

LEG. FINANCE - BILLS 1983 - 1984 1929

HB 512 cont.

1929

## VIEWS OF NATIVE AND ENVIRONMENTAL GROUPS

### Issue Summary and Interview Comments

- A. **ARR Transfer:** There is no consensus among native corporations about the ARR's transfer. In general, a given corporation's view depends on its satisfaction with land claims against the U.S.
- B. **Route Expansion:** Again, no consensus exists. However, all groups favored the ARR as the transportation mode which minimized land access and environmental disturbance.
- C. **Comments:** The following quotations show the diversity of opinions toward the ARR.

"Expanding the ARR would be a positive signal to investors. Cook Inlet Region Inc. is open to joint ventures for exploration and development."

Frank Klette, EVP, CIRI, Inc.

"We're opposed to the State's takeover of the railroad only because the State is more likely to spend more money on expansion than the Federal Government."

Don Argetsinger, Land Director, NANA Regional Corp.

"The fact that the ARR is owned by the government, whether State or Federal, makes competition with the private sector unfairly."

Dan Alex, Land Manager, Eklutna

"Expansion is inevitable, and railroads are much preferred to roads for minimizing impact on bush society."

David Cline, Audubon Society

"We don't want other people to be able to carve into our region by surface transportation. However, if push comes to shove, the railroad is much better than a road because of its limited access."

"All we really want is to have control over what happens in our region; we don't have problems with land tenure along the right-of-way."

Don Argetsinger, Land Director, NANA Regional Corp.

"We wouldn't want any railroad land if it is being used or ever contemplated being used."

Lionel L. Drage, President, Chugach Natives, Inc.

"We want the State to have the ARR in return for clarifying certain portions (of the Cook Inlet Land Exchange Law). \$1500 is O.K. with CIRI."

Roy Huhndorf, President, CIRI, Inc.

## EXPANSION SUMMARY

\*EXPANSION OF THE ALASKA RAILROAD IS NOT NECESSARY FOR CURRENT OPERATIONS.

\*IN ORDER TO IMPROVE ITS MARKET BASE AND PRESERVE ITS MARKET SHARE IN THE RAILBELT, THE RAILROAD SHOULD BE CERTAIN IT IS INCLUDED IN KNIK AND TURNAGAIN CROSSING PROJECTS AND POSSIBLY THE SUSITNA PROJECT AS WELL.

\*THE MOST LIKELY LARGE EXPANSION PROJECT AT THIS TIME IS TO AMBLER. AS A PRIVATE BUSINESS VENTURE, THE PROJECT IS TOO RISKY. COORDINATED DEVELOPMENT OF FOUR MINE SITES AND INVESTMENT WITHOUT A REQUIRED RATE OF RETURN COULD, WITH A TURNAROUND IN COPPER PRICES, MAKE THE EXPANSION FEASIBLE.

\*IT IS MORE IMPORTANT FOR GOVERNMENT TO ENCOURAGE DEVELOPMENT IN A COORDINATED MANNER THAN TO PROVIDE DIRECT FUNDING FOR EXPANSION.

## AMBLER EXPANSION ANALYSIS

### Required Maximum Transportation Costs:

The WAAT Study found that when copper was at \$1.00/pound in 1980 a mine of the Arctic Camp type could support maximum transportation costs to Anchorage of \$47/ton. With the recent 30% decline in copper prices the necessary transportation is probably at or below \$30/ton. The study found that transportation to Anchorage was the most economically viable alternative.

### Feasibility of Ambler Expansion:

The key variables for the expansion are mineral prices, coordinated mine development to achieve minimum tonnages of mineral concentrate to be shipped, and the return an expansion project must produce on the capital investment. As a free standing project, expansion probably could not be financed since a 15% or greater real return would probably be required. Resulting transportation costs would be in excess of the maximum amount the mine could support.

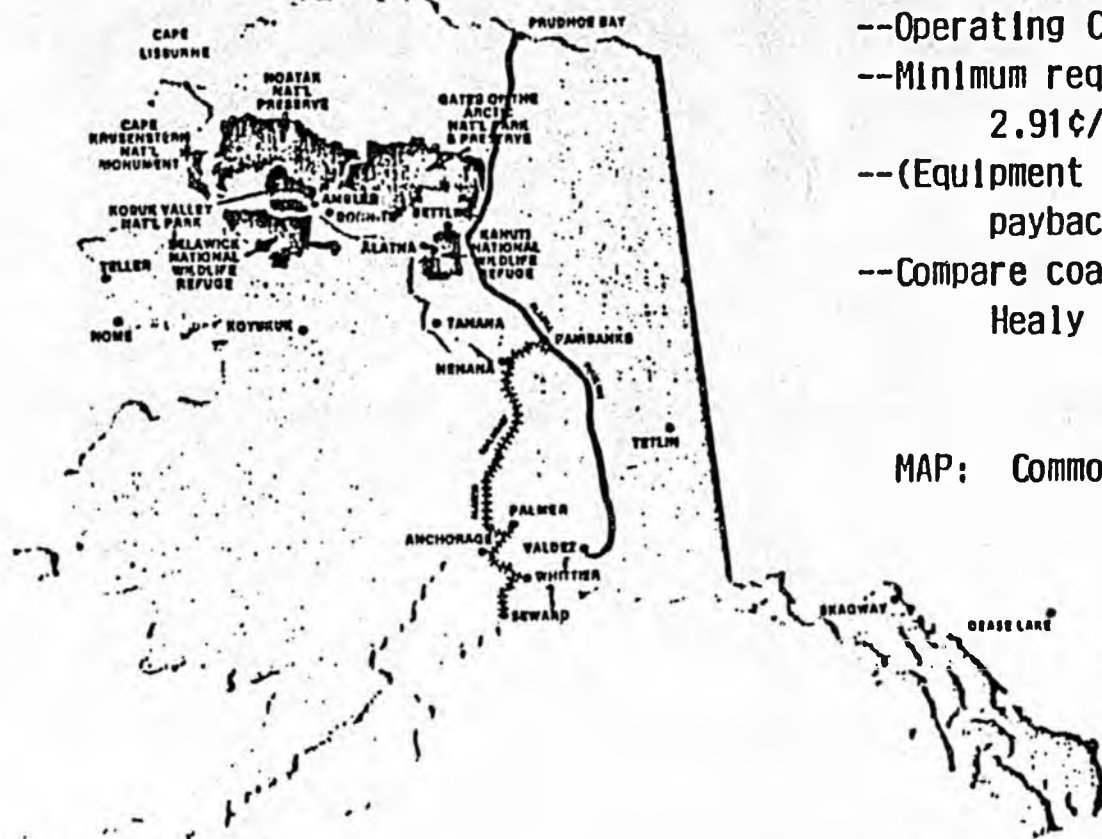
With some assistance from a "deep pocket" private entity or the State, capital costs could be reduced by sharing of the financial risk through guarantees of outright grants. To cover transportation costs alone, 3 million tons per year would be required. Only 1.2 million tons production is currently projected.

### The Prospects:

With continued exploration, larger annual tonnages might become available for shipment, thus bringing costs into line. Government would have to help in coordinating the development of a number of independently owned mines by aiding them in obtaining land access and other permits.

The absolute minimum cost of service to Ambler would be the \$20.70/ton operating cost which allows nothing for recovery of the capital costs of expansion.

## EXPANSION TO AMBLER



- Construction Cost: \$1.306 Billion  
\$3.147 million per mile
- Extension Miles: 415
- Miles to Tidewater, Anchorage: 712
- Operating Cost/ton: \$19.58
- Minimum required rate/ton: \$20.70  
2.91¢/ton-mile
- (Equipment 5% IRR, No construction  
payback)
- Compare coal costs:  
Healy to Seward -- \$10.00/ton  
-- 2.78¢/ton-mile

MAP: Commonwealth North Action Paper

AMBLER MINING DISTRICT MINERAL RESERVES

| <u>SITE</u> <sup>1</sup> | <u>ANNUAL CONCENTRATE<br/>PRODUCTION</u> | <u>SUPPLIES<br/>ANNUALLY</u> | <u>LIFE</u> | <u>MINERALS</u>               |
|--------------------------|--|------------------------------|-------------|-------------------------------|
| ARCTIC CAMP              | 600,000 tons/yr.                         | 100,000 tons                 | 12-14 yrs.  | Copper, Lead,<br>Zinc, Silver |
| SUN                      | 200,000                                  | 60,000                       | 20          | Copper, Lead<br>Zinc, Silver  |
| SMUCKER                  | 150,000                                  | 36,000                       | 20          | Zinc, Silver                  |
| BORNITE                  | <u>30,000</u>                            | <u>6,000</u>                 | 15          | Copper                        |
|                          | 980,000                                  | 202,000                      |             |                               |

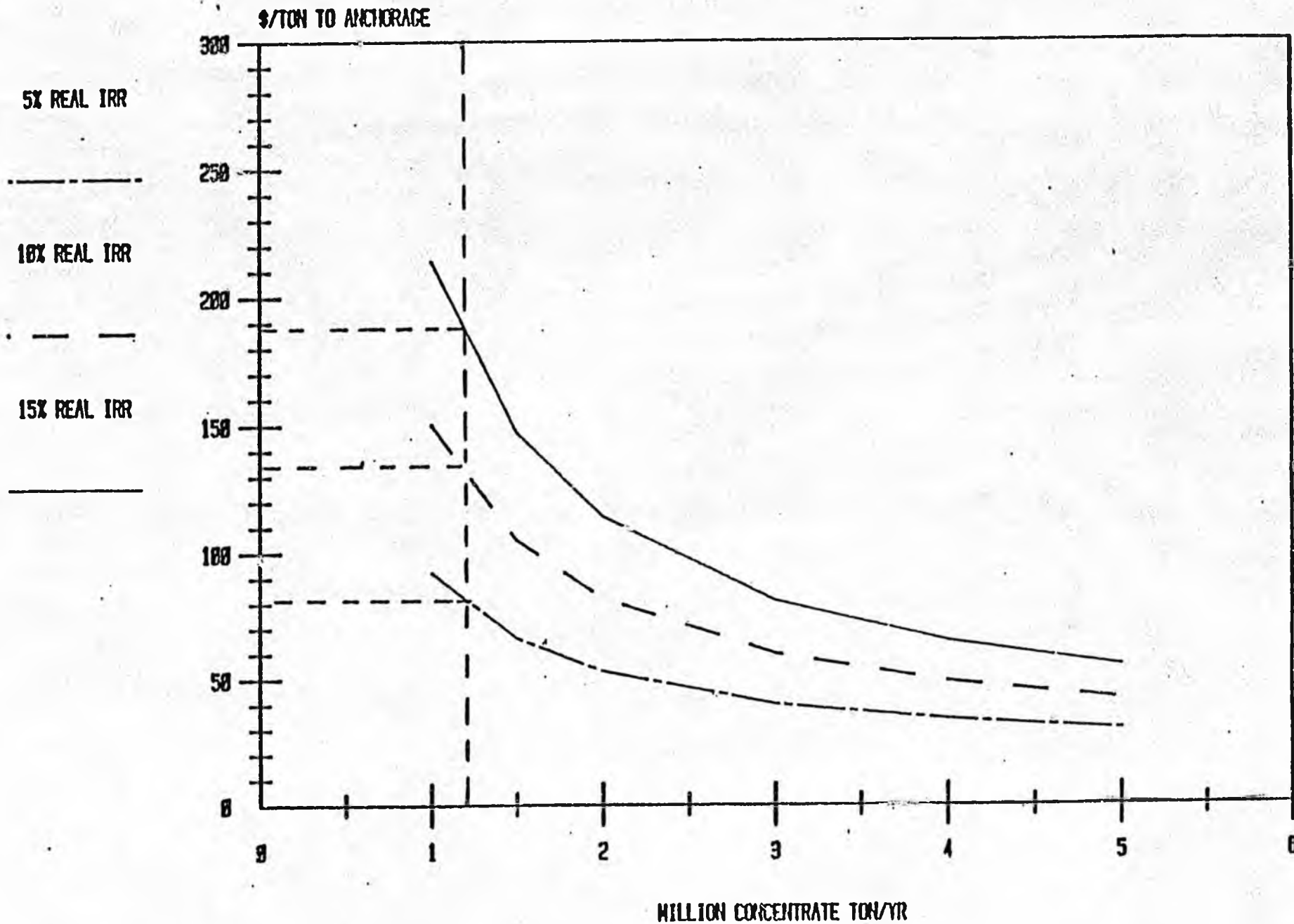
TOTAL TONS; 1,182,000

<sup>1</sup>Four other sites are possible with a 15% probability that one will produce 125,000 tons of concentrates.

SOURCE: ALASKA MINERS ASSOCIATION, INC.  
RAILROAD COMMITTEE

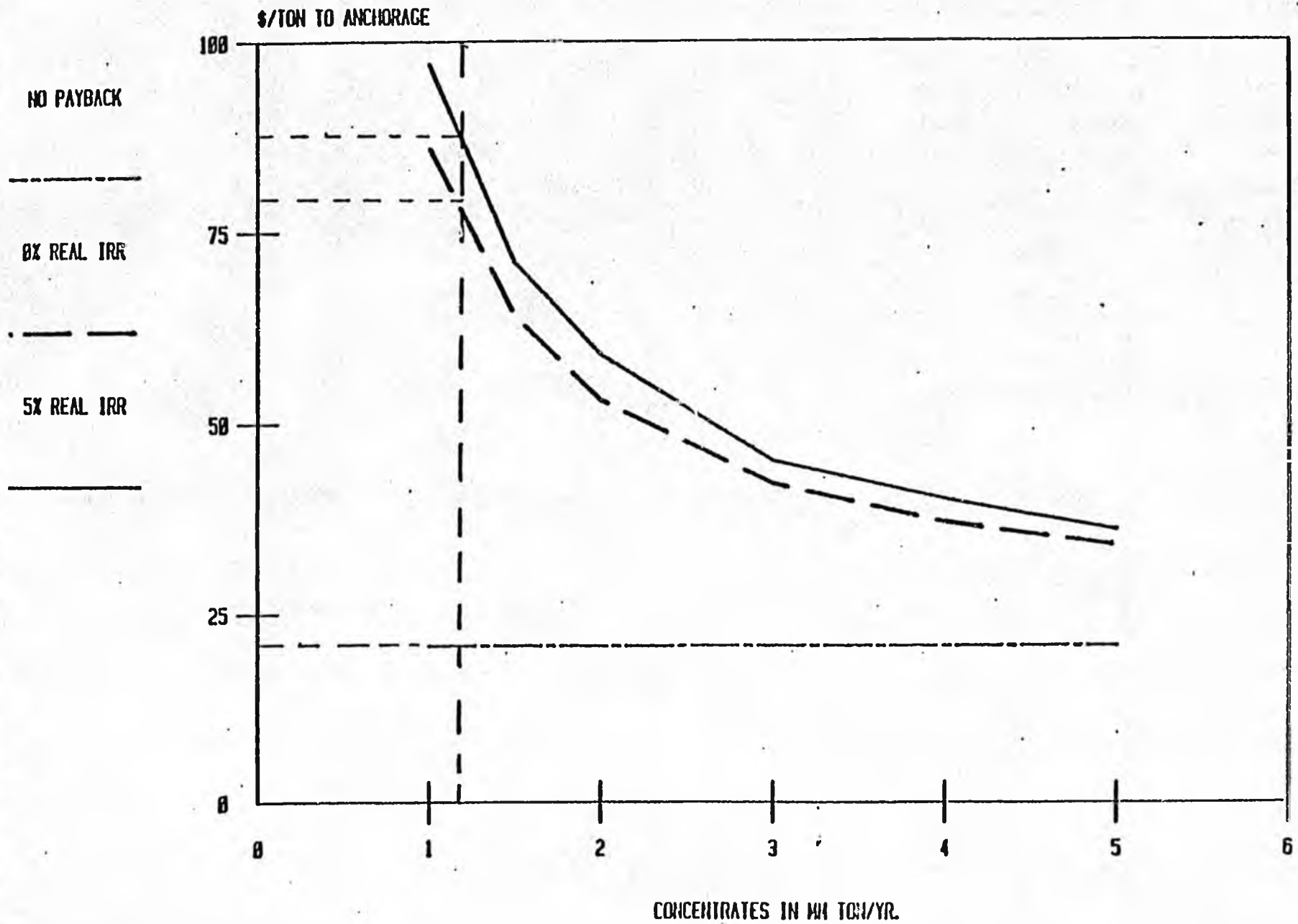
# AMBLER MINING DISTRICT ARR EXTENSION

\$3.2M/mile FROM HENNA-48 YR. LIFE



# AMBLER MINING DISTRICT ARR EXTENSION

\$3.2MM/MILE FROM NENANA-STATE AIDED



## ACKNOWLEDGEMENT

The members of the Harvard Business School Alaska Railroad Study would like to thank the men and women of the Alaska Railroad for their tremendous cooperation and assistance. We would like to dedicate our report to them because without their help this report would not have been possible.

