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**Fiscal Year 1994-1995 Management
Performance Audit**
Public Review Document

Final

October 1994

**Prepared for:
The Alaska Railroad Corporation**

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Performance Audit**

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Prepared for:

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Prepared by:

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Introduction

This report contains the results of Mercer Management Consulting's (Mercer's) fourth annual management audit of the Alaska Railroad Corporation (ARRC).¹ Mercer performed the audit in September and October 1994 under contract with the ARRC Board of Directors in response to statutory requirement AS.42.40.270. The ARRC Board is required to have an annual performance audit conducted by a recognized railroad management expert to ensure that the railroad is being managed and operating effectively and efficiently.

This report contains the following four sections, as well as an appendix:

Section I: Scope of the Audit and Personnel Involved

Section I explains the subject areas covered in the audit, describes the information collected and reviewed, introduces the members of the audit team and their roles, and lists those on the railroad and its Board who were interviewed.

Section II: Update of ARRC's Financial and Operating Performance

Section II updates ARRC's calendar year 1993 financial and operating performance.

Section III: Findings of the Management Audit

Section III provides the basic findings of the audit in the various areas examined.

Section IV: Issues and Recommendations

Section IV draws upon the information and observations presented in Sections II and III to highlight certain issues of importance to the railroad and to make recommendations that Mercer hopes will be useful in the management of the railroad.

¹Mercer Management Consulting was formerly named Temple, Barker & Sloane/Strategic Planning Associates.

Section I: Scope of the Audit and Personnel Involved

Subject Areas and Approach

This year's management audit represents the fourth annual audit undertaken by Mercer.

- The first audit (for FY1991-1992) was devoted to developing a basic understanding of the railroad and its organization, operating characteristics, efficiency, markets, and physical condition. Special attention was also placed on examining the railroad's physical plant and maintenance, understanding its maintenance of way (MOW) practices and procedures, and observing its condition. This included a physical inspection of the main lines by a professional track engineer from a hi-rail vehicle and on the ground.
- The second audit (for FY1992-1993) updated the analyses of the prior year, reviewed the many management changes that had taken place since the last audit and their likely impact on all aspects of the railroad, and conducted a more detailed examination of the railroad's marketing/sales organization and an evaluation of its markets. A principal focus of this audit was a detailed examination of the Mechanical Department and the condition of the rolling stock by a well-known specialist in that field. The team also inspected the property from Fairbanks to Anchorage using the business car and took a hi-rail trip from Whittier to Anchorage.
- The third audit (for FY1993-1994) continued the practice of updating many of the analyses of the prior years' audits and reviewed continuing management changes. A brief examination was also made of the expected financial impact of the Seattle barge service that management took over in March 1993. Because a major revamping of the railroad's information systems was under way, Mercer also had two railroad information systems experts join the audit team to look at the railroad's MIS plans and progress.

For this year's audit, Mercer was asked to augment its regular review of the railroad with (1) an examination of the ARRC Seattle service to determine how the railroad has been impacted by this service, (2) a review of the adequacy of the marketing and sales organization to meet the challenges the railroad is facing, and (3) a look at the effectiveness of the Passenger Department.

Members of the Audit Team

The principal members of the audit team were Robert Waldner, Alan Dustin, and Michael Smith (resumes are presented in Appendix A). Their roles were as follows:

Mr. Waldner organized the inspection visit and interviewed key members of the railroad's management. He adds to the audit effort a broad national and international background in operations, planning, and marketing and has assisted railroads, other modes of transportation, financial institutions, government agencies, and users of transportation in a large variety of management assessment studies, including extensive operational reviews of freight and passenger railroads in North America and abroad.

Mr. Dustin interviewed key members of management, particularly in the railroad's administrative, personnel, safety, operations, mechanical, and engineering functions. He brings to the audit team many years of executive experience in managing freight and passenger railroads, and as a consultant has assisted a variety of clients with railroad management problems in the United States and abroad.

