

HB

136

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. HB 136

Revision Date: _____ Dept. Affected: Office of the Governor
 Title: "An Act mandating the sale of the Alaska Railroad; and providing for an effective date." BRU: Executive Operations
 Sponsor: Representative Martin Component: Executive Office
 Requester: House Transportation COMPONENT SERIAL NO. 6

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 100	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 97	FY 98	FY 99	FY 100	FY 01	FY 02
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY96) cost: \$ 0.0

POSITIONS

POSITIONS	FY 97	FY 98	FY 99	FY 100	FY 01	FY 02
FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

No fiscal impact on the Governor's Office - see attached analysis.

Prepared by: Michael A. Nizich, Administrative Director Phone: 465-3876
 Division: Division of Administrative Services Date: 4/9/96
 Approved by Commissioner: Jim Ayers, Chief of Staff Date: 4/9/96
 Agency: Office of the Governor

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HB 136 Analysis:

HB 136 mandates the sale of the Alaska Railroad by the Governor. Costs associated with:

contracting for an appraisal of the fair market value of the railroad;

developing and adopting any regulations necessary for private operation of the railroad and implementation of the sale;

review and determination of the minimum purchase price necessary to ensure that the state will receive the amount of money spent in connection with the railroad;

developing a request for and evaluating proposals for purchase of the railroad;

and, development of a sales agreement transferring ownership of the assets and liabilities of the Railroad Corporation to a private entity;

would have no direct fiscal impact on the Executive Office. However, various Executive Branch agencies would be directed to carry out the mandates of HB 136 on behalf of the Governor, and these agencies could incur significant costs. The various agencies should be identified and submit the necessary fiscal notes for participation in the sale process.

It should be noted that HB 136 requires amendment of the various action dates - as the bill was introduced during the First Session of the Nineteenth Legislature, the existing language would require issuance of a request for purchase proposals prior to obtaining an appraisal and subsequent legislative review of the appraisal.

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. HB 136

Revision Date: _____ Department: Commerce and Economic Development
 Title: Act mandating the sale of the Alaska Railroad and BRU: _____
providing for an effective date. Component: _____
 Sponsor: Rep. Martin
 Requestor: House Transportation COMPONENT SERIAL NO. _____

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	*	*	*	*	*	*
CAPITAL EXPENDITURES	*	*	*	*	*	*
CHANGE IN REVENUES	*	*	*	*	*	*

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	*	*	*	*	*	*

Estimate of any current year (FY 96) cost: \$ _____

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

* See attached analysis

Prepared by: Robert Hatfield & James Blasingame Phone: 907-465-2500
 Division: Alaska Railroad Corp. Date: April 3, 1996
 Approved by Commissioner: William L. Hensley Date: 4-3-96
 Agency: Commerce and Economic Development

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FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. HB #136

Revision Date: 4/3/96 Dept. Affected: DOT&PF
 Title: *An Act mandating the sale of the Alaska Railroad; and providing for an effective date.* BRU: Office of the Commissioner
 Component: Commissioner's Office
 Sponsor: Representative Martin
 Requester: House Transportation COMPONENT SERIAL NO. #530

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY96) cost: \$ 0.0

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

There will be a **substantial cost** to the state in developing the proposal, preparing inventories, doing appraisals, and assessing hazardous materials. No estimates have been made.

Prepared by: Loren Rasmussen, P.E., Acting Director Phone: 465-2960
 Division: Engineering and Operations Date: 4/3/96
 Approved by: Joseph L. Perkins for Date: 4/3/96
 Agency: Department of Transportation and Public Facilities

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FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. HB 136

Revision Date: _____ Dept. Affected: Department of Law
 Title: "An Act mandating the sale of the Alaska Railroad; and providing for an effective date." BRU: Civil Division
 Sponsor: Representative Martin Component: General Legal Services
 Requester: Transportation COMPONENT SERIAL NO. 2087

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES	115.0	115.0	115.0			
TRAVEL	5.0	5.0	5.0			
CONTRACTUAL	14.0	14.0	14.0			
SUPPLIES	3.3	3.3	3.3			
EQUIPMENT	1.0	1.0	1.0			
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	138.3	138.3	18.3	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	138.3	138.3	138.3			
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	138.3	138.3	138.3	0.0	0.0	0.0

Estimate of any current year (FY96) cost: \$ 0.0

POSITIONS

FULL-TIME	1.0	1.0	1.0	0.0	0.0	0.0
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

This bill provides that the governor shall issue a request for proposals (RFP) to purchase the Alaska Railroad and all other assets of the Alaska Railroad Corporation. The governor would further be required to enter into a sales agreement within eighteen months from the date the RFP is issued. The bill also provides that the Governor shall contract for an appraisal of the fair market value of the railroad and all of its assets. The results of the appraisal would be required to be submitted to the legislature. The governor would be required to evaluate each proposal to purchase the railroad as to whether the offerer will continue to operate the railroad after the sale, and whether the proposal assures the state will receive the amount of money it has spent in connection with the railroad.

