA standards. Permafrost melt in past years has created a situation that is self-destructive. Crushed rock in many areas now runs directly to the bottom of the embankment slope. A critical area is the section from Dunbar to Happy (a permafrost region) where restoration of shoulders is a must.

6. Rail Lubricators

\$60,000

Install five rail lubricators to reduce rail wear and improve locomotive fuel consumption. Tests conducted by AAR, FRA FAST, and some Class I railroads indicate as much as a 40-percent reduction in locomotive fuel consumption as well as reduced wheel hunting and rail wear from selective rail/flange lubrication. The lubricators will extend the life of five miles of rail on curves an estimated two years, from seven to nine years. The return on investment is 59 percent. Payback is 1.3 years.

7. Palmer Branch Rehabilitation

\$400,000

This critical section of the Railroad requires rehabilitation in 1985 in order to maintain the existing and forecast levels of rail service. During the past year, over 6-1/2 million tons of gravel (79% of the total tonnage) moved over the Palmer Branch. The weight of rail on the Palmer Branch between milepost 3.6 and 4.5 is 70# compared to 115# rail on the main line. The 70# rail is inadequate for the loaded gravel cars. The rail has become surface bent and kinked. Angle bar failure is high and cross level is extremely difficult to maintain. Because the cross ties are in poor condition, 500 per mile must be replaced over the entire branch. Work will include replacing 2400 feet of curve worn 115# rail, shoulder cutting where mud now blocks drainage, and the introduction of standard ballast sections.

8. Elastomeric Rail/Tie Fastners

\$500,000

To increase rail stability, reduce longitudinal rail movement, and increase rail life on curves. This takes advantage of the "state of the art" fastners, commonly referred to as Pandrol plates and clips to provide a cost effective way of ensuring greater rail safety. Rail rotation on curves in recent years has increased lateral loading of gauge face which results in increased rail wear, rail corrugation, gauge widening, and rail rollover. Wood ties, cut spikes, and standard tie plates are no longer adequate under today's wheel loadings. The Pandrol plates and clips provide a wider base (15-1/2" vs 13") which increases stability, and provides a clamping force of +/- 5000 psi per clip between plate and rail base. This clamping force also eliminates the need for rail anchors and, when used out-of-face on hardwood ties, will prevent rail rollover. Derailments caused by rail rollover in recent years probably could have been avoided if Pandrol plates and clips had been installed. Funds will purchase Elastomeric plates, clips, shoulder inserts, "E" clips, anchors, and screws.

9. Microwave Radio

\$425,000

Provides microwave radio telecommunications between Portage and Moose Pass and Hurricane and Gold Creek. Last year the Railroad completed a microwave system over the entire main line except for those two segments and from Portage to Whittier. This work will complete the replacement of open wire telephone pole lines with microwave except for the 12 miles from Portage to Whittier. The telephone pole line between Portage and Moose Pass is in need of major rebuilding at an estimated cost of \$200,000. This line is also subject to outages from adverse winter conditions as well as man-made causes. With the increased traffic to Seward (coal export and TOFC), the pole line will be unable to carry the required data and communication traffic. Improved and reliable train communications will be provided in both areas. The return on investment based on rebuild cost avoidance is 139 percent.

10. Bridge Program

\$800,000

Funds are required for the cyclic replacement/renewal of bridges and culverts along the railroad trackage. The 1985 program includes major maintenance or renewal of 22 bridges, 23 culverts, and 2 tunnels. Repairs and maintenance are necessary to maintain bridges, culverts, and tunnels in a safe condition for rail traffic. Replacement of bridge timbers, culverts, and timber supports is necessary on a 30-year cycle, depending upon the quality of original materials, local environmental conditions and special circumstances, such as fires and accidents. These expenditures will minimize the requirements for placing slow orders which cause increased running time and operating cost.

11. Tunnel Program

\$1,500,000

Funds will be used to reconstruct the roadbed and track, replace tunnel timber supports and increase tunnel clearances in the five tunnels south of Portage between milepost 51 and 53. The result will be reduced maintenance costs, increased operating efficiency, and the minimizing of operational hazards. Winter icing problems require constant maintenance and the ever present threat of accidents. Tunnel supports need replacement and extension to prevent rock falls. Overhanging rock slopes which are unstable must be removed and stabilized. Avalanche hazard areas also require structural protective measures. Tunnel clearance will be increased to allow standard clearance in the tunnels. These tunnels are subject to continuous water problems that have deteriorated the track structure, necessitating reconstruction of the roadbed and track. The tonnage increases brought about by TOFC movements and the export of coal require the upgrading of these tunnels to an acceptable level for safe and efficient operating conditions. An engineering design contract was funded in the FY '84 budget.

12. Utility Systems

\$650,000

This is part of a multi-year program of replacement of 30-plus year old electrical, water, sewer, and heat distribution systems. The \$650,000 in 1985 will concentrate on meeting EPA requirements which the Railroad considers as high priority. Utility systems in Anchorage, Fairbanks, and Whittier Yard areas have exceeded expected lives. Corrosion to pipes and valves, breakdown of electrical insulation and related aging problems are causing frequent maintenance efforts, energy waste and dangerous working conditions. Asbestos

pipe insulation, PCB oil in electrical gear, and non-code construction also requires replacement of these systems. This modernization will reduce costs, reduce losses due to outages, and remove health and life safety hazards. Return on investments on projects using these funds ranges from 34 to 68 percent, with an average ROI of 51 percent.

13. Anchorage Fuel Station Additions \$250,000

Provides for effective and efficient operational upgrade of Anchorage locomotive fuel station. Includes the installation of lube oil and waterlines, relocation of fuel stanchions, and replacement of eight fuel meters. The lube and water lines are needed to enable full locomotive servicing at the fuel station. The current temporary arrangement is expensive to maintain (as it must be removed in the fall and reinstated in the spring) and serves only one track. Relocated fuel stanchions will eliminate the need for long hoses which are expensive to renew, difficult to handle, present a tripping hazard, and increase damage done to fueling valves from striking the pavement. New fuel meters will be remote readout temperature compensated. The current meters are inadequate due to restricted flow rate and lack of temperature compensation. They do not have the capability of measuring fuel added to the tanks. Return on investment is 36 percent with a payback of 4.3 years based on an estimated 20-year life.

14. Whittier Ramp and TOFC Facilities \$475,000

To complete development of Whittier TOFC Yard. Includes construction of a loading ramp, installation of storm drains, lighting, fire protection, and grading. The full development of the TOFC Yard will permit efficient handling of van freight service. Drainage is required to allow a second TOFC track to be installed. With both TOFC tracks, 50 trailer flat cars can be loaded without switching the cars, thus allowing the handling of rail and trailer freight with one train crew. Loading ramp is required to permit handling of heavy equipment and TOFC which cannot be toplifted in Whittier without conflicting with the shuttle operation. Yard maintenance will be reduced by 1/2 of a man year because of better drainage.

15. Eielson Branch Rehabilitation Phase I \$2,100,000

Current traffic projections over the portion of the Eielson Branch from Fairbanks to the North Pole Refinery are 575,000 revenue tons in 1985 and 850,000 revenue tons in 1986. This is an increase from 375,000 revenue tons in 1983 and 450,000 revenue tons in 1984. Between MP 6 to MP 18 there are 9.6 track miles of 75# rail with 16" joint bars. 75# non-control cooled rail is inadequate for present loads. Increased traffic and speed requires a heavier section for safety. The subgrade for the entire length is substandard. Certain locations would require additional shoulder material. The spacing is 20 ties per 39' rail. Fixed elevations would require a combination of undercutting and plowing. To be able to maintain this portion of track with the increase tonnage, it is necessary to rehabilitate this line. The work includes relaying 9.6 track miles of 75# rail with 115# rail, insulating subgrade, adding additional material to bring the subgrade up to standard width, sledding (plowing out old pitrun ballast), adding/replacing ties, placing ballast and surfacing track. At North Pole, the only auxiliary track the Railroad has for switching cars is the 1,500-foot North Pole siding. For the projected volume of traffic, an additional 4,000-foot siding is needed between North Pole and the refinery. The projected

traffic will require the Railroad to handle one loaded and one empty 50-70 car train at a time near the refinery. The proposed track will reduce the switching time at the refinery.

This work is a two-phased project; the first phase includes the rail relay and the siding at North Pole.

16. Whittier Barge Slip #2 \$300,000

To improve the reliability and function of the Railroad's only operational barge slip in Whittier. The slip winches and hoists are 13 years old. The motors, gears, bearings, and electrical gear require major overhaul or replacement. The winches are frequently breaking down and the new double-deck barges introduced in 1984 put increased strain on this equipment beyond its original design. The shifting winches require relocation, new fairleads, and the addition of a consistent-tension feature to enable them to be used again with the current and projected barges.

EQUIPMENT

17. Purchase 5 New 2800HP Locomotives \$1,500,000

Acquisition is essential to provide motive power for export coal trains operating between Healy and Seward in 1985 and subsequent years. The Railroad's current fleet of locomotives is not sufficient to provide power for the new export coal service. During the past summer (1984), an average of 90% (approximately 51 units) were dedicated to use in performing the existing business. Of the remaining 10% (6 units), 4% (2 units) were undergoing major repairs, and 6% (4 units) were receiving minor repairs and necessary periodic maintenance and service. During the summer's peak periods, gravel trains were frequently delayed as there were no units available to replace gravel train locomotives that required refueling or servicing. The purchase of 5 new locomotives will provide the minimum proposed consist of 5 units in this export coal service. The alternative of acquiring used locomotives was considered but ruled out in favor of the GP-49 2800 HP locomotives, four of which were purchased in October 1982. The GP-49, first built in 1982, incorporates the latest "state of the art" improvements providing dramatically increased pulling power making them ideal to meet the hill grades the coal train will encounter. The return of investment for these locomotives is 25 percent.

18. Purchase 65 100-ton Hopper Cars \$1,150,000

Acquisition is essential to support export coal train service between Healy and Seward. The export coal train will require 65 cars per train. With this one set of cars, the train will operate three times a week. The type of car is compatible to the hopper cars used in North-end coal and Palmer-Anchorage gravel service, thus allowing interchange with present equipment. The existing hopper-car fleet is used to full capacity during the spring-summer-fall seasons. Failure to acquire these additional cars will necessitate allocation of the present fleet between coal and gravel service during the spring-summer-fall season and will endanger the Railroad's largest revenue commodity due to the inability to furnish rolling stock. Nonacquisition of these cars will also result in use of older high-maintenance cars for winter service. Maintenance cost of new cars is estimated as 3.4 cents per mile compared to approximately 8.0 cents for older cars. The return of investment for these hopper cars is 26 percent.

19. Acquire 30 Intermodal Platform Cars

\$920,000

Acquisition necessary to support increased TOFC service on all major segments of the Railroad's main line. This purchase involves 30 intermodal platform cars, each capable of moving three trailers of 27 to 50 feet and weighing up to 100,000 gross weight pounds per trailer. This will enable the Railroad to market trailers with heavy loads and thus take advantage of the 48' x 102" equipment presently entering the market. Several other benefits will accrue upon acquisition of these cars. The Railroad would return to the owner 13 cars now on daily rental, saving \$118,625 annually. An additional 10 cars leased by Alaska Hydro-Train would be released saving \$72,885 in annual mileage payments. Acquisition of these new cars would permit the reduction of one train weekly to Whittier and one to Seward saving \$699,190 annually. Total annual savings is approximately \$900,000. The return on investment for these cars is 24 percent.

20. Acquire 5 Covered Hopper Cars

\$125,000

Cars are needed to meet current and projected cement traffic. For the past four seasons, the demand for cement movement has consistently been in excess of the Railroad's ability to supply covered hopper cars. The Railroad's need is for 10 cars and this requests the acquisition of 5 used, covered hopper cars in 1985 with a follow up of 5 in 1986. In 1984, the Railroad had to lease 7 additional cars at \$20 per day. Kaiser Cement Company also leased 5 cars. These temporary arrangements are more expensive for both parties and there is no assurance they can be leased in future seasons. The revenue loss is at least \$285,000 annually due to equipment nonavailability based on 5 cars per week at \$3,000 a car over a 19-week season. The return of investment based on a 10-year life is 200% with payback in less than one year.

21. Upgrade 17 Passenger Cars

\$300,000

To provide reliable air conditioning and essential passenger amenities to passenger cars used between Anchorage and Whittier to service cruise ships. This upgrade proposal will install 3 transformers and a train line in each car to service air conditioning, repair floors, repaint, repair upholstery and other deficiencies as necessary. The Railroad faces the real possibility that rail service provided the past two years to cruise ships docking at Whittier will be canceled with resultant loss of revenue unless the relatively poor passenger comfort from using these cars can be improved. This has created a serious public relations image for the Railroad. The cars rely on generators driven by the car wheels that also charge the batteries. The capacity of the batteries is such that the air conditioning can operate only about 30 minutes when the car is standing. The nature of the service provided necessitates the cars standing at Anchorage for approximately 6 hours between trips to Whittier. Because the cars are exposed to the sun during this period, the interior heat causes extreme discomfort to passengers on the return trip to Whittier. Based on loss of revenue if cruise ship service is cancelled, the return on investment is 167 percent.

22. Engineer Construction Equipment

\$950,000

Replace and modernize construction equipment used by the Engineering Department. The existing Engineering Department equipment fleet is inadequate to conduct maintenance and construction programs. Much of the equipment has been in service so long that frequent breakdowns occur which,

along with the unavailability of parts, results in high maintenance costs. Safety is a paramount concern and would be substantially enhanced with the replacement of older equipment. The \$950,000 requested will replace 32 items which constitutes the highest priority needs and represents only 2 percent of the construction equipment inventory. Included are generators, compressors, rail saws, bull dozers, spike drivers, push cars, a tamper, a regulator, and other items--most of which are over 20 years old and some over 35. Return on investment varies with the piece of equipment ranging between 12 and 165 percent with an average ROI of 46 percent and payback in 2.3 year.

23. Snow Removal Equipment \$900,000

Increased rail traffic and the expansion of van yards at Seward and Whittier and the new coal transload facility at Seward necessitates the acquisition of snow removal equipment to ensure prompt clearance and avoid any disruption in terminal service. The Railroad is confronted with a serious support problem in this area. Three snow blowers recently had to be retired, and the remaining fleet is old, unreliable and subject to frequent failures. Of the 18 graders, loaders, and snow blowers available, 5 were built in the 60's, 12 in the 70's, and 1 in 1981. The existing snow blowers are single-use machines which are idle most of the year. This proposes two major items--loaders, incorporating quick disconnects, snow blowers and buckets to provide versatility in order that they can be utilized throughout the year in a planned maintenance system. Return on investment is 40 percent.

24. Purchase One Locomotive Crane \$800,000

To replace one of three 1950-era locomotive cranes. All three cranes (LC-103, 104, and 105) are over 30 years old and in very poor condition and are past due for heavy overhaul. Virtually all mechanical parts are worn beyond reclamation and wiring insulation is seriously deteriorated. Parts are no longer available for these cranes. Due to the advanced state of deterioration of these units, it is becoming impractical to continue them in a safe, serviceable condition much longer. The ditcher cranes are required to maintain track drainage ditches, remove slides, and improve unstable hillsides. The geological nature of the area through which the Railroad passes is very unstable, requiring constant clearing of drainage ditches, removal of rocks and mud from tracks and removing ice glaciers. The Railroad is vulnerable in three widely separate areas (Healy Canyon, Chase Bluffs, and the Spencer-Grandview). At times slides occur at all three locations. Serious subgrade and ballast saturation occurred during 1984 when two ditchers were clearing slides and one was in the shop for repairs. This condition necessitates the purchase of one replacement crane in 1985. Return on investment is 40 percent.

25. Material Handling Equipment \$85,000

Purchase two truck-yard hostlers to replace two yard hostlers on lease at \$16,800 per annum. The Railroad has expanded TOFC/COFC traffic, most notably SeaWay Express service into Seward and Alaska Hydro-Train roll on/roll off service into Whittier in 1984. In order to handle this traffic with cost-effective and reliable yard hostlers, replacement of the two leased vehicles, which are nearly 12 years old and in poor condition, with two new yard hostlers is advisable. Under terms of the lease agreement, the Railroad is responsible for cost of repairs and maintenance of the leased yard hostlers. Due

to age of these vehicles, downtime for repairs was as high as 20 percent. Parts are becoming obsolete, necessitating substitute parts to keep them operating. Return on investment is 19 percent.

26. Telecommunications Test Equipment \$125,000

Purchase of telecommunications test equipment is required to be able to maintain the Railroad's communication systems within FCC and industry standards. Radio lab test equipment will provide a second radio lab position to service and maintain base, mobile, and portable radios as well as pagers. This will eliminate the summer backlog of radio repairs which has necessitated an extra man on train crews because of unrepaired radios. The Railroad has a very limited amount of microwave test equipment. As the microwave systems age, outages and reduced performance will result unless an adequate check program is enforced. Data systems test equipment is needed to isolate problems with software, hardware, and transmission systems. Estimated annual savings resulting from crew costs, microwave, and data system savings is \$30,000. The average rate of return on investment for this equipment is 26 percent.

27. Upgrade Radio System \$200,000

To improve dispatcher radio communications and install a communication capability within the Whittier tunnels. The current radio system is severely congested. This condition can be corrected by adding multi-channel capacity to the dispatcher radio system. Trains can then operate on alternate radio channels. The addition of communications in the Whittier tunnels will enable train crews to talk to the dispatcher while inside the tunnels. No communication from within the tunnel (3-1/2 miles) is possible now.

OTHER PROJECTS

28. Passenger Service-Glazing, Platforms, Repair \$380,000

To provide improved passenger amenities by upgrading deficiencies that are principal causes of frequent tourist passenger complaints received by the Railroad and the State. Specifically these funds will be used to replace window glazing in six Amtrak dome cars (\$240,000), improve by constructing or lengthening passenger platforms at Whittier and Anchorage to accommodate cruise ship passengers, and selected repair of seating and carpeting.

THE ALASKA RAILROAD
CALENDAR YEAR 1986 PRIORITY CAPITAL PROGRAM

BUILDINGS

1. Fuel Station - Fairbanks	\$100,000
	\$100,000

ROADBED, TRACK & OTHER FACILITIES

2. Ballast Placing	1,500,000
3. Bank Widening	800,000
4. Rail Lubricators	60,000
5. Rail/Tie Fastners	750,000
6. Microwave Radio	250,000
7. Bridges	1,000,000
8. Tunnels	1,050,000
9. Utility Systems	400,000
10. Eielson Branch Rehabilitation	1,900,000
11. Hot Box and Drag Detectors	500,000
12. TOFC Terminal Update	1,500,000
	\$9,660,000

EQUIPMENT

13. Locomotives (5) - Financing Payment	700,000
14. Hopper Cars (65) - Financing Payment	490,000
15. TOFC Cars (30) - Financing Payment	385,000
16. Covered Hoppers - Cement (5)	125,000
17. Engineer Construction	2,000,000
18. Snow Removal	1,100,000
19. Locomotive Crane	800,000
20. Telecommunications Test	100,000
21. Locomotive Rebuild (4)	1,600,000
22. Tank Cars (25) - Financed	550,000
23. Flat Cars - Chain Tie Down (20) Financed	400,000
24. Axle Lathe	100,000
25. Wheel Lathe	200,000
26. Repair One Dock Crane - Seward	300,000
	\$8,950,000

OTHER PROJECTS

Passenger Service Projects:

27. Denali Park Station	100,000
28. Remanufacture Ten Cars	5,000,000
29. Shuttle Improvements	2,400,000
	\$7,500,000

TOTAL

\$26,110,000

THE ALASKA RAILROAD
CALENDAR YEAR 1986 CAPITAL PROGRAM

BUILDINGS

1. Warehouses \$100,000

This represents a much needed but fractional part of the start of a multi-year program to replace or upgrade warehouses. To adequately plan and budget for the Railroad's warehouse needs, a \$90,000 study will be initiated in 1985. This study, which will include a facilities plan and preliminary design for replacing warehouses, will form a basis of future capital budget items. Two of the existing Anchorage warehouses have exceeded their expected service lives and have serious deficiencies. This \$100,000 will be used to fund the highest priority and most pressing immediate needs commensurate with traffic projection support in 1986.

ROADBED, TRACK AND OTHER FACILITIES

2. Ballast Placing \$1,500,000

Annual restoration of track surface and alignment with ballast is required to maintain proper track structure in accordance with FRA Track Safety Standards, maintain safe train speeds, and to prevent accelerating maintenance costs due to deteriorating track structure. Distortions of track surface which occur due to frost action, permafrost melt, normal compaction and degradation of ballast require raising and realigning, and placing of new ballast. Additional select crushed ballast is used to improve drainage in order to decrease further distortions as well as prevent lateral displacement of the track structure due to increased train speeds, increased traffic, and thermal stresses.

3. Bank Widening \$800,000

Provide 250,000 cubic yards of aggregate to increase the stability of the Railroad's mainline embankment, reduce permafrost melt, and prevent waste of crushed ballast. Bank widening along the main line has been minimal since the earthquake repairs of 1964 and 1965. Approximately 250 miles of main-line subgrade requires widening of shoulders to standard width to maintain the track to line and grade, provide walkways for trainmen and permit maintenance of the track structure to FRA standards. Permafrost melt in past years has created a situation that is self-destructive. Crushed rock in many areas now runs directly to the bottom of the embankment slope. A critical area is the section from Dunbar to Happy (a permafrost region) where restoration of shoulders is a must.

4. Rail Lubricators \$60,000

Install five rail lubricators to reduce rail wear and improve locomotive fuel consumption. Tests conducted by AAR, FRA FAST, and some Class I railroads indicate as much as a 40-percent reduction in locomotive fuel consumption as well as reduced wheel hunting and rail wear from selective rail/flange lubrication. The lubricators will extend the life of five miles of rail on curves an estimated two years, from seven to nine years. The return on investment is 59 percent.

5. Elastomeric Rail/Tie Fastners

\$750,000

To increase rail stability, reduce longitudinal rail movement, and increase rail life on curves. This takes advantage of the "state of the art" fastners, commonly referred to as Pandrol plates and clips to provide a cost effective way of ensuring greater rail safety. Rail rotation on curves in recent years has increased lateral loading of gauge face which results in increased rail wear, rail corrugation, gauge widening, and rail rollover. Wood ties, cut spikes, and standard tie plates are no longer adequate under today's wheel loadings. The Pandrol plates and clips provide a wider base (15-1/2" vs 13") which increases stability, and provides a clamping force of +- 5000 psi per clip between plate and rail base. This clamping force also eliminates the need for rail anchors and, when used out-of-face on hardwood ties, will prevent rail rollover. Derailments caused by rail rollover in recent years probably could have been avoided if Pandrol plates and clips had been installed. Funds will purchase Elastomeric plates, clips, shoulder inserts, "E" clips, anchors, and screws.

6. Microwave Radio

\$250,000

Provides microwave radio telecommunications between Portage and Whittier. This will complete the replacement of open wire telephone pole lines with microwave over the entire main line. Besides removing the need for a pole line from Portage to the tunnels, it eliminates the marine cable in the tunnels and beyond to Whittier which were placed in the 40's and about reached the end of their useful life. This microwave will avoid replacement of the pole line and marine cable at a cost of \$200,000. The microwave will provide a higher capacity, more reliable and secure system. The return on investment is 140 percent with a payback in 1.25 years.

7. Bridge Program

\$1,000,000

Funds are required for the cyclic replacement/renewal of bridges and culverts along the railroad trackage. The 1986 program includes major maintenance or renewal of 16 bridges and 30 culverts. Included is major pier work on Bridge 264.1 (Susitna River at Gold Creek) and Bridge 86.6 (Bird Creek). Repairs and maintenance are necessary to maintain bridges, culverts, and tunnels in a safe condition for rail traffic. Replacement of bridge timbers, culverts, and timber supports is necessary on a 30-year cycle, depending upon the quality of original materials, local environmental conditions and special circumstances, such as fires and accidents. These expenditures will minimize the requirements for placing slow orders which cause increased running time and operating cost.

8. Tunnel Program

\$1,000,000

This is phase three of a multi-year program to rehabilitate the tunnels south of Portage between milepost 51 and 53. The completed project will result in reduced maintenance costs, increased operating efficiency, and the minimizing of operational hazards. Winter icing problems require constant maintenance and the ever present threat of accidents. Tunnel supports need replacement and extension to prevent rock falls. Overhanging rock slopes which are unstable must be removed and stabilized. Avalanche hazard areas also require structural protective measures. Tunnel clearance will be increased to allow standard clearance in the tunnels. These tunnels are subject to continuous water problems that have deteriorated the track structure, necessitating reconstruction of the roadbed and track. The tonnage increases brought about by TOFC movements

and the export of coal require the upgrading of these tunnels to an acceptable level for safe and efficient operating conditions. An engineering design contract was funded in the FY '84 budget, and phase two was funded in CY '85 budget.

9. Utility Systems

\$400,000

This is part of a multi-year program of replacement of 30-plus year old electrical, water, sewer, and heat distribution systems. The \$400,000 in 1986 will concentrate on meeting EPA and OSHA requirements which the Railroad considers as high priority. Utility systems in Anchorage, Fairbanks, and Whittier Yard areas have exceeded expected lives. Corrosion to pipes and valves, breakdown of electrical insulation and related aging problems are causing frequent maintenance efforts, energy waste and dangerous working conditions. Asbestos pipe insulation, PCB oil in electrical gear, and non-code construction also requires replacement of these systems. This modernization will reduce costs, reduce losses due to outages, and remove health and life safety hazards. The return on investment is 34 percent.

10. Eielson Branch Rehabilitation Phase II

\$1,900,000

Current traffic projections over the portion of the Eielson Branch from Fairbanks to the North Pole Refinery are 575,000 revenue tons in 1985 and 850,000 revenue tons in 1986. This is an increase from 375,000 revenue tons in 1983 and 450,000 revenue tons in 1984. Between MP 6 to MP 18 there are 9.6 track miles of 75# rail with 16" joint bars. 75# non-control cooled rail is inadequate for present loads. Increased traffic and speed requires a heavier section for safety. The subgrade for the entire length is substandard. Certain locations would require additional shoulder material. The spacing is 20 ties per 39' rail. Fixed elevations would require a combination of undercutting and plowing. To be able to maintain this portion of track with the increase tonnage, it is necessary to rehabilitate this line. The work includes relaying 9.6 track miles of 75# rail with 115# rail, insulating subgrade, adding additional material to bring the subgrade up to standard width, sledding (plowing out old pitrun ballast), adding/replacing ties, placing ballast and surfacing track. At North Pole, the only auxillary track the Railroad has for switching cars is the 1,500-foot North Pole siding. For the projected volume of traffic, an additional 4,000-foot siding is needed between North Pole and the refinery. The projected traffic will require the Railroad to handle one loaded and one empty 50-70 car train at a time near the refinery. The proposed track will reduce the switching time at the refinery.

This work is a two-phased project; the first phase included the rail relay and the siding at North Pole, this second phase includes placing shoulder material, sledding, tie renewal, placing ballast and surfacing the track.

11. Hot Box and Drag Detectors

\$500,000

This funds 5 of 12 hot-box and drag detectors the Railroad proposes to install in 1986, 1987 and 1988. The State sponsored SVERDRUP ARR engineering evaluation conducted in 1984 also recommended 12 be installed. The purpose of these detectors is to warn of wheel and bearing overheating and of equipment dragging on a moving train. By pinpointing the source of the defect in the train consist, the problem car can be set out before it causes a derailment. On the basis of preventing only one major derailment over a two-year period

costing \$750,000 and equating to the total capital cost of 12 detectors, the return on investment is 85 percent.

12. TOFC Terminal Upgrade

\$1,500,000

The substantial increase in roll-on roll-off trailer traffic through Seward and Whittier in 1984 and anticipated greater level of this traffic in 1985 and in the future dictates an upgrading of TOFC terminal facilities, especially at Seward and Whittier. These funds will be used for paving, van packer storage facilities, and upgrading of the Railroads terminal facilities at Whittier, Seward, Fairbanks and Anchorage, with priority to Seward and Whittier. It is essential that the Railroad upgrade these terminals in order to retain this important traffic, increase safety, and improve the level of effectiveness and efficiency. Specifically the paving and upgrading will:

- 1) Increase productivity and efficiency in the operation of the van terminal;
- 2) Reduce damage to trailers and lading resulting from soft surface causing loads to tip over;
- 3) Reduce damage to landing gear because of sinking into the ground;
- 4) Increase life of equipment (van packer, jockey trucks, forklifts) because dust will be minimal;
- 5) Provide a smooth operating surface thus minimizing vibration and resistant force in travel thereby increasing the life of equipment;
- 6) Increase handling capacity of van packer because of hard surface;
- 7) Increase safety in operation on hard surface as opposed to uneven gravel surface;
- 8) Reduce possibility of dropping trailers or containers attributed to uneven surface;
- 9) Reduce surface maintenance cost of grading.

EQUIPMENT

13. Purchase 5 New 2800HP Locomotives

\$700,000

Acquisition is essential to provide motive power for export coal trains operating between Healy and Seward in 1985 and subsequent years. The Railroad's current fleet of locomotives is not sufficient to provide power for the new export coal service. During the past summer (1984), an average of 90% (approximately 51 units) were dedicated to use in performing the existing business. Of the remaining 10% (6 units), 4% (2 units) were undergoing major repairs, and 6% (4 units) were receiving minor repairs and necessary periodic maintenance and service. During the summer's peak periods, gravel trains were frequently delayed as there were no units available to replace gravel train locomotives that required refueling or servicing. The purchase of 5 new locomotives will provide the minimum proposed consist of 5 units in this export

coal service. The alternative of acquiring used locomotives was considered but ruled out in favor of the GP-49 2800 HP locomotives, four of which were purchased in October 1982. The GP-49, first built in 1982, incorporates the latest "state of the art" improvements providing dramatically increased pulling power making them ideal to meet the hill grades the coal train will encounter. Return on investment is 25 percent. Locomotives will be purchased in 1985; this constitutes the annual payment of principal plus interest.