Michael Smith is an expert in Class I and regional and shortline railroad marketing. He brings to the audit team many years of experience in organizing marketing and sales departments and managing efforts to develop new business opportunities.

Railroad Personnel Interviewed

The inspection visit started on September 10, 1994, at Anchorage and ended on September 17, 1994. One member of the audit team visited Seattle. All members inspected railroad facilities in several separate trips by hi-rail vehicle and on the Seward passenger train. These inspections took place at Anchorage and south of Anchorage, including Whittier and Seward.

This year's audit consisted primarily of interviews with members of the ARRC organization at the headquarters building at Anchorage, a luncheon meeting with several members of the Board's Audit Committee, and discussions with staff at Seattle.

The following ARRC staff, Board members, and representatives from the Canadian National Railroad and Burlington Northern Railroad were interviewed:

- | | |
|--------------------|---|
| • James Blasingame | Vice President, Corporate Affairs |
| • Tom Brooks | Chief Engineer |
| • John Burns | Vice President, Real Estate |
| • Bruce Carr | Manager, Corporate Planning |
| • Sally Carter | Passenger Operations Supervisor |
| • Robert Cox | Vice President, Operations |
| • Frank Coletta | Manager, Safety and Health |
| • Richard Dyson | Manager, Labor Relations |
| • George Erickson | Manager, Marketing Development |
| • Cindy Gilder | Manager, Environmental Services |
| • Laurie Gray | Customer Representative, Canadian National Railroad |
| • Deborah Hansen | Manager, Marketing and Sales Operations |

- Robert S. Hatfield, Jr. President and CEO
- Larry Houle Manager, Passenger Services
- John Kincaid Chief Mechanical Officer
- Richard Knapp Vice President, Marketing
- Dale Lindsey Board Member
- Loren Lounsbury Board Member
- Evan McKinney Manager, Contracts & Supply
- John O'Meara Vice Present, Finance & Administration
- Janice Nolan Chief Train Dispatcher
- Curt Richards Sales Manager, BN
- Patrick Shake Superintendent, Transportation
- Janet Swanson Customer Service Supervisor
- Rob Halpin Sales Account Executive
- Wayne Parker Sales Account Executive
- Chelcie R. Eager Supervisor, Rates/Transfer/Delivery
- Don Claussen National Accounts
- Becky Grady Interline Services Coordinator
- Kevin Meier Customer Service Supervisor
- Katherine Adams Accounting: Audit Supervisor
- Sally Carter Station Supervisor
- Janet Swanson On-board Services Supervisor

Section II: Update of ARRC's Financial and Operating Performance

This section briefly updates ARRC's financial and operating performance, generally following the format used in prior Mercer audit reports. One exception is that comparisons with other U.S. regional and Class I railroads have not been made this year, as the essential points of the comparisons were raised last year and have not greatly changed since.

This update is presented in five subsections:

- Financial performance
- Freight and passenger contribution
- Freight traffic and revenues
- Passenger traffic and revenues
- Operating expenses

Financial Performance

In 1993, ARRC reported a corporate net loss of \$2.67 million, which represented a \$5 million decline from a net income of \$2.35 million in 1992. As shown in Exhibit II-1, almost all of the decline in income was due to an 8 percent decline in revenues while operating expenses held nearly constant. With losses from operations of \$5.90 million, the railroad's operating ratio (operating expenses as a percentage of revenues) surged to 110.4 percent from 100.9 percent in 1992. Non-operating income and expenses were relatively unchanged from 1992, with income from real estate being the principal reason that the railroad's net loss was held to \$2.67 million.

Losses generated by the railroad's transportation operations during 1993, and extending into 1994, caused ARRC to borrow nearly \$5 million on a short-term basis against its line of credit. This additional debt will further exacerbate ARRC's financial situation and undoubtedly have a chilling affect on its 1995 capital improvement program.