The Department of Law believes that considerable legal advice will have to be provided to the governor to help implement the bill if it is enacted. This is to ensure that a sales contract meets the requirements of the bill, is fully defensible, and fully compensates the state for the amount of money it has spent in connection with the

Prepared by: Richard I. Peques, Director Phone: 465-3672
 Division: Administrative Services Division Date: 3/15/96
 Approved by Commissioner: Bruce M. Botelho, Attorney General Date: 3/15/96
 Agency: Department of Law

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FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. HB 136

ANALYSIS CONTINUATION:

railroad. Of even greater importance, legal advice will be necessary to shield the state from any post sales liabilities that may arise as a result of hazardous waste contamination, or labor relations claims.

We note that the department probably devoted two plus years of attorney time helping to arrange for the transfer of the Alaska Railroad from federal to state ownership several years ago. A similar effort will be required if the railroad is sold. Consequently, this fiscal note reflects the cost of three years of attorney time, plus travel, which is the minimum amount that will be needed if the bill becomes law. The services of a journey level Attorney IV will be required.

CS FOR HOUSE BILL NO. 136(TRA)
IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE TRANSPORTATION COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVE MARTIN

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the sale of the Alaska Railroad; and providing for an
2 effective date."

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

4 " Section 1. SALE OF THE ALASKA RAILROAD. (a) The governor shall issue by
5 October 1, 1996, a request for proposals to purchase the Alaska Railroad and all other assets
6 of the Alaska Railroad Corporation that are necessary or convenient for the operation of the
7 railroad.

8 (b) By February 15, 1997, the governor shall enter into an agreement to sell the
9 Alaska Railroad to the most responsive offeror who agrees to

10 (1) continue operation of the railroad for a minimum of 20 years following the
11 date of sale of the Alaska Railroad;

12 (2) accept assignment of all contracts, including collective bargaining
13 agreements and retirement obligations and agreements with connecting carriers, shippers, or
14 other persons concerning services, operation, property, and facilities of the Alaska Railroad

1 Corporation, entered into by the Alaska Railroad Corporation and in effect on the date of the
2 sale of the Alaska Railroad, provided that the contracts are assignable under terms of the
3 contract or that the other parties to the contract consent to the assignment; and

4 (3) purchase the Alaska Railroad for an amount that exceeds either the fair
5 market value of the Alaska Railroad and the assets of the Alaska Railroad Corporation that
6 are necessary or convenient for the operation of the railroad or the amount that the State of
7 Alaska has expended to obtain, maintain, and subsidize the Alaska Railroad and the Alaska
8 Railroad Corporation.

9 (c) An agreement to sell the Alaska Railroad under this Act is subject to approval by
10 the legislature. Upon entering into an agreement to sell the Alaska Railroad, the governor
11 shall immediately submit the agreement to the legislature for review during a regular session
12 of the legislature. The legislature may disapprove the agreement by a concurrent resolution.
13 If the agreement is not disapproved by the legislature before the adjournment of the regular
14 session during which the agreement was submitted, the agreement is approved. An agreement
15 to sell the Alaska Railroad that has been disapproved by the legislature or that has not been
16 submitted to the legislature for review under this subsection is void.

17 (d) The Alaska Railroad Corporation may not enter into a contract or other agreement
18 that has the effect or purpose of substantially diminishing the value or marketability of the
19 Alaska Railroad.

20 (e) Notwithstanding other provisions of this Act, the State of Alaska shall retain an
21 easement for transportation, communication, and transmission purposes on all land within the
22 right-of-way of the Alaska Railroad received by the state under the Alaska Railroad Transfer
23 Act of 1982 (P.L. 97-468, Title VI; 96 Stat. 2556).

24 (f) The governor shall contract for preparation of a report on the fair market value of
25 the Alaska Railroad and all other assets of the Alaska Railroad Corporation that are necessary
26 or convenient for the operation of the railroad by a qualified railroad appraiser. The results
27 of the appraisal shall be submitted to the legislature by the 10th legislative day of the First
28 Session of the Twentieth Alaska State Legislature. A contract for the appraisal under this
29 section is exempt from AS 36.30.

30 (g) The governor shall report to the legislature by the 10th legislative day of the First
31 Session of the Twentieth Alaska State Legislature regarding the procedures established for and

1 the progress toward the sale of the Alaska Railroad as mandated by this Act.

2 (h) Upon the completion of the sale of the railroad, the governor shall dissolve the
3 Alaska Railroad Corporation. Real property of the Alaska Railroad Corporation that is
4 identified as not necessary or convenient for the operation of the railroad under sec. 2 of this
5 Act shall be transferred to, and managed by, the Department of Natural Resources upon
6 dissolution of the Alaska Railroad Corporation.