The following people deserve special mention:

Frank Jones  
Jim Blasingame  
Arnie Polanchek  
John Gray  
Ron Risch  
Bruce Carr

Jack Hephorth  
Oble Weeks  
Dave Roderick  
Bill Coghill  
Don Harvey  
Bob Wright

We would also like to thank our faculty advisors, John Meyer and Gary Fauth, for their guidance and support.

*Chris Needham*  
*Trudie Headwell*

*Peter A. Bove*  
*Edwin A. Nelson*

Bibliography

- Alaska Agricultural Action Council. Alaska's Agriculture: A Positive Future. 1981 Annual Report to the Legislature Juneau; 1981.
- Alaska Consultants, Inc. / PRC Herrie, Inc. Southcentral Region of Alaska Draft Navigational Study. Anchorage; U.S. Army Engineer Dist. Act, Alaska, January, 1981.
- Alaska Railroad Annual Reports 1977-1981.
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- U.S. Army Corps of Engineers. Waterborne Commerce Study, Part IV. 1970.
- U.S. Army Corps of Engineers. Waterborne Commerce Study, Part IV. 1980 (not yet published).
- Walt, Ronald S. Alaska - Canada Transcontinental Rail Connection to Contiguous United States. Juneau; State of Alaska Department of Commerce and Economic Development, January, 1977.
- Yearbook of Railroad Facts 1981. Washington D.C.; Association of American Railroads, 1981.

**List of Sources**

We gratefully acknowledge the contributions and assistance of the following persons in preparing this study:

**Alaska Bank of Commerce**  
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**Alaska Miner's Association, Inc.**  
Mr. Dave Hestvold, President

**Alaska Materials Handling Corporation**  
Mr. Richard Lyon, President

**Alaska Power Authority**  
Mr. Dave Wozniak

**Alaska State Legislature**  
Sen. Mike Collette  
Sen. Ed Dankworth  
Sen. Frank R. Ferguson  
Rep. Rick Halford, House Majority Leader  
Mr. Peter Jeans, Office of Senator Ed Dankworth  
Sen. Jay Kerttula, President State Senate  
Mr. David Rogers, Office of Senator Ed Dankworth  
Mr. Gordon Tope, Office of Senator Jay Kerttula

**Alaska Transportation Consultants**  
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**Alex Brown & Sons, Baltimore, MD**  
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**Anchorage Sand and Gravel**  
Mr. Herbert Long, President

**Ann Arbor Railroad**  
Mr. Robert Melanaphy, Chairman

**ARCO Alaska**  
Mr. Robert Crosby, Manager Alaska Affairs

**Association of American Railroads**  
Mr. John L. Dale, Assistant to the Vice President  
Mr. Clifford Eby, Senior Financial Analyst  
Mr. Larry Lassen, AVP for Accounting  
Mr. Craig F. Rocky, Manager - Regulatory Analysis

**Audubon Society, Anchorage Chapter**  
Mr. David R. Cline

**Bear Creek Mining Company**  
Mr. Russell C. Babcock, Jr., President

**Birch, Horton, Bittner, and Monroe, Washington, DC Office**  
Mr. Joe Chonsky, Attorney

**Bivens & Associates**  
Mr. David Bivens, Railroad Consultant  
Mr. John Bivens, Railroad Consultant

**Captain Cook Hotel**  
Ms. Heather Reed

**Chugatch Natives, Inc.**  
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Mr. Carl Propp, Resource Manager

**Commonwealth North**  
Mr. Malcolm Roberts, Executive Director  
Ms. Cindy Roberts

**Conrail**  
Mr. Jack Vansmith, Attorney

**Cook Inlet Region, Inc.**  
Mr. Frank Klette, Executive Vice President

**Doyon, Ltd.**  
Mr. Morris Thompson, Vice President

**Eklutna, Inc.**  
Mr. Dan Alex, Lend Manager

**Federal Railway Administration**  
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Mr. Richard Schiefelbein, Deputy Administrator  
Mr. John G. (Jack) Smith, Consultant

Garvey, Schubert, Adams, & Beerer  
Mr. Allen Scharbrooke, Attorney

General Motors, Electromotive Division  
Mr. Richard P. Hodgson

Harvard University Faculty  
Professor Gary Fauth  
Professor Robert Glauber  
Professor David Kraege  
Professor Robert Leonl  
Professor John Meyer

Institute of Social and Economic Research, University of Alaska  
Mr. Lee Gorsuch, Director  
Mr. Lee Husky, Analyst

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Mr. John A. Polaris, Regulation Administrator

Interstate Commerce Commission  
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Mr. Brian Holmer, Department of Accounting  
Ms. Bonnie Rothfolk, Department of Costs

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Mr. Robert Hayson, Assistant Controller

MAPCO Worth Pole Refinery  
Mr. James Healy

Maine Central Railroad  
Mr. Eric Smith, Assistant Treasurer

Milwaukee Road  
Mr. Clayton Smith  
Mr. David Young, Assistant Controller

Nana Corporation  
Mr. Dan Argetsinger, Land Director  
Mr. John Shively, President

Office of U.S. Senator Ted Stevens  
Mr. William Phillips  
Mr. Mark Snyder

Port of Anchorage  
Mr. Chris Gates, Marketing Manager

Radnor Associates  
Mr. Lou Zahner

Sabena Belgian World Airlines  
Mr. Ronald Cohen, Counsel & Administrative Manager, North America  
Mr. Barron Pleasants

Solomon Brothers  
Mr. William Garden, Partner

Sea-Land Service Company  
Mr. Tom Coburn  
Mr. Don Singleton

Southern Pacific Transportation Company  
Mr. Don Enright, Assistant Treasurer

State of Alaska  
Department of Transportation & Public Facilities  
Mr. Mark Hickey, Policy Analyst  
Mr. Elliot Lipson  
Mr. John Martin, Transportation Planner  
Mr. Robert W. Ward, Commissioner

Department of Commerce & Economic Development  
Mr. Don Dickey, Director of the Division of Tourism  
Mr. Ronald Walt  
Mr. Charles Webber, Commissioner

Department of Natural Resources  
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Mr. Charles Green, Minerals Development Specialist  
Mr. John W. Katz, Commissioner  
Mr. Ed Kerne, Division of Agriculture  
Mr. Mark Withow

Office of the Governor  
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Ms. Peggy Hockett, Administrative Assistant, Washington, D.C.  
Ms. Julie Hickney, Administrative Assistant, Juneau  
Mr. Robert Palmer, Director of the Office of Special Projects

**Suncoast Alaska Corporation**  
Mr. William C. Noll, President

**Suncoast Shipping Company**  
Mr. Tae Il Kim, President

**Tanon and Company**  
Mr. Jack Moran

**Tundra Ties**  
Mr. Grace Pleasant

**TXL Leasing**  
Mr. William Fernow

**Union Pacific Railroad**  
Mr. Delbert C. Martin, Manager District Sales Anchorage  
Mr. John Meyer, Vice Chairman

**United States Bureau of Mines**  
Mr. David Carnes, Juneau Office  
Mr. Walter Dupree, Washington, D.C.  
Mr. John Mulligan, Juneau Office

**United States Geological Survey**  
Mr. John DeYoung

**Vermont Transportation Agency**  
Mr. Robert Merchant, Railroad Consultant

**West Virginia Railroad**  
Mr. John Killoran, Executive Director

**PETER A. BOWE**

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**education**  
1980-1982

**HARVARD GRADUATE SCHOOL OF BUSINESS ADMINISTRATION** BOSTON, MA  
Candidate for the degree of Master in Business Administration in June 1982. Awarded First-Year Honors. Second year emphasis on production and finance. Director of Company Relations for the Small Business Club.

1974-1978

**YALE COLLEGE** NEW HAVEN, CT  
Earned Bachelor of Arts degree, magna cum laude, with Distinction in History. Teaching Assistant in Economics. Selected as Freshman Counselor by College Dean. Varsity Sailing Team—elected Captain, Freshman Team; National Champions, 1975. Co-Chairman of College Social Committee.

**work experience**  
summer 1981

**ELLCOTT MACHINE CORPORATION** BALTIMORE, MD  
Assistant to Chairman of this manufacturer of dredges and steel castings. Obtained broad exposure to company operations ranging from work on the foundry floor to contact with the company's bankers, lawyers, accountants, and union local officials. Used observations to write report for CEO and for owner demonstrating how to rationalize production reporting in the steel castings division; improve labor-management communication; formalize capital budgeting procedure; and save \$100,000 annually by using fees in lieu of balances to pay for bank services.

1978-1980

**MORGAN GUARANTY TRUST COMPANY OF NEW YORK** NEW YORK, NY

1979-1980

Account Representative in the Petroleum Department. Managed two account relationships. Arranged a 100% credit increase to \$25 million for these accounts. Had secondary responsibility for five additional accounts. Specialized in drilling rig and production payment financing. Performed study influencing pricing policy for oil import Letters of Credit with values as high as \$150 million.

1979

Risk Review Analyst in the Financial Analysis Department. Evaluated companies for potential solicitation using computer-assisted techniques, industry analysis, and interviews with officers of subject companies.

1978

Commercial Bank Management Program. Ranked in top fifth of six-month training program focusing on finance, accounting, and international economics.

1977

**YALE ALUMNI FUND** NEW HAVEN, CT  
Fundraising Coordinator. Directed national campaign which raised over \$100,000.

**summers**

1977

Independent research in The Republic of South Africa for senior thesis.

1973-1976

Sailing Instructor. Was Head Instructor and Racing Instructor at American Yacht Club (Rye, NY) and Severn Sailing Association (Annapolis, MD) respectively.

**personal background**

Married. Interests include competitive sailing, nautical numismatics, travel, and real estate investment. Class Agent for Yale Alumni Fund.

**references**

Personal references available on request.

October 1981

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1348 Commonwealth Avenue #30  
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**education**  
1980-1982

**HANFORD GRADUATE SCHOOL OF BUSINESS ADMINISTRATION** BOSTON, MASSACHUSETTS  
Candidate for degree of Master in Business Administration in June 1982. Received First-Year Honors. Second-year emphasis on operations, marketing, and finance. Member of Transportation, Small Business, and Rugby Clubs.

1974-1978

**UNIVERSITY OF MARYLAND** COLLEGE PARK, MARYLAND  
Received Bachelor of Science degree, magna cum laude, in Finance. Phi Beta Kappa and Omicron Delta Kappa. President of Social Fraternity, Rugby Club.

**business experience**  
summer 1981

**FROCTER & GAMBLE DISTRIBUTING COMPANY**  
**CASE FOOD SALES DEPARTMENT** CINCINNATI, OHIO  
Summer MBA Sales Management Intern.

- Analyzed test market results.
- Planned and participated in district sales meeting.
- Sold case food promotions to retail accounts.
- Participated in sales management training program.

1979-1980

**KACHEMAY SEAFOODS, INC.** TOONAK, ALASKA

1978-1980

Operations Manager. Responsible for purchasing, processing, and shipping of 1.2 million pounds of fresh salmon each summer.  
• Supervised fifty hourly employees.  
• Developed and implemented recruitment and training programs.  
• Purchased operating supplies and equipment.  
• Established plant sanitation and maintenance programs.  
• Directed construction of plant and installation of equipment.

1978-1980

Director  
• Developed sales and cash flow forecasts for bank credit negotiations.  
• Participated in all phases of corporate planning.

1979-1980

Sales Representative.  
• Developed fresh salmon delivery capabilities for the domestic market.  
• Developed frozen salmon steak product line.  
• Closed sales to supermarket chains and restaurant wholesalers.

1973-1977

Summer positions in operations.

**winters**  
1974-1978

Paid 95 percent of college expenses through part-time work.

**personal background**

Grew up in Greenbelt, Maryland. Have traveled in the United States, Europe, and Japan. Enjoy athletics, history, art, and politics. Married, no children. Excellent health.

**references**

Personal references available upon request.

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**EDWIN A. NELSON**

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**work  
experience  
summer 1981**

**HOUSTON, TEXAS**  
**ROTAN MOSLE, INC.**  
*Associate in Corporate Finance.* Participated on small teams on seven energy-related projects involving merger/acquisition analysis, private placements, and public offerings. Developed pro forma computer models, negotiated with clients, and assembled and wrote a major debt memorandum. Hired as the first MBA summer associate in the department.

**1972-1980**

**AMARILLO, TEXAS**  
**BAKER & TAYLOR DRILLING COMPANY  
RAISE DRILLERS, INC.**  
*Employed interchangeably by these commonly owned and operated companies in the positions described below. Gained extensive operational and managerial experience in oil and gas drilling and underground coal mining.*

**1978-1980**

*Director of Training.* Designed, implemented, and conducted an in-house training program for drilling rig crewmembers, resulting in turnover reduction and improved safety record. Received national recognition by presenting paper, "Turkey Contractor's Approach to Training," to the 1978 Drilling Contractors Training conference. Participated in planning tertiary oil recovery project using carbon dioxide.

**1977**

*Area Manager.* Assumed total responsibility for company's activities in West Virginia. Task included completing two \$1 million contracts for ventilation shafts in coal mines and supervising two project managers and 26 union employees. Constant pressure required technical and interpersonal skills. Company has contracted subsequent work for both clients.