Freight and Passenger Contribution

The railroad's passenger service continued to make a significant contribution after variable costs are deducted from revenues. Variable costs are those costs that are most directly affected by the movement of trains and handling of passengers and/or freight and include fuel, train crews, station costs, freight car and locomotive maintenance, etc. The railroad's freight service had a substantial decline. As shown in Exhibit II-2, freight service contribution declined to \$11.5 million, a \$6.1 million decline from its contribution in 1992. Most of the decrease in contribution was due to the railroad's Seattle interline service.

Exhibit II-1

Financial Performance of ARRC: 1980 to 1993
(Thousands)

	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	Percentage Change From					
											1980 to 1985	1985 to 1990	1980 to 1990	1990 to 1991	1991 to 1992	1992 to 1993
Operating Revenue	\$25,544	\$57,092	\$47,239	\$45,457	\$51,207	\$55,065	\$61,913	\$61,773	\$61,840	\$56,920	123.5%	8.4%	142.4%	-	0.1%	-8.0%
Operating Expenses	33,187	55,413	54,264	46,490	48,898	55,453	59,904	59,630	62,427	62,822	67.0%	8.1%	80.5%	-	4.7%	0.6%
Operating Ratio	129.9%	97.1%	114.9%	102.3%	95.5%	100.7%	96.8%	96.5%	100.9%	110.4%	-	-	-	-	-	-
Income from Operations	\$-7,643	\$1,679	\$-7,025	\$-1,033	\$2,309	\$-388	\$2,009	\$2,143	\$-587	\$-5,902	-	19.7%	-	6.7%	-	-
Nonoperating Income																
Real Estate	1,687	4,085	4,934	4,821	4,438	3,932	3,718	3,592	3,616	3,732	142.7%	-9.2%	120.4%	-3.4%	0.7%	3.2%
Other Income	124	1,920	1,719	890	585	637	879	436	509	611	1,448.4%	-54.2%	608.9%	-80.4%	16.7%	20.0%
Other Expenses (Interest)	0	-561	-613	-1,661	-1,526	-1,204	-2,066	-1,729	-1,189	-1,114	-	268.3%	-	-16.3%	-31.2%	-6.3%
Net Income	\$-5,832	\$7,133	\$-985	\$3,017	\$5,806	\$2,977	\$4,540	\$4,442	\$2,349	\$-2,673	-	-36.4%	-	-2.2%	-47.1%	-

Note: Operating revenues and expenses have been adjusted to include reimbursables as a credit to expenses rather than as revenues. This is the normal practice in railroad accounting.

Exhibit II-2

Contribution After Variable Expenses
(thousands of dollars)

	1985	1990	1991	1992	1993	Change: 1992 to 1993
Passenger						
Revenues ¹	\$4,344	\$6,973	\$8,173	\$8,460	\$8,855	\$395
Expenses	4,752	5,080	4,987	5,335	5,400	65
Net	(408)	1,893	3,186	3,125	3,455	330
Freight						
Revenues	51,978	53,313	52,485	52,401	47,527	(4,874)
Expenses	28,865	31,782	35,701	37,877	39,469	1,592
Net	23,113	21,531	16,784	14,524	8,058	(6,466)
Total Net Contribution	\$22,705	\$23,424	\$19,970	\$17,649	\$11,513	(\$6,136)

¹Passenger revenues of \$8,460,000 shown for 1992 compare to \$9,076,000 in the Annual Profitability Study. This difference apparently represents revenues that in prior years were shown separately as Miscellaneous revenues with no associated variable expenses.

Freight Traffic and Revenues

ARRC's revenue ton-miles declined by 1.5 percent in 1993 (as shown in Exhibit II-3) but remained at a relatively high level compared to the 1980s. Revenues declined by 9.4 percent. The revenues shown, which include those of ARRC's Seattle service, are those that are left when the towing and other incidental expenses of the Seattle barge service that ARRC took over in March 1993 are deducted. Mercer found that the decline in total freight revenues can be traced largely to the impact of the Seattle barge service in that the additional revenues ARRC obtained when it took over the Seattle barge service were exceeded by its increased expenses.