14. Purchase 65 100-ton Hopper Cars \$490,000

Acquisition is essential to support export coal train service between Healy and Seward. The export coal train will require 65 cars per train. With this one set of cars, the train will operate three times a week. The type of car is compatible to the hopper cars used in North-end coal and Palmer-Anchorage gravel service, thus allowing interchange with present equipment. The existing hopper-car fleet is used to full capacity during the spring-summer-fall seasons. Failure to acquire these additional cars will necessitate allocation of the present fleet between coal and gravel service during the spring-summer-fall season and will endanger the Railroad's largest revenue commodity due to the inability to furnish rolling stock. Nonacquisition of these cars will also result in use of older high-maintenance cars for winter service. Maintenance cost of new cars is estimated as 3.4 cents per mile compared to approximately 8.0 cents for older cars. Return on investment is 26 percent. Hopper cars will be acquired in 1985; this constitutes the annual payment including principal and interest.

15. Acquire 30 Intermodal Platform Cars \$385,000

Acquisition necessary to support increased TOFC service on all major segments of the Railroad's main line. This purchase involves 30 intermodal platform cars, each capable of moving three trailers of 27 to 50 feet and weighing up to 100,000 gross weight pounds per trailer. This will enable the Railroad to market trailers with heavy loads and thus take advantage of the 48' x 102" equipment presently entering the market. Several other benefits will accrue upon acquisition of these cars. The Railroad would return to the owner 13 cars now on daily rental, saving \$118,625 annually. An additional 10 cars leased by Alaska Hydro-Train would be released saving \$72,885 in annual mileage payments. Acquisition of these new cars would permit the reduction of one train weekly to Whittier and one to Seward saving \$699,190 annually. Total annual savings is approximately \$900,000. Return on investment is 24 percent. Cars will be acquired in 1985; this constitutes annual payment including principal and interest.

16. Acquire 5 Covered Hopper Cars \$125,000

Cars are needed to meet current and projected cement traffic. For the past four seasons, the demand for cement movement has consistently been in excess of the Railroad's ability to supply covered hopper cars. The Railroad's need is for 10 cars of which 5 will be acquired in 1985 and this requests 5 in 1986. In 1984, the Railroad had to lease 7 additional cars at \$20 per day. Kaiser Cement Company also leased 5 cars. These temporary arrangements are more expensive for both parties and there is no assurance they can be leased in future seasons. The revenue loss is at least \$285,000 annually due to equipment nonavailability based on 5 cars per week at \$3,000 a car over a 19-week season. Return on investment is 200 percent.

17. Engineer Construction Equipment \$2,000,000

Replace and modernize construction equipment used by the Engineering Department. The existing Engineering Department equipment fleet is inadequate to conduct maintenance and construction programs. Much of the equipment has been in service so long that frequent breakdowns occur which, along with the unavailability of parts, results in high maintenance costs. Safety is a paramount concern and would be substantially enhanced with the replacement of older equipment. The \$2,000,000 requested will replace 37 items which constitutes the highest priority needs and represents about 2 percent of the construction equipment inventory. Included are generators, compressors, rail saws, bull dozers, spike drivers, push cars, a tamper, a regulator, tie machines and other items--most of which are over 20 years old and some over 35. The average return on investment is 46 percent.

18. Snow Removal Equipment \$1,100,000

Increased rail traffic and the expansion of van yards at Seward and Whittier and the new coal transload facility at Seward necessitates the acquisition of snow removal equipment to ensure prompt clearance and avoid any disruption in terminal service. The Railroad is confronted with a serious support problem in this area. Three snow blowers recently had to be retired, and the remaining fleet is old, unreliable and subject to frequent failures. Of the 18 graders, loaders, and snow blowers available, 5 were built in the 60's, 12 in the 70's, and 1 in 1981. The existing snow blowers are single-use machines which are idle most of the year. This purchase includes two graders, two all terrain haulers with 27 cubic yard capacity and one self-contained quick disconnect snow blower to be attached to an existing loader. Return on investment is 40 percent.

19. Purchase One Locomotive Crane \$800,000

To replace one of three 1950-era locomotive cranes. All three cranes (LC-103, 104, and 105) are over 30 years old and in very poor condition and are past due for heavy overhaul. Virtually all mechanical parts are worn beyond reclamation and wiring insulation is seriously deteriorated. Parts are no longer available for these cranes. Due to the advanced state of deterioration of these units, it is becoming impractical to continue them in a safe, serviceable condition much longer. The ditcher cranes are required to maintain track drainage ditches, remove slides, and improve unstable hillsides. The geological nature of the area through which the Railroad passes is very unstable, requiring constant clearing of drainage ditches, removal of rocks and mud from tracks and removing ice glaciers. The Railroad is vulnerable in three widely separate areas (Healy Canyon, Chase Bluffs, and the Spencer-Grandview). At times slides occur at all three locations. Serious subgrade and ballast saturation occurred during 1984 when two ditchers were clearing slides and one was in the shop for repairs. This condition necessitates the purchase of one replacement crane in 1985, and one in 1986. Return on investment is 40 percent.

20. Telecommunications Test Equipment \$100,000

Purchase of telecommunications test equipment is required to be able to maintain the Railroad's communication systems within FCC and industry standards. Radio lab test equipment will provide portable field equipment to service and maintain base, mobile, and portable radios as well as pagers. The Railroad has a very limited amount of microwave test equipment. As the

microwave systems age, outages and reduced performance will result unless an adequate check program is enforced. Data systems test equipment is needed to isolate problems with software, hardware, and transmission systems. Estimated annual savings resulting from crew costs, microwave, and data system savings is \$18,100. Return on investment is 26 percent.

21. Rebuild Four Locomotives

\$1,600,000

Rebuild and upgrade four obsolescent locomotives to modern standards. The current locomotive fleet is capable of supporting planned service only if all units are serviceable at least 90% of the time. The oldest "second generation" power is the five GP-40's purchased from Conrail. These units will be 19 years old in 1986. One has already been virtually destroyed by fire and the wiring on the other four is in such bad condition that electrical fires are a constant probability. These units must either be replaced or rebuilt and upgraded. Our choices are:

- 1) Rebuild and upgrade all four units now at \$400,000 each and then replace them in 10 years or,
- 2) Replace these four units as they self destruct, estimated to be one per year for the next four years.

Based on the present value (as of 1986) of the ten-year costs of the two options, option one costs \$3.21 million and option two is \$3.87 million, therefore, the best option is one which realizes a savings of \$666,000 by rebuilding four units in 1986.

22. Purchase 25 Tank Cars

\$550,000

Acquisition is necessary to support steadily increasing petroleum traffic from the refinery at North Pole to Nenana, Anchorage and Seward. Volume is expected to double in 1986 and increase by 50% in 1987. Also, in addition, expansion of the refinery at North Pole, the Railroad needs to replace 10,000 gallon equipment which has exceeded the economic age limit for tank cars. Failure to acquire this equipment will result in loss of revenue due to the inability to handle additional traffic and the increased cost of handling the additional traffic because of movement in smaller 10,000 gallon units. Additional revenue expected from acquisition from this equipment will be \$1,600,000 annually. This funding covers down payment and first year's payment plus financing charges and freight.

23. Purchase 20 Chain Tie-Down Cars

\$400,000

Cars are required to support additional roll-on roll-off business which is a result of the initiation of this type service by SeaWay Express and Alaska Hydro-Train. Need for cars has been further increased by markets developed since 1983 using present chain tie-down equipment. These cars eliminate approximately 80% of labor used to place machinery or vehicles on these railcars as compared to existing equipment and this results in savings for both the Railroad and the customer. Heavy duty features on these cars will also make the Railroad more competitive in the oilfield products market. Additional revenue expected from acquisition of this equipment is \$720,000 annually. This funding covers down payment and first year's payment plus financing charges.

24. Axle Lathe

\$100,000

To increase axle machining capacity. Due to increased car and locomotive mileage, the Railroad is unable to keep up with the demand for new axles using the existing machine. The only practical alternate to buying an additional machine is to ship in completed wheel/axle sets. Mounted axles take up a lot of space and only 24 can be shipped on a 50 foot car at \$66/foot on the barge. Axles can be shipped 140 to a car for the same price. Thus the shipping savings are enough to pay for the machine within three years. Return on investment based on a 25 year life of the machine is 62 percent.

25. Wheel Lathe

\$200,000

To maintain compliance with Association of American Railroad's regulations, an adequate wheel lathe is necessary. The existing Niles wheel lathe is worn to the point that the Railroad will not be able to continue to produce acceptable wheels (per AAR standards). The Railroad can buy a new lathe, rebuild the old, or send the work out. Sending out is not practical because barge costs alone would be \$300 per wheel set. A new lathe will cost about one million dollars and require a new foundation. Rebuilding the present machine (and updating it with numerical control) will cost from \$200,000 to \$600,000. The rebuild can be done on a unit exchange basis keeping down time to an absolute minimum. The rebuilt machine will use the same foundation as the old machine - an additional advantage. Return on investment is 54 percent.

26. Repair One Dock Crane

\$300,000

The Railroad has two 45-ton Gantry cranes on the Railroad dock at Seward. One was built in 1941 (Colby) and one in 1942 (Washington). The Colby crane was recently moved to the west side while the Washington crane serves the east side. While not used extensively, both must be operable, since they are not mutually supporting each other. The options, on the older crane (Colby) are to replace it or rebuild it. However, to retain these options for future consideration, action is required in 1986 by repairing the crane housing in order to protect the machinery and perform a careful inspection. A complete rebuilding is estimated to cost about 40 percent of replacement cost. These funds are to protect the crane, perform a thorough inspection, and repair or rebuild to the extent funding will permit.

OTHER PROJECTS

PASSENGER SERVICE PROJECTS:

27. Denali National Park Station

\$100,000

To improve efficiency and safety of handling passengers and baggage at Denali National Park Station, to reduce train stopover time for loading, and to improve employee productivity. The station at Denali Park has been in operation for several decades without major improvement or upgrading. As many as 750 persons may utilize the station and its platforms within a 30-minute period. In addition the movement of their baggage is a major commitment. This program will allow for design and construction of improvements to:

- a) facilitate baggage handling in shorter time in a more efficient manner,
- b) provide safety barriers and "cue-up" lines for patrons to utilize while waiting for train arrivals,
- c) pave and otherwise improve the loading ramps and platforms used by the public.

Completion of these tasks will greatly reduce or eliminate a major safety hazard.

28. Remanufacture Ten Passenger Cars \$5,000,000

Upgrade and improve service by remanufacturing ten passenger cars used in the provision of public transportation, thus reducing public discomfort, deminishing equipment failures, lowering operating costs, and extending the fleet life by 10-15 years of additional service. The Corporation will remanufacture ten passenger cars to modern specifications and standards intended to assure a service life into the 21st Century. A contract will be sought with a major Outside manufacturer for this service. Present equipment averages 35 years of age and is worn-out. Unless remanufactured or replaced public convenience and safety will require its retirement by 1987. The seasonal nature of Alaska rail service demands, and the reduced cost (by 60%) as compared to purchasing new passenger cars make this approach feasible. The remanufactured cars will be compatible with ten other cars similarly overhauled in 1981. In future years, the remaining cars in the fleet will be remanufactured.

29. Shuttle Improvements \$2,400,000

Improve stationary and equipment facilities on Whittier-Portage Shuttle to accommodate public demand and improve basic accommodations to a level of minimal comfort. The project will provide paved assembly and parking areas, security fencing to eliminate theft and vandalism to vehicles, improvement of loading ramps, installation and improvement of area lighting, provision of small covered shelters for foot passengers waiting on trains, installation of "cue lines" for vehicles awaiting transportation to/from Marine Highway System, purchase of one modern shuttle coach, rebuilding of two shuttle baggage and power generator cars, and addition of updated safety lighting and power hookups to 14 flatcars used for movement of vehicles on Shuttle trains.

The very basic facilities in use in Portage reflect an era when only 20% of the present public business was carried. Whittier ground facilities are non-existent. During the next 5-10 years this service is expected to grow by about 100% and provides the only public land access to Whittier and the Marine Highway. These requested improvements, long overdue by most evaluations, are the result of user requests and analysis of the needs in order to provide the minimum level of decent public service by the Shuttle trains.

THE ALASKA RAILROAD CORPORATION

Operating Loss from provision of Passenger Train Service
Calendar Years 1985 and 1986

State Oversight Report information
as required by the
Alaska Railroad Corporation Act

November 27, 1984

Under the terms of AS 42.40.280 a State Oversight Report must be provided before undertaking an application for an appropriation to be used for providing any service that is not self-sustaining.

The Corporation has determined that the provision of the present level of passenger train services to the general public is not self-sustaining and that approximately \$1.7 million in CY-85 and \$1.9 million in CY-86 will be needed to cover the total operating costs for this service.

To comply with the Alaska Railroad Corporation Act, this report addresses the requirements of AS 42.40.280. The Corporation, however, is deferring any actual request for a subsidy for later action. A separate explanatory statement is being submitted detailing the capital budget request for \$7.5 million in the CY-86 Corporation budget related to the continued provision of passenger service.

Sec. 42.40.280 (b)

"The report....shall be in writing, describe the proposed undertaking in detail, and specify"

THE ALASKA RAILROAD CORPORATION
PASSENGER SERVICES

General Description of Passenger Program

Two classes of service are presently provided:

1. Scheduled passenger service and charter trains.
2. The Anchorage-Portage-Whittier "Shuttle".

THE WHITTIER SHUTTLE

Since 1967, the Shuttle has been supported in part by a contract with the State of Alaska which provides for payment of operating losses, and--to a very minor degree--equipment costs. This became a full service contract about 1978.

Since about 1980, the state has limited payments to \$150,000 annually by requesting that amount of appropriation or limiting the budget item to that amount. The program is under contract with the Department of Transportation and Public Facilities (DOT&PF). The present contract will expire April 30, 1985. Because the Corporation is a state entity, this contract will be combined into the overall passenger service program of the Railroad after January 5, 1985.

Due to increased service frequency requested by the State in recent years, and increased internal costs to the Railroad, the operating subsidy amount is substantially inadequate. Our estimate is that the present \$150,000 will be exhausted by February 1985.

This service earns a considerable surplus during the period from mid-May to early September, when tourism and recreational uses of Prince William Sound are at their peak. At other times it is very lightly patronized, primarily by those having business in Whittier or who reside there.

The 1984 Legislature was requested by the DOT&PF to provide \$1 million for use in improving the worn out equipment on the Shuttle. \$600,000 was appropriated. This money is now available and the department and the Railroad are jointly working to seek appropriate equipment improvements which can be accomplished for this amount. These funds will be expended on shuttle improvements, and their expenditure has been considered in conjunction with the Corporation's capital request for passenger improvements in CY-86.

The estimated amount of subsidy funds for operating assistance to the Shuttle in CY-85, based on FY84 service levels and no expansion of them, is \$225,000.

SCHEDULED PASSENGER SERVICE AND CHARTER TRAINS

Passenger trains operate year-round from Anchorage to Fairbanks. From mid September until early May (about seven months) these trains are operated on a round trip basis once a week. During the remaining five months the trains operate daily between these cities.

One out of every five visitors to Denali National Park arrives or departs by an Alaska Railroad train. The demand for train seats outstrips our capacity on many days each summer. Listings in major tour publications and an active role in the State's tourist industry groups is maintained.

While summer tourist service does operate at a loss and returns no capital reserve funds, the amount of losses are small compared with those of other world railways. Well over 70% of the operating costs of this service are returned in fares, while the U.S. standards for Amtrak are presently 52% revenue generated and in Canada about 40% fare incomes.

Excluding capital and equipment replacement costs, the trains suffer operating losses of varying intensity:

----- During 1984, the loss by the Railroad for each passenger in summer months was about \$4.79.

----- During 1984, the loss by the Railroad for each passenger carried in the other months, when once-weekly service is operated, approximated \$294.85.

WHO RIDES ALASKA RAILROAD ANCHORAGE-FAIRBANKS TRAINS?

The summer daily trains cater almost exclusively (over 90% of the ridership) to visitors to Alaska, part of the second largest cash industry of the State. They also serve, as an adjunct, rural and remote area citizens of Alaska who have no other means of access to their homes. This service is under extreme pressure for increased capacity, and improved comfort levels. The Railroad presently has only a limited ability to meet that demand. Despite this limited capability to expand and absolutely no promotion by the ARR, the ridership

increased 16.8% in 1984 (nearly 23% if the privately owned Tour Alaska Inc. luxury cars are included).

Winter service, conversely, serves almost totally (98%) the rural and remote area residents of Alaska who live near the tracks. These residents travel only an average of 20-30 miles by rail from the closest road. Yet they are dependent on the railroad.

As few as 269 passengers rode these trains in an entire month during the winter of 1983-84 for a total of about 35 passengers on each one way train, which travels a route of 356 miles! It is no surprise that the per passenger out-of-pocket loss in operating this service is \$294.85. In seven months of FY84 a grand total of 2772 passengers rode the trains north of Anchorage!

CRUISE SHIP SERVICE FOR THE TOURIST INDUSTRY

In 1982 a few test dockings at the Railroad's Port of Whittier proved the popularity of cruise ships bringing their passengers to Interior Alaska. This was the first breakthrough from the tradition of operating cruise ships only as far north as Skagway or Juneau.

In 1983, about 10,000 new passengers--all cruise ship patrons--rode chartered trains to Anchorage from Whittier. An equal group departed from Whittier, providing nearly double the tourism impact of round-trip tourists.

In 1984, this business improved again, with several dozen cruise ships representing two major tour operators using Whittier. Over 20,000 visitors shared the spectacular trip to or from Whittier by train to access their ship.

For 1985, a third company has scheduled arrivals in Whittier and an additional 10-12 thousand passengers are expected from this service. A spinoff of the popular business is a number of arrivals by Cunard Lines' "Sagafjord" at the Port of Anchorage in 1985. Approximately 40% of these passengers are expected to book passage on the Alaska Railroad trains to Denali Park and Fairbanks.

This service returns most of the railroad's out-of-pocket costs, and is serving as a major catalyst for the tourist industry in the heart of southcentral and interior Alaska.

A major problem is that the equipment used for special and charter service is old and must either be replaced soon or subjected to a major rebuilding by a shop outside Alaska.

The Railroad is at the point where a "GO" or "NO GO" decision must be made to either withdraw from this service soon or to invest substantial capital in equipment improvements.

OTHER SPECIAL TRAINS

A number of other special trains, mainly patronized by Alaskans, are operated in charter for groups or individuals, or operated as a "railroad" special train.

These include several trains a year to the Seward area--Salmon Derby, 4th of July; the State Fair of Alaska (2-3 trains); Nordic Ski Club, to the Kenai Mountains (4 trains with 700 passengers each); Railroad Week to the Palmer Transportation Museum; corporate charters for employees or VIP's; special party trains by groups to Whittier, Seward, and to the north; etc.

These trains are priced and marketed at a profit to the Railroad in operating costs, but not to return capital costs.

Occasional official trains are operated, such as for the 60th Anniversary of the Railroad, an anticipated special program for the State on January 5-6, 1985, or for promotion of Alaska or the railroad as a transportation carrier.

SPECIFIC REQUIREMENTS OF A STATE OVERSIGHT REPORT

Sec. 42.40.280 (b) (1)

The financial impact on the corporation is detailed in the attached statement of estimated income and expenses from our passenger service program in Calendar Years 1985 and 1986.

Losses of \$1.7 million and \$1.9 million are projected by operation of the same level of service as that which was offered in 1984.

Sec. 42.40.280 (b) (2)

The nature and level of the services provided passenger patrons of the corporation will not be affected if the corporation undertakes commitment of funds in the amounts stated above.

Sec. 42.40.280 (b) (3)

The action of providing an operating subsidy for passenger services is necessary and desirable because:

a. Services have been publicized and announced throughout the World for 1985 in conformance with the needs and practices of the tourism industry.

b. Elimination and/or reduction of passenger services below their present level would be a major blow to the total Alaska tourist industry.

c. Elimination and/or reduction of passenger services to Alaska citizens residing in remote or "bush" locations served only by the corporation would result in extreme hardship for these persons, in some cases of a life-threatening nature.

d. The provision of land access to Whittier would be severely restricted and reduced, and fares would rise substantially, during seven months each year when most of the traffic on the Shuttle trains is by Whittier residents.

Sec. 42.40.280 (b) (4)

The passenger services provided by the corporation are not expected to become self-sustaining financially during the next five years. Passenger service worldwide is operated basically as a public and/or social service. The present level of corporation service requires a much lower ratio of subsidy funding versus income from the service than elsewhere in North American and the World generally. The corporation's goal in continuing this service is to provide quality services at a realistic public cost to support essential access for Alaska citizens, and as a catalyst to the fast-growing statewide tourist industry.

Sec. 42.40.280 (b) (5)

While the corporation is presently not requesting an appropriation for the purpose of providing passenger service that is not financially self-sustaining, the likelihood of future application is strong.

The Act requires that the amount of any appropriation be calculated in accordance with United States Interstate Commerce Commission (ICC) standards for determining rail service subsidies.

Such standards do not presently exist. At one time, prior to the Staggers Rail Reform Act of 1980, the ICC did have certain regulations in effect which dealt with passenger subsidy computation. These were, however, designed for metropolitan area commuter rail service which is not directly comparable to Alaska services. These standards were repealed in their entirety in 1980.

In addition, the ICC standards provided for full cost recovery by rail carriers, plus management fees and profits. The corporation's computation of its passenger costs do not claim recovery of general overhead costs, costs for use of capital, or management/profit fees. Therefore, the corporation's level of subsidy is significantly below any which would result from using the old ICC standards.

Because no standards do exist, the corporation believes that this provision of the Act does not apply to the passenger services which it provides within Alaska.

THE ALASKA RAILROAD CORPORATION

Capital Budget Request CY-85 & CY-86
Passenger Services

November 27, 1984

The Corporation is requesting an appropriation for capital improvements during Calendar Years 1985 and 1986 which includes \$7.5 million for projects within the passenger services functions of the Railroad.

Summarized, these funds will be expended as follows:

- a. \$100,000 for improvements to the station facilities at Denali National Park.
- b. \$2.4 million for station and terminal improvements, and rolling stock improvements, to the Whittier to Portage "Shuttle" service.
- c. \$5 million for remanufacture of ten (10) passenger cars from 1950-era equipment which is essentially worn out.

These improvements are the first phase of a general upgrading of the passenger service facilities and equipment on the Alaska Railroad. Except for a \$4 million investment by the Congress in 1981, the railroad has never invested in a major upgrading of their passenger facilities. The 1950-era car fleet was acquired used in 1971 and is essentially intact, as-built, in service.

Unless investment is made in the above projects, public safety and comfort will be jeopardized and the corporation's ability to provide service at its present level will be significantly reduced.

THE ALASKA RAILROAD CORPORATION
 PASSENGER SERVICES ESTIMATED DATA
 INCOME & EXPENSE

(\$ 000)

	CALENDAR YEAR 1985	CALENDAR YEAR 1986
EXPENSES BY DEPARTMENT		
TRANSPORTATION	3450	3950
MOTIVE POWER/EQPT.	1785	2040
MARKETING	180	205
CATERING	375	425
ACCOUNTING	50	58
TRACK MAINT.	405	450
TOTAL OP. COSTS	6245	7128
TOTAL REVENUE *	4520	5215
SERVICE LOSSES	1725	1917

* - ESTIMATED REVENUE AS OF 11/21/84 BEC

NOTE: THIS STATEMENT INCLUDES A.A.R.
 OPERATING COSTS ONLY. CORPORATE OVERHEAD
 AND CAPITAL INVESTMENT COSTS ARE NOT
 INCLUDED.

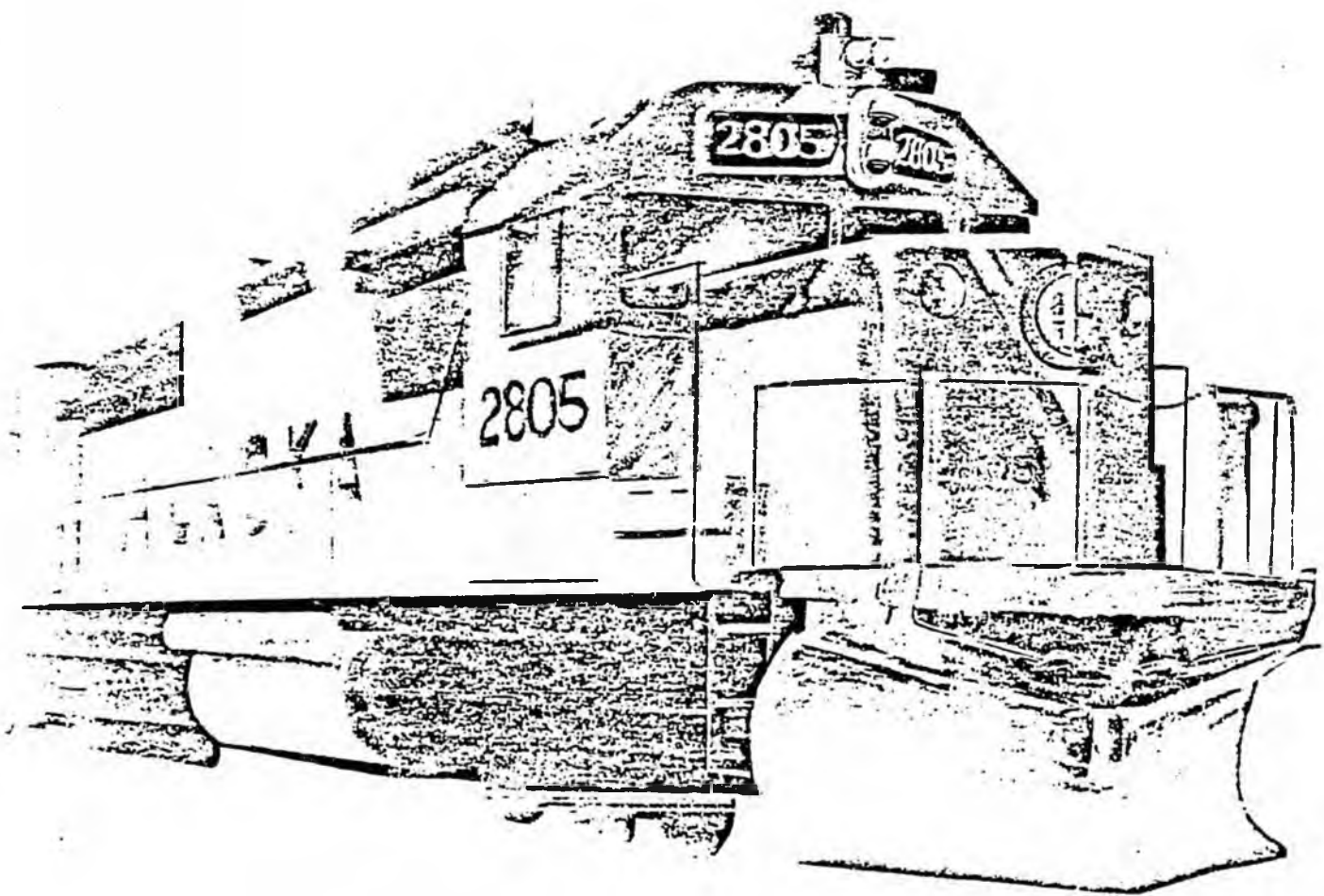
ALL PASSENGER SERVICE INCLUDED...MAINLINE,
 SHUTTLE, SPECIAL & CHARTER.

A N N U A L

R E P O R T



1925



PRESIDENT STEFFER

Unlike New Year's resolutions, business goals and objectives are made with the thought in mind that they will be met, not broken. I am happy to report that after one year of operation as a state-owned corporation, the Alaska Railroad has an impressive scorecard based on the goals we set out to achieve. And it is a trend we expect to continue in the coming years.

Of course, none of this would be possible without the hard work of the corporation employees. Their dedication to the Alaska Railroad makes it possible for the corporation to achieve its objectives.

The overall goal of the Alaska Railroad Corporation is to foster and promote long-term economic growth and development in Alaska by providing transportation services on a self-sustaining basis at competitive rates and, at the same time, generate sufficient funds to upgrade and maintain the physical integrity of the railroad.

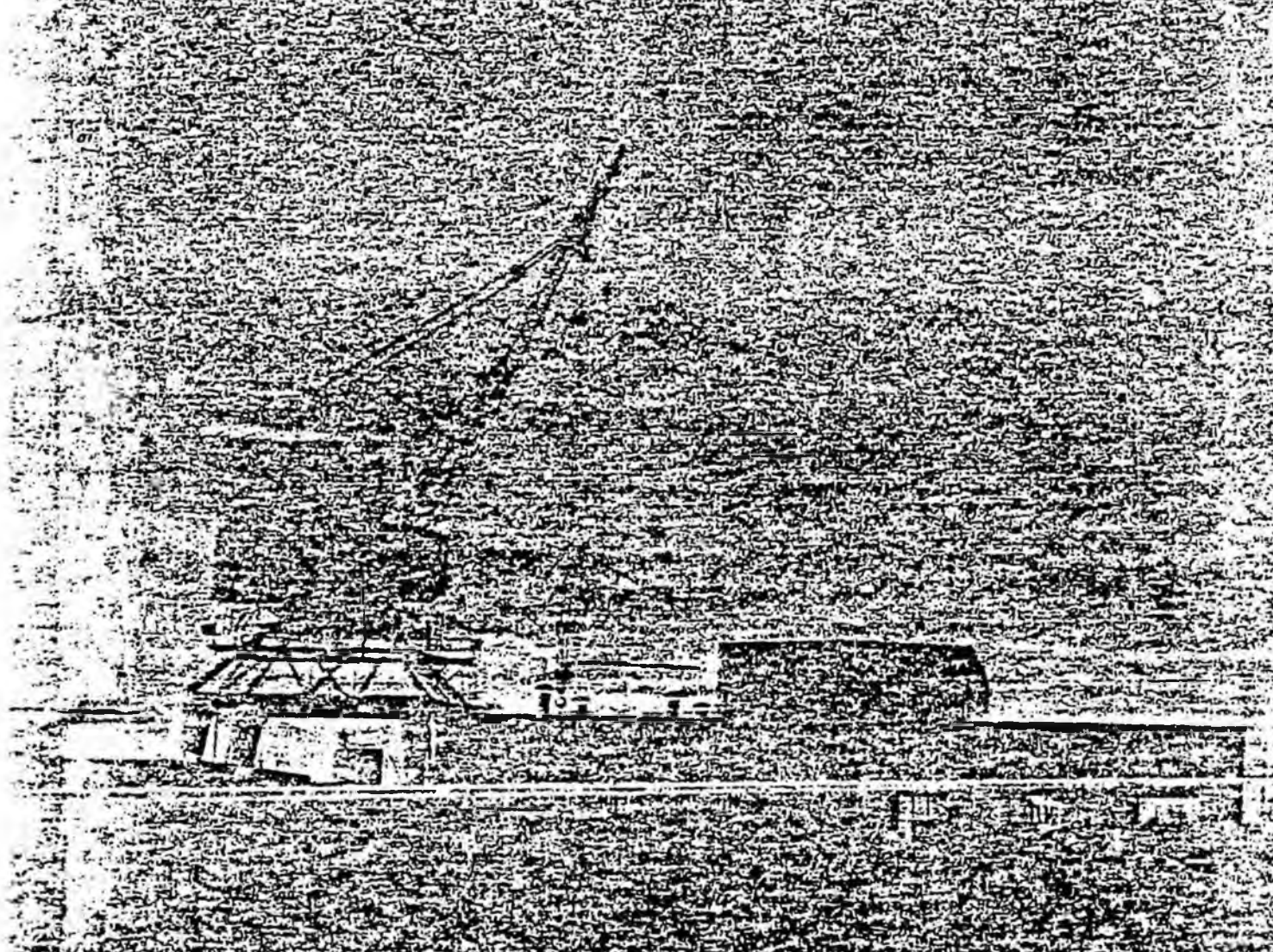
To achieve that overall goal, a three-year plan was developed that includes an extensive marketing program to increase our revenue coupled with an intense effort to streamline our operations to reduce our expenses. The result, we believe, will be ample funds to reinvest in

modernizing the railroad including purchasing new equipment, upgrading the track and yarded, and improving our physical plants.