**1976-1977**

*Administrative Assistant.* Assembled field operations data for daily upper management meetings. Prepared company billings and contract bids. Participated in frequent top-level planning sessions. Compiled first complete company inventory.

**1972-1976**

*Assistant Project Manager/Project Engineer.* On-site field assignments in Illinois, Ohio, and Pennsylvania. Progressed from engineering and contract scheduling to managing complete contract phases. Supervised crews of 4 to 10 men, often in remote locations.

**education  
1960-1982**

**HARVARD GRADUATE SCHOOL  
OF BUSINESS ADMINISTRATION** **BOSTON, MASSACHUSETTS**  
Candidate for the degree of Master in Business Administration in June 1982. General management curriculum with second-year emphasis on finance and operations. Elected Treasurer of the Runners Club. Member of the Energy and Resource Management and Aquilodaca Clubs.

**1968-1972**

**BETHANY COLLEGE** **LINDSBORO, KANSAS**  
Received Bachelor of Arts degree, cum laude, in Physics, May 1972. Elected student body president and president of Math and Physics Club. Selected for Who's Who in American Colleges and Universities.

**personal**

Raised on a Kansas wheat farm. Completed 1981 Boston Marathon. Single, private pilot. Enjoy physical labor and public speaking.

**references**

Personal references available on request.

October 1981

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Anchorage, Alaska 99501  
Phone: 907-276-7783**

**work  
experience  
summer 1981**

**TOKYO, JAPAN**  
**THE SANWA BANK**  
*Trainee, International Department of Japan's fifth largest commercial bank.* One of eight United States business students selected as Japan Society Business Fellows. Studied financing of international trade, resource development projects throughout the Pacific Basin. Traveled independently to Korea, Eastern Europe, and Moscow to write about energy and transportation development for Alaska newspaper, others.

**1980-1981**

**ANCHORAGE, ALASKA**  
**COGEM ALASKA**  
*Consultant in marketing, economic development.* Initiated Alaska legislature's effort to establish a wood fiber processing industry to save costs of clearing land for agricultural, energy development. Edited in-flight magazine for When Ah Alaska. Worked with state and private teams to develop marketing plans for Bering Sea herring, Alaska native arts, and other "cottage industries." Public relations included legislative campaign, lobbying on Alaska lands issue in Washington, D.C.

**1978-1980**

**WASHINGTON, D.C.**  
**JOHN CONNALLY FOR PRESIDENT**  
*Assistant Press Secretary/Computer Coordinator.* Designed and supervised use of nationwide computer communications system for presidential campaign. Traveled in twelve states as press secretary and tour director for Mrs. John Connally.

**1978**

**ANCHORAGE/JUNEAU, ALASKA**  
**THE ANCHORAGE TIMES**  
*Lead political reporter.* Established a capital bureau for Alaska's largest newspaper. Won C.B. Blahon Memorial Award for distinguished investigative reporting. First place in the Pacific Northwest. Covered oil and gas development, public land law, fisheries, state finances, budgeting.

**1977-1978**

**ANCHORAGE, ALASKA**  
**WALTER J. INCKEL FOR GOVERNOR**  
*Press Secretary.* Campaign spokesman in 1978 Governor's race. Participated in conception of television and print advertising. Joint supervision over four employees, corps of volunteers.  
*Legal Aide - Contest of Election.* Coordinated statewide investigation and audit of primary election results to service attorneys contesting primary election. Used skills gained to win recount crew in general election, which reversed results of a state senate race to win a Republican majority.

**education  
1960-1982**

**HARVARD GRADUATE SCHOOL  
OF BUSINESS ADMINISTRATION** **BOSTON, MASSACHUSETTS**  
Candidate for the degree of Master in Business Administration in June 1982. First year honors. Finance, marketing, general management curriculum. Elected president, Concessions Board, which oversees student businesses, total sales of \$1 million plus annually. Elected vice president, Century Club. Member, Communications, Transportation, Energy and Resources Management, and Venturia Capital Clubs.

**1974-1978**

**NEW HAVEN, CONNECTICUT**  
**YALE COLLEGE**  
Bachelor of Arts degree in History with intensive work in English and Economics. President and Editorial Page Editor, Yale Daily News. Blithman College Social Chairman. Student Representative, University Committee on Investor Responsibility. Secretary, The Elizabethan Club. Yale Freshmen Crew. Administered events for Association of Yale Alumni.

**personal  
background**

Raised in Connecticut before moving to Alaska in 1977. Served as U.S. Senate Page for Senator Lowell P. Weicker, Jr. in 1973. Hobbies include flying in small planes, hot air balloons, fly fishing, Nordic and Alpine skiing, wine, and collecting books on Arctic exploration and settlement.

**references**

Personal references available upon request.

October 1981

# News

## United States Railway Association

955 L'Enfant Plaza North, SW  
Washington, D.C. 20595  
Contact: (202) 488-6777

Office of Public Affairs

September 22, 1983  
CONTACT: Alex Bilanow

### USRA ISSUES REPORT ON VALUATION OF THE ALASKA RAILROAD

United States Railway Association Chairman Stephen Berger announces the Association has sent to the Congress a new report, Valuation of the Alaska Railroad.

The report, as approved by the Board of Directors at its September 22 meeting, was submitted under the terms of the Alaska Railroad Transfer Act of 1982 (ARTA) which was signed into law on January 14, 1983. It makes a determination of the fair market value of the railroad under the Act, which is intended to transfer ownership of the railroad from the federal government to the State of Alaska.

The analysis value: the 525 route-mile railroad's operations, its physical plant, equipment, real estate assets, and costs which the State of Alaska would incur incident to transfer. The Association also analyzed proceeds and costs that could be incurred if the railroad's assets were converted to other uses.

As determined by the Association, the net value of the Alaska Railroad is \$22,271,000.

The railroad, built and administered by the federal government since it was opened in 1923, currently operates freight and passenger trains serving the state's principal cities of Anchorage and Fairbanks, the ports of Whittier and Seward, and natural attractions such as Denali National Park.

Principal freight commodities include gravel, coal, aviation fuel, pipe, building materials and piggyback. Interline rail freight traffic is interchanged at Whittier with barge lines linking the carrier with Seattle and Prince Rupert, British Columbia. In fiscal 1983, it is estimated the railroad will have carried 82,000 carloads and 204,000 passengers.

The United States Railway Association is a non-profit government corporation established under the Regional Rail Reorganization Act of 1973. It has financing and monitoring responsibilities toward Conrail. In addition to Chairman Berger, the Board is comprised of Transportation Secretary Elizabeth Hanford Dole, Comptroller General Charles A. Bowsher, Interstate Commerce Commission Chairman Reese H. Taylor, Jr., and Conrail Board Chairman L. Stanley Crane. There is also an Advisory Board consisting of five public members.

**United States Railway Association**

**VALUATION**

**OF THE**

**ALASKA RAILROAD**

**September 1983**

# United States Railway Association

955 L'Enfant Plaza North, S.W.  
Washington, D.C. 20595  
(202) 488-8777

Stephen Berger  
Chairman of the Board

September 23, 1983

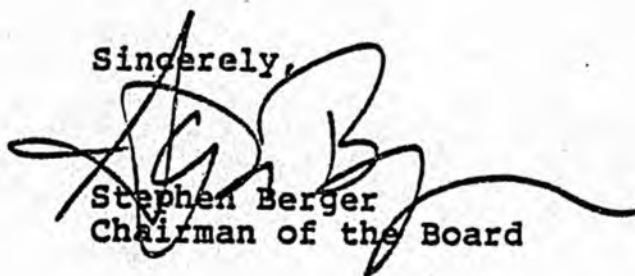
The Honorable George Bush  
President  
United States Senate  
Washington, D.C. 20510

The Honorable Thomas P. O'Neill, Jr.  
Speaker  
United States House of Representatives  
Washington, D.C. 20515

Dear Mr. President and Mr. Speaker:

Pursuant to Section 605(d) (1) of the Alaska Railroad Transfer Act of 1982, P.L. 97-468, enclosed is the United States Railway Association's determination of the fair market value of the Alaska Railroad. Copies of the reports of consultants who assisted USRA in this analysis will be transmitted separately at a later date.

Sincerely,



Stephen Berger  
Chairman of the Board

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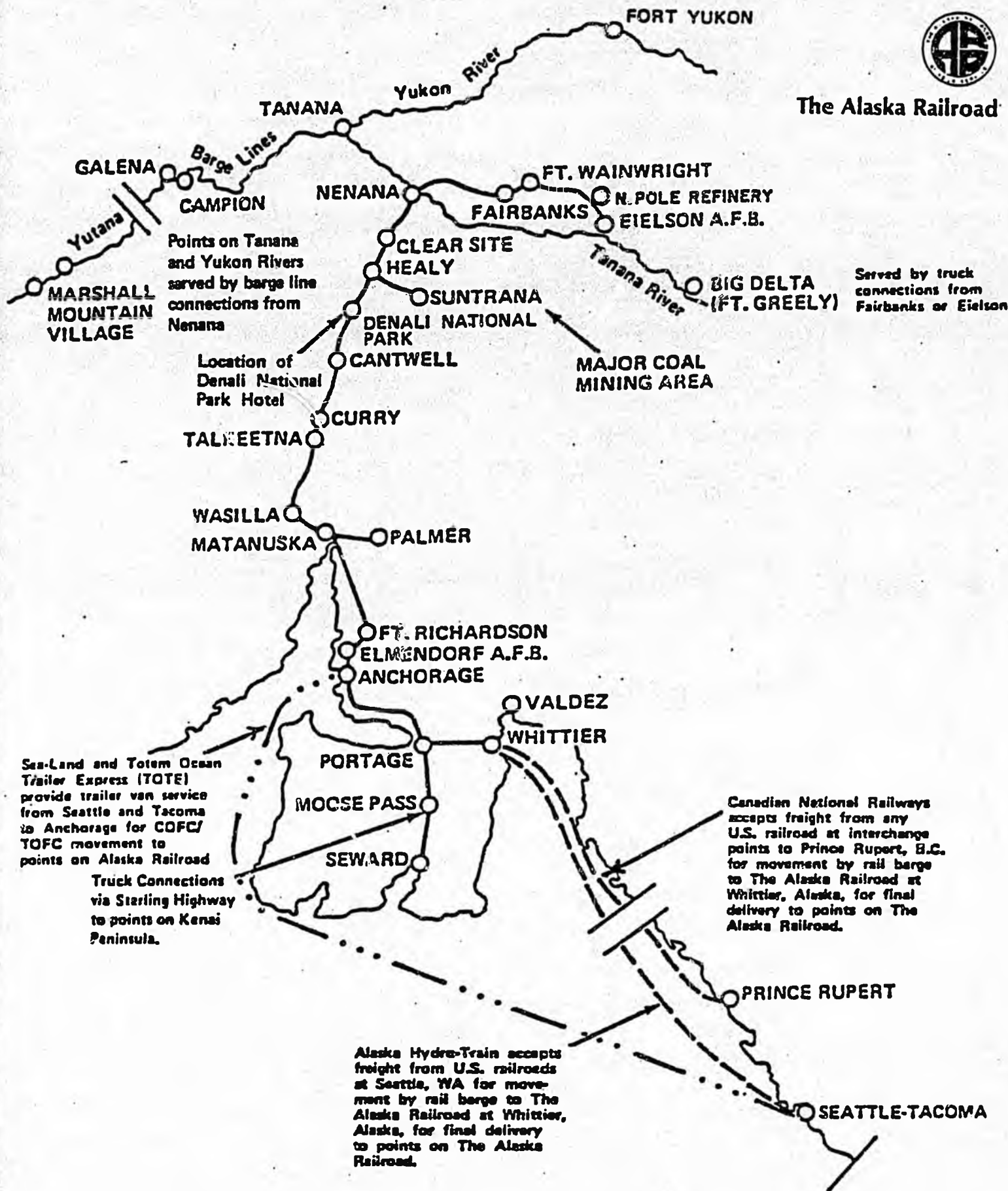
The approval and release of this report is an act of the Board of Directors of the Association. Not every member of the Board necessarily concurs in every statement or determination made in the report.

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# The Alaska Railroad



## ALASKA RAILROAD ROUTE MAP

Showing connecting carriers

FOREWORD

Description of the Alaska Railroad

In 1914, Congress authorized construction of the Alaska Railroad to open up Alaska's interior and to facilitate commerce through Alaska's ports. After the arduous job of building a railroad through the wilderness was completed in 1923, President Harding dedicated the railroad and a new era began in Alaska's history. The railroad went on to play a significant role in the development of Alaska's interior and as an armed forces supply link during World War II.

It has been operated by the Federal government since its inception, and today it is administered by the Federal Railroad Administration as part of the Department of Transportation. It currently operates over 525 route miles serving the principal Alaska cities of Anchorage and Fairbanks, the ports of Whittier and Seward, and natural attractions such as Denali National Park. Both freight and passenger service is offered year round. Interline rail freight traffic is interchanged at Whittier with barge lines linking the railroad with Seattle and Prince Rupert, B.C. Principal freight commodities carried include gravel, coal, aviation fuel, pipe, building materials and piggyback.

While the Alaska Railroad performs an important function within the State of Alaska, its operations and patronage are modest when compared with railroads in the lower 48 where it would be classified as a medium-sized "short-line" carrier with below average freight traffic density. Historically, the

railroad has been subsidized by Congressional appropriations. Since 1939, the appropriations have been used almost exclusively for capital and maintenance projects. Since 1975, appropriations have ranged from a low of \$3.0 million in 1978 to a high of \$12.6 million in 1981.

In fiscal year 1983, which ends September 30, it is estimated that the railroad will have carried 82,000 carloads and 204,000 passengers. Projected fiscal year 1983 revenues are \$55.5 million with operating expenses estimated at \$50.8 million. As shown in Table 1, this continues a trend begun in fiscal year 1981, the first time since the Alaska pipeline construction years that the railroad's operating revenues exceeded expenses.

Table 1

THE ALASKA RAILROAD  
Financial Results

| <u>Fiscal Year (1)</u> | <u>Revenue<br/>Millions</u> | <u>Expenses<br/>(Inc. Dep.)<br/>\$ Millions</u> | <u>Surplus<br/>(Shortfall)<br/>\$ Millions</u> | <u>Expense/<br/>Revenue<br/>Ratio</u> | <u>Federal<br/>Appro-<br/>priations<br/>\$ Million</u> |
|------------------------|-----------------------------|---|--|---------------------------------------|--|
| 1973                   | 17.7                        | 20.7  | (3.0)  | 117                                   | -  |
| 1974                   | 21.5                        | 22.6  | (1.1)  | 105                                   | -  |
| 1975                   | 42.3                        | 36.5  | 5.8  | 86                                    | 6.0  |
| 1976 (1)               | 53.7                        | 49.6  | 4.1  | 92                                    | 9.0  |
| 1977                   | 35.0                        | 36.0  | (1.0)  | 103                                   | 6.0  |
| 1978                   | 29.1                        | 33.6  | (4.5)  | 115                                   | 3.0  |
| 1979                   | 25.2                        | 31.8  | (6.6)  | 126                                   | 9.3  |
| 1980                   | 28.9                        | 34.7  | (5.8)  | 120                                   | 6.5  |
| 1981                   | 43.9                        | 40.6  | 3.3  | 92                                    | 12.6   |
| 1982                   | 58.8                        | 49.2  | 9.6  | 84                                    | 6.2  |
| 1983                   | 55.5                        | 50.8 (2)  | 4.7  | 92                                    | 7.6 (3)  |

1) Year end changed from June to September in 1976. Transition quarter ignored.