7 (i) The governor shall adopt regulations under AS 44.62 to implement this Act.

8 (j) The sale of the Alaska Railroad under this Act is not subject to AS 36.30 or
9 AS 42.40.

10 * Sec. 2. IDENTIFICATION OF ALASKA RAILROAD CORPORATION ASSETS. (a)
11 By August 1, 1996, the governor shall identify all assets, real and personal and tangible and
12 intangible, of the Alaska Railroad Corporation and classify those assets as necessary or
13 convenient for the operation of the railroad or as other assets of the corporation. The
14 governor shall submit the report to the Legislative Budget and Audit Committee.

15 (b) The Legislative Budget and Audit Committee may recommend amendments to the
16 identification or classification of assets listed in the report.

17 * Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

9-LS0438F
Utermohle
4/9/96

CS FOR HOUSE BILL NO. 136()
IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVE MARTIN

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the sale of the Alaska Railroad; and providing for an
2 effective date."

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

4 * Section 1. SALE OF THE ALASKA RAILROAD. (a) The governor shall issue by
5 October 1, 1996, a request for proposals to purchase the Alaska Railroad and all other assets
6 of the Alaska Railroad Corporation that are necessary or convenient for the operation of the
7 railroad.

8 (b) By February 15, 1997, the governor shall enter into an agreement to sell the
9 Alaska Railroad to the most responsive offeror who agrees to

10 (1) continue operation of the railroad for a minimum of 20 years following the
11 date of sale of the Alaska Railroad;

12 (2) accept assignment of all contracts, including collective bargaining
13 agreements and retirement obligations and agreements with connecting carriers, shippers, or
14 other persons concerning services, operation, property, and facilities of the Alaska Railroad

1 Corporation, entered into by the Alaska Railroad Corporation and in effect on the date of the
2 sale of the Alaska Railroad, provided that the contracts are assignable under terms of the
3 contract or that the other parties to the contract consent to the assignment; and

4 (3) purchase the Alaska Railroad for an amount that exceeds either the fair
5 market value of the Alaska Railroad and the assets of the Alaska Railroad Corporation that
6 are necessary or convenient for the operation of the railroad or the amount that the State of
7 Alaska has expended to obtain, maintain, and subsidize the Alaska Railroad and the Alaska
8 Railroad Corporation.

9 (c) An agreement to sell the Alaska Railroad under this Act is subject to approval by
10 the legislature. Upon entering into an agreement to sell the Alaska Railroad, the governor
11 shall immediately submit the agreement to the legislature for review during a regular session
12 of the legislature. The legislature may disapprove the agreement by a concurrent resolution.
13 If the agreement is not disapproved by the legislature before the adjournment of the regular
14 session during which the agreement was submitted, the agreement is approved. An agreement
15 to sell the Alaska Railroad that has been disapproved by the legislature or that has not been
16 submitted to the legislature for review under this subsection is void.

17 (d) The Alaska Railroad Corporation may not enter into a contract or other agreement
18 that has the effect or purpose of substantially diminishing the value or marketability of the
19 Alaska Railroad.

20 (e) Notwithstanding other provisions of this Act, the State of Alaska shall retain an
21 easement for transportation, communication, and transmission purposes on all land within the
22 right-of-way of the Alaska Railroad received by the state under the Alaska Railroad Transfer
23 Act of 1982 (P.L. 97-468, Title VI; 96 Stat. 2556).

24 (f) The governor shall contract for preparation of a report on the fair market value of
25 the Alaska Railroad and all other assets of the Alaska Railroad Corporation that are necessary
26 or convenient for the operation of the railroad by a qualified railroad appraiser. The results
27 of the appraisal shall be submitted to the legislature by the 10th legislative day of the First
28 Session of the Twentieth Alaska State Legislature. A contract for the appraisal under this
29 section is exempt from AS 36.30.

30 (g) The governor shall report to the legislature by the 10th legislative day of the First
31 Session of the Twentieth Alaska State Legislature regarding the procedures established for and

1 the progress toward the sale of the Alaska Railroad as mandated by this Act.

2 (h) Upon the completion of the sale of the railroad, the governor shall dissolve the
3 Alaska Railroad Corporation. Real property of the Alaska Railroad Corporation that is
4 identified as not necessary or convenient for the operation of the railroad under sec. 2 of this
5 Act shall be transferred to, and managed by, the Department of Natural Resources upon
6 dissolution of the Alaska Railroad Corporation.

7 (i) The governor shall adopt regulations under AS 44.62 to implement this Act.

8 (j) The sale of the Alaska Railroad under this Act is not subject to AS 36.30 or
9 AS 42.40.

10 * Sec. 2. IDENTIFICATION OF ALASKA RAILROAD CORPORATION ASSETS. (a)
11 By August 1, 1996, the governor shall identify all assets, real and personal and tangible and
12 intangible, of the Alaska Railroad Corporation and classify those assets as necessary or
13 convenient for the operation of the railroad or as other assets of the corporation. The
14 governor shall submit the report to the Legislative Budget and Audit Committee.