The marketing objectives of our plan include increasing our revenue from petroleum products and our piggyback trailer service. In 1985 we added two new trains that give priority service to these customers, increasing petroleum revenues by 14 percent and piggyback revenues by 20 percent.

In addition, we plan over three years to reduce our losses from passenger service. No railroad makes money on passenger service and the Alaska Railroad is no exception, recording losses of \$1.6 million in 1985. With the purchase of two new rail diesel cars in late 1985, we expect to cut these losses by \$500,000 in 1986 alone.

While we were attempting to boost our revenues, a major plan was made to reduce our expenses by implementing new computerized accounting, personnel procurement, supply, rail car distribution and preventive maintenance programs. Most of the work had been completed by year end. The remainder of the effort should be completed in 1986.



No significant contracts nullified in our three-year plan are reduction of our vehicle fleet by 25 percent and reduction of our expendable inventory by 10 percent. By the close of the first year we had our vehicle fleet by 22 percent and our expendable inventory by 10 percent. Including track materials by 10 percent. Most of these items were sold at public auction, yielding over \$5 million to our cash reserves.

Our most ambitious objectives in the three-year plan are capital expenditures needed to modernize equipment, improve efficiency, and maintain the physical integrity of the railroad.

Equipment purchases planned are 15 new locomotives and 15 new railcars. In 1985 we bought five locomotives and 15 new railcars for a total of \$9 million. We also plan to replace our old inefficient construction equipment. In 1986 we spent \$600,000 and will purchase another \$5 million worth in 1987.

All of these efforts would be futile if we did not pledge to create significant time and money to maintain our track and facilities. We spend more on track maintenance in 1986 than at any time in the railroad's recent history. For instance, more miles of rail were replaced

this year than following the West coast floods which caused \$100 million in damage to the railroads.

With our impressive record of performance and then achieved, the Alaska Railroad Corporation is well on its way to fulfilling the dream that inspired so many



Alaskans to push for its purchase from the federal government. There were, as expected, a few trials and false starts in 1985 and 1986, promises to hold its share of challenges. But I am confident they can all be met.

Frank C. Turner

Frank C. Turner
President and CEO
Alaska Railroad Corporation

For the Alaska Railroad Corporation, 1985 was a year of changes.

Change is inevitable in any business. It is a natural part of growth. However, for the Alaska Railroad Corporation, 1985 was a year of changes unlike any the Alaska Railroad had ever experienced.

The first and most dramatic change came within the first week of 1985, when on January 5 ownership of the Alaska Railroad was officially transferred from the federal government to the state of Alaska.

That transfer of ownership set the stage for many, many more changes, from management and personnel to policies and procedures. And with those changes a foundation was laid for the prosperous development of the newly formed Alaska Railroad Corporation.

Alaska paid the federal government \$22.3 million for the Alaska Railroad. That purchase price included 655 miles of track, 38,000 acres of land including all rights-of-way, 1,545 units of rolling stock including locomotives, freight cars and passenger coaches, and four terminal facilities, one each in Seward, Whittier, Anchorage and Fairbanks.

A NEW CORPORATION

Transfer of railroad ownership to Alaska was made possible by the Alaska Railroad Transfer Act (ARTA), enacted by Congress in 1982. In 1984 the Alaska legislature adopted the Alaska Railroad Corporation Act (ARCA), establishing it as a public corporation of the state that would act as a separate, profit-making entity.

On January 5, 1985, as a result of the transfer, the federal railroad's financial books were closed. On January 5 the new state corporation technically began business with no operating funds. To meet the railroad's immediate money needs, the state legislature allocated, in addition to the sale price, a one-time startup fund of \$10.9 million. The money was used to meet the corporation's first month's payroll and to continue several capital improvement projects that had been initiated under the federal system.

Within its first month of operation the new Alaska Railroad Corporation showed a profit, and continued to do so through the end of the year. In its first year of operation under state ownership, the Alaska Railroad Corporation netted \$7.1 million, among the largest gains recorded by the railroad in its 62-year history.

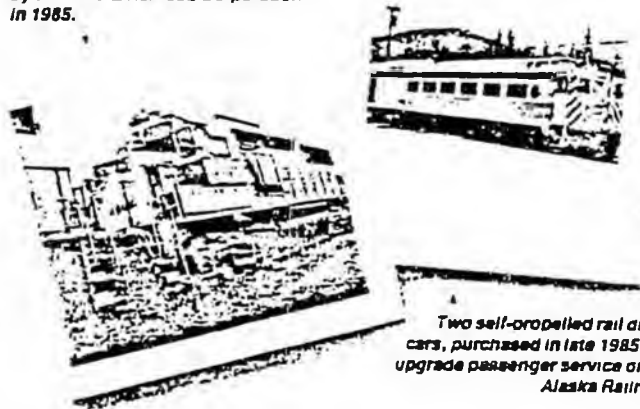


John Riley, Federal Railroad Administrator, and Bill Sheffield, Governor of Alaska, signed an agreement January 5, 1985 to transfer the Alaska Railroad from federal to state ownership.

ARCA provided for the stewardship of the new corporation by a seven-member board of directors appointed by the Governor of Alaska.

The board is responsible for management of the corporation but has delegated certain powers and duties to Frank G. Turpin whom the board selected to serve as the railroad's president to guide the day-to-day operations of the corporation. He joined the railroad immediately upon transfer.

Five new locomotives were purchased by the Alaska Railroad Corporation in 1985.



Two self-propelled rail diesel cars, purchased in late 1985, will upgrade passenger service on the Alaska Railroad.

GOALS FOR 1985

As chief executive officer, Turpin set three goals for the new corporation: earn a profit without seeking state subsidies, broaden management emphasis from a concentration on operations to include marketing and finance, and modernize the railroad's rolling stock, equipment and physical plant.

Giant steps forward were accomplished in 1985 in all three areas. Each step meant changes as the railroad moved away from federal procedures and began operating more like a private business.

The first goal of earning a profit without state subsidies was accomplished in the first year. To control future spending and to get the best value from its revenue, the corporation developed a three-year capital spending program. The plan includes replacement or addition of several units of rolling stock and heavy equipment. The net result will be lower maintenance costs and improved service to customers.

MODERNIZING THE RAILROAD

The three-year plan also tied in with the corporation's goal to modernize the railroad. To improve freight hauling capabilities, 45 new intermodal flatcars called "articulated" cars were purchased for \$4.5 million. The first step toward upgrading the aging locomotive fleet was the purchase of five new state-of-the-art diesel locomotives valued at \$1 million each. The cars and locomotives arrived in the spring of 1985 and were placed in service immediately. At the close of the year the first of two 48-seat, self-propelled rail diesel cars (RDCs) arrived. The rebuilt cars were purchased to improve and reduce the cost of the winter passenger service and to augment summer and charter services.

The new cars and engines were obtained through a lease-purchase program that allowed the corporation to avoid seeking state subsidies. While the railroad had not been able to take advantage of the lease-purchase option under federal ownership, the corporation's unique position as a quasi-public enterprise enabled the railroad to make the best use of its revenue by leveraging its cash and buying on credit.

NEW MANAGEMENT EMPHASIS

Other changes occurred within the railroad's Finance Department as steps were taken to equalize the emphasis on the three key departments in the railroad: operations, marketing and finance. A computerized accounting system was implemented to improve what had previously been manual procedures. Generally Accepted Accounting Principles (GAAP) were adopted as the railroad's accounting standards, which more closely matched revenue to expenses.

The Marketing Department took a more aggressive stance in seeking business for the railroad. The freight sales division was expanded by the addition of a freight sales manager with responsibility for the sales force in Anchorage and Seattle. Marketing developed and promoted two new unit trains, one for overnight trailer traffic and one for bulk petroleum products, to better meet the needs of Alaska shippers.

The Operations Department, responsible for all train movements and the upkeep on all rolling stock, equipment and track, in 1985 conducted the largest overall roadbed maintenance program in recent years. There were 31,000 linear feet of rail replaced, 26,000 new ties laid and about 200 miles of main line track resurfaced.

OUR EMPLOYEES

With all the changes that occurred at the Alaska Railroad Corporation, it is natural that employees would feel the impact. Steps were taken to streamline some departments while others added personnel. An average of 600 employees worked throughout the year, with peak employment topping the 900 mark during the busy summer construction season.

A significant change occurred in the personnel office when it was tied to the labor relations and the



Doug Engebratson is a carman for the Alaska Railroad in Fairbanks. An average of 600 employees worked at the railroad in 1985.

compensation and benefits divisions under the corporate umbrella title of Human Resources Department.

All but about 120 of the corporation's employees are represented by unions. There are seven bargaining units representing five unions: American Federation of Government Employees (blue collar and white collar units), American Train Dispatchers Association, Agents/Operators Unit; American Train Dispatchers Association, Train Dispatchers Unit; Brotherhood of Railway Carmen of the U.S. and Canada, International Association of Machinists and Aerospace Workers, and the United Transportation Union.

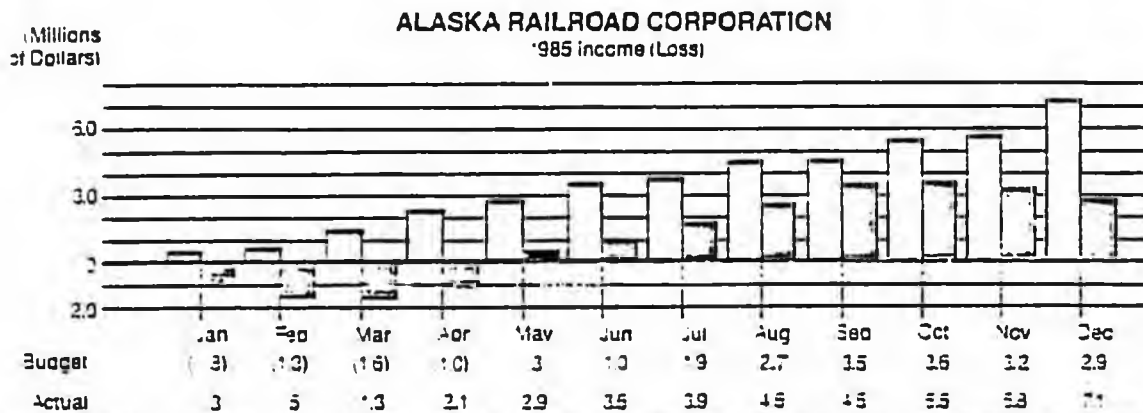
Under federal and state law the union contracts in existence at the time of transfer are to be renegotiated by the corporation within the first two years of operation under state ownership. Beginning in August 1985, for the first time in the history of the Alaska Railroad, all seven bargaining units and management met at the bargaining table to begin hammering out new contracts. Negotiations will continue in 1986.

THE FUTURE

Despite all the changes and reorganization it experienced in 1985, the Alaska Railroad Corporation is looking to 1986 as another year of challenges. An ambitious program is planned to continue to upgrade and improve the railroad's track and roadbed, its rolling stock and its physical plant. A \$66 million operating budget was approved by the Board of Directors for 1986 plus \$13.3 million in capital improvements.

The Marketing Department will continue its aggressive stance in seeking business for the railroad while providing new, more improved services to meet the customers' needs.

While 1985 was a year of transition for the Alaska Railroad, 1986 is expected to be a year of fine-tuning that will bring the corporation into the forefront of the transportation industry in Alaska.



OPERATIONS

The Operations Department is the part of the railroad most people are familiar with because it is most visible. Operations has three major divisions: Transportation, Motive Power and Equipment, and Engineering. Together these three divisions are responsible for all train movements, for the upkeep of all rolling stock and equipment, and for construction and maintenance of the track and roadbed and all railroad buildings.

Other divisions in Operations are less known, such as Security and Claims, Operating Rules and Hazardous Materials. Security and Claims is responsible for the security of the line including preventing trespassing and for investigating train and train-related accidents. This department also processes all claims for lost or damaged freight and equipment.

The Operating Rules Department administers the railroad's rules program for operating trains and equipment. To ensure understanding and compliance of the operating rules and special instructions, periodic training and testing is provided for operating personnel by this department.

The Hazardous Materials Office is responsible for inspecting equipment, rolling stock and buildings for compliance with corporate rules and regulations regarding the use and transportation of hazardous materials.

ENGINEERING

Five crews replaced about 26,000 cross-ties, relaid 81,000 linear feet of mainline rail using premium alloy rail, and turned another 40,500 feet of rail on curves. More than one-third of the rail system, or about 200 miles, was affected.

Bridge crews repaired and upgraded 23 steel and timber bridges, including the repair or installation of timber stringers, bulkheads, pilings, guard rails and bridge ties.

The single largest maintenance expenditure totalled about \$2 million for rehabilitation of five tunnels between mile 51 and 53 of the main line. The two-year, \$4 million project, about 50 miles north of Seward, will decrease maintenance of the tunnels and improve operations through that section of track. Work completed by the project contractor in 1985 included rock bolting of all the tunnels, ditching to improve drainage, and pouring four of 10 new reinforced concrete tunnel portals.

The Engineering Department coordinated with the state Department of Transportation and the Municipality of Anchorage in construction of two grade-separated crossings in the Anchorage area. The work included three new railroad bridges at Dimond Boulevard, Fern Avenue, and Campbell Creek, plus 1.0 miles of new mainline track. Work was begun also on the Municipality's West Northern Lights Boulevard project in Anchorage. When completed in 1986 it will be

similar to the grade-separated crossing at Dimond Boulevard.

Engineering also coordinated with the Department of Transportation in Fairbanks in making track changes to the Fairbanks Yard to provide space for construction of a highway nearby and an overpass across the Fairbanks Yard. The work included construction of a balloon track to replace the wye and will eliminate a crossing in the middle of the yard.

Most of the work completed by the Engineering Department was designed to improve or enhance other areas of the Operations Department. For instance, electrical service was installed at the Anchorage and Fairbanks van terminals to provide "keep from freezing" (KFF) trailer service. KFF provides shippers with electrical power for heating and preserving goods shipped during the winter in trailers on flat cars.

Increased truck-trailer traffic on the Alaska Railroad led to the construction of a 4,000-foot van track in Whittier to improve trailer-on-flatcar (TOFC) service. Other van terminal improvements were made both at Whittier and Seward including new trackage, lighting and drainage.

Upgrade of 12 miles of the Eielson Branch was begun with the replacement of 4.5 miles of 75-lb. rail with secondhand 115-lb. rail that was replaced on the main line. The branch line serves Ft. Wainwright, North Pole and Eielson Air Force Base. It is used for delivery of coal to fuel the military's power plants. A 4,100-foot siding was constructed on the branch line at North Pole to accommodate increased traffic expected to result from the expansion of the nearby oil refinery.

Throughout the year Engineering employees worked to upgrade and improve the railroad's physical plant. Facilities at Fairbanks, Denali Park, Anchorage and Seward were painted or remodeled; water, heating and sewage systems were improved; and

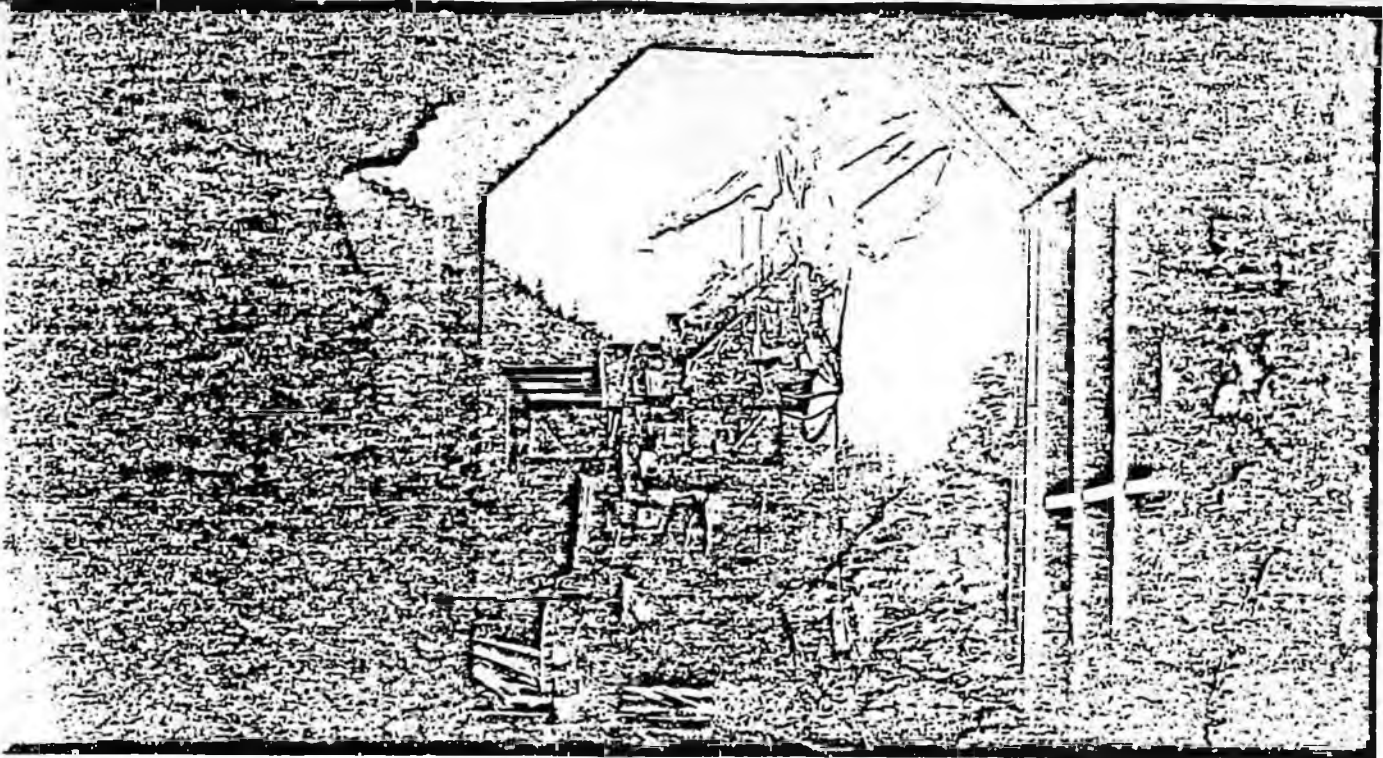
roofs were replaced or insulated to reduce maintenance, repair defects, reduce heat loss and improve appearance and operation.

The single largest physical improvement was construction of boiler plants in several Anchorage facilities as part of the final phase of a three-step utility modernization program that eliminates the railroad's dependence on a nearby high-cost, outmoded, commercial heating plant. The results are significant energy savings and improved working conditions.

The project included installation of five boilers, including three 400-horsepower steam boilers in the old blacksmith shop, which when constructed in the early 1920s was the original railroad boiler plant, and two 125-horsepower hot water boilers in a new building constructed near the Anchorage warehouse area. Three smaller plants were installed to heat the general office building, which houses the Anchorage Passenger



Maintenance workers installed a new, high technology material at railroad crossings that will provide a better crossing surface for the traveling public.



Renovation of five tunnels between Seward and Portage was the single largest track maintenance expenditure in 1985. The \$4 million, two-year project will be completed in 1986.

Depot; the annex, which includes the accounting and computer personnel; and the Anchorage freight house, which includes the procurement offices.

This project will be completed in 1986 with installation of an energy management and control system, some minor renovations to buildings, and relocation of the car cleaning facility.

MOTIVE POWER AND EQUIPMENT

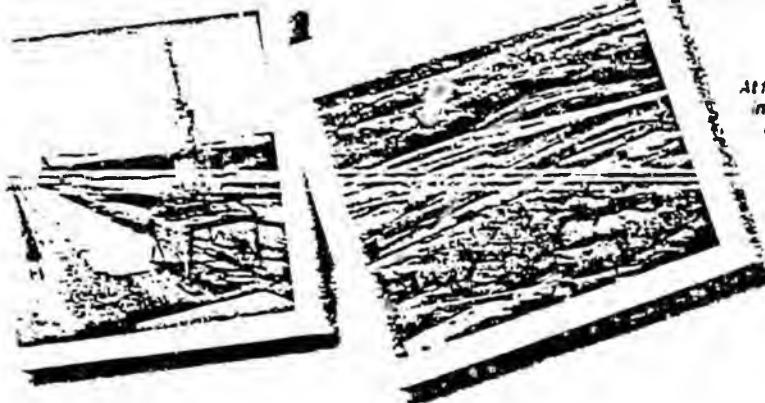
While the Engineering Department was working in 1985 to improve the condition of the railroad tracks, roadbed and physical plant, the Motive Power and Equipment (MP&E) Department acquired new rolling stock and equipment or overhauled much of what was already on hand.

Major purchases included five new state-of-the-art GP49 diesel locomotives manufactured by the Electro Motive Division of General Motors. The 2,300-horsepower locomotives have an anti-wheel-slip system that improves train performance and fuel consumption.

In an effort to improve the reliability of the existing locomotive fleet and to reduce maintenance costs, MP&E completed a major overhaul of the electrical components and trucks on two locomotives and completed the rewire and electrical upgrade to control circuits on a third. A fourth locomotive was repowered with new pistons, cylinder liners and heads.

Several locomotives were judged beyond economical repair and were retired, including No. 1500. An F-7 engine that had a glamorous history with the Alaska Railroad, No. 1500 provided the power for many ceremonial trains including two trains used during transfer ceremonies in January. No. 1500 also was featured in a motion picture filmed on the Alaska Railroad in 1985 called "Runaway Train." It was the grand old lady's last official duty before being retired and donated to a local transportation museum.

To improve freight-hauling capabilities, 45 articulated intermodal cars were purchased for TOFC service. Each car is hinged, or articulated, in three sections to allow for easier train movement. There is space on each car for three trailers. The cars are used primarily for hauling trailers between Anchorage and Fairbanks.



At far left, the railroad yard in Fairbanks includes about 440 acres in the heart of the city. A row of articulated flat cars shown at center awaits trailers for shipment to Anchorage.

Left, the Alaska Railroad owns about 660 acres near downtown Anchorage, most of which is at the mouth of Ship Creek. In the background is the roundhouse where all equipment maintenance and repairs are done.

MP&E began construction of two power cars and wired 15 of the new articulated cars to provide electricity for trailers carrying perishable goods and other commodities that might freeze.

Two self-propelled passenger cars were purchased in 1985 also. The cars, known as rail diesel cars or RDCs, were rebuilt with the installation of twin 347-horsepower Cummins engines and twin-disc transmissions. The first of the two cars was received in December 1985 and was placed in winter passenger service at the start of the new year.

For the first time MP&E placed an employee in the railroad's Seattle office to work exclusively with shippers in solving technical problems related to equipment use and loading requirements. A program establishing new rules for open-top loads was initiated to reduce the cost to shippers for improperly secured or heavy loads.

TRANSPORTATION

Train movements increased dramatically in 1985 and the Transportation Department worked to ensure those movements were made safely and efficiently. Gross trailing ton miles, a measurement for the movement of one ton over one mile, were up 25 percent in 1985 over 1984. Freight traffic accounted for the major portion of this increase, but passenger traffic also rose. Ridership surpassed the quarter-million mark for the first time in the railroad's history.

The first full year of export coal service by the railroad was completed in 1985. A steady source of revenue was derived from the three-unit-trains-a-week movement of coal from the Usibelli mine at Healy to Seward for export to Korea. The contract for hauling export coal began in December 1984 and since its inception 132 coal trains have hauled 571,000 tons of export coal.

In addition, 562,000 tons of coal were moved from Healy to the Fairbanks area to provide fuel for five power plants in Interior Alaska and the military bases at Wainwright, Clear and Eielson.

In May 1985, a new intermodal freight service was inaugurated called the Arctic FOX, or Freight Overnight Express. This service is a unit trailer train that provides six-days-a-week overnight delivery of trailers and containers between Anchorage and Fairbanks. The Arctic FOX operates with an average of 10 articulated flat cars that provide space for about 30 trailers or containers. The FOX hauled 5,322 trailers in its seven months of operation in 1985.

The FOX is the first caboosless train service operated on the Alaska Railroad and the first service operated with a two-member crew. This was made possible by the addition of train rear-end devices. These end-of-train monitors provide vital information to locomotive engineers operating caboosless trains. Each device consists of two units, a receiver in the locomotive cab and a transmitter on the rear car of the train. Together these units allow crews to monitor air brake pressure, detect motion in the last car of the train and measure train distances traveled. The units also provide the rear-end car with an FRA-required amber light that automatically turns on at dark.

During the same time the Arctic FOX service was initiated, the Anchorage freight house operations were discontinued. All services for loading and unloading railcars, consolidation of freight, and rubber-tire delivery were contracted to local businesses in an effort to divest from some less profitable, labor-intensive operations. Because of the railroad's rapid growth in the intermodal business, all Anchorage freight house employees were transferred to Intermodal Services, which was established as a separate division within the Transportation Department.

In October, the railroad-owned and operated Healy Hotel was closed and the building sold at public auction. The hotel had been in operation since 1946 and provided lodging and meals for railroad employees.

Jim Trueblood, a locomotive electrician in Anchorage, installs a new bearing on a locomotive engine alternator.



China Brooks, a machinist in the Anchorage wheel shop, uses a caliper to measure the axle bore of a wheel.



Larry Newsham, technical services manager, inspects loaded rail cars before shipment from Seattle to Anchorage.



Fairbanks carman Kirby Roundtree welds the undercarriage of a rail car.



Mevin Hills inspects the assembly of a wheel mounted onto a rail car axle. Hills is a carman in the Fairbanks wheel shop.



Because of its high operating and maintenance costs, the hotel was closed in favor of a more economical means of providing these services by contracting with a local motel and cafe at Healy.

In December the second new freight service for 1985 began operating. A daily unit tank train service between Fairbanks and Anchorage, called the Oil Worker Limited or OWL, transports petroleum products from the local oil refinery southbound to Anchorage and gasoline northbound to Fairbanks from storage yards in Anchorage. This daily service greatly improved freight delivery service for these commodities and turnaround time on empty tank cars.

OPERATING RULES

In late 1985, after extensive review and consultation with railroads operating in the Lower 48, the Operating Rules Department began training operating personnel on an innovative new system known as Track Warrant Control. This system is used on many other U.S. railroads and is designed to expedite the movement of trains while providing a safe and efficient operation. It will replace the complicated and time-consuming train order method in use at the Alaska Railroad for decades. Target date for railroad-wide implementation of the Track Warrant Control system is set for February 1986.

SECURITY AND RISK MANAGEMENT

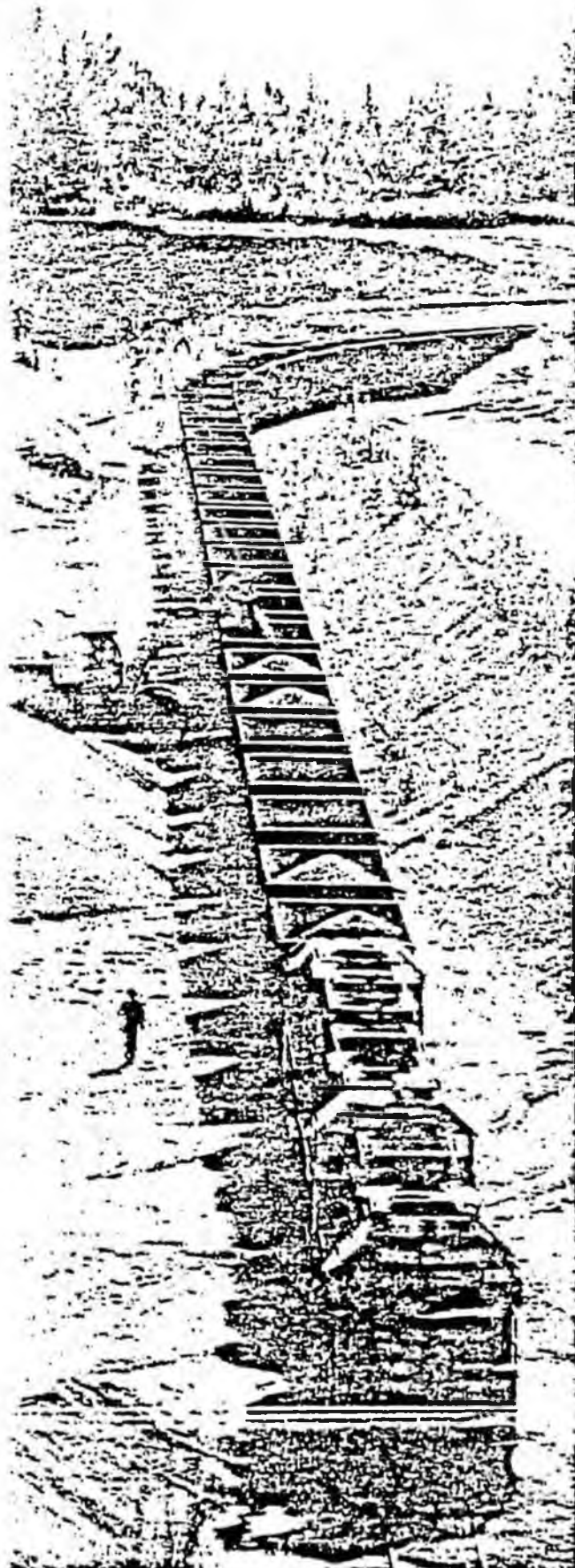
With the transfer of the Alaska Railroad to state ownership, the new corporation was required to organize a risk management program to provide insurance for property damage or loss, theft, fire, vandalism and other potential liabilities. For the first six months of 1985 the railroad operated on an interim program with coverage provided under the state of Alaska's risk management program.