Exhibit II-3

ARRC Freight Traffic

	Revenue Ton-Miles (millions)	Revenues (millions)
1980	271	\$21.7
1985	807	52.0
1990	1,104	53.3
1991	1,055	52.5
1992	1,108	52.4
1993	1,091	47.5
Percentage Change:		
1980 to 1985	197.8%	139.6%
1985 to 1990	36.8%	2.5%
1980 to 1990	307.4%	145.6%
1990 to 1991	4.4%	1.5%
1991 to 1992	5.0%	0.2%
1992 to 1993	1.5%	9.4%

Passenger Traffic and Revenues

Passengers handled by ARRC declined in 1993 by 4.2 percent from passengers handled in the previous year (see Exhibit II-4). All of this decline was the result of the cruise lines moving from Whittier to Seward. ARRC carries all of the cruise passengers calling at Whittier, as the Shuttle provides the only access from Whittier. However, most cruise tourists calling at Seward are bussed to and from Seward. The bus trip takes less time and is easier than the train to coordinate in loading; however, the train trip offers an outstanding scenic experience.

Revenue per passenger increased primarily due to the change in mix of passengers caused by the loss of the low-fare Whittier cruise passengers and to the growth in the relatively high-fare Seward business and a small increase in ARRC's Express fares.

Exhibit II-4

ARRC Passenger Traffic

	Passengers (thousands)	Revenues (thousands)	Revenue per Passenger	Revenues as Percentage of Total Freight Plus Passenger
1980	151	\$1,549	\$10.26	7%
1985	257	4,344	16.90	8%
1990	437	6,973	15.96	12%
1991	471	8,173	17.35	13%
1992	473	8,460	17.89	14%
1993	453	8,855	19.54	16%
Percentage Change:				
1980 to 1985	70.2%	180.4%	64.8%	
1985 to 1990	70.0%	60.5%	5.6%	
1980 to 1990	189.4%	350.2%	55.5%	
1990 to 1991	7.8%	17.2%	8.7%	
1991 to 1992	0.4%	3.5%	3.1%	
1992 to 1993	4.2%	4.7%	9.2%	

Operating Expenses

ARRC's operating expenses remained steady in 1993 compared to the prior year. As shown in Exhibit II-5, a \$1.4 million decrease in maintenance of equipment expenses was offset by a corresponding increase in G&A and MOW expenses.

Exhibit II-5

Comparison of 1992 and 1993 Components of Operating Expenses
(millions of dollars)

Expense Type	1991	1992	1993	Difference
Transportation	\$20.7	\$18.2	\$18.5	\$0.3
Maintenance of Way (MOW)	14.2	15.2	15.8	0.6
Maintenance of Equipment (MOE)	12.8	14.6	13.2	(1.4)
Subtotal Operations Division	47.7	48.0	47.5	(0.5)
G&A	11.9	14.4	15.3	0.9
Total	\$59.6	\$62.4	\$62.8	\$0.4

Note: As is the practice with the major U.S. railroads and many regional railroads, the following adjustments have been made: 1) Care hire expenses are included in Maintenance of Equipment rather than Transportation; 2) The depreciation expenses associated with each expense type have been included in this exhibit; 3) Casualty changes are included in Transportation; 4) Reimbursement revenues have been used as credits to expenses in each of the expense types; 5) To maintain consistency with 1993, all but \$200,000 of work equipment expenses in 1991 and 1992 have been transferred to MOW.

With somewhat lower traffic, the railroad's operating costs per gross ton-mile climbed 4.3 percent (see Exhibit II-6). Excluding the one-time fourth quarter charge of \$1.8 million, the railroad's cost per gross ton-mile would have remained steady at 1992's level. In fact, since 1990 ARRC has held its costs near 2.3 cents per GTM, which is an accomplishment in light of a 7 percent increase in the rate of railroad cost inflation.