15 (b) The Legislative Budget and Audit Committee may recommend amendments to the
16 identification or classification of assets listed in the report.

17 * Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

CS FOR HOUSE BILL NO. 136()
IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVE MARTIN

A BILL

FOR AN ACT ENTITLED

1 "An Act mandating the sale of the Alaska Railroad; and providing for an
2 effective date."

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

4 * Section 1. SALE OF THE ALASKA RAILROAD. (a) The governor shall issue by
5 July 1, 1997, a request for proposals to purchase the Alaska Railroad and all other assets of
6 the Alaska Railroad Corporation. The governor shall evaluate each proposal to purchase the
7 Alaska Railroad as to whether the offeror will continue to operate the railroad after the sale
8 and whether the proposal assures that the state will receive the amount of money it has spent
9 in connection with the railroad.

10 (b) By January 1, 1999, the governor shall enter into an agreement to sell the Alaska
11 Railroad to the most responsive offeror.

12 (c) The governor shall contract for an appraisal of the fair market value of the Alaska
13 Railroad and all other assets of the Alaska Railroad Corporation by a qualified railroad
14 appraiser. The results of the appraisal shall be submitted to the legislature by the 10th

1 legislative day of the First Session of the Twentieth Alaska State Legislature. A contract for
2 the appraisal under this section is exempt from AS 36.30.

3 (d) The governor shall report to the legislature by the 10th legislative day of each
4 regular session of the Alaska State Legislature regarding the procedures established for and
5 the progress toward the sale of the Alaska Railroad as mandated by this Act.

6 (e) Upon the completion of the sale of the railroad, the governor shall dissolve the
7 Alaska Railroad Corporation.

8 (f) The governor may adopt regulations under AS 44.62 to implement this Act.

9 (g) The sale of the Alaska Railroad under this Act is not subject to AS 36.30 or
10 AS 42.40.

11 * Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

REPRESENTATIVE
TERRY MARTIN
CHAIRMAN
BUDGET & AUDIT COMMITTEE
MEMBER
HOUSE FINANCE COMMITTEE

Alaska State Legislature



MAY 15 - JAN 15 258-8169
716 W. 4TH, SUITE 650
ANCHORAGE, AK 99504

JAN 15 - MAY 15 465-3783
STATE CAPITOL
JUNEAU, AK 99801-1182

HOME 333-6990
355 DONNA DRIVE, #11
ANCHORAGE, AK 99504

SECTIONAL ANALYSIS CSHB 136 ()

"An Act mandating the sale of the Alaska Railroad."

Section 1.

- (a) States that the governor shall issue a request by October 1, 1996, for proposals to purchase the Alaska Railroad and all other assets of the Alaska Railroad Corporation necessary or convenient for operation of the railroad.
- (b) Requires that by February 15, 1997, the governor will enter into an agreement for the sale with the most responsive offeror that agrees:
 - (1) to continue operation for 20 years;
 - (2) accepts all contracts including collective bargaining and retirement obligations, provided the contracts are assignable and the other parties agree;
 - (3) purchase the railroad and assets at an amount exceeding fair market or an amount that the State has expended to obtain, maintain and subsidize the Alaska Railroad and ARRC.
- (c) Requires legislative approval after agreement has been made between governor and offeror. If agreement is not disapproved by the legislature before adjournment of the regular session, approval is confirmed. Disapproval requires passage of a concurrent resolution.
- (d) Prohibits the ARRC from substantially diminishing the value or marketability of the Alaska Railroad through any contract or agreement.
- (e) Maintains State retention of easements for transportation, communications, and transmission purposes on all land within the right-of-way of the AR received under the Alaska Railroad Transfer Act of 1982.
- (f) Requests governor to prepare a report on the fair market value of the AR and its assets by a qualified railroad appraiser and submit to the legislature by the 10th day of the First Session of the Twentieth Legislature.



- (g) Requests the governor to report on the procedures and progress of the sale by the 10th day of the First Session of the Twentieth Legislature.
- (h) Requests the governor to dissolve the ARRC upon completion of the sale and transfers unidentified (unsold) real property to DNR management.
- (I) Requires the governor to adopt regulations implementing legislation.
- (J) Provides that the sale is not subject to the State Procurement Code (AS 36.30) or the Alaska Railroad Corporation (AS 42.40).

Section 2.

- (a) Requires the governor to identify all ARRC assets and classify those assets necessary for the operation of the railroad accordingly by August 1, 1996. Requires submittal of the report to the LB&A Committee.
- (b) Allows the LB&A Committee to amend the identifications or classifications of assets in report.

Section 3.

Requires the Act to take effect immediately.