2) For comparison with previous years, excludes \$2.3 million of engineering expense previously treated as capital.

3) \$7.6 million was appropriated in the continuing resolution, Public Law 97-377 in December 1982. The DOT appropriations bill for fiscal year 1983 contained no funding for the Alaska Railroad.

INTRODUCTION AND SUMMARY

The Alaska Railroad Transfer Act of 1982, P.L. 97-468 (ARTA) was signed into law on January 14, 1983. In that Act, Congress found that while continuation of the Alaska Railroad is necessary to achieve Federal, State and private objectives, continued Federal control and financial support are no longer required to accomplish those objectives. Congress further found that the Alaska Railroad was primarily benefitting Alaska residents and businesses and concluded that the Federal government should offer to transfer the Railroad to the State of Alaska.

ARTA establishes the terms and conditions for transferring the Railroad, sets forth the timetable and procedures for accomplishing the transfer, and authorizes the Secretary of Transportation to effect the transfer upon certification that the State has complied with the Act's terms and conditions. As part of the transfer process, ARTA Section 605(d)(1) directs the United States Railway Association (USRA) to determine the Railroad's fair market value. This report fulfills that requirement.

On July 15, 1983, pursuant to ARTA Section 605(a), the United States Department of Transportation and the State of Alaska submitted a Joint Report (605(a) Report) describing the assets and liabilities to be transferred. As directed by ARTA, USRA has used information contained in that report to the extent relevant to determining the Railroad's fair market value.

In directing USRA to value the Alaska Railroad, ARTA provides three specific instructions concerning that valuation. First, Section 605(d)(1) states that USRA

"shall determine the fair market value of the Alaska Railroad under the terms and conditions of this title, applying such procedures, methods and standards as are generally accepted as normal and common practice."

Second, the Act provides that

"[s]uch determination shall include an appraisal of the real and personal property to be transferred to the State pursuant to this title. Such appraisal by the Association shall be conducted in the usual manner in accordance with generally accepted industry standards, and shall consider the current fair market value and potential future value if used in whole or in part for other purposes."

Finally, the Act requires that

"[t]he Association shall take into account all obligations imposed by this title and other applicable law upon operation and ownership of the State-owned railroad."

In reaching its determination of value, USRA used the normally accepted definition that fair market value is "what a willing buyer would pay . . . to a willing seller."\* In the appraisal field, the valuation of property at fair market value "means merely an attempt to estimate the price for which the

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\*United States v. Miller, 317 U.S. 369, 374 (1943); United States v. 564.54 Acres of Land, 441 U.S. 506, 511 (1979). While the willing buyer/willing seller definition of fair market value ordinarily focuses on the loss to the seller (i.e., the loss to the United States in disposition of the railroad), ARTA Section 605(d)(1) mandates a focus on the obligations imposed by the buyer under ARTA (i.e., "obligations imposed by this title . . . upon operation and ownership of the State-owned railroad"). Consequently, to be consistent with ARTA's direction, the valuation concentrates on the present value of the property rights to be received by the purchaser under ARTA.

property could be sold by some stipulated seller to anyone else,  
... "\*

Thus, fair market value is based on economic value in the marketplace. It assumes that both buyers and sellers act rationally. It ignores the special desire of any particular buyer for the property and any unique value which the property may have to that particular buyer.

This means that the fair market value of the Alaska Railroad properties is not the subjective or special value of those assets to the State of Alaska. The price which the State would have to pay to acquire the rail properties should be based upon how much it would have to pay to outbid any other potential purchaser, subject to ARTA's terms and conditions.

Consistent with ARTA's direction that USRA apply "standards as are generally accepted as normal and common practice", USRA has determined the amount which a rational buyer might pay in the marketplace for the properties to be transferred to the State of Alaska considering both (1) the "terms and conditions" of ARTA that will apply to the State's acquisition of the Alaska Railroad, and (2) all obligations imposed by ARTA and other applicable law upon operation and ownership of the State-owned railroad.

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\*1 Bonbright, Valuation of Property, p. 65 (1937); accord, American Institute of Real Estate Appraisers, The Appraisal of Real Estate, pp. 23-24 (7th ed. 1978); 1 Orgel, Valuation Under Eminent Domain, Section 20, pp. 90-96 (2nd ed., 1953).

Since ARTA's terms and conditions require the State to operate the Railroad for at least ten years (or railroad properties would revert to the United States under ARTA Section 610(a)), determining the Railroad's fair market value begins with estimating the present value of continuing railroad operations for ten years, including the present value of the Railroad's non-operating real estate.\* The next step is to estimate and compare

- (1) the present value of continuing rail operations beyond ten years in perpetuity, with
- (2) the present value of putting the Railroad's assets in whole or in part to other uses after ten years.

These alternative estimates of fair market value require analyses of the Railroad's operations, its physical plant and equipment, its real estate assets, the costs which the buyer will incur incident to the transfer, and the proceeds and costs that would be incurred if the Railroad's assets were converted to other uses.\*\*

These analyses are described in the sections which follow. They were assembled to determine the Railroad's present fair market value under two alternative hypotheses -- (1) continued rail operations in perpetuity, and (2) rail operations for ten

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\*Any losses from continued operations could be offset by rents from the non-operating real estate, since ARTA Section 608(a)(5) requires that all railroad revenue "be retained and managed . . . for railroad and related purposes." The term "related purposes" is considered broad enough that this condition would not so restrict the State's use of railroad revenues as to materially affect fair market value.

\*\*USRA was assisted in determining the scope and nature of its analysis under ARTA by the law firm of Nossaman, Guthner, Knox & Elliott.

years followed by putting the Railroad's assets to their highest and best alternative uses. Results of these two scenarios are summarized in Table 2.

Table 2

ARR VALUATION  
as of 10/1/83

(in 000)

|                 | <u>Continued Rail<br/>Operations Scenario</u> | <u>Alternative Use<br/>Scenario</u> |
|-----------------|---|-------------------------------------|
| Real Estate     | \$ 47,800*1                                   | \$ 54,800*2                         |
| Rail Operations | <u>(25,529)*3</u>                             | <u>(35,430)*4</u>                   |
|                 | \$ <u>22,271</u>                              | \$ <u>19,370</u>                    |

\*1) Present value of the Railroad's non-operating real estate.

\*2) Present value of the Railroad's non-operating real estate plus present value from alternate use of Railroad's operating real estate after 10 years.

\*3) Includes all start-up costs.

\*4) Includes all costs associated with rail operations during the first 10 years including start-up costs, plus labor protection costs associated with discontinuing rail operations. Also includes net proceeds from assumed liquidation of facilities and equipment.

The fair market value of both the continued rail operations scenario and the alternative use scenario consists of two components: a real estate component and a rail operations component. The fair market value of the Alaska Railroad under these two valuation scenarios was determined by reducing the cash flows from each of these two components to a present value as of October 1, 1983.

#### Continued Rail Operations Scenario

The real estate component of value was derived by projecting future lease income from the non-operating real property. The Alaska Railroad's historical practice has been to lease to others the property not required for rail operations, and an investor would likely continue this practice. Accordingly, it was assumed that the property presently under lease would continue to be leased and that other property would be leased to the extent possible. The net cash flows were discounted to produce a present value of \$47,800,000. This amount does not include the real estate which has been selected by Native corporations. However, for the reasons discussed in Appendix A, Native Claim Selection Analysis, USRA concluded that a prudent buyer would pay nothing for the possibility that significant portions of the lands subject to Native claims might eventually be conveyed.

The value of the rail operations was derived from a forecast provided by the Alaska Railroad and adjusted by USRA. The 605(a) Report was used as a beginning point for the derivation of start-up costs, and estimates of capital requirements were made by

consultants to USRA. These constant dollar cash flows were then discounted to produce a negative value of \$25,529,000,\* which was then subtracted from the \$47,800,000 value of the non-operating real estate to yield an October 1, 1983 fair market value of \$22,271,000.

#### Alternative Use Scenario

In the alternative use scenario, the Railroad is assumed to cease operations at the end of the tenth year, the facilities and equipment removed and sold, and the operating real estate made available for leasing and development in the same fashion as the non-operating real estate. The cash flows generated by this additional real estate were valued in the same manner as the non-operating real estate and increased the 1983 present value of the real estate by \$7,000,000 to \$54,800,000.\*\*

The value of the rail operations in this scenario is (1) the present value of the cash flow from rail operations for ten years (2) plus the present value of the net proceeds that would be received from dismantling and selling the Railroad's facilities.

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\*It was necessary to estimate the value of the cash flows after the tenth year (the last year of the USRA projection). This was done by calculating a normal year cash flow that could be expected after the tenth year and capitalizing that amount by 16 percent and then discounting the capitalized flows back to present value.

\*\*While the \$7 million value may seem small in relation to the real estate involved, it must be kept in mind that the cash flows from alternative use of the operating real estate do not begin until the eleventh year (1994) which causes the present value to be relatively small.

and equipment starting in the eleventh year, (3) less the present value of labor protection payments attendant to discontinuing rail operations. These cash flows, which were all stated in constant dollars, were discounted at the same rate as was used to discount the cash flows in the continued rail scenario. The present value of these flows was a negative \$35,430,000 and was deducted from the \$54,800,000 real estate value to yield an October 1, 1983 fair market value of \$19,370,000 for the alternative use scenario.

Based on these valuation studies, USRA concluded that there was no persuasive evidence that a buyer would be willing to pay more than the present value of continued railroad operations for the speculative possibility that an eventual conversion of some or all of the Railroad's assets to alternative uses would produce greater value. Therefore, USRA determined that the fair market value of the Alaska Railroad pursuant to Section 605(d)(1) of ARTA is \$22,271,000.

CONTINUED EARNINGS VALUATION

The purpose of this analysis was to examine the earnings which could reasonably be expected to flow from a continuation of rail service. It was based on revenue and expense forecasts developed by the Alaska Railroad along with a projection of capital requirements to support that level of operations.

These forecasts were reviewed and validated by USRA staff, and adjustments were made as necessary. The validation process included an examination of historic performance levels and trends, field inspections, interviews with railroad and other knowledgeable personnel, and a review of proposed capital projects.

In general, the forecasts made by the Railroad were accepted as presented. As discussed later in this section, adjustments were made to projected operating expenses for some additional maintenance of way expenses. Adjustments were also made to forecasted productivity improvements, since it was USRA's judgment that a potential investor would be unwilling to pay for as yet undemonstrated cost reductions. The projected capital program was modified as well.

Other cost increases resulting from the transfer of the Railroad, identified in detail in the 605(a) report, were also reviewed and adjusted. These items include legal and administrative expenses, tort claims, working capital and employee retirement obligations. Additionally, the cost of compliance with Federal OSHA requirements and State or local

building codes not now applicable to the Railroad were estimated and included, as well as one-time transfer costs.

The resulting modified revenue, expenses, and capital requirements from operations were reduced to a single present value as of October 1, 1983.

### Revenue

Revenue is based on an Alaska Railroad passenger and freight traffic forecast for the fiscal years 1984 through 1989 (see Table 3). Passenger revenue is projected to increase 59 percent from fiscal 1984 to 1989, with freight revenue rising 34 percent. Most commodities show a gain over the period with only petroleum products declining. Gravel traffic, which has been increasing over the past several years, is expected to remain at 1983 levels as is coal moving to local Alaska destinations. The commodity showing the largest increase is pipe because of renewed activity on the North Slope and a greater need for replacement pipe.

Of particular importance is the projection of an export coal movement beginning with a test shipment in 1984. This coal would be moved in unit trains from Healy to the port of Seward for shipment to Korea. It would be handled in shipper-owned equipment and would represent a significant addition to the Railroad's traffic base. Planning for this movement has been going on for some time. However, recognizing that the necessary port facilities have not yet been built, the uncertainty of current world coal markets and the possibility of increased costs, USRA modified the Railroad's forecast by delaying the

estimated start-up date by one year. We believe that a prospective purchaser would view the uncertainties associated with the projected export coal movement as being significantly higher than the uncertainty inherent in other elements of the Railroad's forecast.

Neither the Railroad nor USRA has forecast any traffic improvements that are purely speculative. For example, there are major mineral reserves in the area which are a source of potential new traffic. However, additional facilities would be required, probably including substantial extensions of the Railroad's lines.

All elements of revenue are stated in constant 1983 dollars. This means that the average revenue per carload changes only as traffic (commodity) mix or length of haul changes. It was assumed that rate increases will be made in a timely fashion in response to cost increases. To the extent that the Railroad should prove unable to do this, operating margins would be reduced from forecasted levels.

#### Expenses

USRA adopted most of the Railroad's forecast of operating expenses. The most important modifications were additional maintenance of way expenses, the previously discussed adjustment to projected productivity improvements, and additional legal and administrative expenses attributable to the transfer itself.

Asset Condition and Maintenance Expenses

Since the condition of the Railroad's plant and equipment has been of major concern in the past and could be responsible for major shifts in expense levels, USRA physically inspected facilities and equipment as necessary to make a careful assessment of future requirements.\*

Maintenance of Way. The Railroad consists of approximately 650 active track miles in main and branch lines, yards and sidings. The main lines from Seward to Fairbanks and from Portage to Whittier consist of 115 pound rail on wood ties. The branch line and yard rail generally varies from 70 to 90 pounds. New rail was installed on the main line from 1948 to 1952 to overcome deterioration from heavy traffic during the war. Although precise numbers are not known, major tie renewals were also done at that time. The extremely large rebuilding effort during that five-year period and the relatively low traffic levels since have reduced the subsequent need for large program expenditures for tie and rail renewal.

In order to evaluate the Railroad's condition and estimated future needs, the property was inspected by observing the track structure and ride qualities from trains, hi-rail vehicles and selected walking inspections. Some tie renewal and surfacing work was observed in progress, and records for defective rails, derailments, slow orders and other engineering data were

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\*USRA was assisted in this analysis by Frank S. King and Jackson R. Bell, experts in railway engineering and equipment.

reviewed. This review clearly showed that the Railroad is currently in satisfactory condition to handle present and projected traffic levels. In 1982, the Railroad's highest traffic density was 8 million gross tons (MGT) on the 40-mile segment between Anchorage and Matanuska. The balance of the main line handled less than 4 MGT for the year. These statistics reflect a low-density railroad as compared with other railroads where density may often be over 40 MGT per year for single track lines.