During this interim period a review of the railroad's insurance needs was conducted and a risk management program developed that was marketed to domestic and foreign underwriters.

With the first year of experience as a reference, the risk management program is being assessed and modifications being made as the insurance markets dictate and as the corporation also continues to define and refine its specialized insurance needs.

HAZARDOUS MATERIALS

As part of its continuing safety program, the Alaska Railroad provided training and information regarding the loading and movement of hazardous materials to shippers as well as local fire fighting and emergency services personnel along the railbelt. The Hazardous Materials Specialist provides assistance to customers to ensure that materials shipped on the Alaska Railroad are loaded and placarded in compliance with federal regulations. Examples of materials shipped in 1985 include petroleum products such as gasoline and jet fuel, and chemicals for use in manufacturing.



Gravel unit trains are loaded near Palmer, in the Matanuska Valley, 40 miles north of Anchorage.

MARKETING

To achieve the business goals of the new railroad, the Marketing Department expanded the activities of the department, placing greater emphasis on developing new markets for the railroad's services.

Marketing's role within the corporation includes selling, pricing, rate and service contracting, cost of service analysis, market planning, market research, market development, customer service, advertising and promotion of both freight and passenger service. It also includes management and development of the real estate holdings of the corporation.

Ridership on the Alaska Railroad totaled 257,000 in 1985, an increase of 10 percent over 1984. Most passengers traveling on the railroad arrived by cruise ship in Whittier, rode the Portage-Whittier shuttle, or rode the express trains serving Denali National Park.



Whittier is one of Alaska's major ports and is also an important freight terminal for the Alaska Railroad. Rail cars, truck trailers and containers bring goods to Alaska through Whittier.

Seward is another major port served by the railroad. Coal exports, rail cars, trailers and imported pipe shipments are moved by the railroad from this small seacoast community.

New services developed during 1985 demonstrate the railroad's dedication to customer service. The first of these specialized services was initiated only four months after the railroad transfer. Named the Arctic FOX (Freight Overnight Express), the service provides overnight delivery of high priority, highway trailers between Anchorage and Fairbanks using specially designed articulated flat cars, the first equipment purchased by the railroad in 1985. The efficiency of the FOX operation permits the railroad to compete with motor carriers in this market and pass the cost saving along to the Alaska consumer. Since its inception in May, the popularity of the FOX has steadily increased. By the end of the year it was operating regularly at over 90 percent capacity.

Another priority service began in 1985 was the OWL (Oil Worker Limited). This daily train transports jet fuel from the petroleum refinery at North Pole to Anchorage, returning to the Fairbanks area with

gasoline and other petroleum products. The efficiency of this service has made it possible for the customer to double the shipping volume without increasing the number of tank cars it leases.

FREIGHT SERVICE

Freight service is the most important source of income for the railroad. In 1985 it resulted in three-quarters of the corporation's \$67 million in revenue. Passenger service and real estate revenues accounted for another 13 percent of the total.

Over 90 percent of freight revenue is derived from five areas: rail cars from the Lower 48, coal, petroleum, gravel, and TOFC/COFC (trailer on flat car/container on flat car.) The remaining percentage of freight is split between pipe shipments and local freight. Rail cars, coal and TOFC/COFC are handled predominately at two of Alaska's major ports, Seward and Whittier.

A trailer is shipped on an articulated flat car, one of 45 specially designed cars bought by the railroad in 1985. Each flat car can carry three trailers.

One-fifth of the freight revenue is derived from coal shipments, either export or local delivery. Alaska coal is exported to Korea through a major coal transloading facility built at the Port of Seward in 1984. The coal export contract with the Koreans runs through 1992. During the first year of the contract (actually 13 months, including December 1984) 671,000 tons of coal were moved to Seward. That is about 20 percent below the volume projected because of lower consumption by the customer, Korea Electric Power Company.

Coal shipments within Alaska were also lower than expected. Warmer than usual temperatures in

Interior Alaska resulted in reduced consumption by the five power plants in the Fairbanks area and the nearby military bases that use coal for fuel. About 562,000 tons were shipped locally in 1985.

Gravel and sand shipments, which move in unit trains between the Matanuska Valley and Anchorage, were the fifth largest revenue producers among all commodities shipped by rail. These shipments are tied to the cyclical rise and fall of the Anchorage area construction industry, which began to decline in 1985. Although lower activity in highway and building construction is anticipated again in 1986, a high volume of gravel is expected to move via the Alaska Railroad.

The Alaska Railroad connects with a number of water carriers providing a variety of excellent services from the Lower 48 to Alaska ports of Whittier, Seward, and Anchorage. Major rail carriers and truck lines connect with these water carriers at Seattle, Tacoma, and Prince Rupert, British Columbia. The water carriers provide frequent rail car barge, trailer, and container service.

Among the extensive railroad properties are the modern facilities at the ice-free ports of Whittier and Seward. Bulk and container cargos are unloaded at these ports for further transportation via rail and truck.

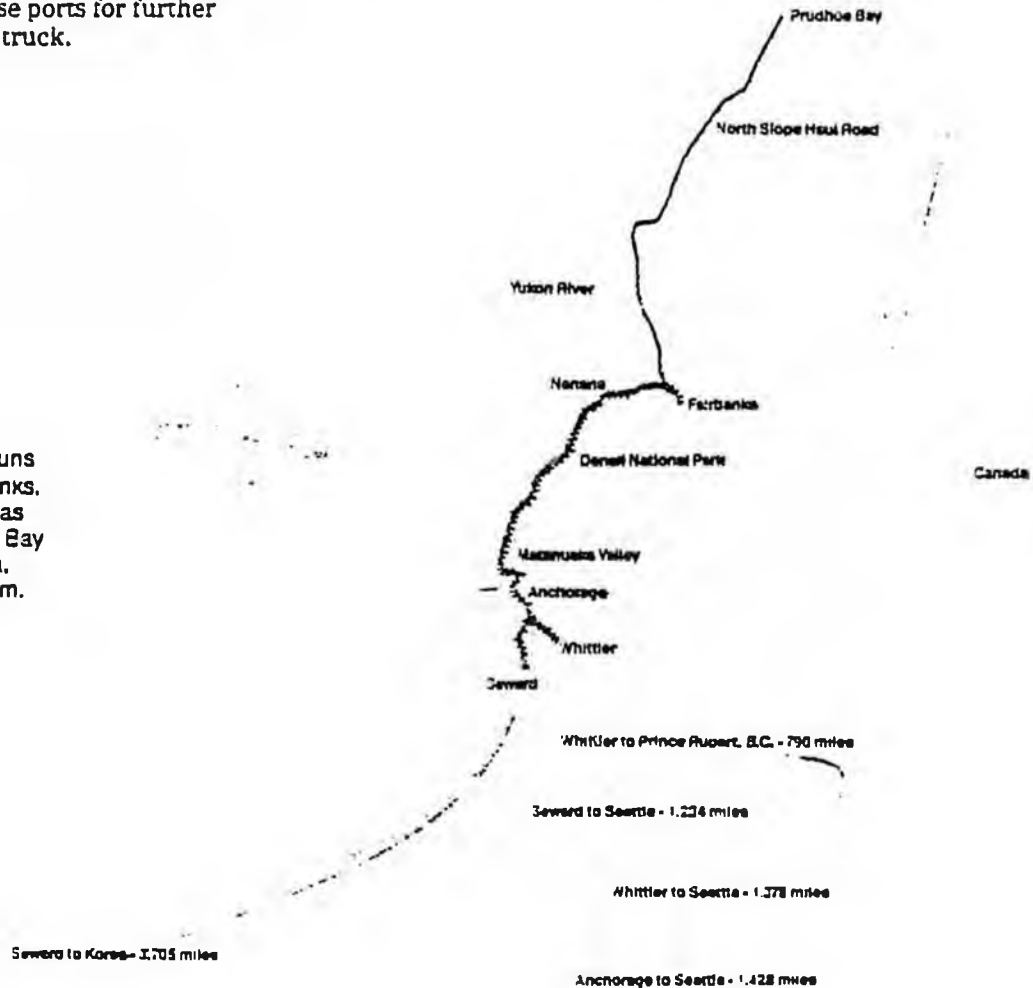
Interior Alaska covers thousands of square miles, much of it primitive wilderness; and, its towns and settlements are often isolated by distance and terrain. But, although the Alaska Railroad goes no farther than Fairbanks, it uses a combination of transportation modes, including motor carriers, river boats, and aircraft, to carry freight to the remote corners of the state.

Freight is transferred at Nenana to river barges which provide through routes and rates in connection with the railroad. This river freight service extends along the Tanana and Yukon rivers to Fort Yukon, and even to Marshall, just 150 miles from the Bering Sea. The railroad has for decades provided this essential service to the Bush, and is continuing to upgrade transportation facilities and services.

The railroad competes actively for the transportation of imported steel pipe products, which move into Alaska principally through the ports of Seward,

Anchorage, and Valdez. The railroad moved 74,000 tons of pipe in 1985.

The "railbelt" region of Alaska runs 470 miles from Seward to Fairbanks, connecting southcentral Alaska as well as the interior and Prudhoe Bay with water carriers from Canada, the Lower 48, and the Pacific Rim.



An aggressive marketing effort and improved service by rail led to a strong recovery in this business in December. Ship traffic through Seward resumed late in the year, discharging pipe for movement to the North Slope oil fields through the railroad's terminal in Fairbanks.

The Alaska Railroad Corporation is a major supplier of transportation services for the petroleum industry. Steel pipe, drilling compounds, machinery, and supplies routinely move over the railroad to Fairbanks for further movement by motor carrier to the North Slope. Massive drilling rigs are fabricated by an Anchorage firm then disassembled for transportation to the oil fields.

PASSENGER SERVICE

The majority of the 257,000 passengers who chose the Alaska Railroad for travel in 1985 arrived on cruise ships through the railroad's port of Whittier, rode the Portage-Whittier shuttle, or rode the express trains serving Denali National Park. Ridership rose by almost 10 percent over 1984, making the year a record for the railroad's passenger train service.

The purchase of two specially rebuilt rail diesel cars (RDCs) received in late 1985 is expected to reduce

significantly the cost of wintertime rail service to rural areas, where the greater part of passenger service losses are incurred. These self-propelled passenger cars are available for charter and excursion trains and to supplement other passenger services where necessary.

The Alaska Railroad offers several types of passenger services, depending on season and destination. These services include the Denali express, the rural local service, Whittier shuttle, Seward excursion, and winter service.

The Denali express is the summer service on the Anchorage - Denali Park - Fairbanks route. Trains leave Anchorage and Fairbanks daily from late May to mid-September and serve Denali National Park each way. The Denali express is the last traditional intercity passenger train in the United States and provides spectacular views of Mt. McKinley, the tallest mountain in North America.

The rural, or Bush, service which moves people and their belongings (such as animals, supplies, and food) to remote areas not served by highway or air, is a major public service of the railroad. Bush passengers flag the train at almost any point for personalized service. Wintertime essential Bush and shuttle services during the eight-month season result in about 7 percent of the railroad's annual passenger business. The railroad also provides weekly small freight shipment service to these remote homesites.

The 12-mile trip from Portage to the community of Whittier is traveled by what is familiarly known as the Whittier shuttle. The shuttle provides the only land access to this small but major seaport town. Passengers may ride the train or in their vehicles that are loaded onto flat cars at Portage. Much of the trip is through tunnels because of the many rugged mountains encountered between Portage and Whittier. The train makes several round trips daily between the two stops in the summer. Connections and reservations are available with the Alaska Marine Highway ferry service from Whittier to Valdez.

Cruise ship service to Whittier and significant increases in recreational use of the Prince William Sound region, coupled with a banner tourist year on the Valdez to Whittier state ferry route, boosted the number of passengers on the Whittier shuttle by over 20 percent. Ridership in 1986 promises to exceed 1985.



This 20,000-gallon tank car is part of the OWL (Oil Worker Limited), a new, daily unit train that brings jet fuel from North Pole to Anchorage, and returns to Fairbanks with gasoline and other petroleum products.



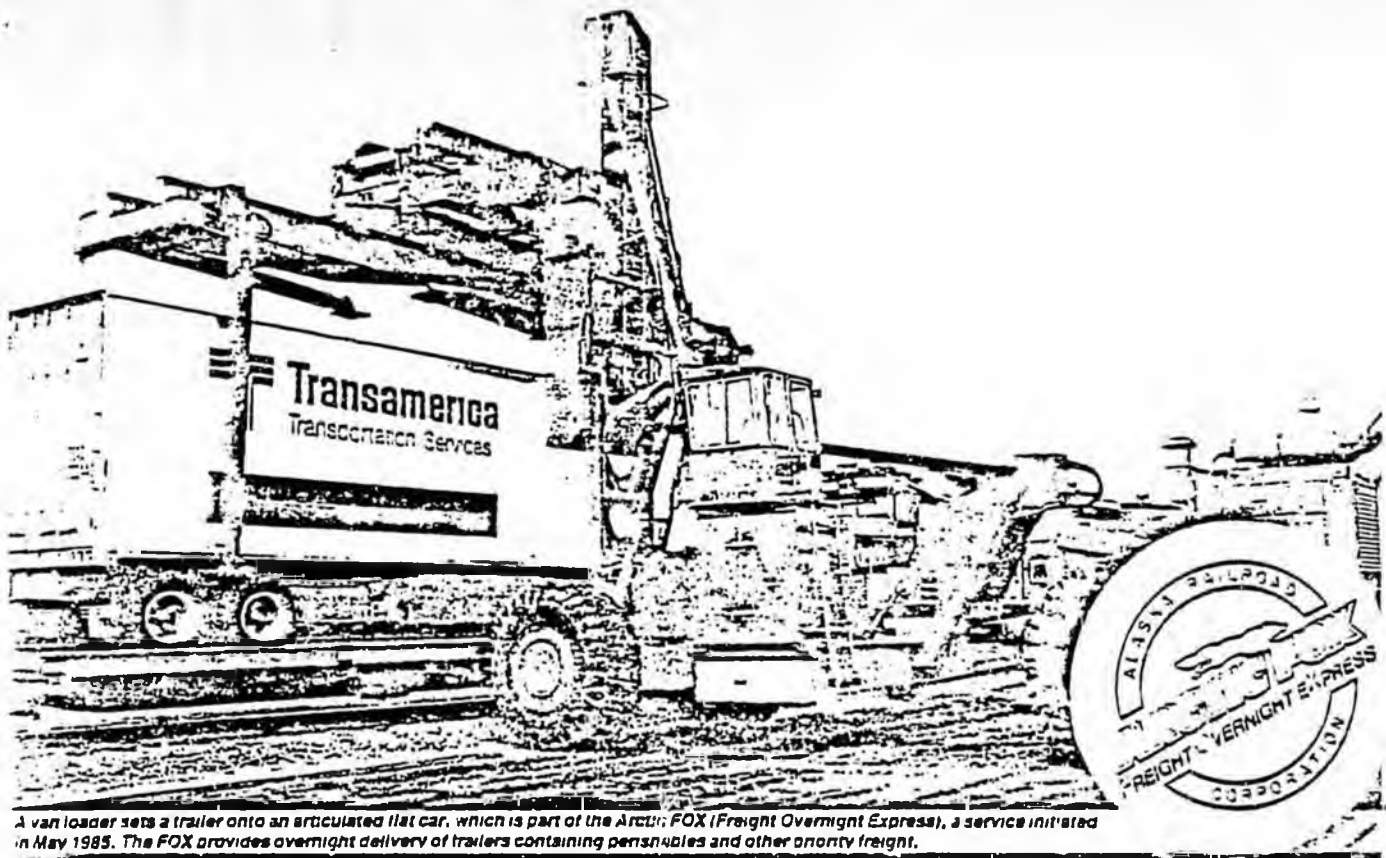
Phil Hibdon, left, and Dennis Smith, railroad marketing representatives, provide pricing information for freight service.



Coal is loaded at the Usibelli coal mine near Healy for shipment to Seward and then Korea. Twenty percent of freight revenue comes from local and export coal.



Bob Smith is a freight salesman in the railroad's Seattle office. His duties include selling freight services, making customer contacts and servicing existing contracts between the Lower 48 and Alaska.



A van loader sets a trailer onto an articulated flat car, which is part of the Arctic FOX (Freight Overnight Express), a service initiated in May 1985. The FOX provides overnight delivery of trailers containing perishables and other priority freight.

Passenger trains to Seward will begin regular service in 1986 after a 30-year absence. The Railroad was the original link between Anchorage and Seward but service was discontinued when highway travel became more popular. During the summer the railroad will offer a weekly day-long excursion from Anchorage to Seward. Passengers will see glistening glaciers, experience the view from high rocky ledges and wind along canyon streams on this 230-mile round trip through some of Alaska's most beautiful mountain territory.

Winter passenger service is provided on a reduced scale during the shoulder season of September to May. Passenger trains travel between Anchorage and Fairbanks twice each month and to Hurricane twice each weekend.

REAL ESTATE

The Alaska Railroad Corporation controls approximately 38,000 acres of land from the ports of Seward, Whittier and Anchorage to the interior city of Fairbanks. Approximately 40 percent of the land is a transportation corridor or railroad rights-of-way. The remaining real estate includes operational and nonoperational parcels within railbelt communities.

Since transfer of the railroad to state ownership, the scope and duties of the Real Estate Department have expanded to include a greater involvement in land-use planning. Coordinated efforts between Operations and Real Estate departments have been initiated to identify surplus lands available for long term lease. This would

result in a more efficient use of undeveloped railroad properties. Leasing policies and practices have been written and implemented to create a more equitable and consistent approach to land management. Innovative ground lease techniques such as rent credits for certain non-depreciable lessee improvements and rent caps that create predictable and financially attractive lease documents will be made available under this new policy. Real estate revenues for 1985 were approximately \$4.3 million.

During 1985, a study was initiated to analyze and recommend for the department an office automation system to catalog and create a database to store some 1,200 real estate lease and permit contracts. The recommendation will be implemented in 1986.

Positive steps are being taken to develop a closer working relationship within railbelt communities. The Real Estate Department recognizes the need for a more cooperative approach between the Alaska Railroad Corporation and its host municipalities and boroughs.

THE FUTURE

To implement the Marketing Department's diverse role within the railroad, a formal marketing plan was developed by the department and in late 1985 was approved by the Alaska Railroad Corporation Board of Directors. A key element of the plan calls for new, aggressive marketing programs to establish the identity of the Alaska Railroad throughout the Northwest as well as in the Alaska shipping community.

CHIEF COUNSEL'S OFFICE

The Chief Counsel and his staff were kept very busy in 1985 with the myriad legal issues facing the new railroad corporation.

Topics reviewed during the year by the legal staff included real estate, regulatory review of the rail industry and the railroad's rate structure, personnel and labor relations, commercial financing, and risk management.

The State Transfer Team, which was created prior to transfer of ownership of the railroad to coordinate that process, passed responsibility for many legal tasks to the Chief Counsel in the first quarter of 1985. Foremost among these assignments was continuing oversight of the conveyancing of 38,000 acres of railroad parcels and right-of-way from the federal government to the corporation. Survey, description, and procedural issues continue to be overshadowed by Native corporation claims to valuable railroad parcels. The railroad was involved in negotiations with Ahtna, Eklutna and Toghethlele native corporations. An agreement was reached with Ahtna Inc. in 1985. Negotiations will continue in 1986 to resolve the remaining claims.

The interpretation and application of both old and new railroad leases required considerable legal support. Corporate attorneys assisted in development of a new leasing policy and new master lease. The legal office also participated in the development of corporate relations with many state, federal, and military agencies regarding mutual land ownership and management concerns.

The legal staff was instrumental in the financing of millions of dollars in new equipment purchases in 1985 by preparing and negotiating necessary commercial documents. Procurement of equipment and materials also required legal review of solicitation packages and legal assistance in the resolution of bid disputes.

Competitor challenges to the corporation's pricing of piggyback traffic (truck trailers on flat cars) led the Chief Counsel to retain transportation and ac-

Terry T. specializ



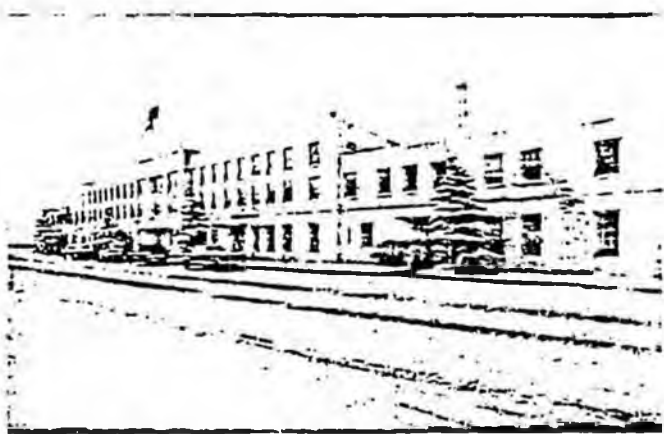
Cathie McLeod is a clerk-typist in the Fairbanks freight house.

counting experts to review the corporation's rate costing practice. The studies confirmed that the corporation's pricing was appropriate.

Competing water carriers fought unsuccessfully to deny the corporation any participation in the Interstate Commerce Commission's exemption of boxcar traffic from regulation. The exemption will permit more freedom in the marketing of transportation services.

Through the first year of state ownership, the corporation received relatively few claims for personal injury and property damage related to railroad operations. Corporate counsel participated in resolution of several of the claims and in review of the corporation's risk management procedures.

Given the breadth of 1985 corporate legal affairs, the Office of the Chief Counsel will be challenged by these and new assignments in 1986.



The Alaska Railroad General Office building in Anchorage was constructed in 1942. It houses most of the corporation's administrative employees.

and Tim Reed, foreground, are bearing Anchorage bearing rebuild shop.



An administrative assistant, Shirley Tobin is employed in the railroad's Seattle office.



Chns Muniz, a truck driver for the railroad, assists in loading and unloading trailers on flat cars in the Anchorage yard.

Betty Elge is the dock agent, and Beverly Clauson, foreground, a clerk-typist, in Seward.

As a federal agency, the Alaska Railroad had adhered to federal hiring practices and personnel procedures. With transfer of ownership to the state, the railroad began to develop and implement policies and procedures that more closely responded to the needs of the new Alaska Railroad Corporation.

In the process, several personnel and employee relations functions were consolidated into one department. The Human Resources Department was created from the old Personnel Office. Added to it were Organization, Compensation and Benefits, Labor Relations, and Health, Safety and Environment. This reorganized department provides a full range of employee relations services for both management and employees. Affirmative action and the streamlining of recruiting and hiring practices are a top priority in better utilization of the work force.

Among the major Human Resources projects in 1985 was conversion of all personnel and payroll records to a fully automated, computerized system. Complete conversion to the new records system was expected by February 1986. This change will allow ready access to employee data and will insure an accurate employee record system.

Human Resources played a significant role in labor negotiations in 1985. According to both the federal transfer and state corporation acts, union contracts in existence at the time of transfer to state ownership are to be renegotiated by the corporation

within the first two years of state operation. Beginning in August 1985, for the first time in the history of the Alaska Railroad, representatives from all seven bargaining units and management met at the bargaining table. This unique process called for bargaining with all the unions at once on items common to all the units. By year's end significant steps had been made toward reaching a mutually agreeable master contract.

Negotiations will continue in 1986 to finalize the master agreement after which each bargaining unit will have an opportunity to negotiate an addendum specifically for each union.

UNIONS REPRESENTING RAILROAD EMPLOYEES

(As of December 31, 1985)

Union	Employees
United Transportation Union	128
Brotherhood of Railway Carmen	10
International Association of Machinists and Aerospace Workers	89
American Federation of Government Employees	288
American Train Dispatchers Association	13
American Train Dispatchers Association	5
Train Dispatchers Union	
Blue collar and white collar units	

Administration of all benefits programs for railroad employees is managed by the Organization, Compensation and Benefits Department in Human Resources. This department administers the new life insurance and medical care programs for employees, including vision, hearing and dental care. This new program is designed to cover new employees and transferred employees and was implemented in February 1985.

This department also implemented a pension plan and a tax-deferred savings plan for non-represented employees. These plans allow employees to contribute a portion of their pre-tax earnings to a retirement and investment program. The deferred savings plan allows employees to build funds for their retirement while reducing their current taxes. Employees who participated in the Civil Service Retirement program prior to transfer remain in that system.

A safe workplace and working conditions have always been a priority at the Alaska Railroad. Corporation-wide training programs in first aid and cardiopulmonary resuscitation were provided several times throughout the year by the Safety Office. Safety meetings were held throughout the railroad on a regular basis to keep safety in the forefront of employees' minds while at work and at home.

The result was a reduction in accidents and serious on-the-job injuries. At the close of the year the Alaska Railroad Corporation was in contention with other railroads of similar size for a second place Harriman Award. The Harriman is a national safety award presented by the Federal Railroad Administration. The railroad received a fourth place Harriman in 1984 and a third place in 1983.

BENEFIT PROGRAMS
(As of December 31, 1985)

PENSION PLAN	Federal Retirement System*	Corporation Program	Total
Employee Contributions	\$1,338,311.58	\$41,834.28	\$1,379,945.84
Employer Contributions	\$1,338,311.58	\$35,389.00**	\$1,373,700.58
TOTAL	\$2,578,823.12	\$77,023.28	\$2,753,648.40

* Employees who participated prior to transfer remained in this program after state ownership.

** Employer contributions are based on projected cash payouts, reflecting information received from the trust administrator.

TAX DEFERRED SAVINGS

Employee Contributions*** \$232,897.29

***The present plan covers permanent, non-union employees. Union employees may become eligible depending upon the outcome of contract negotiations.

CORPORATION PAID LEAVES
(In hours)

	Earned	Used
Annual Leave	91,533	71,975
Sick Leave	58,547	35,247
Administrative Leave**	—	6,209
Jury Duty	—	457
Military Leave	—	312

**Paid leave is granted for such activities as voter registration and voting, representing employee organizations, and attending conferences or conventions that would benefit the corporation.

NUMBER OF EMPLOYEES BY DEPARTMENT

CEO Staff	10
Operations	532
Administration/Human Resources	25
Finance	65
Marketing	27
TOTAL	659

EMPLOYEE YEARS OF SERVICE

Years	Employees	Years	Employees
32	1	14	26
30	3	13	18
29	2	12	13
28	2	11	63
27	2	10	46
25	1	9	19
24	3	8	9
23	5	7	12
22	4	6	32
21	4	5	29
20	8	4	24
19	8	3	33
18	8	2	25
17	10	1	65
16	10	Less than 1	184
15	14		

When the Alaska Railroad changed hands from federal to state government, the Finance Department was a primary recipient for dramatic alterations. The changes were part of a corporate three-year plan generated in early 1985. The Finance Department as well as the corporation met or exceeded its goals for the first year.

The financial reorganization began with a management-oriented focus on the department. Accordingly, the position of Vice President of Finance was created, with all finance, information systems, procurement and supply departments reporting to this position. Formerly, under federal administration, those departments reported to the Department of Administration.

An important objective outlined in the three-year plan was the purchase of new equipment. Under federal administration all major purchases were paid by cash appropriated by Congress as part of the federal Department of Transportation budget. The new Finance Department was able to prepare a financial package that emphasized lease-purchase agreements for equipment and also established a credit line for the new corporation. The package resulted in the purchase of approximately \$12 million in new equipment such as flat cars, locomotives, rail diesel cars and computers. The corporation spent an additional \$10 million for improvements to the mainline track, tunnels and other areas.

Installation of an on-line accounting and financial system was another giant step taken by Finance. A new IBM 4361 computer was added which handles accounts payable/receivable, general ledger, inventory, purchasing, payroll and personnel management. The new system uses modern on-line capabilities as the standard for its operations, which prior to transfer had depended on a manual accounting system. In addition to updating the railroad's finance and record keeping capabilities, the Finance Department was responsible for expanding the use of personal computers in several work areas. The new PCs generate a huge time and cost savings in every department in which they are used.

A major activity of the new corporation in 1985 was wrapping up all accounts receivables and payables left behind by the federal government. The Federal Railroad Administration (FRA) contracted with the Alaska Railroad Corporation to collect outstanding accounts receivable and make payments for outstanding federal debts. Over \$12 million of federal accounts receivable was collected by the corporation, much of which was more than six months past due. The corporation received a collection fee based on its contract with the FRA.

Another major activity specifically involved the corporation's surplus inventories. The Finance Department streamlined the warehouse and supply operations by eliminating excess inventories through public auctions held throughout 1985, generating approximately \$1 million in revenue. A more efficient supply operation has resulted from the reductions.



New computers help Dave Brazell, computer operator, to streamline the financial and record keeping process for the railroad.



The accounting department in Anchorage was substantially updated with the addition of a new computer which handles accounts payable and receivable, general ledger, inventory, purchasing, payroll and personnel management.

The corporation began divesting itself of the gift shop business in 1985. Though not finalized at the close of the year, sale of the Passenger Depot gift shops to the private sector is in progress.

BOARD OF DIRECTORS

When reflecting on 1985 I consider the major accomplishment of the Alaska Railroad Board of Directors was effectively setting the stage under state ownership for the future successful management of the Alaska Railroad.

As directors we fully realize that our first responsibility is to the citizens of Alaska. We also see a need to establish an arena of cooperation and accountability with the Governor and the state legislature. Thanks to the positive response of Governor Bill Sheffield and the oversight committees of the legislature, we were able to establish this bond of trust and were given the latitude to function in a free enterprise environment. This certainly contributed to our success in 1985 and provided a platform on which those who follow in our footsteps may build.

At our regular board meetings in order to be more responsive to the needs of the communities we serve, as well as our customers, an opportunity is provided at each forum for public comment. It is this exchange that has given the board of directors an opportunity to receive input on such issues as leasing policies, bidding procedures, needs of our employees, and the public response to our services.



This ability to communicate on a local level with management, as well as the board of directors, has provided a vehicle for public communication that was practically nonexistent under federal ownership. I am sure this was the intent of Senator Ted Stevens and the many others who worked so long and hard for state ownership of the Alaska Railroad.