REPRESENTATIVE
TERRY MARTIN
CHAIRMAN
BUDGET & AUDIT COMMITTEE
MEMBER
HOUSE FINANCE COMMITTEE

Alaska State Legislature



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714 W. 4TH, SUITE 650
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JAN 15 - MAY 15 465-3783
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SPONSOR STATEMENT

HB 136

"An Act mandating the sale of the Alaska Railroad."

Under the Alaska Railroad Transfer Act of 1983, the Alaska Railroad was transferred to the State of Alaska on January 6, 1985. Within ten years of the date of transfer, railroad-owned land could have been purchased by a private entity, subject to restrictions on the State by the federal government. The provision preventing disposal of the land expired on January 7, 1995.

In view that the federal restrictions on transfers have ceased to apply, this is an opportune time to work with current private bidders at selling the Alaska Railroad. With that line of thought, HB 136 provides the mechanism through which the process of the sale can be initiated. The parameters, which are set in the bill, distinguish a clear relationship between the governor and the legislature with regards to the bidding, overview and sales process.

In reference to the reasoning and justification of the sale, the bottom line is that the State's powers should not be broadened in such a manner that private enterprise activity is infringed upon. Past profit disclosures by the railroad have shown significant earnings through real estate transactions. As for the transportation operations, which is realistically the underlying purpose for the ARRC's inception, there have been significant losses reported in the last 6 years.

An audit by Mercer Management Consulting of Lexington found "the ARRC management to be somewhat fragmented, without a team focus, and apparently comfortable with the status quo", as stated in the Alaska Journal of Commerce. In addition, business clientele of the railroad, as well as competing enterprises have expressed concerns towards the ARRC (a state owned corporation), possessing the ability to generate revenues through real estate payments. Hence, it is time to privatize this arm of state government, allowing private bidders to purchase the organization, thereby allowing our free market system to flourish, while successfully reducing another segment of our oversized governmental bureaucracy.



REPRESENTATIVE
TERRY MARTIN
CHAIRMAN
BUDGET & AUDIT COMMITTEE
MEMBER
HOUSE FINANCE COMMITTEE

Alaska State Legislature



MAY 15 - JAN 15 258-8169
716 W. 4TH, SUITE 650
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JAN 15 - MAY 15 465-3783
STATE CAPITOL
JUNEAU, AK 99801-1182

HOME 333-6990
355 DONNA DRIVE, #11
ANCHORAGE, AK 99504

SECTIONAL ANALYSIS HB 136

"An Act mandating the sale of the Alaska Railroad."

Section 1.

States that the governor shall issue a request by July 1, 1997, for proposals to purchase the Alaska Railroad and all other assets of the Alaska Railroad Corporation. Requires that the governor will evaluate the proposals and will oversee that the State receives adequate compensation.

By January 1, 1999, the governor will enter into an agreement for the sale with the most responsive offeror. In addition, the governor shall contract with an appraiser and the report submitted will be distributed to the legislature by the 10th day of the First Session of the Twentieth Alaska State Legislature. During each legislative session, by the 10th legislative day he shall give a report regarding the progress of the sale. Upon the completion of the sale, the governor shall dissolve the Alaska Railroad Corporation.

Section 2.

Requires the Act to take effect immediately.



Keep w/
copy of
our letter.

DENNIS R. WASHINGTON

101 INTERNATIONAL WAY
POST OFFICE BOX 8182
MISSOULA, MONTANA 59807
TELEPHONE (406) 523-1500
FAX (406) 523-1399

October 4, 1995

President Drue Pearce
716 West 4th Avenue, Suite 500
Anchorage, Alaska 99501-2133

Dear President Pearce:

I am writing to you to indicate my strong interest in purchasing The Alaska Railroad Corporation (ARRC). I am simultaneously sending a copy of this letter to the Chairman of the railroad, Governor William Sheffield, and asking his advice on how we should proceed to achieve this goal.

My interest in ARRC stems from my broad interest and involvement in transportation logistics and my feeling that upgraded and modernized systems can contribute greatly to a region's economy. At present I am the principal owner of Montana Rail Link, a major regional railroad, that has brought upgraded transportation service to the State of Montana and materially enhanced the local economy. I am also heavily involved in tug and barge activities in the Pacific Northwest and British Columbia and extending into Alaska.

My specific reason for this proposal stems from my deep interest in the economic development of Alaska. It is my feeling that the State's economy could benefit greatly from an improved and modernized railway system and I am prepared to commit to an upgrading of the railroad. I can also envision that with the involvement of Canadian interests we can work towards the construction of a railroad that connects Alaska with the lower states and ultimately into a PanAmerican Railway system. It is clear to me that a worldwide Global Intermodal System is taking shape and I believe it is essential for the economy of Alaska that the State become an integral part of the network.