Over the past three years 1981-83, the Railroad will have replaced an average of about 21,000 ties and renewed about 2.75 track miles of rail per year. The Railroad has projected some increases in program levels predicated on increased traffic, but future expense increases are partly offset by projected cost reductions due to greater efficiency.

In its analysis, USRA determined that the maintenance of way costs projected by the Railroad should be increased to assure a track structure adequate for the expected traffic. The magnitude of this adjustment varies from about \$800,000 annually to nearly \$1.5 million annually, or a total \$10.8 million for the ten years, 1984-93. This funding will provide for tie replacements of 35,000 in 1984 rising to 50,000 by 1990. Rail renewal will similarly increase from about 4.5 track miles in 1984 to 10 track miles in 1993. These program increases reflect not only traffic growth but also the age of many ties and much of the rail. Ties and rail installed in the post-war period, 1948-52, will have provided forty years of service within the next ten years, and

this should require increased replacement rates from current levels.

Maintenance of Equipment. The Railroad currently owns 62 locomotives, 46 passenger cars and 1,642 freight cars. In addition, various vehicles, maintenance and shop equipment are also maintained. The demand for equipment is high throughout the summer due to tourism and the construction season. During the winter, demand is low, providing time for programmed equipment repair. Total expenses in this category were about \$9.5 million last year, and they are projected to remain at about that level through 1984. After that, consistent with traffic growth, expenses are projected to increase each year, reaching \$11.5 million in 1989.

This projected spending should be adequate to provide the necessary level of locomotive overhauls and heavy repairs as well as running and heavy repair to freight cars. Maintenance of passenger equipment has also been provided for, premised on the current scheduled level of trains.

A part of the locomotive fleet is old and expensive to maintain, and much of the freight car fleet is or soon will be over 40 years old. However, the overall condition of the fleet should improve over the ten-year period due to the projected acquisition of new or good used locomotives and freight equipment as provided for in the capital plan.

The need for additional or replacement freight cars will have to be continually re-evaluated as traffic develops. The Railroad

has had some success in getting shippers of bulk commodities to obtain and finance needed equipment. Currently one of the major gravel shippers provides hopper cars for regular unit train moves, and the potential coal exporter has agreed to provide not only the necessary cars, but also the locomotives.

The opportunity for additional shipper equipment agreements will depend on future traffic developments. Surplus freight equipment in the lower forty-eight states may provide an economical source for some of the Railroad's future needs. In summary, based on the projected traffic and expected equipment acquisitions, the expense levels projected should be adequate not only to maintain the current fleet condition but to permit some improvement.

#### Forecasted Capital Requirements

Historically, capital spending has varied widely, and government appropriations have been required to permit any reasonable capital program. According to data provided by the Railroad, since 1975, capital spending has ranged from a low of \$2.8 million to a high of \$11.8 million.\* Uncertain funding and resulting wide swings from year to year made effective capital planning difficult, often leading to last-minute decisions on project approvals.

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\*Alaska Railroad annual reports have reported capital expenditure totals that included the cost of major track work such as tie replacement, rail renewal, track surfacing, bridge repairs, etc. Under ICC accounting, these costs properly belong in operating expenses. The spending totals shown reflect this adjustment.

The Railroad provided USRA with a capital plan averaging \$14 million annually from 1984 to 1988 funded by the Railroad's cash flow. After reviewing that plan and a proposed project list, discussions with management and on-site inspections, a yearly allocation of \$12 million was considered adequate to continue operations and to handle forecasted traffic growth.

Approximately half of this amount is allocated for acquiring and upgrading locomotives, cars and other equipment. The remaining amounts provide for rehabilitation of bridges and tunnels, track construction to serve new and existing customers, stabilization of the roadbed in the Healy Canyon and elsewhere, realignment work to reduce curvature, and other plant requirements.

#### Start-up Costs

In Appendix L of the 605(a) Report, the State of Alaska and the Department of Transportation identified 15 items which they considered to be potential start-up obligations under the Act. The Report characterized these as "'start-up' responsibilities, because they are new undertakings by the railroad, not previously imposed on the railroad because of its Federal status." For the most part, these responsibilities are not "one-time"; rather, they affect ongoing expenses and result from various changes in access to Federal government resources. USRA treated these issues as follows.

(1) Vehicle Leasing. Under Federal ownership, the General Services Administration assigns vehicles to the Railroad for a

monthly lease payment which includes maintenance. The State, the Department of Transportation, and the General Services Administration have not yet resolved whether the existing leased vehicles will be transferred. In the event the Railroad acquires the existing fleet of older leased vehicles, it will be required to make other arrangements for maintenance. USRA determined that the Railroad could most likely continue to lease vehicles at terms and conditions equivalent to those currently in effect. Regardless of the final outcome, there would be no significant change in net costs to the Railroad for vehicles, and USRA's analysis includes no adjustment to the Railroad's projected expenses for this item.

(2) Supplies and Materials. After transfer, the Alaska Railroad can no longer acquire supplies through Federal government supply depots. However, USRA's valuation assumes that the purchasing power of the State-owned railroad will offset the loss of the ability to purchase through the Federal government. USRA did include increased administrative costs associated with an additional purchasing agent.

(3) Legal Fees. Currently, much of the Railroad's legal work is performed by United States government attorneys. After transfer, this will no longer be the case, and the Railroad will have to do more of its own legal work as well as retain outside counsel. After consultation with the Alaska Railroad and with others, USRA concluded that an additional \$600,000 per year is an appropriate additional cost to factor into the valuation.

(4) Additional Administrative Expense. USRA has assumed that, as a result of the loss of certain administrative support currently provided by various Federal agencies, the Railroad will incur an additional annual expense of \$108,000 representing three person years to handle this work.

(5) Tort Claims. Currently, all tort settlements or awards in excess of \$2,500 are paid by the Federal treasury. After transfer, these will all be the responsibility of the Railroad. Over the four-year period 1980-83, the Federal treasury paid a total of \$288,000, an average of \$72,000 a year. From this experience, USRA assumed an additional average cost of \$75,000 per year.

(6) Working Capital. As with all businesses, the Railroad will require working capital. USRA assumed that none of the revolving fund will be transferred to the State because pre-conveyance claims and contingent liabilities that must be paid are likely to consume the entire fund. After reviewing the working capital requirements of other railroads, it was USRA's judgment that one month's worth of operating expenses would be adequate working capital for the Alaska Railroad. This amounts to approximately \$4.4 million in the first year, varying over the forecast period as operating expenses vary.

(7) Lack of Access to Federal Surplus Equipment. After transfer, the Railroad's access to excess Federal equipment will be greatly diminished. In our judgment, this should not increase the Railroad's costs.

(8) ARTA Section 604(d)(3) Employee Protection Obligations.

Section 604(d)(3) requires the Secretary of Transportation to certify that the State-owned railroad has established arrangements to protect the employees of the railroad for the two years immediately following the transfer. This provision requires continuation of current labor agreements, retention for two years of all employees (other than certain officers) who elect to transfer to the Railroad, continuation of compensation at current levels, re-employment priority, and maintenance of benefit programs, as well as other items. The essence of these provisions is to continue the employees' current status. Since the forecast calls for maintaining rail operations at current levels, USRA assumed that all present employees would be offered jobs by and would transfer to the State-owned railroad. Since USRA's forecast of cash flows also assumes the continuation of current compensation levels, no protection payments would be required under these assumptions.\*

(9) Section 607 Retirement Obligations. ARTA Section 607 requires that, after transfer to the State, the Railroad must provide retirement benefits substantially equivalent to current levels for all employees who elect to transfer. As stated in the 605(a) Report, the Department of Transportation asked the Office of Personnel Management (OPM) "to calculate retirement costs and

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\*If, in fact, there are large numbers of employees who elect not to transfer, then this could cause significant disruptions to the smooth operation of the railroad which could prove to be costly. USRA has no way of directly quantifying either the likelihood of this occurring or its cost.

benefits for existing employees who participate in the Federal retirement system and to prepare an estimate of the financial consequences if all of those employees transferred to the State-owned railroad at this time" (605(a) Report, pp. 69-70). The 605(a) Report further states (at page 70) that:

"[i]n preparing its calculations, OPM assumed that if transferred employees remain in the Federal retirement system pursuant to Section 607(a)(1), the language of that provision governing the amount of the State-owned railroad's employer contributions . . . would require the State-owned railroad to pay, as the employer contribution, 29.06 percent of basic payroll for those transferred employees into the Federal retirement fund to fully fund retirement benefits that accrue for those employees after transfer. OPM's calculation assumes the current seven percent employee contribution would remain unchanged.

This is an increase of 22.06 percent over the amount the Alaska Railroad has contributed as a Federal agency and reflects the manner in which the Federal retirement system is normally funded, which for Federal agencies includes other payments from the U.S. Treasury."

The ultimate resolution of this issue will not occur until after the date of this report. Indeed, in the 605(a) Report, the Department of Transportation and the State of Alaska acknowledge that an "accurate estimate of the retirement obligations that would be imposed on the State-owned railroad pursuant to Section 607(a) cannot be calculated at this time." However, for purposes of completing this valuation in a timely manner, USRA has been required to make assumptions as to the cost of this provision to the Railroad.

USRA's analysis assumes that all permanent employees would transfer to the State-owned railroad and would be included in a plan that will have an annual cost to the Railroad equivalent to the cost that OPM has suggested -- that is, a 22.06 percent

additional contribution over and above the 7 percent contribution which the Railroad is currently paying. USRA assumed all new employees hired after the date of the transfer would be covered under a new pension plan that would require the Railroad to contribute 12 percent of the new employees' base salary.

USRA's analysis of the additional pension costs used the actuarial base developed by OPM which listed current employees, by sex, for each year until the last Railroad employee currently in the Federal retirement system has left the payroll. These data were costed using the 1983 average wage levels to yield the total wage base for each year. This wage base was multiplied by an additional 22.06 percent to arrive at the additional pension costs.

As each current employee leaves the payroll, USRA assumed a replacement would be added, but that the replacement's pension expense would be only 5 percent in addition to the current 7 percent contribution. This approximates the contribution now required for employees of the State. These cash flows were then included with all other expenses, and the first 10 years of additional pension expense is shown on Table 3.

The Department of Transportation and the State acknowledge that "the exact number of employees who will transfer and the value of their retirement benefits will not be known until the date of Transfer". Thus, the assumptions which USRA has made could be significantly different from the actual outcome. However, we believe the estimates provided by our assumptions are

reasonable and fair to both the Federal government and the State, as well as to any other buyer.

(10) Section 607 Severance Obligations. The severance obligations imposed upon the Railroad by Section 607 of the Act require the Railroad to pay certain compensation to employees whose employment is terminated without cause during the first two years after transfer. Because of the activity levels forecasted, we have assumed that no employees will fall into this category and, therefore, no upward adjustment to the Railroad's projected operating expenses is necessary.

(11) Non-Availability of Statutory Exemptions if the Railroad Ceases to be a State Instrumentality. If, after transfer, the Railroad ceases to be an instrumentality of the State, then the Railroad would lose its exemption from Federal income taxes, the Railroad Retirement Act, the Railway Labor Act, and the Federal Employer's Liability Act. Because of the nature of the projected cash flows, no tax liability would accrue even if a private purchaser, and not the State, acquired the Railroad. USRA also assumed that there would be no significant changes in cash flow if the labor related statutes were applied. Therefore, we have made no adjustments for these provisions.

(12) Section 608(a)(1) Antitrust Applicability. After transfer, the exemption which the Railroad enjoys from certain antitrust laws will be lost. While this may become an issue in the future that could adversely affect the Railroad's revenues, USRA has no way of quantifying what the long-range effect might be.

(13) ICC Regulation. Currently the Railroad is subject only to partial regulation by the ICC under Executive Order 12434. After transfer, ARTA Section 608(a) provides that the Railroad will be fully regulated by the ICC in a manner similar to other railroads of the same class (most likely Class II). While there will be some additional costs, they are not significant enough to quantify separately. However, as previously stated, upward adjustments were made to both legal and other administrative costs to cover these as well as other contingencies.

(14) Compliance With Various Safety Statutes and Regulations. USRA considered three separate categories of potential expenses -- OSHA, State and local building codes, and facility condition.

\* OSHA. Based on an updated study provided by the Alaska Railroad, which indicates approximately \$2.5 million additional funding will be required to eliminate the remaining deficiencies, we have included \$500,000 per year for five years. These funds will be utilized to correct problems associated with buildings, facilities and equipment beyond expenditures budgeted elsewhere.

\* State and Local Building Codes and Existing Condition of Facilities. A recent report prepared for the State estimated the total cost to correct building deficiencies to be about \$85 million. Condition problems accounted for about 62 percent or \$53 million with the balance of \$32 million being related to code violations. Repairs, additions or replacement costs

were based on bringing the existing buildings into compliance, regardless of current use.

In the future, the Railroad will have to correct some code violations and improve the condition of some buildings. However, the Railroad will certainly conduct a careful review of current and future railroad operating needs before any large expenditures are made. Some buildings are no longer required, and some consolidations may be possible. If replacement is necessary, a much smaller and more efficient facility might be adequate. The Railroad currently has an on-going program to correct some of these deficiencies. In addition, there is some overlap with the funding required to correct OSHA deficiencies reported earlier. After consideration of these factors, discussions with the Railroad and the State, and on-site inspections, the following future needs were considered reasonable and are reflected in USRA's analysis:

- Building code deficiencies -- an allocation of \$1.5 million per year for ten years for a total of \$15 million. This allows for items such as fire separation, fire resistance in wall coverings, ventilation, lighting, electrical deficiencies, handicapped access, and other code related items.
- Condition discrepancies -- Justified projects in this category would be funded under the Railroad's normal capital budgeting process. As discussed

previously in this section, this total budget is forecast at \$12 million per year for ten years.

(15) Transition Expenses. Upon transfer to the State, there will be certain one-time costs that will have to be incurred. These would include such things as legal costs, filing fees, consulting fees and administrative costs as well as costs to the Railroad ranging from remarking equipment to indicate the new ownership to printing stationery. We estimate these one-time costs to be \$1,750,000.