In 1985 we were able to benefit from the momentum of the prior year's economy, a stable work force and some creative management innovations by the railroad management. The result was increased earnings and a profit at the bottom line. However, 1986 will present new concerns. The Alaska Railroad, like any other business in Alaska, is not exempt from the predicted slowdown in the economy. It will take a concerted effort on the part of each of us to continue our first year's success.

The board of directors would be remiss if each member did not thank you for your patience and support during this first year. We are making history with this railroad and it is exciting.

James O. Campbell
Chairman of the Board of Directors

Prior to the transfer of the Alaska Railroad to state ownership in January 1985, a seven-member board of directors for the Alaska Railroad Corporation was appointed by Governor Bill Sheffield. Appointment of the board fulfilled a requirement outlined in the 1983 Alaska Railroad Corporation Act, which established the corporation.

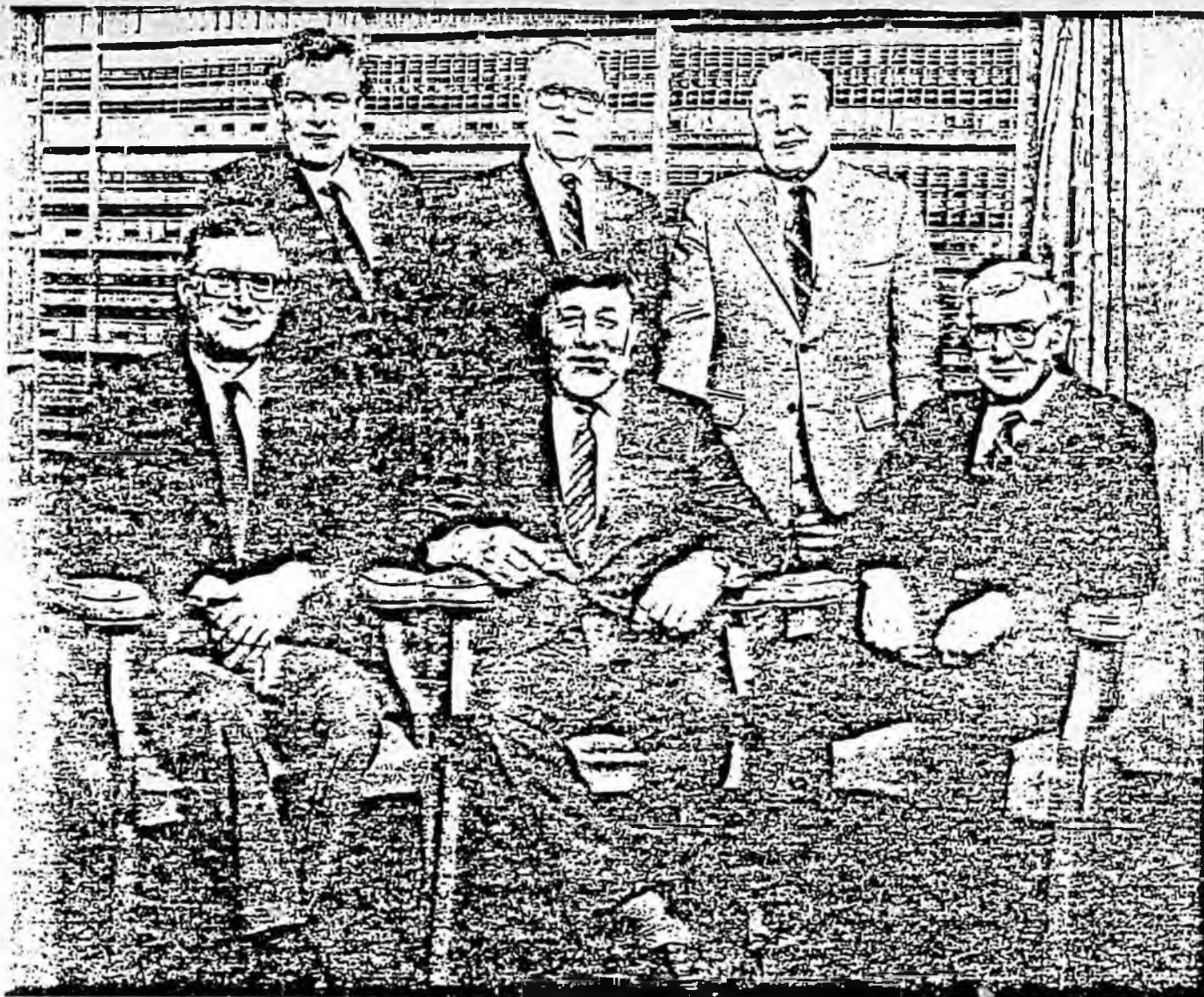
The Alaska Railroad Corporation board is responsible for the management of the corporation but has delegated certain powers and duties to the Chief Executive Officer, Railroad President Frank Turpin.

James O. Campbell is chairman of the board of directors. He was president and general manager of Spenard Builders Supply when his retirement was announced in late 1985. Campbell has worked and served on numerous special committees and community service projects. A resident of Alaska since 1959 he has been an Anchorage assemblyman and president of the Anchorage Chamber of Commerce.

Board vice chairman is Frank X. Chapados of Fairbanks. He has been an Alaska resident since his birth in Juneau in 1914, and has worked most of his life in southeastern and interior Alaska. Currently, he is president and general manager of H & S Forwarders, Inc., in Fairbanks. Chapados was elected to the state House of Representatives in 1958, re-elected in 1961, and served as chairman of the Joint House & Senate Finance Committee. He has been active in many civic and community programs including being past president of the Fairbanks Chamber of Commerce. He has worked as an enforcement agent for the U.S. Fish and Wildlife Service and was also a U.S. Marshal in Fairbanks.



Myron M. Christy is the railroad board member from out of state. He resides in San Francisco and fulfills the directive of the legislature that one board member have at least 10 years of management experience in the railroad industry outside Alaska. Christy worked with the Western Pacific Railroad Company from 1950 to 1973 in many positions including president and CEO. Currently he is consultant and director for U.S. Leasing International, Inc.



The Board of Directors, seated from left: Commissioner Loren H. Lounsbury; Board Chairman James O. Campbell; and Lewis E. Dickinson. Standing from left are Gerald D. Valinske; Board Vice Chairman Frances X. Chapedos; and Commissioner Richard J. Knapp. Shown separately below left is Myron M. Christy.

Lewis E. Dickinson is a founding partner of DOWL Engineers, a professional engineer and a registered land surveyor. As a railroad board member, he brings with him over 30 years of engineering experience and almost 25 years of business management experience. Prior to founding DOWL Engineers, he worked for the City of Anchorage in the city engineer's office.

Richard J. Knapp is one of the two state commissioners who serve on the railroad board. As commissioner for the Department of Transportation and Public Facilities, Knapp represents the transportation interests of the state. Knapp is a retired rear admiral of the U.S. Coast Guard, one of six appointed by President Carter in 1978. A graduate of the U.S. Coast Guard Academy, he served as district commander of the Coast Guard in Alaska from 1980 to 1984, and has a master's degree in business administration from George Washington University in Washington, D.C.

The second commissioner representing the state of Alaska is Loren H. Lounsbury, Commissioner of Commerce and Economic Development. Lounsbury is a 40-year Alaska resident, and graduated from Anchorage High School in 1952. He is a professional engineer and a registered land surveyor. Until his appointment as commissioner in January 1985, he was president of Lounsbury and Associates, Inc. Lounsbury has served on numerous community service boards and is the former Honorary Consul of the Republic of Korea for Anchorage.

Gerald D. Valinske serves on the railroad board as a member of the United Transportation Union, Local 1626. He has been a conductor with the Alaska Railroad since 1975. A 12-year Alaska resident, Valinske worked with the Milwaukee Railroad as a brakeman prior to moving to Alaska. In 1984, he was a lobbyist for the United Transportation Union, American Federation of Government Employees, and the Brotherhood of Railway Carmen.

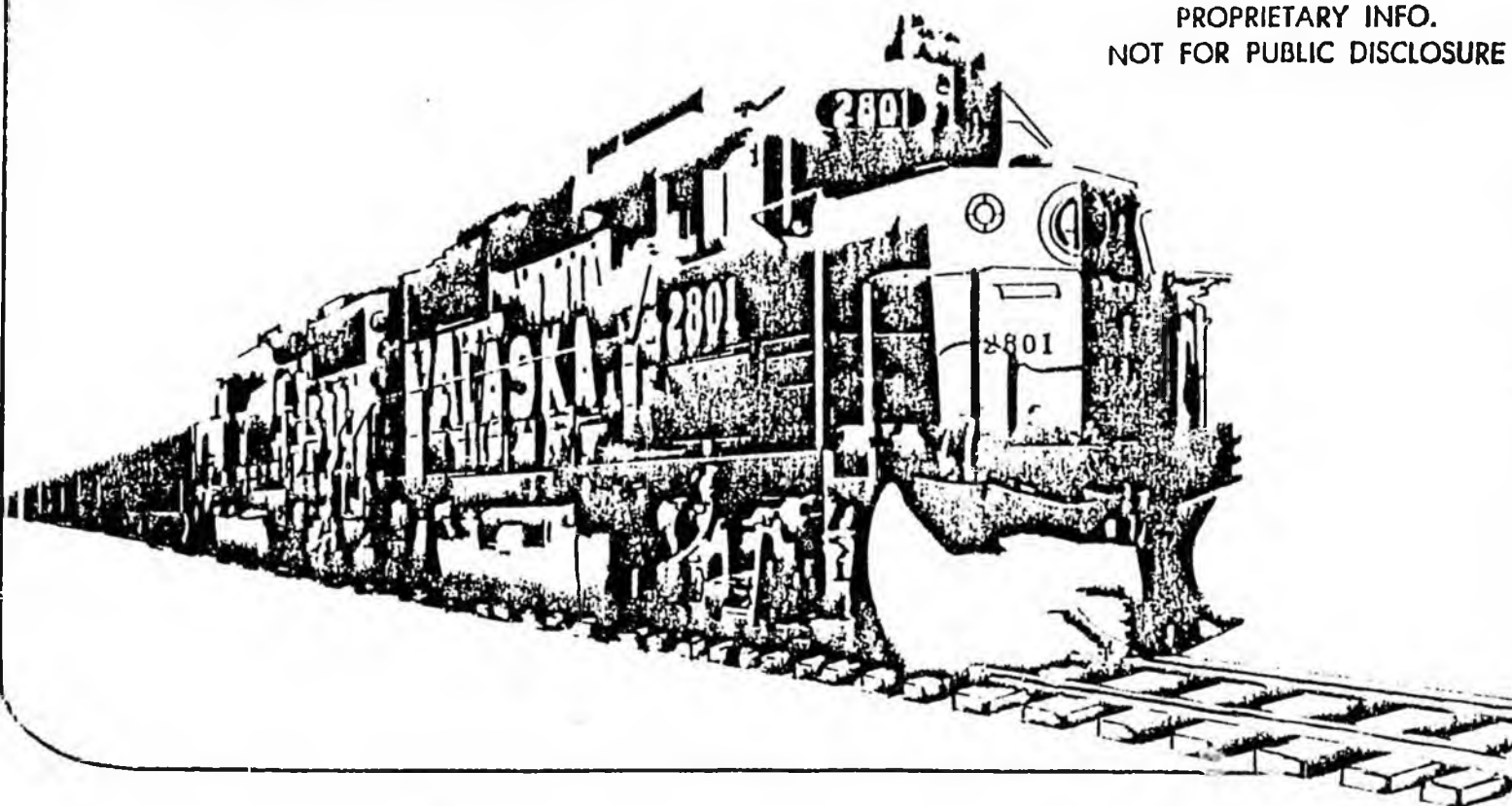
ALASKA RAILROAD CORPORATION



Financial Statements

December, 1985

PROPRIETARY INFO.
NOT FOR PUBLIC DISCLOSURE



ALASKA RAILROAD CORPORATION
Financial Statements
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ALASKA RAILROAD CORPORATION
Summary Balance Sheet
Through the Period Ending December 31, 1985
(in Thousands of Dollars)

	<u>Dec. 31, 1985</u>
<u>Assets</u>	
Current Assets	16,022
Properties	28,510
Land	13,850
Other	<u>820</u>
Total Assets	<u>59,202</u>
<u>Liabilities and Owners Equity</u>	
Liabilities	
Current Liabilities	11,228
Capital Lease Obligations	<u>6,992</u>
Total Liabilities	18,220
Owners Equity	
Investment by State of Alaska	33,849
Retained Earnings	<u>7,133</u>
Total Owners Equity	40,982
Total Liabilities and Owners Equity	<u>59,202</u>
Annualized Return on Investment	21.1%

ALASKA RAILROAD CORPORATION
 1985 OPERATING PERFORMANCE ANALYSIS
 Through the Period Ending December 31, 1985
 (In Thousands of Dollars)

	<u>December*</u>			<u>Year-to-Date</u>			<u>Latest Annual Estimate</u>		
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Estimate</u>	<u>Budget</u>	<u>Variance</u>
<u>Revenues</u>									
Railroad	3,210	4,154	(944)	56,322	64,191	(7,869)	56,322	64,191	(7,869)
Other	<u>521</u>	<u>750</u>	<u>(229)</u>	<u>10,912</u>	<u>9,000</u>	<u>1,912</u>	<u>10,912</u>	<u>9,000</u>	<u>1,912</u>
TOTAL	3,731	4,904	(1,173)	67,234	73,191	(5,957)	67,234	73,191	(5,957)
<u>Cost and Expenses</u>									
Railroad	3,570	3,452	118	45,437	50,334	(4,897)	45,437	50,334	(4,897)
Other	(1,447)	1,308	(2,835)	13,209	15,145	(1,936)	13,209	15,145	(1,936)
Depreciation	<u>267</u>	<u>400</u>	<u>(133)</u>	<u>1,455</u>	<u>4,800</u>	<u>(3,345)</u>	<u>1,455</u>	<u>4,800</u>	<u>(3,345)</u>
TOTAL	2,390	5,240	(2,850)	60,101	70,279	(10,178)	60,101	70,279	(10,178)
NET INCOME (LOSS)	<u>1,340</u>	<u>(336)</u>	<u>1,676</u>	<u>7,133</u>	<u>2,912</u>	<u>4,221</u>	<u>7,133</u>	<u>2,912</u>	<u>4,221</u>
CASH FLOW	1,607	64	1,543	8,588	7,712	876	8,588	7,712	876

EXPLANATION OF VARIANCES - YEAR-TO-DATE

- Revenues are lower due primarily to reduced coal shipments, gravel, TOFC/COFC, and miscellaneous shipments; Increased revenues have been obtained in petroleum products, real estate, and reimbursable work for State road crossing projects, etc.
- Expenses are down primarily due to early reduction in summer work force, reduced car hire costs, better fleet utilization, and accounting adjustments for inventories/depreciation due to Purchase Accounting Allocation Method, and reclassification of Summer Track Improvement Program from expense to capital in accordance with unit of property definition.

* Minor difference due to rounding

** The month of December, 1985, reflects adjustments to accruals/estimates for both revenue and expense.

ALASKA RAILROAD CORPORATION
 PROJECT-TO-DATE CAPITAL PERFORMANCE SUMMARY
 Budget vs Actual
 Through the Period Ending December 31, 1985
 (In Thousands of Dollars)

	<u>Approved Budget</u>	<u>Amount Approp.</u>	<u>Latest Estimate</u>	<u>1985 YTD Expend.</u>	<u>1986</u>
1984 Carryover	2,063	2,063	1,928	1,877	76
1985 Projects	13,187	8,207	14,203	7,170	8,128
TOTAL	<u>15,250</u>	<u>10,270</u>	<u>16,131</u>	<u>9,047</u>	<u>8,204</u>
State Funded (Cap. & Exp.)					
Transfer Funds	268	268	268	268	0
Shuttle Equipment - 526	925	0	925	0	925
Records Management - 529	<u>15</u>	<u>15</u>	<u>15</u>	<u>5</u>	<u>10</u>
Total State Funded	<u>1,208</u>	<u>283</u>	<u>1,208</u>	<u>273</u>	<u>935</u>

ALASKA RAILROAD CORPORATION
Balance Sheet
Through the Period Ending December 31, 1985
(In Thousands of Dollars)

	Jan. 6 <u>1985</u>	March 31 <u>1985</u>	June 30 <u>1985</u>	Sept. 30 <u>1985</u>	Dec. 31* <u>1985</u>
ASSETS					
Current Assets					
Cash and Short-Term Investments	10,978	7,717	8,756	3,932	1,911
Accounts Receivable	710	10,187	13,920	16,756	11,275
Materials and Supplies	<u>4,067</u>	<u>5,040</u>	<u>7,200</u>	<u>4,367</u>	<u>5,618</u>
Total	15,755	22,944	29,876	25,055	18,804
Properties					
Transportation					
Road and Roadway Structures	0	0	91	91	10,623
Equipment	1,375	3,869	8,948	12,173	12,765
Non-Transportation	<u>3,187</u>	<u>3,324</u>	<u>3,187</u>	<u>3,187</u>	<u>3,133</u>
Total	4,562	7,193	12,226	15,451	26,521
Accumulated Depreciation and Amortization (Note A)					
Properties - Net	<u>0</u>	<u>(230)</u>	<u>(560)</u>	<u>(940)</u>	<u>(1,455)</u>
Land	15,414	15,414	15,414	15,414	13,850
Other Assets	<u>1,443</u>	<u>2,850</u>	<u>2,100</u>	<u>6,214</u>	<u>1,482</u>
TOTAL ASSETS	<u>37,174</u>	<u>48,171</u>	<u>59,128</u>	<u>61,194</u>	<u>59,202</u>
LIABILITIES AND OWNERS EQUITY					
Liabilities					
Current Liabilities					
Accounts and Wages Payable	0	4,797	8,025	9,087	7,124
Notes Payable	0	0	0	0	1,000
Other Current Liabilities	1,263	1,942	2,222	1,382	1,126
Current Portion of Long-Term Leases (Note B)	<u>237</u>	<u>424</u>	<u>750</u>	<u>384</u>	<u>1,978</u>
Total	1,500	7,163	10,997	10,853	11,228
Long-Term Leases (Note B)	272	2,409	7,128	8,770	6,992
Other Liabilities and Deferred Credits	<u>2,153</u>	<u>3,973</u>	<u>3,642</u>	<u>2,923</u>	<u>0</u>
Total Liabilities	<u>3,925</u>	<u>13,625</u>	<u>21,767</u>	<u>22,546</u>	<u>18,220</u>
Owners Equity					
Investment by State of Alaska (Note C)	33,249	33,249	33,849	34,131	33,849
Retained Earnings	0	1,297	3,512	4,517	7,133
Total Owners Equity	<u>33,429</u>	<u>34,546</u>	<u>37,361</u>	<u>38,648</u>	<u>40,982</u>
TOTAL LIABILITIES AND OWNERS EQUITY	<u>37,174</u>	<u>48,171</u>	<u>59,128</u>	<u>61,194</u>	<u>59,202</u>
RETURN ON EQUITY (ANNUALIZED)		15.6%	20.7%	17.6%	21.1%

* Certain balance sheet items have been reclassified to conform with auditors YE 1985 financial statements.

ALASKA RAILROAD CORPORATION
Notes
To
Financial Statements

SEE AUDITOR'S YEAR END AUDITED FINANCIAL STATEMENTS

ALASKA RAILROAD CORPORATION
NOTE B
LEASE DISCLOSURE SCHEDULE

December 31, 1905

SEE AUDITOR'S YEAR END AUDITED FINANCIAL STATEMENTS

ALASKA RAILROAD CORPORATION
Statement of Income
Through the Period Ending December 31, 1985
(In Thousands of Dollars)

	<u>December</u>			<u>Year-To-Date</u>		
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
<u>Revenues</u>						
Railroad	3,210	4,154	(944)	56,322	64,191	(7,869)
Other	<u>521</u>	<u>750</u>	<u>(229)</u>	<u>10,912</u>	<u>9,000</u>	<u>1,912</u>
Total	3,731	4,904	(1,173)	67,234	73,191	(5,957)
<u>Cost and Expenses</u>						
Railroad						
Transportation	1,471	1,066	(195)	20,556	25,566	(5,010)
Ways and Structures	1,114	861	253	12,310	12,810	(500)
Equipment	1,703	925	778	12,571	11,958	613
General and Administrative*	<u>(2,199)</u>	<u>1,220</u>	<u>(3,419)</u>	<u>10,418</u>	<u>13,293</u>	<u>(2,875)</u>
Total	2,089	4,672	(2,583)	55,855	63,627	(7,772)
Operating Surplus	1,642	232	1,410	11,379	9,564	(1,815)
Interest Expense	154	0	154	561	0	561
Corporate Expense	<u>(119)</u>	<u>168</u>	<u>(287)</u>	<u>2,230</u>	<u>1,852</u>	<u>378</u>
Net Surplus	1,607	64	1,543	8,588	7,712	876
Depreciation	<u>267</u>	<u>400</u>	<u>(133)</u>	<u>1,455</u>	<u>4,800</u>	<u>(3,345)</u>
Net Income (Loss)	<u>1,340</u>	<u>(336)</u>	<u>1,676</u>	<u>7,133</u>	<u>2,912</u>	<u>4,221</u>

* Adjustments due to inventory re evaluation in accordance with purchase accounting allocation method.

ALASKA RAILROAD CORPORATION
Revenues by Commodity
Through the Period Ending December 31, 1985
(In Thousands of Dollars)

Commodity	December*			Year To Date			Latest Annual Estimate		
	Actual	Budget	Variance	Actual	Budget	Variance	Estimate	Budget	Variance
Pipe	269	310	(41)	3,253	3,780	(527)	3,253	3,780	(527)
Coal: Local	356	630	(274)	4,255	6,170	(1,915)	4,255	6,170	(1,915)
Export	402	551	(149)	5,179	6,612	(1,433)	5,179	6,612	(1,433)
Petroleum	1,030	687	343	11,833	9,681	2,152	11,833	9,681	2,152
Gravel	0	0	0	7,819	8,930	(1,111)	7,819	8,930	(1,111)
TOFC/COFC	358	814	(456)	7,008	10,548	(3,540)	7,008	10,548	(3,540)
Interline	574	861	(287)	10,530	10,513	17	10,530	10,513	17
Miscellaneous Local	(168)	241	(409)	2,101	3,437	(1,336)	2,101	3,437	(1,336)
Total Freight	2,821	4,094	(1,273)	51,978	59,671	(7,693)	51,978	59,671	(7,693)
Passenger: North	239	10	229	2,959	3,300	(341)	2,959	3,300	(341)
South	81	30	51	1,102	645	457	1,102	645	457
Other	69	20	49	283	575	(292)	283	575	(292)
Total Passenger	389	60	329	4,344	4,520	(176)	4,344	4,520	(176)
Real Estate	(141)	340	(481)	4,322	4,080	242	4,322	4,080	242
All Other	662	410	252	6,590	4,920	1,670	6,590	4,920	1,670
Total Other	521	750	(229)	10,912	9,000	1,912	10,912	9,000	1,912
TOTAL	3,731	4,904	(1,173)	67,234	73,191	(5,957)	67,234	73,191	(5,957)

* The month of December, 1985, reflects accrual adjustments to conform with the audited year-end financial statements.

ALASKA RAILROAD CORPORATION
EXPENSE PERFORMANCE ANALYSIS
Through the Period Ending December 31, 1985

Department	Month			Year To Date		
	Actual*	Budget	Variance	Actual	Budget	Variance
Transportation ¹	1,471	1,666	(195)	20,556	25,566	(5,010)
Motive Power & Equipment	1,703	925	778	12,571	11,958	613
Ways & Structures ²	1,114	861	253	12,310	12,810	(500)
Marketing	90	182	(92)	1,229	1,921	(692)
Overheads ³	(2,255)	1,206	(3,461)	11,900	13,224	(1,244)
Depreciation ⁴	267	400	(133)	1,455	4,800	(3,345)
Total	2,390	5,240	(2,850)	60,101	70,279	(10,178)

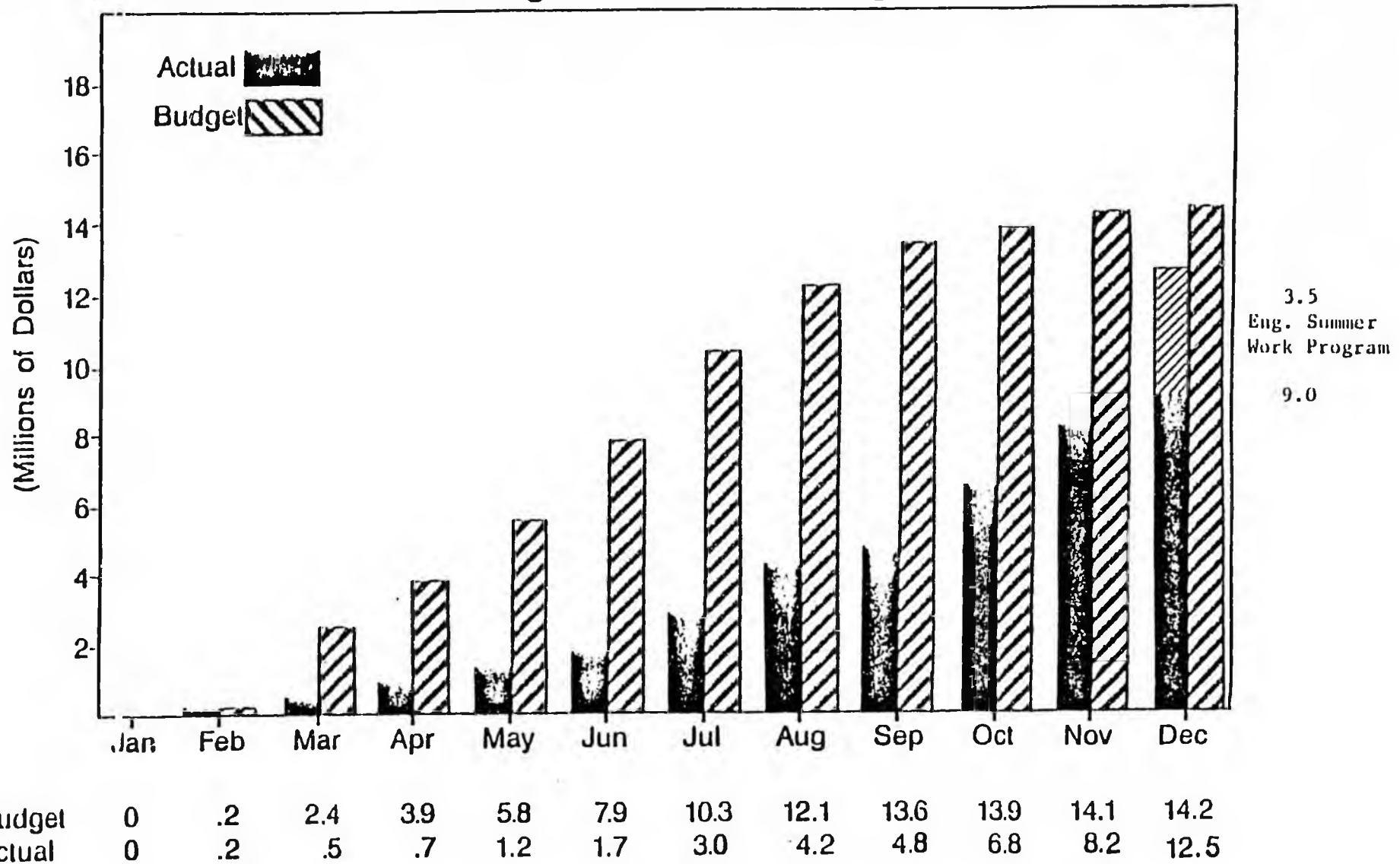
Explanation of Variances - Year-to-Date

- (1) Decrease due to freight movements, primarily TOFC/COFC, gravel, and reduced coal traffic.
- (2) Reduction results from accounting adjustment for Summer Track Improvement Program from expense to capital in accordance with ICC unit of property definitions offset by higher than budgeted personnel costs.
- (3) Underrun due to inventory re-evaluation partially offset by increased insurance costs, reorganization costs and other miscellaneous costs.
- (4) Depreciation lower due to restatement of assets according to purchase accounting allocation method.

* December, 1985, reflects accrual adjustments to conform with audited year end financial statements.