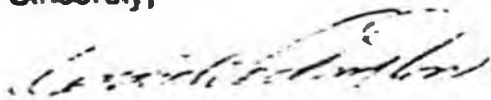
BACK-UP

President Drue Pearce
October 4, 1995
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I would like to be clear from the outset that my interest lies primarily in the transportation aspects of ARRC and utilizing all of the Company's assets to enhance operation of the system. I am prepared to commit to investing to upgrade the railroad and to work with the State Government to plan for service levels that will facilitate the State's economic development. My vision for the railroad encompasses imaginative passenger service offerings and real estate development activities that will help build the tourist trade as well as efficient freight service incorporating the most up-to-date intermodal concepts.

I would relish the opportunity to discuss this proposal with each of you and answer any questions you may have. I am prepared to dedicate the analytical and financial resources necessary for the evaluation and consummation of the proposed transaction. My staff and advisors have extensive acquisition experience in the transportation industry and are confident that we can move quickly in evaluating ARRC. I look forward to hearing from you.

Sincerely,



Dennis Washington

/ke

DIVISION OF LEGAL SERVICES**LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA**

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240 Main Street, Suite 500
Juneau, Alaska 99801-2101

MEMORANDUM

November 9, 1992

SUBJECT: Alaska Railroad Transfer Act: Restriction on the sale of the Alaska Railroad (Work Order No. 18-LS0177)

TO: Representative Terry Martin
ATTN: Tom Anderson

FROM: George Utermohle *GU*
Legislative Counsel

This memorandum summarizes the provision of the federal Alaska Railroad Transfer Act (P.L. 97-468, Title VI) that restricts the ability of the legislature to sell the state-owned Alaska Railroad.

The Alaska Railroad Transfer Act became law January 14, 1983. The Act set out the terms under which the Alaska Railroad would be transferred to the State of Alaska. Ownership of the railroad was transferred to the state January 6, 1985.

The federal Act contains two provisions restricting the ability of the state to profitably dispose of the railroad within certain time periods following the transfer of the railroad to the state. One of those provisions has already expired; the other provision will expire in a few more years.

If, within ten years after the date of transfer to the State . . . , the Secretary finds that all or part of the real property transferred to the State under this title, . . . , is converted to a use that would prevent the State-owned railroad from continuing to operate, that real property . . . shall revert to the United States Government, or (at the option of the State) the State shall pay to the United States Government an amount determined to be the fair market value of that property at the time its conversion prevents continued operation of the railroad.

P.L. 97-468, sec. 610(a); 45 U.S.C. 1209(a).

Representative Terry Martin
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The apparent purpose of this provision is to discourage the state from disposing of railroad land in a manner that will cause the state-owned railroad to cease operation during the first ten years following the transfer. It is unclear as to what events would cause this provision to become operative. The phrase "prevent the State-owned railroad from continuing to operate" is particularly unclear. Does the phrase refer just to disposals of real property that would prevent the entire railroad from operating or just part of the railroad, such as between Anchorage and Whittier or Fairbanks and Eielson Air Force Base? Does this provision prevent the disposal of revenue producing land not used for the actual operation of the railroad if the disposal would endanger the long term financial viability of the railroad or does it refer only to disposal of land actually used for railroad operations?

It is evident that this provision virtually precludes any transfer of the railroad to private ownership that included a transfer of railroad land, because the transfer of the railroad to private ownership would prevent the state-owned railroad from continuing to operate. Though this provision is triggered only by the disposal of real property and thus could be avoided by not disposing of real property, it is difficult to envision anyone wanting to buy the railroad if they did not also get the land and buildings used by the railroad.

The ambiguity of this provision places a cloud over any disposal of railroad land until January 7, 1995 when this provision expires.

I am providing this information to you so that you are aware of this temporary impediment to profitable disposal of the Alaska Railroad.

If I can provide further assistance, please advise.

GU:gc
92-508.glc

'We lost \$2 million in transportation and earned about \$4 million in real estate'

By Rose Ragsdale
Alaska Journal of Commerce

Alaska Railroad Corp., on track in 1992 with a \$2.3 million profit and much, much more, could do even better in the years ahead, says railroad chief Bob Hatfield.

"If you look at our transportation business, we either win or lose about \$2 million every year," Hatfield told members of the Resource Development Council Jan. 28.

"We lost \$2 million in 1992 on the transportation side and earned about \$4 million on the real estate side. We believe we can make the transportation side profitable, particularly in our passenger service, which is so close to becoming profitable."

Also in 1992, Alaska Railroad Corp. co-ventured a new hotel, launched a major redevelopment project, nearly broke even on its passenger services, offered a helping hand to Alaska's beleaguered coal exporter and managed to extend a six-year profits streak, netting \$2.3 million.

Behind the scenes, the state-owned railroad's managers overhauled sev-



Alaska Railroad train near Umbell Coal Mine

PHOTO BY FOCUS NEWS

road of significance in Alaska, we're in an enormously competitive environment," Hatfield said. "We're moving enough petroleum for a pipeline, which has been pointed out to us. We compete with Sea-Land, which also is a customer. . . . We're concerned that air freight will nibble at the edges of the railroad's business," he said.