Exhibit II-6

ARRC Operating Expenses

	Gross Ton-Miles (millions)	Operating Expenses (millions)	Operating Expenses per GTM	Operating Ratio (percentage)
1980	925	\$33.2	3.6	129.9%
1985	1,952	55.4	2.8	97.1%
1990	2,633	59.9	2.3	96.8%
1991	2,460	59.6	2.4	96.5%
1992	2,740	62.4	2.3	100.9%
1993	2,590	62.8	2.4	110.4%
Percentage Change:				
1980 to 1985	111.0%	67.0%	20.9%	
1985 to 1990	34.9%	8.1%	19.9%	
1980 to 1990	184.6%	80.5%	36.6%	
1990 to 1991	6.6%	0.5%	6.5%	
1991 to 1992	11.4%	4.7%	6.0%	
1992 to 1993	5.4%	0.6%	4.3%	

Section III: Findings of the Management Audit

This section presents the basic findings of Mercer's analysis of ARRC. Those topics where special effort was made are presented first; these include reviews of:

- The railroad's freight businesses and marketing/sales organization, with emphasis on the Seattle barge service because of its impact on the railroad's finances last year and its immediate importance to the well being of the railroad
- The railroad's passenger service, with emphasis on the costs of the services provided by the Passenger Department compared to its revenues
- ARRC's recent restructuring efforts

Following the special topics are comments on Mercer's routine review of the administration and operations functions of the railroad.

Review of ARRC's Basic Freight Business Components and Supporting Marketing and Sales Organization

In past audits Mercer has noted how vulnerable the railroad is to a relatively small traffic base with a few dominant customers. Recently the railroad's interline business was affected by the withdrawal of Crowley Marine Services as operator of the Seattle service, which forced management to make critical decisions on how to maintain its service to and from the lower 48 states. The ARRC marketing and sales organization has responded over time to new conditions in the interline and other businesses with organization and staff changes. The purpose of this section is to, first, review the current financial results of the new ARMS service and compare it with what was projected in the 1993/1994 audit review; second, examine the integrity of all major segments of ARRC's freight business; and finally, see how the Marketing and Sales Department is prepared to handle challenges facing the organization in the various lines of business.

Review of the Seattle Barge Service

This section examines the current status of the Seattle barge service between Seattle and Whittier that ARRC assumed responsibility for operating in March 1993. The performance this service had been expected to achieve is compared with what has actually taken place. Options and possible alternatives to improving or discontinuing this service are also discussed.

Review of Performance

Prior to March 1993, this service had been provided independently by Crowley Marine Services. Late in 1992 Crowley gave relatively short notice to terminate service, and ARRC management was convinced that sudden withdrawal from the Seattle market could cause some harm to the railroad's customers and jeopardize much of its profitable interline business. ARRC then acted to assume control of the service and hire Crowley for a period of five years to perform towing services and supply barges, thereby converting what previously was an independently operated

Crowley service (with Crowley taking most of the risks) to a contractual relationship with ARRC assuming all of the risks and Crowley assured a return with no risk.

Management's decision to take over the service had been justified in part by a number of expected benefits, most of which were reviewed in last year's audit:

- The railroad's profitable interline traffic to and from Seattle would be preserved.
- ARRC's control over the service would provide single control over what had been a two-party operation, and thereby enable a more flexible, customer responsive, and "seamless" transportation service for its customers.
- ARRC would be able to provide a faster response in pricing for customers, particularly in competing for the very limited southbound market.
- ARRC could exercise better control over scheduling the barge trips for service improvements.
- The service preserves a second outlet for railcar business and provides ARRC with some continued competition with CN's Prince Rupert service.

Management also believed that this arrangement could reduce the overall costs of providing the Seattle service.

In contrast to these expected benefits, Mercer was concerned in last year's audit that the financial risks associated with the service would be overwhelming and tax the capability of management to deal with them.