Table 3

ALASKA RAILROAD ADJUSTED CASH FLOW FORECAST FOR RAIL OPERATIONS  
1984-1993  
(\$ IN 000)  
CONSTANT 1983 \$

| ITEM               | 1984   | 1985   | 1986   | 1987   | 1988   | 1989   | 1990   | 1991   | 1992   | 1993   |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| RR FORECAST REV. * | 56746  | 64106  | 65446  | 67806  | 70186  | 72656  | 72656  | 72656  | 72656  | 72656  |
| RR FORECAST EXP.   | 46590  | 50130  | 50790  | 51390  | 51990  | 52610  | 52610  | 52610  | 52610  | 52610  |
| NET CASH           | 10156  | 13976  | 14656  | 16416  | 18196  | 20046  | 20046  | 20046  | 20046  | 20046  |
| ADJUST RR FORECAST |        |        |        |        |        |        |        |        |        |        |
| EXPORT COAL        | 0      | -1750  | -250   | 0      | 0      | 0      | 0      | 0      | 0      | 0      |
| PRODUCTIVITY       | -580   | -624   | -632   | -639   | -647   | -654   | -654   | -654   | -654   | -654   |
| MOW ADJUSTMENT     | -1220  | -810   | -850   | -870   | -1010  | -1050  | -1150  | -1110  | -1270  | -1440  |
| CAPITAL EXPENDED   | -12000 | -12000 | -12000 | -12000 | -12000 | -12000 | -12000 | -12000 | -12000 | -12000 |
| ADJ. RR FORECAST   | -3644  | -1208  | 924    | 2907   | 4539   | 6342   | 6242   | 6282   | 6122   | 5952   |
| STARTUP COSTS      |        |        |        |        |        |        |        |        |        |        |
| PENSIONS           | -4514  | -4316  | -4145  | -3967  | -3821  | -3675  | -3524  | -3377  | -3225  | -3079  |
| CODE CONFORMITY    | -1500  | -1500  | -1500  | -1500  | -1500  | -1500  | -1500  | -1500  | -1500  | -1500  |
| ADD'L LEGAL FEES   | -600   | -600   | -600   | -600   | -600   | -600   | -600   | -600   | -600   | -600   |
| OSHA               | -500   | -500   | -500   | -500   | -500   | 0      | 0      | 0      | 0      | 0      |
| TORT CLAIMS        | -75    | -75    | -75    | -75    | -75    | -75    | -75    | -75    | -75    | -75    |
| OTHER EXPENSES     | -108   | -108   | -108   | -108   | -108   | -108   | -108   | -108   | -108   | -108   |
| WORKING CAPITAL    | -4377  | -95    | -168   | -57    | -49    | -42    | 4      | 16     | -1     | -2     |
| ONE TIME STARTUP   | -1750  | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      |
| TOTAL STARTUP      | -13424 | -7194  | -7096  | -6807  | -6653  | -6000  | -5803  | -5644  | -5509  | -5364  |
| ADJUSTED CASH      | -17068 | -8402  | -6172  | -3900  | -2114  | 342    | 439    | 638    | 613    | 588    |

\* DOES NOT INCLUDE REAL ESTATE LEASES, DOES INCLUDE MISCELLANEOUS LEASES SUCH AS WIRE AND PIPE EASEMENTS OF \$296. REAL ESTATE LEASES ARE TREATED SEPERATELY.

Present Value of Future Cash Flows

As previously discussed, the fair market value of the Alaska Railroad is the amount which the State would have to pay to outbid (e.g., by one dollar) any competing potential purchaser. To determine the maximum bid of a competing non-government purchaser, the estimated future cash flows must be discounted to present values at a rate equal to the cost of capital that the private purchaser would employ in valuing this railroad.

In arriving at a weighted average cost of capital to use as the discount rate in this valuation, numerous factors were considered. Among these were railroad debt-equity ratios, the cost of debt, the average real return on equities, and risk premiums used in other rail valuations. The resulting constant dollar discount rate was then compared to discount rates used in various other railroad related valuations as well as to the cost of capital for the nation's railroads as found by the ICC in Ex Parte 436. These comparisons served as a check on the reasonableness of the rate used in the Alaska Railroad valuation.

USRA determined that the appropriate constant dollar discount rate to use in this analysis was 16 percent as applied to the projected cash flows expressed in constant dollars.\* The

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\*This discount rate is not comparable to the rate used in the real estate analyses for two reasons: (1) As noted above, the continued earnings valuation was performed in constant dollars. In contrast, the real estate analysis considered the effects of appreciation in value of the real property, and was performed in inflated dollars. (2) Different special considerations were relevant to the real estate analysis than to the continued earnings valuation.

development of this discount rate required weighing the special considerations attendant to the Alaska Railroad. Elements of these special considerations include:

- \* The possibility of not realizing cash flows that, in turn, are based on estimates, not on historical evidence,
- \* The change from Federal ownership,
- \* The onset of full regulation by the ICC upon the change in ownership, and
- \* The uncertainties on the world energy markets.

#### Measuring Potential Alternative Use Value

To measure the possible alternative use value of the Alaska Railroad's assets under the terms and conditions of ARTA, USRA hypothesized that, beginning in the eleventh year, there would be an immediate cessation of all rail operations to permit the Railroad's operating assets to be placed in their highest and best alternative uses.\* To assess the effect of such an option on value, USRA performed the following analyses.

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\*In determining possible alternate uses for the Railroad's real estate, it was USRA's judgment that it would be highly speculative to assume that any operating real estate could be otherwise developed under a continued operations scenario, particularly during the early years following transfer to the State. Not only would such development require relocation of existing yards or other facilities, but it is also uncertain that any major redevelopment plan could easily obtain the required approvals of various disparate interests. Further, any assembling of operating and non-operating real estate would most likely be affected by existing leases. In light of these factors which would affect both the timing and costs of any partial alternative development of the operating real estate, USRA concluded that its consideration of the alternate use value of these parcels in a liquidation scenario after ten years was a fair method of measuring their value for other purposes.

### Rail Operations

If the Alaska Railroad were planning to totally cease operations, it might well cut back dramatically on all its expenses before the eleventh year. It is also true that shippers would begin to find alternative modes of transportation; consequently, the Railroad's revenues would also drop dramatically. For purposes of this analysis, we have assumed that revenues would drop by the same dollar amount per year as expenses. We have used the cash flows generated by the Railroad for the continued operations scenario (as adjusted by USRA) as being representative of the cash flows that the Railroad would generate in the liquidation scenario.

### Labor Protection

As a result of discontinuing rail operations, USRA has assumed that there would be imposed on the owners of the Alaska Railroad labor protection conditions similar to those commonly known as "New York Dock". These conditions essentially require employees (depending on seniority) to be paid their full salary and benefits for six years, unless they find other jobs. In the case where an employee finds another job at a lower rate of pay than the one he had on the railroad, that employee is entitled to the difference in pay between his new job and what he received on his old job. Protected employees also have the option of taking a one-time lump sum payment equivalent to one year's pay.

In order to calculate the cost to the State of these labor protection conditions, USRA assumed that all permanent employees

would be eligible to receive labor protection payments. Of these employees, based on the current age profile of the Railroad's employees, USRA assumed that (1) all those 55 and older would choose to retire, (2) 25 percent of the eligible employees would take the lump sum settlement, and (3) 25 percent of the remaining work force would find new employment each year.

FACILITIES AND EQUIPMENT ASSETS

USRA selected Frank S. King and Jackson R. Bell, experts in railway engineering and equipment, to assist in determining the alternative use value of the Railroad's facilities and equipment; they determined the net value that could be realized from disposition of these assets taking into consideration all of ARTA's terms and conditions. Their analysis is described in greater detail in their report to USRA.

USRA first assembled and validated the Railroad's inventories of track, equipment, and other facilities. These assets include approximately 650 track miles,\* yards and port facilities, shops, buildings, bridges, communications facilities, 1,642 freight cars, 46 passenger cars and 62 locomotives, as well as maintenance and shop machinery. Physical inspections were made as required to determine the condition of the assets,\*\* and a determination was made as to which asset categories would be sold as scrap and which could be sold to others for re-use.

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\*This figure represents the total of all the Railroad's track including not only its 460-mile main line from Seward to Fairbanks, but also its branch lines as well as passing tracks and yard tracks.

\*\*USRA also relied on this condition assessment to determine the Railroad's maintenance and capital requirements for use in determining the Railroad's continued operations value, previously discussed.

USRA estimated the range of market prices for resale and for scrap, dismantling costs, shipping costs from Alaska, and costs to comply with environmental or other regulations.\* In making these estimates, USRA considered various market data such as the demand for scrap and the supply and demand for used railroad equipment and used rail.

Since ARTA requires that the State must continue to operate the railroad for at least ten years or suffer reversion, the state could not realize any alternate value from liquidating these assets until ten years after transfer.\*\* USRA estimated that an orderly dismantling and liquidation program would require 2 1/2 years, beginning in 1994 and finishing in 1996.

USRA determined that the net proceeds from sale of the Railroad's track and facilities plus its equipment would be \$11.6 million in 1983 constant dollars.

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\*USRA was assisted in these areas by Mr. Michael V. Cody.

\*\*Indeed, based on the Railroad's forecast, the positive earnings projected for 1994 and later years, if realized, would prevent the Railroad from obtaining authority to abandon under the applicable provisions of the Interstate Commerce Act. This represents a major uncertainty that any purchaser would weigh heavily before paying a price based in part on asset values to be received many years in the future and only if rail operations could be discontinued.

REAL ESTATE ASSETS

USRA selected Jackson-Cross Company, a nationwide real estate appraisal firm, to assist in valuing the Alaska Railroad's real estate assets. Jackson-Cross determined the present value, as of October 1, 1983, of the Railroad's real estate taking into consideration all of ARTA's terms and conditions. Their analysis is described in greater detail in their appraisal report to USRA.

To consider the ARTA Section 610(a) requirement that the State must continue to operate the railroad for at least ten years or suffer reversion, USRA instructed Jackson-Cross to consider the Alaska Railroad's real estate assets in two categories:

- \* "Non-operating" property -- land which is not necessary for the railroad's operations. This is essentially real estate which is leased to third parties, or which is available for development.
- \* "Operating" property -- all other property, such as the right-of-way, yards and other facilities, including the port facilities at Whittier and Seward.

Because the Railroad's "non-operating" property is not required for rail operations, it is not affected by the continued rail operation requirement. However, because of ARTA's restrictions, USRA assumed that no value could be realized from alternate use of the Railroad's operating real estate until ten years after transfer to the State.\* Jackson-Cross was instructed to determine

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\*In some locations, the Railroad is presently earning income from easements or permits on operating property which do not interfere with rail operations. This income was considered in USRA's

(Continued)

(1) the present value of the cash flow which can reasonably be projected from continued development of the Railroad's non-operating real estate, and (2) the present value of the cash flow which could reasonably be projected from alternate use of the Railroad's operating real estate beginning ten years after transfer.

Most of the Alaska Railroad's real property not required for rail operations is currently leased to others, and there was no reason to assume that a purchaser of the property would change this practice. Jackson-Cross, therefore, based its appraisal upon the assumption that the Railroad's real estate would be leased rather than sold. To the extent that any current rents are below market levels, the lease assumption explicitly considers that fact. USRA assumed that the State will be required to honor the terms and conditions of these leases. They were thoroughly reviewed and analyzed, and USRA has considered their effect in determining the value of the Railroad's real estate.

Jackson-Cross then assumed that, except as prevented by existing leases, rents would be set at market levels. It

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(Continued)

continued operations valuation. As discussed later, the Railroad lacks clear title to much of the right-of-way so that it would no longer be entitled to income from such property upon conversion to alternate uses. As to right-of-way properties where the State will acquire clear title under ARTA, it was not considered feasible to attempt to ascribe any separate value to this potential income, since the highest and best alternate use might well either (1) preclude the continuance of the easement or permit or (2) result in the lessee, rather than the fee owner, collecting such easement or permit income.

estimated the net revenues that most likely would be realized from a normal leasing and management program as well as the period of time an investor would perceive as necessary to realize those net revenues. Jackson-Cross then discounted these projected net revenues to consider the cost of money over time and the risk of uncertainty that those projected net revenues would, in fact, be realized.\*

USRA classified the Railroad's real estate into "non-operating" and "operating" based on current railroad operational requirements with reasonable estimates for operational expansion. All land presently leased to others was classified as non-operating, including lands leased to tenants who are also shippers on the railroad.

There is no definitive inventory available of exactly what constitutes the property of the Alaska Railroad. USRA compiled maps from the Railroad's records to correspond with an inventory estimate which had been prepared by the Department of Transportation in 1981. Additional inventory information was contained in the 605(a) Report. However, despite the best efforts of all parties involved to assemble whatever inventory data are available, substantial questions still remain.

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\*In practice, the lease assumption produces the same value as an assumption that the real estate would have been sold over a period of years, subject to the existing leases. This is because the prices investor(s) would be willing to pay are a function of the rental income that could be earned, taking into consideration both present rents and projected future rent increases.

Most notable of these questions is the definition of exactly what rights will ultimately be conveyed to the State of Alaska. Depending on future adjudication or negotiation, there are many instances where the State may receive less than fee title to portions of the Alaska Railroad's real estate, particularly its right-of-way. Exhibit 1 to the 605(a) Report summarizes existing claims against the property. According to that exhibit, prepared by the Anchorage office of the Bureau of Land Management, more than half of the Alaska Railroad's right-of-way passes through lands which were patented to private parties or to the State without a specific reservation for the Railroad's right-of-way.\* In a limited number of areas, mining claims have also been filed which are near to or encroach upon the right-of-way. Further, in other locations, ARTA provides that the State will only receive an "exclusive use easement" to certain portions of the right-of-way.

Therefore, in an alternative use scenario, the Railroad would have no legal interest to transfer in considerable portions of its right-of-way. Accordingly, in determining the value of the Railroad's operating real estate for alternate uses after ten years, Jackson-Cross was instructed not to include value for any parcels where ownership would disappear upon cessation of rail

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\*Of a total of 619.11 miles of right-of-way, 142.34 miles have been patented to individuals; 137.87 miles have been patented to the State; and 91.25 miles have been tentatively approved for patent to the State upon survey. An additional 85.92 miles have been selected by the State, and another 1.3 miles appear to have been patented to both private parties and to the State.

operations. Further, because clear title existed for very little of the right-of-way, Jackson-Cross was also instructed not to consider "corridor value" for the Alaska Railroad's right-of-way in its alternate use determination.

Additionally, significant portions of the right-of-way, as well as certain parcels of land adjacent to or away from the right-of-way, are subject to claims under the Alaska Native Claims Settlement Act of 1971 (ANCSA) and the 1906 Native Allotment Act. These claims will not have been settled prior to the issuance of this report. It is not possible for USRA to know the final outcome with respect to these parcels. Therefore, as further discussed in Appendix A, USRA has analyzed the value of these parcels separately and has evaluated their impact on the Railroad's fair market value.

Jackson-Cross determined the present value of the Railroad's non-operating real estate to be \$47.8 million. Jackson-Cross determined that the present value resulting from alternate use of the Railroad's operating real estate after a hypothetical discontinuance of rail operations is \$7 million.



NATIVE CLAIM SELECTION ANALYSIS

The Alaska Railroad's real estate inventory includes certain parcels which are subject to claims under the Alaska Native Claims Settlement Act of 1971 (ANCSA) and the 1906 Native Allotment Act. Section 606(b)(1)(A) of ARTA directs that "[d]uring the ten months following the date of enactment of this Act, . . . the Secretary of the Interior, Village Corporations with claims of valid existing rights, and the State shall review and make a good faith effort to settle as many of the claims as possible." Failing settlement, ARTA Section 606(b)(2) further directs that the "Secretary of the Interior shall complete the final administrative adjudication required under this subsection not later than three years after the date of enactment of this Act."