Alaska Railroad Corporation

1985 Capital Expenditures Through the Period Ending



ALASKA RAILROAD CORPORATION
 PROJECT-TO-DATE CAPITAL PERFORMANCE SUMMARY
 Budget vs Actual
 Through the Period Ending December 31, 1985
 (In thousands of Dollars)

	<u>Approved Budget</u>	<u>Amount Approp.</u>	<u>Latest Estimate</u>	<u>1985 YTD Expend.</u>	<u>1986</u>
1984 Carryover	2,063	2,063	1,928	1,877	76
1985 Projects	13,187	8,207	14,203	7,170	8,128
	-----	-----	-----	-----	-----
TOTAL	<u>15,250</u>	<u>10,270</u>	<u>16,131</u>	<u>9,047</u>	<u>8,204</u>
State Funded (Cap. & Exp.)					
Transfer Funds	266	268	268	268	0
Shuttle Equipment - 528	925	0	925	0	925
Records Management - 529	<u>15</u>	<u>15</u>	<u>15</u>	<u>5</u>	<u>10</u>
Total State Funded	<u>1,206</u>	<u>283</u>	<u>1,208</u>	<u>273</u>	<u>935</u>

ALASKA MILK CORPORATION
 PROJECT-TO-DATE CAPITAL PERFORMANCE ANALYSIS
 Budget vs Actual
 Through the period ending December 31, 1985
 In Thousands of Dollars

Projects	AFE No.	Approved Budget	Amount Appropriated	Latest Estimate	1985 YTD Expend.	Remainder of 1985	1986	Performance			
								Physical Completion %	Start Date	End Date	Status
<u>1984 CARRYOVER:</u>											
Seward TOFC yard	606/107	31	31	21	21	-0-		100	9-85	10-85	C
Weigh-in-motion Scale	632/106	250	250	201	201	-0-	25	90	12-84	6-86	To Certify
Potter Hill Drainage	636	20	20	6	6	-0-		100	7-85	8-85	C
Auto Couplers	633	26	26	20	20	-0-		100		7-85	C
Loco. Plow Pilots	634/151	51	51	51	-0-	-0-	51	20	8-84	3-86	
TOFC Term. Imp. - Anch.	600	37	37	37	37	-0-		100		4-85	C See 85
Anch. Eng. Supply - (Ph. III)	501	871	871	871	871	-0-					C See 85
1984 Tunnel Program	511	431	431	431	431	-0-					C See 85
1984 Track Program	---	89	89	75	75	-0-		100		3-85	C
Other Misc. Projects	999	257	257	215	215	-0-					
TOTAL 1984		2,063	2,063	1,928	1,877	-0-	76				
<u>1985 PROJECTS:</u>											
Energy Conservation-(Ph IV)	501/101	1,250	1,250	1,250	514	-0-	746	80	6-85	5-86	
Warehouse Improvements	502/102	110	110	160	135	-0-	25	85	9-85	6-86	
Fencing - Security	503/102	65	65	-0-	-0-	-0-		-0-			Merged
Computer Air Conditioning	504/104	65	65	61	2	-0-	59	-0-			Rebid 86
Bank Widening	505/105	300	300	108	108	-0-		100	6-85	8-85	C
Rail Lubricators	506/141	60	24	25	25	-0-		100	8-85	11-85	C
Palmer Branch Rehab.	507	100	-0-	-0-	-0-	-0-					Deleted
Rail/Tie Fasteners	508/131	300	-0-	157	157	-0-		100	7-85	12-85	C
Microwave Radio (Ph I)	509	425	-0-	286	-0-	-0-	286	-0-	2-86	12-86	
Bridges	510/110	800	580	561	561	-0-		100	3-85	9-85	C
Tunnels (Ph II)	511/111	1,500	1,300	4,250	2,286	-0-	1,964	55	7-85	9-86	

Status Codes

A - AFE Preparation	D - Design	M - Materials Ordered
B - Bid Process	E - Evaluation	R - Received
C - Complete	H - On Hold	L - Lease/Purchase

AL/ RAIL CON ION
 PROJECT--(IO-DATE CAP) - PERFORMANCE ANALYSIS
 Budget vs Actual
 Through the period ending December 31, 1985
 In Thousands of Dollars

Projects	AFE No.	Approved Budget	Amount Appropriated	Latest Estimate	1985 YTD Expend.	Remainder of 1985	1986	Performance			
								Physical Completion	Start Date	End Date	Status
1985 PROJECTS:											
Utility Systems	512/112	650	291	550	24	-0-	536	-0-	8-85	10-86	D (20%)
Fuel Station Add.-Anch.	513/113	250	250	186	57	-0-	129	35	7-85	6-86	D (85%)
Mittler Ramp & TOFC Fac.	514/114	475	100	476	356	-0-	120	75	7-85	6-86	
Elelson Branch Rehab.	515/115	2,100	-0-	2,060	595	-0-	1,475	25	7-85	10-86	
Barge Slip #2-Mittler	516/116	300	158	175	-0-	-0-	175	-0-	5-86	7-86	D (10%)
Locomotives (5)	517/117	600	600	339	339	-0-	439	100		5-85	C,I
TOFC Cars (10)	518/118	422	400	473	473	-0-	214	100		5-85	C,I
Covered Cement Hoppers (5)	519	125	-0-	-0-	-0-	-0-					H
Passenger Car Upgrade (17)	520/120	300	42	48	48	-0-		100	6-85	10-85	C
Engineer Const. Equip. (021)	521/121	950	642	692	593	-0-	99	95	3-85	4-86	
Snow Removal Equipment	-	450	Deleted	Deleted	-0-	-0-					
Locomotive Crane	523	800	-0-	460	-0-	-0-	460				L
Material Handling Equip.	524/108	85	24	24	24	-0-		80	8-85	1-86	
Telecom. Test Equip.	525/012	125	125	125	56	-0-	69	-0-	9-85	5-86	M
Upgrade Railios	526	200	-0-	300	-0-	-0-	300	-0-	4-86	12-86	
Passenger Services	527	380	-0-	380	-0-	-0-		-0-			H
HPR Projects - See page 3	999	-0-	334	323	269	-0-	54				See page 3
Flat Cars (15)	119	-0-	255	235	235	-0-	116	100	7-85	8-85	C,I
Const. Work Equip./Snow Rem.	531	-0-	-0-	-0-	-0-	-0-	300	-0-	1-86	3-86	B,I
TOFC Term. Imp. - Anch.	600	-0-	35	49	49	-0-		100	1-85	7-85	C
RDC Car Upgrade	144	-0-	-0-	-0-	-0-	-0-	150	75	9-85	1-86	L
32V Electric 4 Cabooses	153	-0-	100	100	46	-0-	54	35	9-85	11-86	
Electrify 15 TOFC	140	-0-	265	247	125	-0-	122	40	10-85	8-86	
MSA Term Dev.	006	-0-	172	18	18	-0-	10	100	9-85	10-85	C,L
PC Terminals	007	-0-	71	7	7	-0-	22	100	8-85	9-85	C,L
IBM Remotes	008	-0-	350	64	64	-0-	111	100	8-85	9-85	C,L
IBM Line Printer	016	-0-	24	1	1	-0-	7	100	10-85	11-85	C,L
Wang Equipment	027	-0-	275	13	13	-0-	86	100	12-85	12-85	C,L
TOTAL 1985		13,187	11,217	14,203	7,170	-0-	8,128				
GRAND TOTAL-ALL PROJECTS		15,250	10,270	16,131	9,047	-0-	8,204				

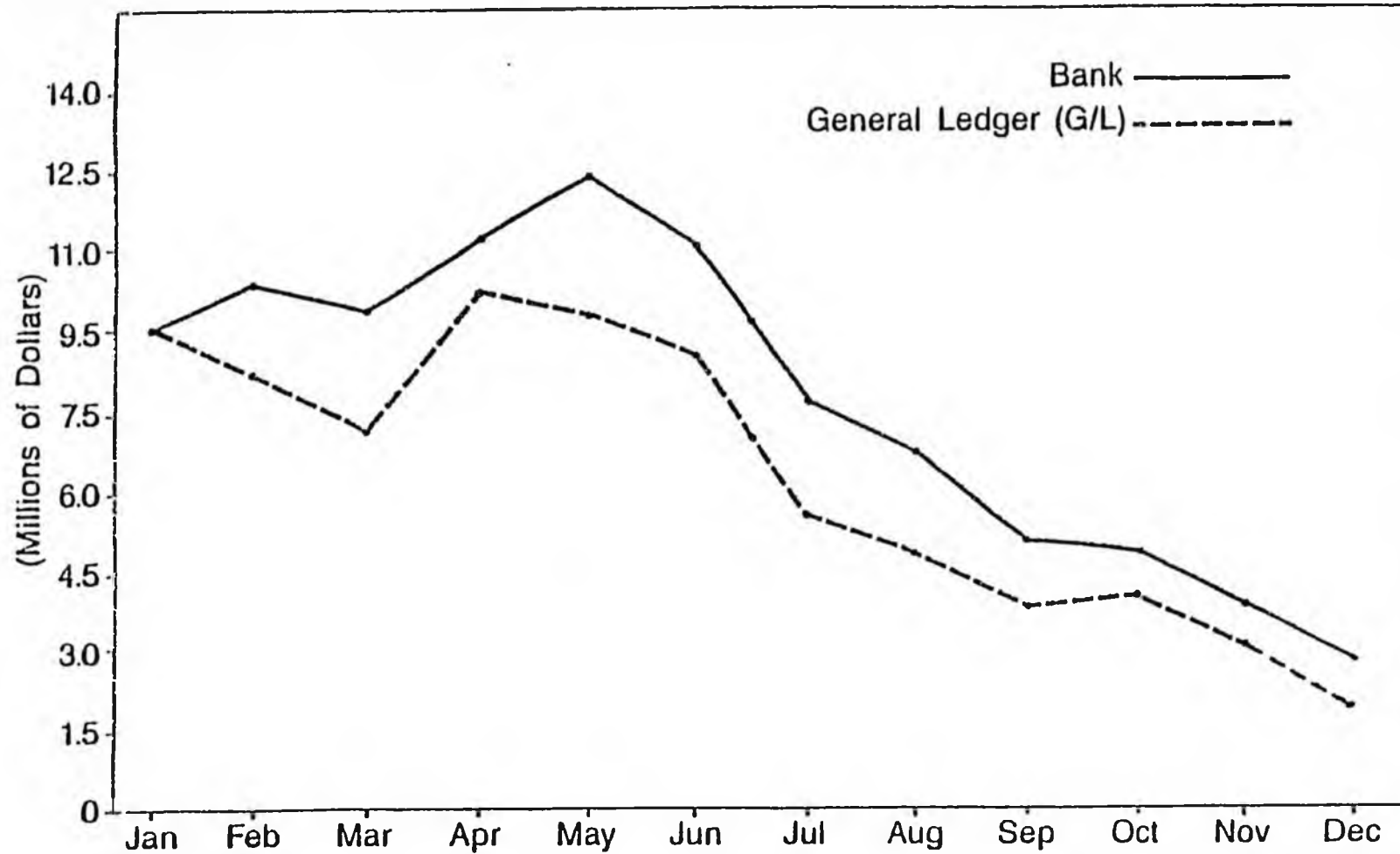
AL RAI) CO .TION
 PROJECT-TO-DATE CAPITAL PERFORMANCE ANALYSIS
 Budget vs Actual
 Through the period ending December 31, 1985
 In Thousands of Dollars

Projects	A/E No.	Approved Budget	Amount Appropriated	Latest Estimate	1985 YTD Expend.	Remainder of 1985	1986	Performance			
								Physical Completion	Start Date	End Date	Status
<u>1985 Non Proj. Res. (NPR)</u>											
Rerailing Bridge	25001		12	12	12	-0-		100	10-84	4-85	C
Telex	75001		2	2	2	-0-		100	10-84	1-85	C
Dock Boards	65001		4	4	4	-0-		100	12-84	2-85	C
Computer, Mac	75003		5	5		-0-		100	12-84	2-85	C
Dishwasher	45001		3	2	2	-0-		100	1-85	2-85	C
Word Proc w/Printer (4)	65050		11	11	11	-0-		100	1-85	3-85	C
Plow on 5 3P 49's	150		51	51	16	-0-	35	40	11-85	3-86	
Radius (5)	25004		6	6	6	-0-		100	3-85	7-85	C
Chart Recorder	25006		2	2	2	-0-		100	5-85	6-85	C
Computer & Telex	75005		3	3	3	-0-		100	5-85	7-85	C
Copier - BM	75006		2	2	2	-0-		100	5-85	5-85	C
Computer - Mac	75008		3	3	3	-0-		100	4-85	4-85	C
Telephone Sys.	75009		13	12	12	-0-		100	4-85	7-85	C
Vans, Pass. (2)	15025		29	29	29	-0-		100	6-85	6-85	C
Budd-RDC(?)	142		60	60	41	-0-	19	90	6-85	1-86	Accept.
Mobile Radio	25010		2	2	2	-0-		100	6-85	12-85	C
Copier, Xerox	75010		10	10	10	-0-		100	6-85	6-85	C
Computer - Mac	75012		9	10	10	-0-		100	8-85	8-85	C
Camera & Accessories	75013		1	1	1	-0-		100	8-85	8-85	C
Logging Recorder	013		27	20	20	-0-		50	10-85	1-86	M
Renodel Procurement Office	143		6	8	8	-0-		100	12-85	12-85	C
Rad.-Tele. (Trans-2)	010		5	5	5	-0-		50	11-85	2-86	M
Rad.-Tele. (Safety)	011		1	1	1	-0-		50	11-85	2-86	M
Comp. Mac (NIKI)	015		4	3	3	-0-		100	11-85	12-85	C
Furniture (Legal)	017		5	4	4	-0-		100	10-85	12-85	C
Computer - IBM (Oldham)	022		13	13	13	-0-		100	11-85	12-85	C
Rapicon Facsimile (3)	023		17	17	17	-0-		100	12-85	12-85	C
Furniture (Procurement)	024		4	4	4	-0-		100	12-85	12-85	C
Furniture (Marketing)	025		10	10	10	-0-		100	11-85	12-85	C
Telephones (Marketing)	026		11	11	11	-0-		100	11-85	12-85	C
Total 1985 NPR		-0-	334	323	269	-0-	54				

Alaska Railroad Corporation

Monthly Bank Balance

1985

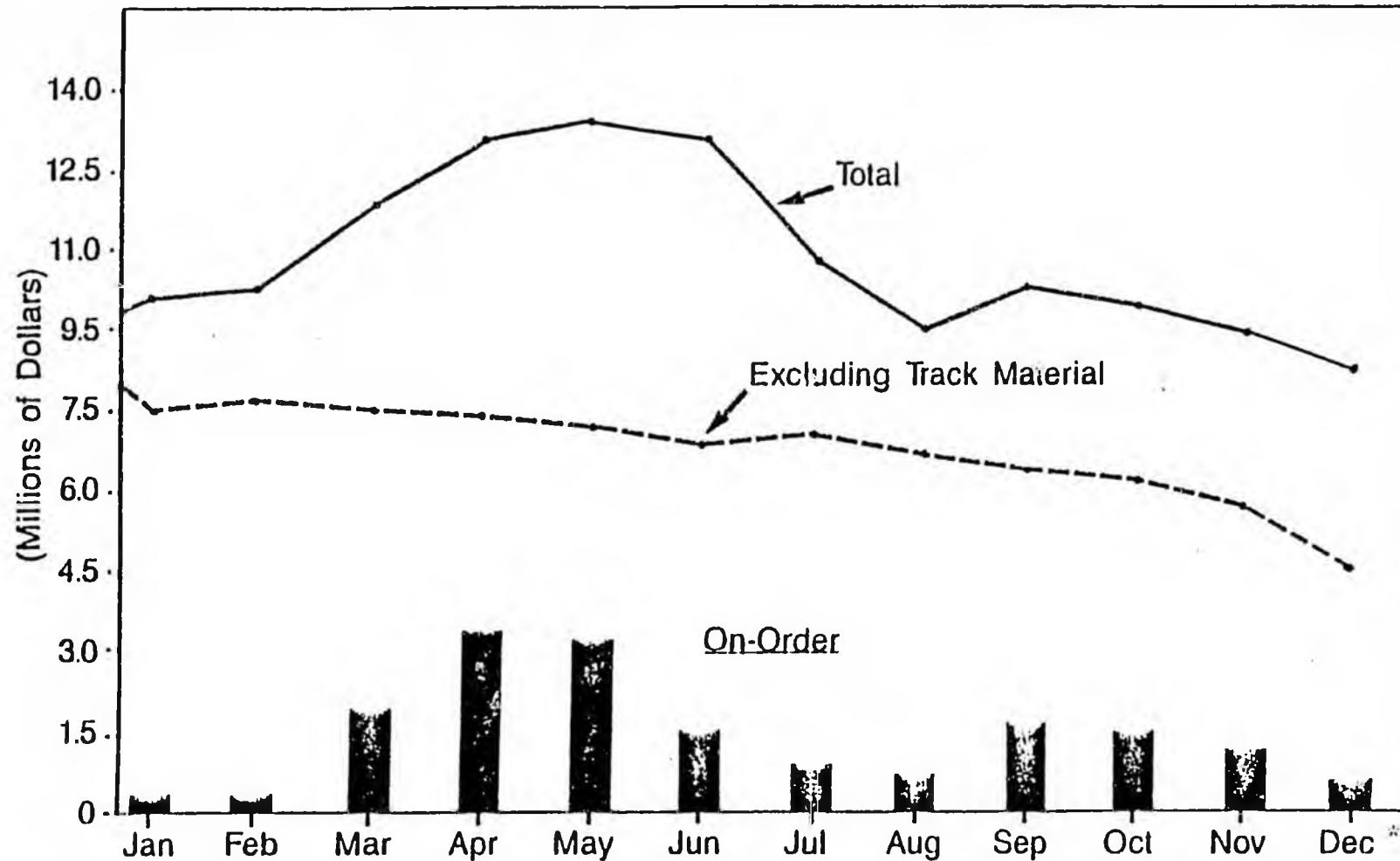


Bank	9.5	10.5	9.9	11.1	12.2	11.0	7.6	7.0	5.2	4.9	4.1	2.9
G/L	9.5	8.1	7.1	10.1	9.7	8.8	5.6	4.7	3.9	4.0	3.0	1.9

Alaska Railroad Corporation

Inventory Level

1985



Total	10.0	10.2	11.9	12.8	13.2	12.8	10.5	9.5	10.1	9.8	9.4	8.2
On-Order	.4	.4	2.2	3.2	3.1	1.4	1.0	.6		1.4	1.2	.6
Exclud. Track Material	7.5	7.6	7.5	7.3	7.1	6.8	6.9	6.5	6.2	5.9	5.7	4.6

* INVENTORY VALUE AT YEAR END 1985 WAS REVALUED DOWNWARD TO \$5.6 MILLION TO CONFORM WITH THE APPRAISAL METHOD USED TO COMPLY WITH THE PURCHASE ALLOCATION ACCOUNTING METHOD.

ALASKA RAILROAD CORPORATION
 Accounts Receivable Status
 Through the Period Ending December 31, 1985

Type	Balance	AGING (DAYS)				
		0-15	16-30	31-45	46-60	over 60
Trade	8,002	2,437	1,339	1,496	627	2,103
%	100	30	17	19	8	26
Reimbursable	377	269	4	0	0	104
%	100	71	1	0	0	28
Real Estate	1,200	471	13	147	0	569
%	100	39	1	12	0	48
Estimated	1,696	1,696	0	0	0	
%	100	100	0	0	0	
Total	<u>11,275</u>	<u>4,873</u>	<u>1,356</u>	<u>1,643</u>	<u>627</u>	<u>2,776</u>
%	100	43	12	14	6	25

ALASKA RAILROAD CORPORATION
 Current Investment Report
 As of December 31, 1985

<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Length of Investment</u>	<u>Type of Investment</u>	<u>Interest Rate</u>	<u>Estimate Int. Income</u>
515,343	Open	Open	Money Mkt	9.80%	2,104
100,000	01/21/86	182 day	CD	8.50%	4,061
100,000	01/21/86	182 day	CD	8.50%	4,061
<u>100,000</u>	05/09/87	540 day	CD	8.50%	<u>1,275</u>
<u>815,343</u>					<u>11,501</u>

ALASKA RAILROAD CORPORATION
 1986 EXPENSE BUDGET ANALYSIS
 (THOUSANDS OF DOLLARS)

DEPARTMENT	1986 BUDGET	1985		
		BUDGET	YTD THRU OCT	LATEST ESTIMATE
TRANSPORTATION	16,359	25,560	17,921	20,800
ENGINEERING	16,140	12,810	12,801	10,870
MP&E	15,076	11,960	10,265	12,000
SPECIAL AGENTS	2,869	500	356	440
ADMINISTRATION	670	900	635	760
PERSONNEL	2,050	800	473	580
FINANCE	5,873	5,620	4,613	6,000
MARKETING	3,007	1,920	1,077	1,580
LEGAL	856	500	462	562
OTHER	<u>515</u>	<u>4,910</u>	<u>3,668</u>	<u>5,228</u>
SUB TOTAL	63,415	65,480	52,271	58,820
INTEREST EXPENSE	1,018	0	379	480
DEPRECIATION	<u>1,800</u>	<u>4,800</u>	<u>1,064</u>	<u>1,300</u>
SUB TOTAL	2,818	4,800	1,443	1,780
TOTAL EXPENSE	66,233	70,280	53,714	60,600

ALASKA RAILROAD CORPORATION
 REVENUES BY COMMODITY
 1986 BUDGET ANALYSIS
 (IN THOUSANDS OF DOLLARS)

COMMODITY	1986 BUDGET	1985 STATUS		LATEST ESTIMATE
		BUDGET	YTD THRU OCT	
PIPE	3,044	3,780	2,619	3,000
COAL: LOCAL	5,763	6,170	3,557	4,100
EXPORT	5,113	6,612	4,521	5,340
PETROLEUM	11,311	9,681	9,605	11,500
TOFC/COFC	8,239	10,548	5,998	7,000
INTERLINE	12,786	10,514	9,194	10,800
MISCELLANEOUS LOCAL	9,291	12,366	10,028	11,630
TOTAL FREIGHT	55,547	59,671	45,522	53,370
PASSENGER: NORTH	2,890	3,300	2,693	2,900
SOUTH	84	645	979	1,030
OTHER	1,436	575	213	300
TOTAL PASSENGER	4,410	4,520	3,885	4,230
REAL ESTATE	5,100	4,080	4,071	4,971
ALL OTHER	6,000	4,920	5,708	6,429
TOTAL OTHER	11,100	9,000	9,779	11,400
TOTAL REVENUE	71,057	73,191	59,186	69,000

ALASKA RAILROAD CORPORATION
1986 BUDGET HEADCOUNT SUMMARY

DEPARTMENT	<u>FIRST QTR</u>		<u>SECOND QTR</u>		<u>THIRD QTR</u>		<u>FOURTH QTR</u>	
	1986	1985	1986	1985	1986	1985	1986	1985
(1) CORPORATE OFFICE	11	6	11	8	11	12	11	9
OPERATIONS	510	532	657	711	586	635	499	509
(2) HUMAN RESOURCES	29	19	29	19	29	18	29	21
(3) FINANCE	69	59	69	59	71	63	69	69
(4) MARKETING & SALES	<u>37</u>	<u>18</u>	<u>50</u>	<u>17</u>	<u>50</u>	<u>27</u>	<u>37</u>	<u>26</u>
TOTAL	<u>656</u>	<u>634</u>	<u>816</u>	<u>814</u>	<u>747</u>	<u>755</u>	<u>645</u>	<u>634</u>

(1) INCLUDES CHIEF COUNSEL AND STAFF

(2) INCLUDES DIRECTOR, ADMINISTRATION AND STAFF

(3) 1985 DOES NOT INCLUDE 6 CONTRACT COMPUTER OPERATORS WHICH HAS BEEN CONVERTED TO ARRC STAFF

(4) DOES NOT INCLUDE SUMMER HOST/HOESSTESS PROGRAM OF 45 STUDENTS DURING SUMMER PASSENGER SEASON

ALASKA RAILROAD CORPORATION
1986 BUDGET HEADCOUNT SUMMARY

DEPARTMENT	<u>FIRST QTR</u>		<u>SECOND QTR</u>		<u>THIRD QTR</u>		<u>FOURTH QTR</u>	
	1986	1985	1986	1985	1986	1985	1986	1985
(1) CHIEF EXECUTIVE OFFICE	11	6	11	8	11	12	11	9
OPERATIONS	515	532	650	711	629	635	504	509
(2) HUMAN RESOURCES	29	19	29	19	29	18	29	21
(3) FINANCE	69	59	69	59	71	63	69	69
(4) MARKETING & SALES	<u>37</u>	<u>18</u>	<u>50</u>	<u>17</u>	<u>50</u>	<u>27</u>	<u>37</u>	<u>26</u>
TOTAL	<u>661</u>	<u>634</u>	<u>809</u>	<u>814</u>	<u>790</u>	<u>755</u>	<u>650</u>	<u>634</u>

(1) INCLUDES CHIEF COUNSEL AND STAFF

(2) INCLUDES DIRECTOR, ADMINISTRATION AND STAFF

(3) 1985 DOES NOT INCLUDE 6 CONTRACT COMPUTER OPERATORS WHICH HAS BEEN CONVERTED TO ARRC STAFF

(4) DOES NOT INCLUDE SUMMER HOST/HOUSTESS PROGRAM OF 45 STUDENTS DURING SUMMER PASSENGER SEASON

ALASKA RAILROAD CORPORATION
1986 BIDDING PLAN
ACCOUNT ANALYSIS

SUMMARY

	1986 BUDGET	LATEST ESTIMATE	1985	
			VARIANCE	%
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	39,984	36,827	3,157	8
CONTRACTUAL SERVICES	5,936	4,670	1,266	27
MATERIALS & SUPPLIES	10,095	11,321	(1,226)	(11)
RENTALS, UTILITIES	2,763	3,703	(940)	(25)
INSURANCE, CASUALTY, TAXES	2,271	1,117	1,154	103
OTHER	<u>1,017</u>	<u>364</u>	<u>653</u>	<u>179</u>
TOTAL	62,066	58,002	4,064	7
DEBT SERVICE	<u>1,100</u>	<u>415</u>	<u>685</u>	<u>165</u>
GRAND TOTAL	<u>63,166</u>	<u>58,417</u>	<u>4,749</u>	<u>8</u>

EXPLANATION OF MAJOR VARIANCES:

- PERSONNEL COSTS REFLECT FULL STAFF LEVELS FOR YEAR, INCREASED SALES STAFF, SMALL INCREASE IN ADMINISTRATIVE WORK FORCE, INCREASED HEALTH BENEFIT COST AND PROVISION FOR MINIMAL WAGE ADJUSTMENT.
- CONTRACTUAL SERVICES INCREASE REFLECTS COST OF MARKETING PLAN, RELOCATION FOR TRANSFERRED EMPLOYEES, INCREASED TRAINING.
- MATERIALS AND SUPPLIES DECREASE REFLECTS REVALUATION OF INVENTORY.
- RENTALS AND UTILITIES DECREASE REFLECTS SAVINGS FROM KAPP ENERGY PROJECT, CLOSURE OF UNNECESSARY WAREHOUSES, ETC.
- INSURANCE INCREASE IS FOR A FULL YEAR EFFECT OF OUR RISK MANAGEMENT PROGRAM AT NEW RATES AND PROVISION FOR CASUALTY CLAIMS.
- OTHER INCREASE REFLECTS CONSOLIDATION OF FREIGHT EXPENSE FOR DIRECT, NON-STOCK PURCHASES TO THE PROCUREMENT DIVISION.
- DEBT SERVICE INCREASE REFLECTS FULL YEAR OF INTEREST EXPENSE ON LOCOMOTIVES, FLAT CARS, AND PLANNED 1986 CAPITAL ADDITIONS.

ALASKA RAILROAD CORPORATION
 1986 BUDGETING PLAN
 DEPARTMENT ANALYSIS

SUMMARY

	1986 BUDGET	1985		
		LATEST ESTIMATE	VARIANCE	%
CORPORATE OFFICE	1,579	1,191	388	33
OPERATIONS	48,516	47,170	1,346	3
FINANCE	6,815	6,000	815	14
MARKETING	3,417	2,509	908	36
HUMAN RESOURCES	2,074	807	1,267	157
ADMINISTRATION	<u>765</u>	<u>740</u>	<u>25</u>	<u>3</u>
GRAND TOTAL	<u>63,166</u>	<u>58,417</u>	<u>4,749</u>	<u>8</u>

EXPLANATION OF MAJOR VARIANCES:

- ° CORPORATE OFFICE INCREASE REFLECTS ADDITIONAL COST FOR LITIGATION AND INCREASE IN LEGAL WORKFORCE.
- ° FINANCE INCREASE REFLECTS LARGER DEBT SERVICE AND REALIGNMENT OF CONTRACTUAL WORKFORCE.
- ° MARKETING INCREASE REFLECTS NEW MARKETING PLAN (500K), ADDITIONAL SALES FORCE AND RELOCATION TO UPTOWN OFFICE SPACE.
- ° HUMAN RESOURCES INCREASE REFLECTS NEW ORGANIZATION STRUCTURE, INCREASED RESPONSIBILITIES, COST FOR NEW ADMINISTRATIVE PROGRAMS AND SOME ADDITIONAL STAFF.

ALASKA RAIL AD CORPORATION
 1986 SPENDING PLAN
 ACCOUNT ANALYSIS
 SUMMARY

<u>CONTRACTUAL SERVICES</u>	<u>1986 BUDGET</u>	<u>1985</u>	
		<u>LATEST ESTIMATE</u>	<u>VARIANCE</u>
CORPORATE OFFICE	757	672	85
OPERATIONS	2,625	2,555	70
FINANCE	753	934	(181)
MARKETING	920	433	487
HUMAN RESOURCES	805	50	755
ADMINISTRATION	<u>76</u>	<u>26</u>	<u>50</u>
TOTAL	<u>5,936</u>	<u>4,670</u>	<u>1,266</u>

EXPLANATION OF MAJOR VARIANCES:

- ° CORPORATE OFFICER INCREASE FOR ESTIMATED CORPORATE DONATIONS.
- ° MARKETING INCREASE REFLECTS IMPLEMENTATION OF NEW CORPORATE MARKETING PLAN.
- ° HUMAN RESOURCES REFLECTS REALIGNMENT OF ORGANIZATION, RELOCATION EXPENSES, SALARY ADMINISTRATION PROGRAM, AND INCREASED TRAINING.

ALASKA RAILROAD CORPORATION
 1986 SPENDING PLAN
 ACCOUNT ANALYSIS
 SUMMARY

<u>MATERIALS & SUPPLIES</u>	<u>1986 BUDGET</u>	<u>1985</u>	
		<u>LATEST ESTIMATE</u>	<u>VARIANCE</u>
CORPORATE OFFICE	16	33	(17)
OPERATIONS	9,611	10,480	(869)
FINANCE	214	408	(194)
MARKETING	145	285	(140)
HUMAN RESOURCES	54	29	25
ADMINISTRATION	<u>55</u>	<u>86</u>	<u>(31)</u>
TOTAL	<u>10,095</u>	<u>11,321</u>	<u>(1,226)</u>

EXPLANATION OF MAJOR VARIANCES:

- ° DECREASES ARE A RESULT OF REVALUATION OF INVENTORY.

ALASKA RAILROAD CORPORATION
 1986 SPENDING PLAN
 ACCOUNT ANALYSIS
 SUMMARY

<u>RENTALS & UTILITIES</u>	<u>1986 BUDGET</u>	<u>1985</u>	
		<u>LATEST ESTIMATE</u>	<u>VARIANCE</u>
CORPORATE OFFICE	4	2	2
OPERATIONS	1,941	2,685	(744)
FINANCE	495	751	(256)
MARKETING	140	19	121
HUMAN RESOURCES	9	3	6
ADMINISTRATION	<u>174</u>	<u>243</u>	<u>(69)</u>
TOTAL	<u>2,763</u>	<u>3,703</u>	<u>(940)</u>

EXPLANATION OF MAJOR VARIANCES:

- ° DECREASES ARE GENERAL RESULTING FROM SAVINGS FROM NEW ENERGY SYSTEMS.
- ° INCREASE IN MARKETING REFLECTS RELOCATION OF OFFICE.