Hatfield said developing Alaska's resources is part of the railroad's mission, but hanging on to the business it already has is a more immediate challenge.

He cited recent difficulties of customers Suneel Corp. and Umbell Coal Mine, which currently export coal to Korea from the interior and account for 11 percent of the railroad's annual revenue. Although demand for energy world wide is up, coal prices have declined in recent years. Coal exports from Indonesia, South Africa, Australia, Canada and other U.S. competitors are vying for a piece of the Korean market.

"There's a limit to what (we) three players in the coal exporting business can take," Hatfield said. "Last year, we lost \$3 million, and we didn't take it in even hits."

"If Suneel ceases its operation, the Korean Wishbone Hill coal project would be threatened," he said. "Coal exports in the Pacific Rim is like baseball — If you're already in the game, you can play through to the end, but if you're on the sidelines, it's nearly impossible to get back into the game."

Both Mercer's audit and Hatfield cited concern about the significant decrease in 1992 in drilling equipment and other oil field supplies being shipped to the North Slope.

Not all railroad markets are eroding. Hatfield said timber traffic is

increasing and should equal or exceed last year's 500 million board feet shipped in 1993.

Newer, more fuel-efficient cars would make the company more competitive, he said. The company plans to spend \$14 million on capital equipment this year.

Among the railroad's other challenges:

- Talkeetna residents are starting a referendum to prohibit use of weed killers on state land, but efforts to avoid using weed killers beyond a certain point are not practical, Hatfield said.

- Two bills introduced in the Legislature call for the governor to sell the railroad because it is a state-owned company competing in the private sector.

"The effect of such a move is ex-



The audit team found a dramatic improvement in the railroad's management compared with a year ago.

eral key departments, hired a new operations chief, pared its work force and tackled other tough problems.

Yet the results of a recent independent management audit and Hatfield suggest the transportation company can do even better.

According to performance auditor Mercer Management Consulting of Lexington, Mass., " . . . the most important challenge facing the railroad involves maintaining the soundness of (its) markets and its existing sources of profitable traffic and developing new sources of profitable traffic at the same time."

Mercer said its audit team found a dramatic improvement in the railroad's management compared with conditions a year earlier. "Then, Mercer found the ARRC management to be somewhat fragmented, without a team focus, and apparently comfortable with the status quo," the consultant wrote in a 59-page draft report.

Competition is compelling change at the Alaska Railroad.

"Even though we're the only rail-

road, it's extremely unsettling for our employees, customers and the banks," Hatfield said. "We're going to sit down to negotiate a contract with Masco soon. Imagine the effect those bills can have on those negotiations."

Moreover, the railroad's \$21 million debt burden would present significant difficulties for a buyer, he said. However, efforts to bring politics back into the railroad's sphere of influence with such legislation could end up scaring away potential future customers such as Iderutsu Kosan, the Korean owner of Wishbone Hill.

Said Hatfield: "There is no way a transportation company can survive without being extremely focused on the tasks at hand. We could end up losing our focus on business if we get into the social engineering required to deal with things like this."

Position PaperHB-136

This proposed legislation requests the Governor to issue requests for proposals to purchase the Alaska Railroad Corporation.

It further mandates the Governor to evaluate each proposal to determine whether each will continue to operate the Railroad after the sale and whether the proposal assures that the state will receive the amount of money it has spent in connection with the Railroad.

Analysis

What the proposed bill does not say is exactly what is for sale and what sort of process will be established for the State to negotiate a sale agreement with a potential buyer.

In the best interests of both the State of Alaska and the Alaska Railroad we believe certain ground rules should be established by the Legislature. A great number of questions arise in all areas of the Railroad's business. For example, could the new owner purchase all of the real estate; would the new owner be required to operate unprofitable segments of business such as passenger service during winter months to remote areas of the rail corridor? Will the new owner be required to service future state-funded expansions of the rail system?

Marketing

What will assure at least informal State oversight of anti-competitive railroad operations under private ownership? Would the new owner be required to be responsive to serving local freight and municipal needs? To what extent will a privately-owned Railroad participate in unprofitable traffic flows based solely upon "economic development and jobs"?

Passenger Service

Will the State retain control of rail passenger service along the existing rail corridor? Will it be economically feasible for the new owner to operate a passenger service? Will the State subsidize any loss which the new owner may endure? Will the State regulate rates for passenger service? What level or frequency of passenger service will the State require of the new owner?

Employees

Would the new owner be required to honor existing employee labor agreements?

Appraisal Costs

In its present form, the proposed legislation does not address who pays for the appraisal costs if it is determined by the Legislature and Governor that the Alaska Railroad is to be sold to a private operator. As a matter of background, the U.S. Government expended approximately \$1.7 million to determine the fair market value of Railroad's operations, its physical plant, real estate assets, operating inventory and certification of its financial records prior to its transfer to the State from Federal ownership. Likewise, the State of Alaska spent approximately \$2.0 million for acquisition facilities assessments, legal advice, analysis of the USRA (United States Railway Association) evaluation and the Transfer Report.