According to data furnished by the Alaska Railroad and the Anchorage Office of the Bureau of Land Management, Native claims have been filed for the following ten parcels.

| <u>LOCATION</u> | <u>ACRES</u> | <u>GRAVEL<br/>RESERVE</u> | <u>ROCK<br/>RESERVE</u> |
|-----------------|--------------|---------------------------|-------------------------|
| EAGLE RIVER     | 1596         | Yes                       | No                      |
| BIRCHWOOD       | 978          | Yes                       | No                      |
| EKLUTNA         | 605          | Yes                       | Yes                     |
| MATANUSKA       | 238          | No                        | No                      |
| PITTMAN         | 140          | Yes                       | No                      |
| BROAD PASS      | 561          | Yes                       | No                      |
| HEALY           | 123          | No                        | No                      |
| NENANA          | 231          | No                        | No                      |
| HOLY CROSS      | 60           | No                        | No                      |
| MOOSE CREEK     | 89           | No                        | No                      |

No negotiated settlements have been reached, and the ultimate disposition of these parcels cannot be known at this time. However, despite these unresolved issues affecting the basic inventory to be valued, ARTA directs that USRA report one number representing the Railroad's fair market value.

At this time, there are considerable uncertainties as to whether any of these parcels will ultimately be conveyed to the State. The possibilities range from conveyance of all or a substantial portion of these parcels, which would suggest an upward adjustment to value of as much as \$3.2 million,\* to conveyance of only operating real estate and the loss of access to currently used rock and gravel reserves, in which case a reduction in value approximating \$1.8 million\*\* would be appropriate. If the status quo was maintained -- that is, if the Railroad was conveyed lands underlying rights-of-way and facilities and the continued right to withdraw rock and gravel as needed from currently utilized reserves -- no adjustment to value would be appropriate. Moreover, some parcels may be conveyed

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\*Jackson-Cross estimated the fair market value of the Railroad's total real estate inventory with and without the parcels subject to Native claim selection. From this analysis, USRA determined that the Railroad's fair market value would be increased by \$3.2 million if all parcels subject to Native claim selection were conveyed to the State. This estimate assumes all the previously described ARTA terms and conditions.

\*\*USRA also considered the impact on value if the Railroad were to lose all of its present rights to withdraw gravel or rock from these parcels. While precise estimates are not available, increased costs for using alternate sources of rock and gravel would reduce the Railroad's fair market value by about \$1.8 million.

only if, in subsequent negotiations, the State agrees to exchange other State lands for such parcels.

In light of this broad spectrum of unknown and virtually unpredictable future events, USRA can find no basis for assuming that a prudent investor would pay for the speculative possibility that significant portions of the Native claim parcels would be conveyed in the future. Therefore, we consider that it is inappropriate for our fair market value determination to include any amount ascribed to these parcels. We feel that this conclusion is a fair balancing of both the downside risk that the Railroad might lose access to the gravel and rock reserves and the upside possibility that at least some of these parcels beyond those directly utilized in support of current rail operations might ultimately be conveyed to the Railroad in fee.

Offered: 3/23/84  
Referred: Finance

Original sponsors: Hayes, Ringstad,  
Shultz, et al

1 IN THE HOUSE BY THE TRANSPORTATION COMMITTEE  
2 CS FOR HOUSE BILL NO. 512 (Transportation)  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 THIRTEENTH LEGISLATURE - SECOND SESSION  
5 A BILL  
6 For an Act entitled: "An Act establishing the Alaska Railroad Corporation  
7 to manage and operate the Alaska Railroad; and pro-  
8 viding for an effective date."  
9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:  
10 \* Section 1. LEGISLATIVE FINDINGS AND PURPOSE. (a) The legislature  
11 finds that  
12 (1) it is the policy of the state to  
13 (A) provide safe, economical, and efficient transportation  
14 to residents, businesses, visitors, and military installations in the  
15 state;  
16 (B) foster and promote the long-term economic growth and  
17 development of the state;  
18 (C) develop and implement plans for a transportation net-  
19 work;  
20 (D) foster and promote the development of the state's land  
21 and natural resources;  
22 (2) the Alaska Railroad is an essential part of the state trans-  
23 portation network that may, unless preserved by state action, cease to be a  
24 transportation option in Alaska;  
25 (3) the federal government has offered to the state the option  
26 of taking over the Alaska Railroad to ensure its continued existence;  
27 (4) it is in the state's best interest to accept the railroad  
28 under the terms and conditions offered by the United States government; and  
29 (5) there is vast potential in Alaska's natural resource areas

1 and extension of the Alaska Railroad into natural resource areas is neces-  
2 sary for long-term economic growth.

3 (b) It is the purpose of this Act to

4 (1) create a viable economic entity with the powers and duties  
5 necessary to operate and manage the Alaska Railroad pending eventual trans-  
6 fer of the railroad to the private sector for its ownership or operation or  
7 both consistent with 45 U.S.C. 1201 - 1214 (Alaska Railroad Transfer Act of  
8 1982);

9 (2) provide for the level of service that best satisfies the  
10 needs of the people of the state;

11 (3) create a public corporation with the powers, duties, and  
12 functions needed to operate the Alaska Railroad and manage its rail, indus-  
13 trial, port and other properties in the best interest of the people of the  
14 state by ensuring that the corporation will

15 (A) be exclusively responsible for the management of the  
16 financial and legal obligations of the Alaska Railroad rather than the  
17 state;

18 (B) operate the railroad as a common carrier subject to the  
19 jurisdiction of the United States Interstate Commerce Commission  
20 consistent with 45 U.S.C. 1207;

21 (C) have the ability to raise capital by issuing obliga-  
22 tions exempt from federal and state taxation;

23 (D) generally carry out its responsibilities on a self-  
24 sustaining basis;

25 (E) provide the best possible combination of types and  
26 levels of safe, efficient, and economical transportation to meet the  
27 overall needs of the state, supported when necessary by state invest-  
28 ment;

29 (F) provide for the prudent operation of the railroad

1 according to sound business management practices;

2 (4) ensure that borrowing by the corporation does not directly  
3 or indirectly endanger the state's own borrowing capacity.

4 \* Sec. 2. AS 42 is amended by adding a new chapter to read:

5 CHAPTER 40. ALASKA RAILROAD CORPORATION.

6 ARTICLE 1. ESTABLISHMENT AND ORGANIZATION.

7 Sec. 42.40.010. ESTABLISHMENT OF THE CORPORATION. There is  
8 established the Alaska Railroad Corporation. The corporation is a  
9 public corporation and is an instrumentality of the state within the  
10 Department of Commerce and Economic Development. The corporation has  
11 a legal existence independent of and separate from the state. The  
12 exercise by the corporation of the powers provided in this chapter is  
13 considered an essential government function of the state.

14 Sec. 42.40.020. BOARD OF DIRECTORS. (a) The powers of the  
15 corporation are vested in the board of directors. The board consists  
16 of the commissioner of commerce and economic development, the chief  
17 executive officer of the corporation, and seven members appointed by  
18 the governor. At least five of the seven appointed members must be  
19 registered voters in the state. No more than two appointed members  
20 may be from any one of the four judicial districts in the state. The  
21 appointed members must have substantial experience or professional  
22 training and expertise in fields relevant to the purposes of this  
23 chapter, including transportation, business, and finance. Except for  
24 the commissioner, the chief executive officer, and the member ap-  
25 pointed under (d) of this section, a member may not be a state officer  
26 or employee.

27 (b) One member of the board may be a person who has at least 10  
28 years of experience in railroad management.

29 (c) One member of the board may be or have been an executive

1 official of a United States railroad that is not now and never was a  
2 connecting carrier of the Alaska Railroad.

3 (d) One member shall be an employee who is a member of a bar-  
4 gaining unit representing employees of the corporation.

5 (e) Except for the commissioner of commerce and economic devel-  
6 opment and the chief executive officer of the corporation, the members  
7 of the board shall be confirmed by a majority of the members of each  
8 house of the legislature in joint session. A member appointed by the  
9 governor has the full powers and responsibilities of a confirmed board  
10 member until the member is rejected by the legislature.

11 Sec. 42.40.030. TERM OF OFFICE. Except for the commissioner of  
12 commerce and economic development and the chief executive officer of  
13 the corporation, members of the board serve for staggered terms of  
14 five years each at the pleasure of the governor.

15 Sec. 42.40.040. VACANCIES. (a) Except for the commissioner of  
16 commerce and economic development and the chief executive officer, a  
17 vacancy on the board is filled by appointment by the governor, and the  
18 appointment must be confirmed by the members of each house of the  
19 legislature in joint session. A member appointed to fill a vacancy  
20 holds office for the balance of the term for which the member's prede-  
21 cessor was appointed.

22 (b) A vacancy on the board does not impair the authority of a  
23 quorum of members to exercise the powers and perform the duties of the  
24 board.

25 (c) A member of the board whose term has expired shall serve  
26 until a successor has been appointed.

27 Sec. 42.40.050. COMPENSATION AND EXPENSES. (a) An appointed  
28 member of the board is entitled to compensation at a rate of \$400 for  
29 each day the member is engaged in the actual performance of duties as

1 a member of the board. The board may provide by rule for compensation  
2 for partial days during which an appointed member is engaged in actual  
3 performance of duties as a member of the board.

4 (b) In addition to compensation under (a) of this section, an  
5 appointed member of the board is entitled to per diem and travel  
6 expenses authorized by law for state boards and commissions.

7 Sec. 42.40.060. BOARD OFFICERS. (a) The board shall elect from  
8 its membership a chairman and vice-chairman and prescribe their duties  
9 by rule.

10 (b) The board shall appoint a secretary and prescribe the duties  
11 of the secretary.

12 ARTICLE 2. MANAGEMENT.

13 Sec. 42.40.100. MANAGEMENT BY THE BOARD. The board is responsi-  
14 ble for the management of the corporation but shall delegate certain  
15 powers and duties to the chief executive officer in accordance with  
16 AS 42.40.120. In managing the corporation the board shall

17 (1) be responsible for the management of the financial and  
18 legal obligations of the Alaska Railroad;

19 (2) operate the Alaska Railroad as a common carrier subject  
20 to the jurisdiction of the United States Interstate Commerce Commis-  
21 sion consistent with 45 U.S.C. 1207;

22 (3) generally manage the corporation on a self-sustaining  
23 basis;

24 (4) provide for safe, efficient, and economical transporta-  
25 tion to meet the overall needs of the state;

26 (5) raise needed capital by issuing obligations of the  
27 corporation while ensuring that borrowing by the corporation does not  
28 directly or indirectly endanger the state's own borrowing capacity;

29 (6) review state and other land disposal proposals to aid

1 in planning for future development or expansion of transportation ser-  
2 vices;

3 (7) ensure that the accounting and procurement procedures  
4 of the corporation meet accepted railroad industry standards.

5 Sec. 42.40.110. EXECUTIVE OFFICERS. (a) The board shall ap-  
6 point the chief executive officer of the corporation who serves at the  
7 pleasure of the board. The board shall fix compensation for the chief  
8 executive officer.

9 (b) The chief executive officer of the corporation shall appoint  
10 and fix the compensation for other executive officers. The appoint-  
11 ment of other executive officers and their compensation are subject to  
12 board approval.

13 Sec. 42.40.120. DELEGATION. (a) The board shall by rule dele-  
14 gate to the chief executive officer powers and duties necessary or  
15 appropriate for the management of the daily affairs and operations of  
16 the corporation.

17 (b) Within 60 days after its first meeting, the board shall by  
18 rule delegate the following powers and duties of the corporation to  
19 the chief executive officer or other executive officers designated by  
20 the board:

21 (1) leasing, granting easements in, issuing permits for the  
22 use of, or conveying other interests in property;

23 (2) establishing specific rates, tariffs, divisions, and  
24 contract rate agreements;

25 (3) making routine changes in service levels;

26 (4) establishing procurement and accounting procedures for  
27 the corporation; and

28 (5) performing procurement activities.

29 (c) The board may by rule require the exercise of a power or

1 duty delegated under (a) or (b) of this section to be subject to board  
2 approval. Specific board approval is required for the following:

3 (1) except for executing a release of a mortgage or other  
4 lien after payment is received, conveying the corporation's entire  
5 interest in land;

6 (2) issuing notes, debentures, and bonds;

7 (3) mortgaging or pledging corporation assets;

8 (4) donating property or other assets belonging to the  
9 corporation;

10 (5) acting as a surety or guarantor;

11 (6) adopting a long-range program or capital improvement  
12 plan;

13 (7) certifying annual reports;

14 (8) effecting generally applicable increases and decreases  
15 in rates other than those periodically approved by the United States  
16 Interstate Commerce Commission;

17 (9) diversifying, expanding, or reducing services provided  
18 on the date of transfer;

19 (10) expanding the main or branch rail lines, other than  
20 performing routine track alignment as necessary to maintain service  
21 levels in effect on the date of transfer;

22 (11) selecting independent auditors and accountants;

23 (12) exercising the power of eminent domain;

24 (13) entering into collective bargaining agreements;

25 (14) adopting annual budgets; and

26 (15) beginning capital projects with an estimated completion  
27 cost of more than \$500,000 or an estimated completion time of more  
28 than one year.

29 ARTICLE 3. ADMINISTRATIVE PROVISIONS.

1           Sec. 42.40.150. MEETINGS OF THE BOARD. (a) The chairman of the  
2 board shall call meetings of the board at least once every three  
3 months and may call other meetings of the board as necessary. The  
4 chairman shall preside at meetings.

5           (b) Except for executive sessions, the meetings of the board are  
6 public. The board shall provide by rule for a method of providing  
7 notice to the public of its meetings.

8           (c) The board shall keep minutes of each meeting and shall send  
9 a certified copy of the public portion of each meeting to the governor  
10 and the legislature.

11          Sec. 42.40.160. QUORUM AND VOTING. (a) Five members of the  
12 board constitutes a quorum for the transaction of business.

13          (b) Five affirmative votes are required for board action. The  
14 board shall provide by rule for the manner of voting, except that the  
15 board may not provide for voting by proxy. The rules may provide for  
16 voting and conferring by telecommunication devices.

17          Sec. 42.40.170. EXECUTIVE SESSIONS. The board may consider in  
18 an executive session matters that pertain to personnel, the corpora-  
19 tion's legal position, land acquisition or disposal, or proprietary or  
20 other information of a type treated as confidential under the stan-  
21 dards and practices of the United States Interstate Commerce Commis-  
22 sion, including practices that protect information associated with  
23 specific shippers, divisions, and contract rate agreements.

24          Sec. 42.40.180. RULES. (a) The board may adopt rules

25           (1) governing the business of the corporation; and

26           (2) designed to safeguard property owned, managed, or  
27 transported by the corporation and to protect employees and persons  
28 using the corporation's property or services.

29          (b) Within 90 days after its first meeting, the board shall

1 establish a procedure for adopting, amending, and repealing rules to  
2 carry out the functions and the purposes of this chapter. The proce-  
3 dures shall provide for advance public notice and opportunity for  
4 public comment on proposed rules or changes to rules that, in the  
5 determination of the board, will have a substantial impact on the  
6 public or be used in the corporation's dealings with a significant  
7 segment of the public.