ALASKA RAILROAD CORPORATION
 1986 SPENDING PLAN
 ACCOUNT ANALYSIS
 SUMMARY

<u>INSURANCE, CASUALTY EXPENSES</u>	<u>1986 BUDGET</u>	<u>1985</u>	
		<u>LATEST ESTIMATE</u>	<u>VARIANCE</u>
CORPORATE OFFICE	0	0	0
OPERATIONS	2,266	1,117	1,149
FINANCE	0	0	0
MARKETING	5	0	5
HUMAN RESOURCES	0	0	0
ADMINISTRATION	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	<u>2,271</u>	<u>1,117</u>	<u>1,154</u>

EXPLANATION OF MAJOR VARIANCES:

- ° OPERATIONS IS RESPONSIBLE FOR INSURANCE AND RISK PROGRAMS. INCREASE REFLECTS FULL YEAR PREMIUMS AT HIGHER RATES PLUS ADDITIONAL SMALL INCREASE TOWARDS END OF YEAR. ADDITIONALLY, REFLECTS ANTICIPATED LOSSES AND CLAIMS DUE TO FREIGHT DAMAGE, ROLLING STOCK DAMAGE, ETC.

ALASKA RAILROAD CORPORATION
 1986 SPENDING PLAN
 ACCOUNT ANALYSIS
 SUMMARY

<u>OTHER</u>	<u>1986 BUDGET</u>	<u>1985</u>	
		<u>LATEST ESTIMATE</u>	<u>VARIANCE</u>
CORPORATE OFFICE	50	0	50
OPERATIONS	0	0	0
FINANCE	1,899	779	1,120
MARKETING	149	0	149
HUMAN RESOURCES	19	0	19
ADMINISTRATION	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	<u>2,117</u>	<u>779</u>	<u>1,338</u>

EXPLANATION OF MAJOR VARIANCES:

- ° FINANCE INCREASE REFLECTS LARGER DEBT SERVICE AND FREIGHT CHARGES NOW RESPONSIBILITY OF PROCUREMENT (DIRECT PURCHASE AND NON-STOCK ITEMS).
- ° MARKETING INCREASE REFLECTS RELOCATION TO NEW UPTOWN OFFICE SPACE.

ALASKA RAILROAD CORPORATION
1986 SPENDING PLAN
ACCOUNT ANALYSIS
SUMMARY

SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	1986		1985 LATEST ESTIMATE	
	DOLLARS	PERSONNEL*	DOLLARS	PERSONNEL*
CORPORATE OFFICE	751	11	484	9
OPERATIONS	32,073	575	30,333	596
FINANCE	3,454	69	3,128	63
MARKETING	2,060	43	1,772	22
HUMAN RESOURCES	1,186	21	725	16
ADMINISTRATION	460	8	385	7
TOTAL	<u>39,984</u>	<u>727</u>	<u>36,827</u>	<u>713</u>

EXPLANATION OF MAJOR VARIANCES:

- ° CORPORATE OFFICE INCREASE REFLECTS ADDITIONAL LEGAL ASSISTANCE.
- ° OPERATIONS DECREASE REFLECTS A 3-MONTH SUMMER WORK PROGRAM RATHER THAN A 5-MONTH PROGRAM AND TRANSFER OF PASSENGER AGENT POSITIONS TO MARKETING.
- ° FINANCE INCREASE REFLECTS TAKEOVER OF CONTRACTUAL SERVICES IN SYSTEMS.
- ° MARKETING REFLECTS TRANSFER OF PASSENGER AGENTS FROM OPERATIONS DEPARTMENT AND ADDITIONAL SALES STAFF.

* AVERAGE QUARTERLY TOTAL

ALASKA RAILROAD CORPORATION
 1986 SPENDING PLAN
 CORPORATE OFFICE
 SUMMARY

	<u>1986 BUDGET</u>	<u>1985</u>	
		<u>LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	752	484	274
CONTRACTUAL SERVICES	757	672	85
MATERIALS & SUPPLIES	16	33	(17)
RENTALS, UTILITIES	4	2	2
INSURANCE, CASUALTY, TAXES	0	0	0
OTHER	<u>50</u>	<u>0</u>	<u>50</u>
TOTAL	1,579	1,191	394
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>1,579</u>	<u>1,191</u>	<u>394</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL COSTS UP DUE TO INCREASED STAFFING IN CHIEF COUNSEL'S OFFICE INCLUDING ADDITIONAL SENIOR ATTORNEY, CLERICAL HELP AND PARALEGAL ASSISTANCE.
- ° CONTRACTUAL SERVICES UP AS A RESULT OF ANTICIPATED INCREASED LITIGATION.

ALASKA RAILROAD CORPORATION
1986 SPENDING PLAN
ADMINISTRATION
SUMMARY

	<u>1986 BUDGET</u>	<u>1985 LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	460	385	75
CONTRACTUAL SERVICES	76	26	50
MATERIALS & SUPPLIES	55	86	(31)
RENTALS, UTILITIES	174	243	(69)
INSURANCE, CASUALTY, TAXES	0	0	0
OTHER	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	765	740	25
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>765</u>	<u>740</u>	<u>25</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL EXPENSES REFLECTS INCREASE FOR FULL YEAR MANNING LEVELS AND ONE ADDITIONAL STAFF PERSON.
- ° CONTRACTUAL SERVICES INCREASE REFLECTS CONSOLIDATION OF OFFICE MACHINE EXPENSES IN ADMINISTRATIVE SERVICES DIVISION AND DEVELOPMENT OF RECORDS MANAGEMENT SYSTEM FOR CORPORATION.

ALASKA RAILROAD CORPORATION
 1986 SPENDING PLAN
 HUMAN RESOURCES
 SUMMARY

	1986 BUDGET	1985	
		LATEST ESTIMATE	VARIANCE
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	1,186	725	461
CONTRACTUAL SERVICES	805	50	755
MATERIALS & SUPPLIES	54	29	25
RENTALS, UTILITIES	9	3	6
INSURANCE, CASUALTY, TAXES	0	0	0
OTHER	<u>19</u>	<u>0</u>	<u>19</u>
TOTAL	2,074	807	1,267
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>2,074</u>	<u>807</u>	<u>1,267</u>

EXPLANATION OF MAJOR VARIANCES:

- " PERSONNEL COSTS REFLECT FULL YEAR EFFECT OF NEW ORGANIZATIONAL STRUCTURE TO INCLUDE INCREASE OF 3 NEW POSITIONS FOR APRIL-JUNE TIME FRAME.
- " CONTRACTUAL SERVICES INCREASE DUE TO ACQUIRING RESPONSIBILITY FOR ALL TRAINING REQUIREMENTS, SAFETY EQUIPMENT PROGRAM, RELOCATION EXPENSES, AND SALARY ADMINISTRATION PROGRAM.

ALASKA RAILROAD CORPORATION
1986 SPENDING PLAN
OPERATIONS
SUMMARY

	1986 BUDGET	1985 LATEST ESTIMATE	VARIANCE
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	32,073	30,333	1,740
CONTRACTUAL SERVICES	2,625	2,555	70
MATERIALS & SUPPLIES	9,611	10,480	(869)
RENTALS, UTILITIES	1,941	2,685	(744)
INSURANCE, CASUALTY, TAXES	2,266	1,117	1,149
OTHER	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	48,516	47,170	1,346
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>48,516</u>	<u>47,170</u>	<u>1,346</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL INCREASE REFLECTS FULL YEAR MANNING LEVELS IN ALL DEPARTMENTS.
- ° MATERIALS AND SUPPLIES REDUCTION BASED ON INVENTORY REVALUATIONS.
- ° RENTALS AND UTILITIES PROJECTED SAVINGS RESULTING FROM NEW HEATING SYSTEMS.
- ° INSURANCE, CASUALTY, TAXES INCREASE DUE TO INSURANCE PREMIUMS AND CASUALTY LOSS CLAIMS.

ALASKA RAILROAD CORPORATION
1986 BIDDING PLAN
MARKETING
SUMMARY

	<u>1986 BUDGET</u>	<u>1985 LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	2,060	1,772	288
CONTRACTUAL SERVICES	920	433	587
MATERIALS & SUPPLIES	145	285	(140)
RENTALS, UTILITIES	140	19	121
INSURANCE, CASUALTY, TAXES	5	0	5
OTHER	<u>149</u>	<u>0</u>	<u>149</u>
TOTAL	3,417	2,509	908
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>3,417</u>	<u>2,509</u>	<u>908</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL COSTS UP DUE TO INCREASED SALES FORCE IN ANCHORAGE AND SEATTLE, PASSENGER SERVICES EXPANSION AND TRANSFER FROM TRANSPORTATION DEPARTMENT.
- ° CONTRACTUAL SERVICES UP 117% FOR FULL-SCALE MARKETING/ADVERTISING PROGRAM.
- ° UTILITIES INCREASE DUE TO MARKETING DEPARTMENT RELOCATING TO NEW UPTOWN OFFICE SPACE.

ALASKA RAILROAD CORPORATION
 1986 BUDGETING PLAN
 CORPORATE COMMUNICATIONS
 SUMMARY

	1986 BUDGET	1985	
		LATEST ESTIMATE	VARIANCE
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	84	64	20
CONTRACTUAL SERVICES	148	55	93
MATERIALS & SUPPLIES	5	3	2
RENTALS, UTILITIES	0	0	0
INSURANCE, CASUALTY, TAXES	0	0	0
OTHER	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	237	122	115
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>237</u>	<u>122</u>	<u>115</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL USAGES INCREASE DUE TO FULL YEAR OPERATIONS OF DIVISION.
- ° CONTRACTUAL SERVICES INCREASE DUE TO NEW PROGRAMS FOR SAFETY, RAILROAD POSTERS, ANNUAL REPORTS.

ALASKA RAILROAD CORPORATION
 1986 SPENDING PLAN
 CHIEF COUNSEL
 SUMMARY

	<u>1986 BUDGET</u>	<u>1985</u>	
		<u>LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	490	242	248
CONTRACTUAL SERVICES	514	567	(53)
MATERIALS & SUPPLIES	9	26	(17)
RENTALS, UTILITIES	4	2	2
INSURANCE, CASUALTY, TAXES	0	0	0
OTHER	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	1,017	837	180
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>1,017</u>	<u>837</u>	<u>180</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL COSTS UP 102% DUE TO INCREASED STAFF TO INCLUDE ADDITIONAL ATTORNEYS FOR FULL YEAR, PARALEGAL ASSISTANCE, AND CLERICAL ASSISTANCE.

ALASKA RAILROAD CORPORATION
1986 FUNDING PLAN
DETAIL ACCOUNT ANALYSIS

SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES

1986 BUDGET	39,984
1985 ESTIMATE	<u>36,827</u>
VARIANCE	3,157

EXPLANATION OF VARIANCE:

		<u>%</u>
° WAGE ADJUSTMENT	\$1,000	32
° CURRENT WORK FORCE FULL YEAR MANNING	875	28
° ADDITIONAL STAFF*	750	23
° PENSION PLAN CONTRIBUTION	125	4
° ANTICIPATED HEALTH BENEFIT INCREASE	200	7
° STATE OF ALASKA UNEMPLOYMENT COMPENSATION	<u>200</u>	<u>6</u>
TOTAL	<u>\$3,150</u>	<u>100</u>

* ADDITIONAL STAFFING IS REQUIRED IN LEGAL AND ADMINISTRATION TO SUPPORT ACTIVITIES AND PROGRAMS THAT WERE PREVIOUSLY HANDLED IN THE FEDERAL SYSTEM BUT NOT BY THE RAILROAD. ADDITIONALLY, OUR ENHANCED MARKETING PROGRAM REQUIRES A LARGER SALES FORCE TO MAINTAIN CURRENT REVENUE AS WELL AS OBTAIN NEW BUSINESS.

ALASKA RAILROAD CORPORATION
 1986 BUDGETING PLAN
 DEPARTMENT ANALYSIS

SUMMARY

	1986 BUDGET	1985		
		LATEST ESTIMATE	VARIANCE	%
CORPORATE OFFICE	1,579	1,191	388	33
OPERATIONS	48,516	47,170	1,346	3
FINANCE	6,815	6,000	815	14
MARKETING	3,417	2,509	908	36
HUMAN RESOURCES	2,074	807	1,267	157
ADMINISTRATION	<u>765</u>	<u>740</u>	<u>25</u>	<u>3</u>
GRAND TOTAL	<u>63,166</u>	<u>58,417</u>	<u>4,749</u>	<u>8</u>

EXPLANATION OF MAJOR VARIANCES:

- ° CORPORATE OFFICE INCREASE REFLECTS ADDITIONAL COST FOR LITIGATION AND INCREASE IN LEGAL WORKFORCE.
- ° FINANCE INCREASE REFLECTS LARGER DEBT SERVICE AND REALIGNMENT OF CONTRACTUAL WORKFORCE.
- ° MARKETING INCREASE REFLECTS NEW MARKETING PLAN (500K), ADDITIONAL SALES FORCE AND RELOCATION TO UPTOWN OFFICE SPACE.
- ° HUMAN RESOURCES INCREASE REFLECTS NEW ORGANIZATION STRUCTURE, INCREASED RESPONSIBILITIES, COST FOR NEW ADMINISTRATIVE PROGRAMS AND SOME ADDITIONAL STAFF.

ALASKA RAILROAD CORPORATION
1986 BUDGETING PLAN
ACCOUNT ANALYSIS

SUMMARY

	1986 BUDGET	1985		
		LATEST ESTIMATE	VARIANCE	%
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	39,984	36,827	3,157	8
CONTRACTUAL SERVICES	5,936	4,670	1,266	27
MATERIALS & SUPPLIES	10,095	11,321	(1,226)	(11)
RENTALS, UTILITIES	2,763	3,703	(940)	(25)
INSURANCE, CASUALTY, TAXES	2,271	1,117	1,154	103
OTHER	<u>1,017</u>	<u>364</u>	<u>653</u>	<u>179</u>
TOTAL	62,066	58,002	4,064	7
DEBT SERVICE	<u>1,100</u>	<u>415</u>	<u>685</u>	<u>165</u>
GRAND TOTAL	<u>63,166</u>	<u>58,417</u>	<u>4,749</u>	<u>8</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL COSTS REFLECT FULL STAFF LEVELS FOR YEAR, INCREASED SALES STAFF, SMALL INCREASE IN ADMINISTRATIVE WORK FORCE, INCREASED HEALTH BENEFIT COST AND PROVISION FOR MINIMAL WAGE ADJUSTMENT.
- ° CONTRACTUAL SERVICES INCREASE REFLECTS COST OF MARKETING PLAN, RELOCATION FOR TRANSFERRED EMPLOYEES, INCREASED TRAINING.
- ° MATERIALS AND SUPPLIES DECREASE REFLECTS REVALUATION OF INVENTORY.
- ° RENTALS AND UTILITIES DECREASE REFLECTS SAVINGS FROM KAPP ENERGY PROJECT, CLOSURE OF UNNECESSARY WAREHOUSES, ETC.
- ° INSURANCE INCREASE IS FOR A FULL YEAR EFFECT OF OUR RISK MANAGEMENT PROGRAM AT NEW RATES AND PROVISION FOR CASUALTY CLAIMS.
- ° OTHER INCREASE REFLECTS CONSOLIDATION OF FREIGHT EXPENSE FOR DIRECT, NON-STOCK PURCHASES TO THE PROCUREMENT DIVISION.
- ° DEBT SERVICE INCREASE REFLECTS FULL YEAR OF INTEREST EXPENSE ON LOCOMOTIVES, FLAT CARS, AND PLANNED 1986 CAPITAL ADDITIONS.

ALASKA RAILROAD CORPORATION
 1986 SPENDING PLAN
 DETAIL ACCOUNT ANALYSIS

SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES

1986 BUDGET	39,984
1985 ESTIMATE	<u>36,827</u>
VARIANCE	3,157

EXPLANATION OF VARIANCE:

		<u>%</u>
° WAGE ADJUSTMENT	\$1,000	32
° CURRENT WORK FORCE FULL YEAR MANNING	875	28
° ADDITIONAL STAFF*	750	23
° PENSION PLAN CONTRIBUTION	125	4
° ANTICIPATED HEALTH BENEFIT INCREASE	200	7
° STATE OF ALASKA UNEMPLOYMENT COMPENSATION	<u>200</u>	<u>6</u>
TOTAL	\$ <u>3,150</u>	<u>100</u>

* ADDITIONAL STAFFING IS REQUIRED IN LEGAL AND ADMINISTRATION TO SUPPORT ACTIVITIES AND PROGRAMS THAT WERE PREVIOUSLY HANDLED IN THE FEDERAL SYSTEM BUT NOT BY THE RAILROAD. ADDITIONALLY, OUR ENHANCED MARKETING PROGRAM REQUIRES A LARGER SALES FORCE TO MAINTAIN CURRENT REVENUE AS WELL AS OBTAIN NEW BUSINESS.

ALASKA RAILROAD CORPORATION
 1986 SPENDING PLAN
 DETAIL ACCOUNT ANALYSIS

CONTRACTUAL SERVICES

1986 BUDGET	5,936
1985 ESTIMATE	<u>4,670</u>
VARIANCE	1,266

EXPLANATION OF VARIANCE:

		<u>%</u>
◦ MARKETING PLAN	\$ 500	40
◦ RELOCATION EXPENSES	150	12
◦ HOME SALES ASSISTANCE	100	8
◦ SALARY ADMINISTRATION PROGRAM	60	5
◦ DONATION	50	5
◦ TRAINING BUDGET	250	20
◦ MISCELLANEOUS	<u>150</u>	<u>10</u>
TOTAL	<u>\$1,260</u>	<u>100</u>

ALASKA RAILROAD CORPORATION
1986 SPENDING PLAN
DETAIL ACCOUNT ANALYSIS

INSURANCE, CASUALTY, TAXES

1986 BUDGET	2,271
1985 ESTIMATE	<u>1,117</u>
VARIANCE	1,154

EXPLANATION OF VARIANCE:

		<u>%</u>
° CASUALTY, PROPERTY, BOILER, ETC.	\$ 850	74
° LOSS & DAMAGE CLAIMS	200	17
° WORKERS COMPENSATION	<u>100</u>	<u>9</u>
TOTAL	<u>\$1,150</u>	<u>100</u>

ALASKA RAILROAD CORPORATION
 1986 BIDDING PLAN
 CORPORATE OFFICE
 SUMMARY

	<u>1986 BUDGET</u>	<u>1985</u>	
		<u>LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	752	484	274
CONTRACTUAL SERVICES	757	672	85
MATERIALS & SUPPLIES	16	33	(17)
RENTALS, UTILITIES	4	2	2
INSURANCE, CASUALTY, TAXES	0	0	0
OTHER	<u>50</u>	<u>0</u>	<u>50</u>
TOTAL	1,579	1,191	394
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>1,579</u>	<u>1,191</u>	<u>394</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL COSTS UP DUE TO INCREASED STAFFING IN CHIEF COUNSEL'S OFFICE INCLUDING ADDITIONAL SENIOR ATTORNEY, CLERICAL HELP AND PARALEGAL ASSISTANCE.
- ° CONTRACTUAL SERVICES UP AS A RESULT OF ANTICIPATED INCREASED LITIGATION.

ALASKA RAILROAD CORPORATION
1986 BUDGETING PLAN
FINANCE
SUMMARY

	1986 BUDGET	1985	
		LATEST ESTIMATE	VARIANCE
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	3,454	3,128	326
CONTRACTUAL SERVICES	753	934	(181)
MATERIALS & SUPPLIES	214	408	(194)
RENTALS, UTILITIES	495	751	(256)
INSURANCE, CASUALTY, TAXES	0	0	0
OTHER	<u>799</u>	<u>364</u>	<u>435</u>
TOTAL	5,715	5,585	130
DEBT SERVICE	<u>1,100</u>	<u>415</u>	<u>685</u>
GRAND TOTAL	<u>6,815</u>	<u>6,000</u>	<u>815</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL INCREASE DUE TO FULL MANNING LEVELS FOR 12 MONTHS AS A RESULT OF REORGANIZATION, FILLING VACANT POSITION, TAKEOVER OF CONTRACT WORK IN SYSTEMS.
- ° OTHER REFLECTS CONSOLIDATION OF FREIGHT EXPENDITURES UNDER THE PROCUREMENT AND SUPPLY DIVISIONS.
- ° DEBT SERVICE IS THE FULL YEAR EFFECT OF OUR 1985 LEVERAGED FINANCING PLUS 1985 PLANNED CAPITAL ADDITIONS.

ALASKA RAILROAD CORPORATION
 1986 SPENDING PLAN
 ADMINISTRATION
 SUMMARY

	<u>1986 BUDGET</u>	<u>1985</u>	
		<u>LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	460	385	75
CONTRACTUAL SERVICES	76	26	50
MATERIALS & SUPPLIES	55	86	(31)
RENTALS, UTILITIES	174	243	(69)
INSURANCE, CASUALTY, TAXES	0	0	0
OTHER	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	765	740	25
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>765</u>	<u>740</u>	<u>25</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL EXPENSES REFLECTS INCREASE FOR FULL YEAR MANNING LEVELS AND ONE ADDITIONAL STAFF PERSON.
- ° CONTRACTUAL SERVICES INCREASE REFLECTS CONSOLIDATION OF OFFICE MACHINE EXPENSES IN ADMINISTRATIVE SERVICES DIVISION AND DEVELOPMENT OF RECORDS MANAGEMENT SYSTEM FOR CORPORATION.

ALASKA RAILROAD CORPORATION
 1986 OPERATING BUDGET SUMMARY
 (THOUSANDS OF DOLLARS)

	<u>1986 BUDGET</u>	<u>1985 LATEST ESTIMATE</u>	<u>VARIANCE</u>	
			<u>DOLLARS</u>	<u>%</u>
REVENUE	71,057	69,000	2,057	3
EXPENSE	<u>63,166</u>	<u>60,600</u>	(2,566)	(4)
SURPLUS (DEFICIT)	7,891	8,400	(509)	(6)
DEPRECIATION	<u>1,800</u>	<u>1,300</u>	<u>500</u>	38
NET INCOME (LOSS)	<u>6,091</u>	<u>7,100</u>	<u>(1,009)</u>	(14)

ALASKA RAILROAD CORPORATION
1986 BUDGET HEADCOUNT SUMMARY

DEPARTMENT	<u>FIRST QTR</u>		<u>SECOND QTR</u>		<u>THIRD QTR</u>		<u>FOURTH QTR</u>	
	1986	1985	1986	1985	1986	1985	1986	1985
(1) CORPORATE OFFICE	11	6	11	8	11	12	11	9
OPERATIONS	510	532	657	711	586	635	499	509
(2) HUMAN RESOURCES	29	19	29	19	29	18	29	21
(3) FINANCE	69	59	69	59	71	63	69	69
(4) MARKETING & SALES	<u>37</u>	<u>18</u>	<u>50</u>	<u>17</u>	<u>50</u>	<u>27</u>	<u>37</u>	<u>26</u>
TOTAL	<u>656</u>	<u>634</u>	<u>816</u>	<u>814</u>	<u>747</u>	<u>755</u>	<u>645</u>	<u>634</u>

(1) INCLUDES CHIEF COUNSEL AND STAFF

(2) INCLUDES DIRECTOR, ADMINISTRATION AND STAFF

(3) 1985 DOES NOT INCLUDE 6 CONTRACT COMPUTER OPERATORS WHICH HAS BEEN CONVERTED TO ARRC STAFF

(4) DOES NOT INCLUDE SUMMER HOST/HOSTESS PROGRAM OF 45 STUDENTS DURING SUMMER PASSENGER SEASON

ALASKA RAILROAD CORPORATION
1986 SPENDING PLAN
ACCOUNT ANALYSIS
SUMMARY

SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	1986		1985 LATEST ESTIMATE	
	DOLLARS	PERSONNEL*	DOLLARS	PERSONNEL*
CORPORATE OFFICE	751	11	484	9
OPERATIONS	32,073	575	30,333	596
FINANCE	3,454	69	3,128	63
MARKETING	2,060	43	1,772	22
HUMAN RESOURCES	1,186	21	725	16
ADMINISTRATION	<u>460</u>	<u>8</u>	<u>385</u>	<u>7</u>
TOTAL	<u>39,984</u>	<u>727</u>	<u>36,827</u>	<u>713</u>

EXPLANATION OF MAJOR VARIANCES:

- ° CORPORATE OFFICE INCREASE REFLECTS ADDITIONAL LEGAL ASSISTANCE.
- ° OPERATIONS DECREASE REFLECTS A 3-MONTH SUMMER WORK PROGRAM RATHER THAN A 5-MONTH PROGRAM AND TRANSFER OF PASSENGER AGENT POSITIONS TO MARKETING.
- ° FINANCE INCREASE REFLECTS TAKEOVER OF CONTRACTUAL SERVICES IN SYSTEMS.
- ° MARKETING REFLECTS TRANSFER OF PASSENGER AGENTS FROM OPERATIONS DEPARTMENT AND ADDITIONAL SALES STAFF.

* AVERAGE QUARTERLY TOTAL

ALASKA RAILROAD CORPORATION
 1986 SPENDING PLAN
 ACCOUNT ANALYSIS
 SUMMARY

<u>CONTRACTUAL SERVICES</u>	<u>1986 BUDGET</u>	<u>1985</u>	
		<u>ATEST ESTIMATE</u>	<u>VARIANCE</u>
CORPORATE OFFICE	757	672	85
OPERATIONS	2,625	2,555	70
FINANCE	753	934	(181)
MARKETING	920	433	487
HUMAN RESOURCES	805	50	755
ADMINISTRATION	<u>76</u>	<u>26</u>	<u>50</u>
TOTAL	<u>5,936</u>	<u>4,670</u>	<u>1,266</u>

EXPLANATION OF MAJOR VARIANCES:

- ° CORPORATE OFFICER INCREASE FOR ESTIMATED CORPORATE DONATIONS.
- ° MARKETING INCREASE REFLECTS IMPLEMENTATION OF NEW CORPORATE MARKETING PLAN.
- ° HUMAN RESOURCES REFLECTS REALIGNMENT OF ORGANIZATION, RELOCATION EXPENSES, SALARY ADMINISTRATION PROGRAM, AND INCREASED TRAINING.

ALASKA RAILROAD CORPORATION
 1986 SPENDING PLAN
 ACCOUNT ANALYSIS
 SUMMARY

<u>MATERIALS & SUPPLIES</u>	1986 BUDGET	1985	
		<u>LATEST ESTIMATE</u>	<u>VARIANCE</u>
CORPORATE OFFICE	16	33	(17)
OPERATIONS	9,611	10,480	(869)
FINANCE	214	408	(194)
MARKETING	145	285	(140)
HUMAN RESOURCES	54	29	25
ADMINISTRATION	<u>55</u>	<u>86</u>	<u>(31)</u>
TOTAL	<u>10,095</u>	<u>11,321</u>	<u>(1,226)</u>

EXPLANATION OF MAJOR VARIANCES:

° DECREASES ARE A RESULT OF REVALUATION OF INVENTORY.

ALASKA RAILROAD CORPORATION
 1986 SPENDING PLAN
 ACCOUNT ANALYSIS
 SUMMARY

<u>RENTALS & UTILITIES</u>	1986 BUDGET	1985	
		LATEST ESTIMATE	VARIANCE
CORPORATE OFFICE	4	2	2
OPERATIONS	1,941	2,685	(744)
FINANCE	495	751	(256)
MARKETING	140	19	121
HUMAN RESOURCES	9	3	6
ADMINISTRATION	<u>174</u>	<u>243</u>	<u>(69)</u>
TOTAL	<u>2,763</u>	<u>3,703</u>	<u>(940)</u>

EXPLANATION OF MAJOR VARIANCES:

- ° DECREASES ARE GENERAL RESULTING FROM SAVINGS FROM NEW ENERGY SYSTEMS.
- ° INCREASE IN MARKETING REFLECTS RELOCATION OF OFFICE.

ALASKA RAILROAD CORPORATION
 1986 SPENDING PLAN
 ACCOUNT ANALYSIS
 SUMMARY

<u>INSURANCE, CASUALTY EXPENSES</u>	<u>1986 BUDGET</u>	<u>1985</u>	
		<u>LATEST ESTIMATE</u>	<u>VARIANCE</u>
CORPORATE OFFICE	0	0	0
OPERATIONS	2,266	1,117	1,149
FINANCE	0	0	0
MARKETING	5	0	5
HUMAN RESOURCES	0	0	0
ADMINISTRATION	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	<u>2,271</u>	<u>1,117</u>	<u>1,154</u>

EXPLANATION OF MAJOR VARIANCES:

- ° OPERATIONS IS RESPONSIBLE FOR INSURANCE AND RISK PROGRAMS. INCREASE REFLECTS FULL YEAR PREMIUMS AT HIGHER RATES PLUS ADDITIONAL SMALL INCREASE TOWARDS END OF YEAR. ADDITIONALLY, REFLECTS ANTICIPATED LOSSES AND CLAIMS DUE TO FREIGHT DAMAGE, ROLLING STOCK DAMAGE, ETC.