In summary, the Alaska Railroad Corporation does not have available funds to pay for this kind of expense. All of the Corporation's earned net operating funds are critical to both the operation and capital improvements of the Railroad. Historically, all net income has been reinvested into maintaining the rail corridor, equipment and operations. Even if the State funds the appraisal directly, the potential cost is a matter that should be taken into account at this early stage of legislative consideration.

U.S. FREIGHT RAILROADS OWNED BY STATE OR LOCAL GOVERNMENTS IN 1995

RAILROAD	STATE	TYPE OF RR	EMPLOYEES	CARLOADS	REVENUE RANGE
Alaska Railroad Corp.	AK	Reg	550	72,225	10 < 250 M
Apparoose County Community Railroad	IA	S&T	4	282	0 < 5 M
Beaufort & Morehead Railroad	NC	Local	14	6,361	0 < 5 M
Brownsville & Rio Grande Int'l. Railroad	TX	S&T	16	10,414	0 < 5 M
C&S Railroad Corporation	PA	S&T	5	457	0 < 5 M
Canton Railroad	MD	S&T	20	7,766	0 < 5 M
Central of Tenn. Railway & Navigation	TN	S&T	3	1,000	0 < 5 M
Chillicothe-Brunswick Rail Maint. Auth.	MO	S&T	5	0	0 < 5 M
City of Pineville Railway	OR	Local	10	1,350	0 < 5 M
Colone's Island Railroad	GA	Local	4	3,399	0 < 5 M
Columbia Terminal	MO	S&T	3	950	0 < 5 M
East Cooper & Berkeley Railroad Company	SC	Local	11	4,041	0 < 5 M
Eastern Shore Railroad	VA	Local	38	7,494	0 < 5 M
Great River Railroad	MS	S&T	2	83	0 < 5 M
Huntsville & Madison County RR Authority	AL	Local	0	342	0 < 5 M
Little Rock Port Railroad	AR	S&T	5	5,261	0 < 5 M
Long Island Rail Road	NY	Local	25	11,588	5 < 10 M
Madison RR, Div. City of Madison P. Auth.	IN	Local	4	294	0 < 5 M
New Orleans Public Belt Railroad	LA	S&T	95	18,474	0 < 5 M
Nicolet Badger Northern Railroad, Inc.	WI	Local	17	287	0 < 5 M
North Coast Railroad	CA	Local	45	4,500	0 < 5 M
Pend Oreille Valley Railroad	WA	Local	11	3,238	0 < 5 M
Peoria, Peoria Heights & Western RR.	IL	S&T	0	395	0 < 5 M
Port Bienville Railroad	MS	S&T	6	1,184	0 < 5 M
Port of Palm Beach District Railway	FL	S&T	0	2,575	0 < 5 M
Port of Tillamook Bay Railroad	OR	S&T	32	8,343	0 < 5 M
Port Royal Railroad	SC	Local	2	1,348	0 < 5 M
Port Terminal Railroad of South Carolina	SC	S&T	11	10,525	0 < 5 M
Port Utilities Comm. of Charleston, S.C.	SC	S&T	11	6,854	0 < 5 M
Quincy Bay Terminal Co.	NH	Local	4	375	0 < 5 M
Salt Lake City Southern Railroad	UT	S&T	2	1,400	0 < 5 M
Savannah State Docks Railroad	GA	S&T	22	35,646	0 < 5 M
Semo Port Railroad, Inc.	MO	S&T	0	24	0 < 5 M
South Branch Valley Railroad	WV	Local	17	4,305	0 < 5 M
South Brooklyn Railway	NY	S&T	2	25	0 < 5 M
Tacoma Municipal Belt Line Railroad	WA	S&T	51	52,649	5 < 10 M
Terminal Railway Alabama State Docks	AL	S&T	83	95,000	5 < 10 M

Source: Association of American Railroads Profiles of U.S. Railroads



Alaska State Legislature

Please enter into the record my testimony to the House Transportation
 committee name
 committee on HB 136, dated 4-10-96
 bill/subject

Should not be sold, to one interested party. Should be sealed bids - to approach market value following advertisement.

Bridges & Trusses alone still may be worth then ^{to be} negotiated price.

Railbed alone ^{replacement cost} may be worth tentimes the amount any Montana may offer.

Postpone sale - One year minimum.

Four Companies (Princess) may be very interested - (need replacement cost estimate)

Allow a year, encourage input from all Alaskans. This is too sudden.

Signed: Kenneth Hubbard Kenneth T. Hubbard
 Testifier

retired
 Representing (Optional)
P.O. Box 1703 Palmer AK 99645
 Address
907-745-3136
 Phone No.