8 (c) The board shall establish a procedure for the adoption,  
9 amendment, or repeal of a rule on an emergency basis when essential  
10 for the orderly operation of the corporation's facilities or programs.

11 Sec. 42.40.190. PREVIOUSLY ADOPTED RULES AND ORDERS. The board  
12 may provide by resolution that rules and orders in effect on the date  
13 of transfer that are not inconsistent with this chapter or other state  
14 law remain in effect until amended or repealed by the board. The  
15 board may adopt the substance of former federal rules or orders relat-  
16 ing to the Alaska Railroad and this may not be considered a continua-  
17 tion of the federal rules or orders if adopted by the board in accor-  
18 dance with procedural requirements of this chapter or other law.

19 Sec. 42.40.200. PUBLIC DISCLOSURE OF INFORMATION. (a) Except  
20 as provided under (b) of this section, information in the possession  
21 of the corporation is public and is open to public inspection at  
22 reasonable times.

23 (b) The corporation may by rule designate as confidential and  
24 withhold public disclosure of matters of a nonpublic, privileged, or  
25 proprietary nature. Those matters include personnel records, communi-  
26 cations with and work product of legal counsel, and, consistent with  
27 the standards and practices of the United States Interstate Commerce  
28 Commission for the protection of these matters, other information  
29 including proprietary information associated with specific shippers,

1 divisions and contract rate agreements.

2 Sec. 42.40.210. CONFLICTS OF INTEREST. (a) Except as provided  
3 in this section, a board member or executive officer of the corpora-  
4 tion may not participate in a decision of the corporation in which  
5 that person or a member of that person's immediate family has a direct  
6 or indirect financial interest unless the financial interest is a  
7 remote financial interest and participation is approved under (b) of  
8 this section.

9 (b) A board member or executive officer may participate in a  
10 decision if that person or a member of that person's immediate family  
11 has only a remote interest, the fact and extent of the interest is  
12 disclosed to the board in a public meeting and is noted in the minutes  
13 of the board before any participation by the member or in the deci-  
14 sion, and thereafter in a public meeting the board by vote authorizes  
15 or approves the participation. If the person whose participation is  
16 under consideration is a board member, that person may not vote under  
17 this subsection. For purposes of this subsection, "remote interest"  
18 means an interest that in good faith is defined as remote by rules  
19 adopted by the corporation.

20 (c) A board member or executive officer is not considered to be  
21 financially interested in a decision when the decision could not  
22 affect that person in a manner different from its effect on the public  
23 or community.

24 (d) Within 120 days of the first meeting of the board, the board  
25 shall adopt and may subsequently amend rules implementing this sec-  
26 tion, providing additional conflict of interest and ethical rules it  
27 considers appropriate, and providing for the removal by the board of a  
28 board member or executive officer who intentionally violates a prohi-  
29 bition contained in this section.

1           (e) For purposes of this section "participate in a decision"  
2 includes all discussions, deliberations, preliminary negotiations, and  
3 votes concerning a matter that is the subject of formal action by the  
4 board.

5                           ARTICLE 4. POWERS AND DUTIES.

6           Sec. 42.40.250. GENERAL POWERS. In addition to the exercise of  
7 other powers authorized by law, the corporation may

- 8                   (1) adopt a seal;
- 9                   (2) adopt bylaws governing the business of the corporation;
- 10                  (3) sue and be sued;
- 11                  (4) appoint trustees and agents of the corporation and  
12 prescribe their powers and duties;
- 13                  (5) hire legal counsel to represent the corporation;
- 14                  (6) make contracts and execute instruments necessary or  
15 convenient in the exercise of its powers and duties;
- 16                  (7) acquire by purchase, lease, bequest, devise, gift,  
17 exchange, the satisfaction of debts, the foreclosure of mortgages, or  
18 otherwise, personal property, rights, rights-of-way, franchises,  
19 easements, and other interest in land, and acquire by appropriation  
20 water rights that are located in the state, taking title to the prop-  
21 erty in the name of the corporation;
- 22                  (8) hold, maintain, use, operate, lease, exchange, donate,  
23 improve, convey, alienate, dispose of, mortgage, encumber, and other-  
24 wise grant security interests in or transfer land or personal prop-  
25 erty, subject to other provisions of this chapter;
- 26                  (9) contract with and accept transfers, gifts, grants or  
27 loans of funds or property from the United States and the state or its  
28 political subdivisions, subject to other provisions of federal or  
29 state law or municipal ordinances;

1           (10) undertake and provide for the management, operation,  
2 maintenance, use, and control of all of the property of the corpo-  
3 ration, including tracks, equipment and other property transferred to  
4 the corporation by the federal government or any person;

5           (11) recommend to the legislature and the governor any tax,  
6 financing, or financial arrangement the corporation considers appro-  
7 priate to carry out the duties under this chapter;

8           (12) maintain offices and facilities at places it desig-  
9 nates;

10          (13) apply to the state, the United States, and foreign  
11 countries or other proper agencies for the permits, licenses, or  
12 approvals necessary to construct, maintain, and operate railroad  
13 transportation services, and obtain, hold, and reuse the licenses and  
14 permits in the same manner as other railroad operators;

15          (14) prescribe rates to be charged for services provided by  
16 the Alaska Railroad consistent with 45 U.S.C. 1201 - 1214 (Alaska  
17 Railroad Transfer Act of 1982);

18          (15) determine the routes, schedules, and types of service  
19 to be provided by the Alaska Railroad;

20          (16) enter into contracts, leases, and other agreements  
21 with connecting carriers, shippers, and other persons concerning the  
22 services, activities, operations, property, and facilities of the  
23 railroad, including agreements that contain provisions to preserve and  
24 expand the railroad's traffic base;

25          (17) plan for and undertake expansion of the railroad and  
26 railroad activities, including extension of the rail system, and  
27 contract with other modes of transportation service connecting to the  
28 rail system;

29          (18) hire and discharge railroad personnel and determine

- 1 benefits and other terms of employment, in accordance with 45 U.S.C.  
2 1201 - 1214 (Alaska Railroad Transfer Act of 1982);
- 3 (19) assume and satisfy liabilities of the United States in  
4 accordance with 45 U.S.C. 1201 - 1214 (Alaska Railroad Transfer Act of  
5 1982);
- 6 (20) maintain or provide for a security force to enforce  
7 state law and the corporation's rules with respect to violations that  
8 occur on or to property owned, managed or transported by the corpo-  
9 ration;
- 10 (21) issue its bonds or notes and provide for and secure  
11 their payment, provide for the rights of their holders and hold or  
12 dispose of them;
- 13 (22) purchase the corporation's bonds at a price not more  
14 than the principal amount of them plus interest;
- 15 (23) cancel bonds of the corporation purchased by the corpo-  
16 ration;
- 17 (24) secure the payment of its obligations by pledge, mort-  
18 gage, or other lien on its contracts, revenues, income, or property;
- 19 (25) consent to the modification of the rate of interest,  
20 time of payment of an installment of principal or interest, or other  
21 term of a loan, contract, or agreement to which the corporation is a  
22 party;
- 23 (26) borrow money, including the amounts necessary to estab-  
24 lish reasonable reserves, and pay financing charges and interest on  
25 the obligations for a reasonable period after which the corporation  
26 estimates other money will be available to pay the interest, consul-  
27 tant, advisory, and legal fees, and other expenses necessary or inci-  
28 dent to borrowing;
- 29 (27) include in any borrowing the amounts necessary to

1 establish reasonable reserves and pay financing charges and interest  
2 on the obligations for a reasonable period after which the corporation  
3 estimates funds will be otherwise available to pay the interest,  
4 consultant, advisory, and legal fees, and other expenses necessary or  
5 incident to borrowing;

6 (28) acquire, hold, and dispose of stocks, memberships,  
7 contracts, bonds, general or limited partnership interests or other  
8 interests in another corporation, association, partnership, joint  
9 venture, or other legal entity, and exercise the powers or rights in  
10 connection with these interests that are provided in contracts or  
11 agreements and that are allowed by law concerning the satisfaction of  
12 debts;

13 (29) undertake and provide for the acquisition, construc-  
14 tion, maintenance, equipping, and operation of connecting, switching,  
15 terminal, or other railroads and railroad facilities in the state;

16 (30) do all things necessary or desirable to carry out the  
17 powers and duties of the corporation granted or necessarily implied in  
18 this chapter or other laws of the state or the laws or regulations of  
19 the federal government.

20 Sec. 42.40.260. ANNUAL REPORT. Within 90 days following the end  
21 of the fiscal year of the Alaska Railroad the board shall direct  
22 preparation of, certify and distribute to the governor and to the  
23 legislature a report describing the operations and financial condition  
24 of the corporation during the preceding fiscal year. The report may  
25 include suggestions for legislation relating to the structure, powers  
26 or duties of the corporation or to operation facilities of the corpo-  
27 ration. The report shall itemize the cost of providing each category  
28 of service offered by the railroad and the income generated by each  
29 category.

1           Sec. 42.40.270. AUDITS. (a) The board shall have the financial  
2 records of the corporation audited annually by an independent cer-  
3 tified public accountant experienced in railroad accounting. The  
4 board shall have an annual performance audit conducted by a qualified  
5 professional performance auditing firm to assure that the railroad is  
6 being managed and operated effectively and efficiently in accordance  
7 with the requirements of this chapter.

8           (b) The corporation shall make all of its financial records  
9 available to an auditor appointed by the governor and to the legisla-  
10 tive audit division for examination. Disclosure to the public by the  
11 auditor or legislative audit division of this information is subject  
12 to AS 42.40.200 and rules implementing that section.

13           Sec. 42.40.280. STATE OVERSIGHT REPORTS. (a) The board shall  
14 provide a state oversight report to the governor and the legislature  
15 before undertaking

16           (1) expansion, reduction, or diversification of services  
17 provided by the railroad upon the date of transfer or as provided  
18 under this chapter that the board determines would represent a signif-  
19 icant and permanent change in the level and nature of services pro-  
20 vided;

21           (2) extension of the main or branch lines by more than 25  
22 miles or five percent of the railroad's total track mileage, whichever  
23 is greater; or

24           (3) the issuance of securities, notes, bonds or contracts  
25 with a term in excess of one year and in an amount exceeding  
26 \$5,000,000;

27           (4) an application for an appropriation to be used for  
28 providing any service that is not self-sustaining.

29           (b) The report under (a) of this section shall be in writing,

1 describe the proposed undertaking in detail, and specify

2 (1) its financial impact on the corporation;

3 (2) its impact on the level and nature of services provided  
4 by the corporation;

5 (3) the reasons the action is necessary or desirable to  
6 achieve the purposes of this chapter; and

7 (4) whether and when the undertaking is expected to be  
8 self-sustaining financially.

9 Sec. 42.40.290. LONG RANGE PROGRAM AND CAPITAL IMPROVEMENT  
10 PLANS. (a) The corporation shall prepare and the board shall adopt a  
11 long range program plan and a capital improvement plan. The board  
12 shall consult with affected state agencies in preparing the plans.  
13 The long range program plan shall explain the manner in which the  
14 corporation intends to accomplish the purposes of this chapter during  
15 each of the five years after the plan is adopted. The capital im-  
16 provement plan shall present and explain the corporation's anticipated  
17 capital improvements for each of the five years after the plan is  
18 adopted and shall reflect efforts to upgrade the railroad and develop  
19 safer, more cost-effective rail operations.

20 (b) The board shall annually review and update the long range  
21 program and capital improvement plans. The board shall provide copies  
22 of the updated plans to the governor and the legislature by December 1  
23 of each year.

24 Sec. 42.40.300. USE OF CORPORATION ASSETS. The corporation  
25 shall apply all money, property, other assets, and credit of the  
26 corporation toward activities authorized by this chapter. The corpo-  
27 ration may not issue shares of stock, pay dividends, make private  
28 distributions of assets, make loans to board members or employees, or  
29 engage in business for private benefit. The use of money, property,

1 other assets, or credit of the corporation for a purpose not author-  
2 ized by law by a person having the possession or control of it is  
3 prohibited.

4 Sec. 42.40.310. INDEMNIFICATION. (a) The corporation may  
5 defend and indemnify a current or former member of the board, em-  
6 ployee, or agent of the corporation against all costs, expenses, judg-  
7 ments, and liabilities, including attorney's fees, incurred by or  
8 imposed upon that person in connection with a civil or criminal action  
9 in which the person is involved by affiliation with the corporation,  
10 if the person acted in good faith on behalf of the corporation and  
11 within the scope of official duties or powers.

12 (b) The corporation may purchase insurance to protect and hold  
13 personally harmless its employees, agents, and board members from an  
14 action, claim, or proceeding arising out of the performance, purported  
15 performance, or failure of performance, in good faith, of duties for,  
16 or employment with, the corporation and to hold them harmless from  
17 expenses connected with the defense, settlement, or monetary judgments  
18 from that action, claim, or proceeding. The purchase of insurance is  
19 discretionary with the board and insurance is not considered to be  
20 compensation to the insured person.

21 ARTICLE 5. CORPORATION PROPERTY.

22 Sec. 42.40.350. LAND. (a) All land transferred under 45 U.S.C.  
23 1201 - 1214 (Alaska Railroad Transfer Act of 1982) or otherwise ac-  
24 quired by the corporation is under the control of the corporation.  
25 All land that is transferred or acquired by the corporation is des-  
26 ignated as follows:

- 27 (1) railroad rights-of-way or easements are railroad util-  
28 ity corridors;  
29 (2) land other than railroad rights-of-way or easements is

1 rail land.

2 (b) Railroad utility corridors shall be of a width at least 100  
3 feet on both sides of the centerline of the extended main or branch  
4 line, or may be of lesser width if the adjoining land is not rail  
5 land, and may be surveyed by the metes and bounds method. The corpo-  
6 ration may not convey land within a utility corridor. Except as  
7 provided in AS 42.40.420, the corporation may lease, grant easements  
8 or permits, or otherwise authorize use of portions of a utility corri-  
9 dor for transportation, communication, and transmission purposes and  
10 support functions associated with those purposes if the use does not  
11 restrict other parallel uses of the utility corridor.

12 (c) The corporation may convey, lease, grant easements or per-  
13 mits, or otherwise authorize use of portions of rail land. However,  
14 sale of rail land is subject to approval by the legislature.

15 Sec. 42.40.360. REQUEST FOR LAND. (a) The board may nominate  
16 federal land for railroad purposes and request the commissioner of  
17 natural resources to select the land for the state through the federal  
18 land selection process.

19 (b) The board may identify and request the commissioner of  
20 natural resources to convey land necessary or useful for present or  
21 future railroad purposes owned by or tentatively approved for transfer  
22 to the state, including land not adjacent to a railroad utility corri-  
23 dor. The request must include a statement of and justification for  
24 the present or future railroad use. Upon receipt of a request, the  
25 commissioner shall temporarily reserve the land identified in the  
26 request for railroad purposes and delay disposal or lease of that land  
27 under other laws to a party other than the corporation. The temporary  
28 reservation of land is subject to valid existing rights and remains in  
29 effect for 180 days.