ALASKA RAILROAD CORPORATION
 1986 SPENDING PLAN
 ACCOUNT ANALYSIS
 SUMMARY

<u>OTHER</u>	<u>1986 BUDGET</u>	<u>1985 LATEST ESTIMATE</u>	<u>VARIANCE</u>
CORPORATE OFFICE	50	0	50
OPERATIONS	0	0	0
FINANCE	1,899	779	1,120
MARKETING	149	0	149
HUMAN RESOURCES	19	0	19
ADMINISTRATION	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	<u>2,117</u>	<u>779</u>	<u>1,338</u>

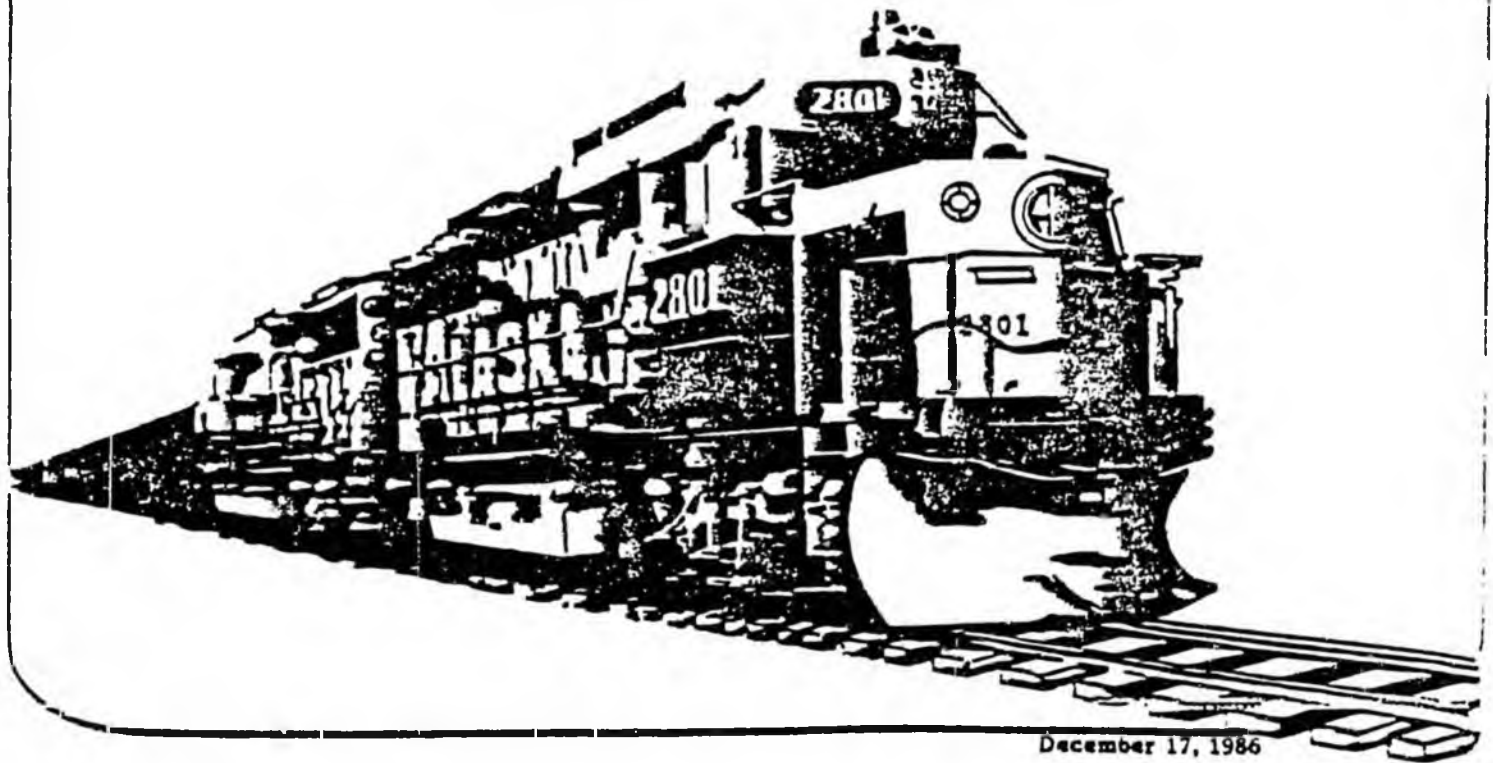
EXPLANATION OF MAJOR VARIANCES:

- ° FINANCE INCREASE REFLECTS LARGER DEBT SERVICE AND FREIGHT CHARGES NOW RESPONSIBILITY OF PROCUREMENT (DIRECT PURCHASE AND NON-STOCK ITEMS).
- ° MARKETING INCREASE REFLECTS RELOCATION TO NEW UPTOWN OFFICE SPACE.

ALASKA RAILROAD CORPORATION



**1987
APPROVED
OPERATING
AND
CAPITAL BUDGET**



December 17, 1986

EXHIBIT J

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OPERATING AND CAPITAL BUDGET SUMMARY

ALASKA RAILROAD CORPORATION
1987 OPERATING AND CAPITAL BUDGET SUMMARY
(\$ 000's)

REVENUE	\$ 56,760
EXPENSE	56,406
<u>NET INCOME (LOSS) FROM OPERATIONS</u>	<u>354</u>
ADD BACK NON-CASH ITEMS	<u>4,620</u>
CASH GENERATED FROM OPERATIONS	4,974
CAPITAL BUDGET CASH REQUIREMENTS	<u>4,620</u>
<u>CASH SURPLUS/DEFICIT, 1987</u>	<u>354</u>

ALASKA RAILROAD CORPORATION
 1987 Projected Income Statement
 (\$ 000 's)

	1987 Budget	1986 Latest Estimate	Variance	
			Dollars	Percentage
<u>REVENUES</u>				
Railroad	45,600	45,200	400	0.9
Other	11,160	11,300	(140)	(1.2)
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	56,760	56,500	260	0.4
<u>COST AND EXPENSES</u>				
Railroad	39,580	42,524	(2,944)	(6.9)
Other	12,746	10,976	1,770	16.1
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	52,326	53,500	(1,174)	(2.1)
Bad Debt Reserve	480	600	(120)	(20.0)
Depreciation	3,600	2,400	1,200	50.0
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENSE	56,406	56,500	(94)	(0.1)
<u>NET INCOME (LOSS)</u>	<u>354</u>	<u>0</u>	<u>354</u>	N/A

December 19, 1986

INCOME, REVENUE AND EXPENSE STATEMENTS

ALASKA RAILROAD CORPORATION
Revenues By Commodity
1987 Revenue Budget
(000's)

<u>Commodity</u>	<u>1987 Budget</u>	<u>1986 Latest Estimate</u>	<u>Variance</u>	
			<u>Dollar</u>	<u>%</u>
Pipe	1,000	2,125	(1,125)	(52.9)
Coal: Local	4,800	4,575	225	4.9
Export	5,600	5,700	(100)	(1.8)
Petroleum	10,500	10,200	300	2.9
Gravel	3,000	4,050	(1,050)	(25.9)
TOFC/COFC	7,000	6,000	1,000	16.6
Interline	7,000	7,050	(50)	(0.7)
Miscellaneous	1,000	700	300	42.9
TOTAL FREIGHT	39,900	40,400	(500)	(1.2)
Passenger:				
North Bound	3,300	2,700	600	22.2
South Bound	2,200	1,900	300	15.8
Charters, etc	200	200	0	0.0
TOTAL PASSENGER	5,700	4,800	900	18.8
Real Estate	6,000	5,500	500	9.1
Freight Related	662	540	122	22.6
All Other	4,498	5,260	(762)	(14.5)
TOTAL OTHER	11,160	11,300	(140)	(1.2)
TOTAL REVENUE	56,760	56,500	260	0.4

December 18, 1986

ALASKA RAILROAD CORPORATION
 1987 Expense Budget Performance Analysis
 (\$ 000's)

<u>DEPARTMENT</u>	<u>1987 BUDGET</u>	<u>1986 Latest Estimate</u>	<u>Dollar Variance</u>	<u>Percentage</u>
<u>Railroad</u>				
Transportation	13,990	15,200	(1,210)	(8.0)
Motive Power & Equipment	10,390	12,500	(1,610)	(12.9)
Engineering	11,999	12,050	(51)	(0.4)
Operations Staff	2,701	2,774	(73)	(2.6)
TOTAL RAILROAD	<u>39,580</u>	<u>42,524</u>	<u>(2,944)</u>	<u>(6.5)</u>
<u>General & Administrative</u>				
Corporate Office	525	625	(100)	(16.0)
Finance	4,599	5,120	(521)	(10.2)
Marketing	2,704	3,000	(296)	(10.0)
Administration	625	686	(61)	(8.9)
Human Resources	1,203	1,500	(297)	(19.8)
General Counsel	855	919	(64)	(7.0)
TOTAL G & A	<u>10,511</u>	<u>11,850</u>	<u>(1,339)</u>	<u>(11.3)</u>
<u>Corporate Overhead</u>				
Bad Debt Reserve	480	600	(120)	(20.0)
Interest Expense	1,920	726	1,194	164.5
Depreciation	3,600	2,400	1,200	50.0
Miscellaneous	315	(1,600)	1,915	N/A
TOTAL OVERHEAD	<u>6,315</u>	<u>2,126</u>	<u>4,189</u>	<u>197.0</u>
<u>TOTAL</u>	<u>56,406</u>	<u>56,500</u>	<u>(94)</u>	<u>(0.1)</u>

December 13, 1986

MANPOWER BUDGET

ALASKA RAILROAD CORPORATION
MANNING VARIANCE ANALYSIS
1984 - 1987

<u>Division</u>	<u>1984 Average Manning</u>	<u>1985 Average Manning</u>	<u>1986 Average Manning</u>	<u>1987 Average Manning</u>
President & CEO	9	6	4	2
Chief Counsel	4	3	7	6
Operations	586	606	564	483
Administration	7	8	8	8
Human Resources	11	12	19	15
Finance	69	67	64	62
Marketing	14	18	30	34
	—	—	—	—
TOTAL	<u>700</u>	<u>720</u>	<u>696</u>	<u>610</u>

12-2-86

DEPARTMENTAL BUDGETS

ALASKA RAILROAD CORPORATION
 1987 OPERATING BUDGET SUMMARY
 (THOUSANDS OF DOLLARS)

	1987 PROPOSED BUDGET	1986 LATEST ESTIMATE	VARIANCE	
			DOLLARS	%
REVENUE	56,760	56,500	260	0.4
EXPENSE	<u>52,326</u>	<u>53,500</u>	(1,174)	(2.1)
SURPLUS (DEFICIT)	4,434	3,000	1,434	47.8
BAD DEBT RESERVE	480	600	(120)	(20.0)
DEPRECIATION	<u>3,600</u>	<u>2,400</u>	<u>1,200</u>	<u>50.0</u>
NET INCOME (LOSS)	<u>354</u>	<u>0</u>	<u>354</u>	<u>N/A</u>

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ALASKA RAILROAD CORPORATION
1987 SPENDING PLAN
CORPORATE OFFICE
SUMMARY

	<u>1987 PROPOSED BUDGET</u>	<u>1986 LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	264	349	(85)
CONTRACTUAL SERVICES	235	237	(2)
MATERIALS & SUPPLIES	11	11	0
RENTALS, UTILITIES	0	0	0
INSURANCE, CASUALTY	0	0	0
OTHER	<u>15</u>	<u>28</u>	<u>(13)</u>
TOTAL	525	625	(100)
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>525</u>	<u>625</u>	<u>(100)</u>

EXPLANATION OF MAJOR VARIANCES:

- PERSONNEL REDUCTION REFLECTS RE-ASSIGNMENT OF SECRETARIAL SUPPORT FROM CEO TO ADMINISTRATION.
- OTHER EXPENSES REFLECT REDUCED FUNDING FOR CONTRIBUTIONS.

ALASKA RAILROAD CORPORATION
1987 SPENDING PLAN
OPERATIONS
SUMMARY

	<u>1987 PROPOSED BUDGET</u>	<u>1986 LATEST ESTIMATE*</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	26,582	29,013	(2,431)
CONTRACTUAL SERVICES	2,879	3,117	(238)
MATERIALS & SUPPLIES	6,723	6,824	(101)
RENTALS, UTILITIES	1,588	1,584	4
INSURANCE, CASUALTY	1,808	1,986	(178)
OTHER	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	39,580	42,524	(2,944)
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>39,580</u>	<u>42,524</u>	<u>(2,944)</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL REDUCTION REFLECTS REDUCED MANPOWER.
- ° CASUALTY LOSSES ARE EXPECTED TO BE LOWER IN 1987.
- ° MATERIAL AND SUPPLIES REFLECT A SMALLER SUMMER WORK PROGRAM.

* EXPENSES ADJUSTED DOWNWARD TO REFLECT IMPACT OF FLOOD DISASTER.

ALASKA RAILROAD CORPORATION
1987 SPENDING PLAN
FINANCE
SUMMARY

	<u>1987 PROPOSED BUDGET</u>	<u>1986 LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	2,979	3,267	(288)
CONTRACTUAL SERVICES	980	1,224	(244)
MATERIALS & SUPPLIES	640	624	16
RENTALS, UTILITIES	0	0	0
INSURANCE, CASUALTY	0	0	0
OTHER	<u>0</u>	<u>5</u>	<u>(5)</u>
TOTAL	4,599	5,120	(521)
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>4,599</u>	<u>5,120</u>	<u>(521)</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL COST DECREASE REFLECTS FULL YEAR EFFECT OF ELIMINATION OF 3 PROFESSIONAL STAFF POSITIONS AND ASSOCIATED COSTS.
- ° CONTRACTUAL SERVICES REFLECTS WIND DOWN OF MSA ACCOUNTING SYSTEM INSTALLATION AND REMOVAL OF THE BURROUGH'S COMPUTER.

ALASKA RAILROAD CORPORATION
1987 SPENDING PLAN
MARKETING
SUMMARY

	<u>1987 PROPOSED BUDGET</u>	<u>1986 LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	1,230	1,411	(181)
CONTRACTUAL SERVICES	1,352	1,429	(77)
MATERIALS & SUPPLIES	60	60	0
RENTALS, UTILITIES	62	100	(38)
INSURANCE, CASUALTY	0	0	0
OTHER	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	2,704	3,000	(296)
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>2,704</u>	<u>3,000</u>	<u>(296)</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL REDUCTIONS REFLECT VACANT SALES POSITION.
- ° OUTSIDE SERVICES COMPRISED OF COMMISSION TICKET SALES, WHITTIER BUS RENTALS, COACH/CABOOSE CLEANING, CATERING; DECREASE DUE TO REDUCTION OF ADVERTISING CONTRACT.
- ° RENTALS DECREASE IS DUE TO RELOCATION OF THE MARKETING STAFF TO THE VACANT OFFICE SPACE IN THE GENERAL OFFICE BUILDING.

ALASKA RAILROAD CORPORATION
1987 SPENDING PLAN
ADMINISTRATION
SUMMARY

	<u>1987 PROPOSED BUDGET</u>	<u>1986 LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	388	367	21
CONTRACTUAL SERVICES	209	272	(63)
MATERIALS & SUPPLIES	28	47	(19)
RENTALS, UTILITIES	0	0	0
INSURANCE, CASUALTY	0	0	0
OTHER	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	625	686	(61)
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>625</u>	<u>686</u>	<u>(61)</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL COST DECREASE REFLECTS RE-ASSIGNMENT OF SECRETARIAL POSITIONS FROM CEO TO ADMINISTRATION AND PERSONNEL CUTS.
- ° OUTSIDE SERVICES DECREASE REFLECTS MOVING RESPONSIBILITY FOR BUDGETING ALL COMPUTER TYPE EQUIPMENT FROM ADMINISTRATION TO INFORMATION SYSTEMS.
- ° MATERIALS AND SUPPLIES REFLECTS A DECREASE DUE TO A ONE TIME ONLY PROJECT COMPLETED IN 1986.

ALASKA RAILROAD CORPORATION
 1987 SPENDING PLAN
 HUMAN RESOURCES
 SUMMARY

	<u>1987 PROPOSED BUDGET</u>	<u>1986 LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	905	1,147	(242)
CONTRACTUAL SERVICES	212	220	(8)
MATERIALS & SUPPLIES	86	133	(47)
RENTALS, UTILITIES	0	0	0
INSURANCE, CASUALTY	0	0	0
OTHER	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	1,203	1,500	(297)
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>1,203</u>	<u>1,500</u>	<u>(297)</u>

EXPLANATION OF MAJOR VARIANCES:

- PERSONNEL COST DECREASE REFLECTS ELIMINATION OF 6 POSITIONS.

ALASKA RAILROAD CORPORATION
 1987 SPENDING PLAN
 GENERAL COUNSEL
 SUMMARY

	<u>1987 PROPOSED BUDGET</u>	<u>1986 LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	367	414	(47)
CONTRACTUAL SERVICES	484	501	(17)
MATERIALS & SUPPLIES	4	4	0
RENTALS, UTILITIES	0	0	0
INSURANCE, CASUALTY	0	0	0
OTHER	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	855	919	(64)
DLBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>855</u>	<u>919</u>	<u>(64)</u>

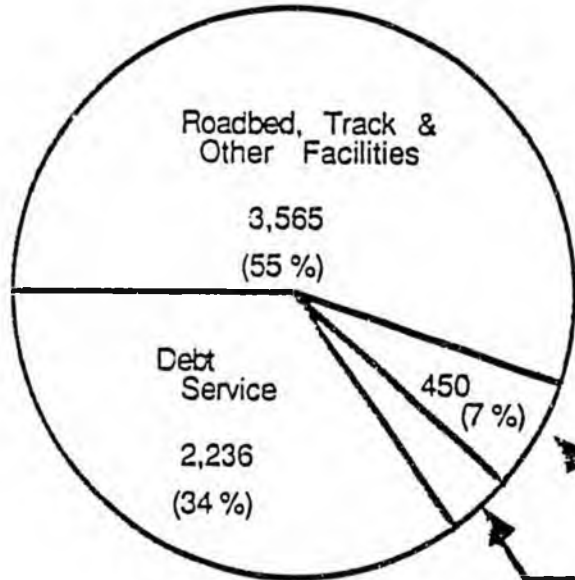
EXPLANATION OF MAJOR VARIANCES:

- PERSONNEL COSTS REFLECTS ELIMINATION OF GENERAL ATTORNEY POSITION.
- CONTRACTUAL SERVICES DECREASE REFLECTS REDUCED OUTSIDE ATTORNEY EXPENSES.

CAPITAL BUDGETS

ALASKA RAILROAD CORPORATION 1987 CAPITAL PROGRAM

Thousands of Dollars



BY
CATEGORY

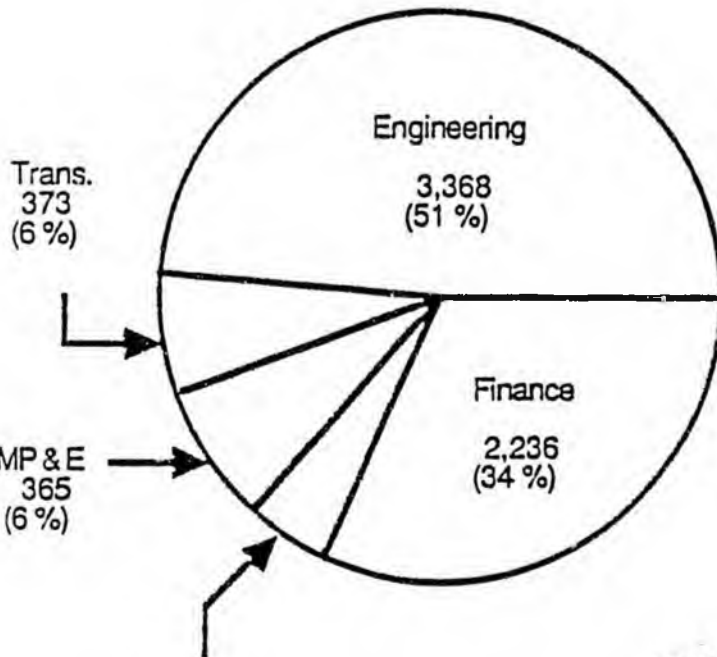
6,529

Other

Vehicles

278

(4%)



BY
DEPARTMENT

6,529

SPENDING

1986	Carryover	548
1987	New Projects	<u>5,981</u>
Total	1987 Spending	<u>6,529</u>

ALASKA RAILROAD CORPORATION
Capital Budget Summary
1987

DEBT SERVICE

<u>INSTITUTION</u>	<u>PRINCIPLE</u>	<u>INTEREST</u>	<u>INTEREST RATE</u>
<u>Chase Manhattan</u>			
Locomotives, GP-49	482,076.00	359,040.00	9.3
Articulated Flats, 30	235,530.00	192,055.00	10.5
Construction Equipment	119,284.00	128,352.00	7.5
Locomotives, GP-38/3 (6)	279,002.00	229,917.00	8.0
Locomotive Cranes (3)	130,868.00	109,455.00	8.0
RDC, 1986 (3)	53,348.00	45,609.00	8.0
Subtotal	1,300,108.00	1,064,428.00	
<u>Citicorp</u>			
Locomotives, Construction Equip	214,278.00	161,821.00	8.3
Articulated Flats (15)	126,427.00	102,734.00	6.011
Subtotal	340,705.00	264,555.00	
<u>Alaska Pacific Bank</u>			
RDC, 1985 Upgrade	183,182.00	61,008.00	8.15
Subtotal	183,182.00	61,008.00	
<u>Miscellaneous</u>			
IBM (small equipment)	98,599.00	11,663.00	
IBM (mainframe)	221,727.00	71,937.00	
US Leasing (Wang Equip)	91,550.00	9,115.00	
Subtotal	411,876.00	92,715.00	
 TOTAL DEBT SERVICE	 2,235,871.00	 1,482,706.00	

December 18, 1986

(Cont)

	<u>\$ THOUSANDS</u>	
	<u>TOTAL</u>	<u>1987</u>
	<u>VALUE</u>	<u>SPENDING</u>
1987 PROPOSED CAPITAL PROGRAM (CONT)		
<u>Security</u>		
Light Vehicles, (2)	32	32
Fencing, West Anchorage ROW	26	26
TOTAL	<u>58</u>	<u>58</u>
TOTAL OPERATIONAL PROJECTS	<u>6.291</u>	<u>4.106</u>
 <u>PASSENGER SERVICES UPGRADE</u>		
Containerized Baggage	72	72
Denali Depot Upgrade	15	15
Whittier Flatcars	100	100
TOTAL PASSENGER SERVICES	<u>187</u>	<u>187</u>
 <u>TOTAL OPERATION AND PASSENGER SERVICES</u>	 <u>6.478</u>	 <u>4.293</u>

December 18, 1986

OPERATIONS DEPARTMENT CAPITAL PROPOSAL

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: LIGHT VEHICLE REPLACEMENT PROGRAM
- B. LOCATION: OPERATIONS DIVISION
- C. ESTIMATED COST: \$278
- D. ACCURACY OF COST ESTIMATE: CLASS 111 (+ OR - 15%)
- E. STATUS OF ENGINEERING DESIGN
& COST ESTIMATE: N/A
- F. PROJECT DESCRIPTION: PURCHASE 16 LIGHT VEHICLES
- G. PROJECT JUSTIFICATION:

The present vehicles scheduled for replacement have body and rust damage, high mileage, and experience high maintenance costs. The vehicles' average age is eight years and mileage over 80,000. These vehicles have met or exceeded their forecasted economic life of five years or 70,000 miles.

Older vehicles with high mileage are difficult to maintain to ensure reliable operating status. An annual replacement program will result in lower vehicle maintenance cost, increase availability resulting in increased productivity, and a higher quality vehicle fleet.

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: UPGRADE ANCHORAGE TOFC
YARD
- B. LOCATION: SHIP CREEK
- C. ESTIMATED COST: \$65
- D. ACCURACY OF COST ESTIMATE: CLASS 111 (+ OR - 15%)
- E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: N/A

F. PROJECT DESCRIPTION:

Resurface the existing TOFC Yard. The project will consist of fill, grading, compaction, and surfacing with D-1 or equivalent.

G. PROJECT JUSTIFICATION:

The current TOFC Yard has not received any major improvements since 1984. Over the last three years of constant use and exposure to weather conditions, the yard has deteriorated to an uneven, wash-board surface resulting in slower operations and potential safety hazards. In August, two employees claimed on-the-job back injuries from operating yard hostlers over this rough terrain for extended periods of time.

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: HEAD END POWER PLANT
B. LOCATION: ANCHORAGE
C. ESTIMATED COST: \$75
D. ACCURACY OF COST ESTIMATE: CLASS 11 (+ OR - 10%)
E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: COMPLETE
F. PROJECT DESCRIPTION:

Purchase and install a 315 KW head end power plant in locomotive 3010. This project was initiated in fourth quarter 1986 with \$28 forecasted as a work in process carryover. The estimated 1987 expenditures is \$75.

G. PROJECT JUSTIFICATION:

The modification of locomotive 3010 with a head end power unit provides the most utility to railroad operations. This modified locomotive will be used in passenger service and winter freight service. The winter utilization will consist of keep from freezing freight service.

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: MATERIAL HANDLING
EQUIPMENT
- B. LOCATION: ANCHORAGE
- C. ESTIMATED COST: \$20
- D. ACCURACY OF COST ESTIMATE: CLASS III (+ OR - 15%)
- E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: N/A
- F. PROJECT DESCRIPTION:

Purchase and install miscellaneous shop equipment

G. PROJECT JUSTIFICATION:

This investment pool represents an equipment replacement program established to update our shop equipment. The shop equipment will be replaced with new more efficient equipment when the old equipment breaks down beyond economic repair.

PROPOSED 1987 BASLINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: OVERHEAD CRANE
IMPROVEMENTS
- B. LOCATION: ANCHORAGE
- C. ESTIMATED COST: \$50
- D. ACCURACY OF COST ESTIMATE: CLASS 11 (+ OR - 10%)
- E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: N/A
- F. PROJECT DESCRIPTION:

Purchase and install new power supply for the General Repair Shop
DC cranes.

G. PROJECT JUSTIFICATION:

The proposed new power supply will enable the crane to be operated
from floor level controls versus from a cab on the crane. The new
floor level controls will reduce labor requirements and improve shop
safety. Additionally, noise levels will be reduced and improving
the working conditions.

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: RAIL PROGRAM
- B. LOCATION: SYSTEM WIDE
- C. ESTIMATED COST: \$319
- D. ACCURACY OF COST ESTIMATE: CLASS III (+ OR - 15%)
- E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: COMPLETE

F. PROJECT DESCRIPTION:

Install 14,400 feet of alloy rail.

G. PROJECT JUSTIFICATION:

This is an annual major maintenance program designed to replace rail that has exceeded its useful life for mainline operations. The used rail will be cascaded to sidings and or yard tracks where re-required. The replacement rail will come from existing inventories and will not require a capital outlay.

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: BALLAST PROGRAM
- B. LOCATION: SYSTEM WIDE
- C. ESTIMATED COST: \$658
- D. ACCURACY OF COST ESTIMATE: CLASS III (+ OR - 15%)
- E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE COMPLETE

F. PROJECT DESCRIPTION:

Replace 60,000 cubic yards of ballast and resurface 300 miles of track.

G. PROJECT JUSTIFICATION:

This is an annual major maintenace program designed to replace ballast that has exceeded its useful life. The replacement ballast will come from existing inventories and will not require a capital outlay.

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: BRIDGE PROGRAM
- B. LOCATION: SYSTEM WIDE
- C. ESTIMATED COST: \$575
- D. ACCURACY OF COST ESTIMATE: CLASS III (+ OR - 15%)
- E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: COMPLETE

F. PROJECT DESCRIPTION:

This is an annual program of major maintenance on steel bridges, timber trestles, and culverts. Deteriorated ties, piling, bridge timbers, and culverts are replaced on a programmed basis.

G. PROJECT JUSTIFICATION:

Timber bridge components have an average service life of 30 years. Major rehabilitation work in the 1952 - 1956 period resulted in a significant amount of 30+ year old timber in service. This program is required to replace these bridge members to reduce the risk of failure. Culvert replacements are required to maintain drainage and keep roadbed maintenance costs from increasing. Renewed bridges also reduces the cost of track maintenance at the bridge ends. The replacement and/or upgrade of the substructure of the bridges is required to ensure the load carrying capabilities of the bridge and maintain a safe operating railroad.

The material cost is estimated at \$200 with the majority of the materials coming from existing inventory.

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

A. PROJECT TITLE: RAIL TIE FASTNERS
B. LOCATION: SYSTEM WIDE
C. ESTIMATED COST: \$100
D. ACCURACY OF COST ESTIMATE: CLASS III (+ OR - 15%)
E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: COMPLETE

F. PROJECT DESCRIPTION:

Install 150 gage plates and 300 Pandrol tie plates on curves of 6 degrees or greater. This is a carryover project approved in the 1986 Capital Budget.

G. PROJECT JUSTIFICATION:

These devices prevent spreading track gage. Spreading of gage on sharp curves as well as rail rotation under severe lateral loading is a very serious concern for the Railroad. Constant regaging on wooden ties reduces tie service life by an estimated 15%.

The gage plates and Pandrol tie plates are in our current inventory minimizing any capital outlay for materials.

PROPOSED 1987 BASE. NE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: FIBER OPTIC CABLE TERMINALS
- B. LOCATION: ANCHORAGE, PORTAGE, & WHITTIER
- C. ESTIMATED COST: \$112
- D. ACCURACY OF COST ESTIMATE: CLASS III (+ OR - 15%)
- E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: COMPLETE
- F. PROJECT DESCRIPTION:

Install digital fiber optical terminals to replace open wire pole line and marine cable system between Portage and Whittier. This is a carryover project approved in the 1986 Capital Budget.

G. PROJECT JUSTIFICATION:

The pole line cable system to Whittier was built in 1940 and is in need of major overhaul and replacement. The system received major damage during the 1964 earthquake and four sections have been replaced with temporary cable. In the last six years most of the lead splices have badly corroded and are close to failure. A replacement system will cost \$325,000, but an agreement between Anchorage Telephone Utility and the Railroad has enabled us to utilize the fiber optic system between Anchorage and Whittier. This agreement will eliminate the need for replacement of the pole line. Purchasing the fiber optic terminals and connecting them to ATU's fiber optic system will give us full data and telephone service to the Whittier Terminal.

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: WHITTIER ELECTRIC
- B. LOCATION: WHITTIER TERMINAL
- C. ESTIMATED COST: \$200
- D. ACCURACY OF COST ESTIMATE: CLASS III (+ OR - 15%)
- E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: REVIEW STATUS

F. PROJECT DESCRIPTION:

Replacement of existing high voltage distribution system in the Whittier Yard.

G. PROJECT JUSTIFICATION:

The railroad has incurred a PCB contamination problem in the Whittier electrical distribution system. The current system is a non-standard distribution network which is contaminated with PCB's. A replacement system is necessary to eliminate future PCB problems and to minimize clean up costs of the current contaminated system.

PASSENGER SERVICES CAPITAL PROPOSAL

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE Whittier Shuttle Flat Cars
- B. LOCATION Anchorage
- C. ESTIMATED COST 5 @ \$20,000 each = \$100,000
This project will be funded with State of Alaska Shuttle Funds.
- D. ACCURACY OF COST ESTIMATE Class 3
- E. PROJECT DESCRIPTION
The cost of maintaining the current rail passenger cars used on the Whittier Shuttle was excessive so this equipment has been disposed of. In reviewing the alternatives, it appears that buses on flat cars may be the most cost effective. This requires the purchase of flatcars to place the buses on. The current flatcars are filled to capacity on numerous occasions so putting the buses on these would reduce vehicle capacity too much.
- F. PROJECT ALTERNATIVES FOR WHITTIER PASSENGER EQUIPMENT
1. Rental Buses on Flatcars.
 2. Purchased Buses on Flatcars.
 3. Lease of Rail Passenger Equipment.
The cost of these three alternatives will be analyzed extensively prior to the actual purchase decision.