A review of 1993 financial results and a similar review of the results of the first full 12 months of ARRC control over the operation shows that management has been unable to make any progress in restoring its profitability. Conversely, the financial results have thus far been a disaster. As shown in Exhibit III-1, the results in 1993, which included two months of Crowley operations and 10 months of ARRC operations, were about what was expected – a loss of \$0.8 million. The results for the first full 12 months of operations, from March 1993 to February 1994, show losses further expanding to \$1.7 million and which, compared to 1992, represent a negative impact of almost \$5 million. Furthermore, Mercer has examined operations during the last six months, from March 1994 through August 1994, and has no reason to believe that the results will be any better in the second full year.

In conclusion, the combination of lower than required northbound loadings, insufficient increases in southbound loadings, and extensive weakness in per-load revenues all led to substantial 1993 losses that are worsening. Although the service benefits ARRC expected from taking over the Seattle barge responsibility were largely realized, ARRC was unable to capitalize on these benefits to preserve the financial contribution this service has made in the past. Under existing conditions, ARRC appears to have an insurmountable task to regain reasonable levels of profitability or even break-even. From Mercer's analysis, the service would have to be more than 100 percent utilized northbound or increase its southbound business from about 700 loads to near full capacity to achieve a contribution near that realized in 1992.

Assessment of Markets

Mercer reviewed ARRC's markets with the vice president, the AVPs, and their staffs. Discussions centered on the commodities that ARRC handled as well as services ARRC provided. In addition, the company's business plan clearly described ARRC's businesses.

ARRC has two basic lines of business:

- Interline, local carload services, and TOFC/COFC
- Unit train and block services

Interline, Local Carload Services, and TOFC/COFC

Interline, local, and TOFC/COFC constitute 27 percent of freight revenues while unit trains and block services make up 73 percent.

This line of business accounts for 26.6 percent of ARRC's freight revenues and 13.7 percent of its carloads. The interline traffic represents a particular quandary: This business presents an immediate opportunity for the railway to increase business volumes and revenues, but on the other hand, the Seattle portion is draining operating income from the railway. The variety of activities supporting the interline and other segments (two barge operations, a local pipe and log business, a number of railroad operated and/or funded transload operations, and a TOFC/COFC contract operation) also represent a major management challenge for ARRC.

Evaluation of Marketing and Sales Capabilities

Mercer reviewed the railroad's marketing and sales effort to evaluate the following:

- Adequacy of goals and objectives for each line of business
- Marketing & Sales department's understanding of its business and its reaction to business opportunities and problems
- Technical capabilities of the department
- Adequacy of information utilized by the department

- The current Marketing & Sales organization structure and its appropriateness for the railway

Adequacy of the Goals and Objectives for Each Line of Business

Any M&S organization needs clear goals and objectives from which to construct the Company's business plan. The ARRC's M&S department prepares a comprehensive market plan that provides in-depth information such as:

- Marketing:
 - Current market conditions
 - Competitive conditions
 - Pricing strategy
 - Government influences
 - Market plan
- Operations:
 - Current operations
 - Operations analysis
 - Service

This Market Plan provides a good basis from which a concise set of goals and objectives can be formulated. However, while the information in this plan has been used to outline goals and objectives for the company, it appears to be more of an "academic document" than a day-to-day guide for action. In practice, the M&S department pursues informal and individual strategies. There are often shared and practical, but outside the bounds of the business plan. During the year, goals and objectives tend to become reactive rather than proactive.

These observations are not meant to diminish the real accomplishments of M&S last year, such as the Mapco contract renegotiation. Nevertheless, the ARRC was reacting to someone else's agenda.

A good market plan must be regularly reviewed and continually updated to ensure the goals and objectives for the company are based on current and anticipated market and operating conditions.

Understanding ARRC's Business, and Reaction to Opportunities and Problems

Mercer reviewed the major markets with the Marketing & Sales staff and found that the staff has reacted practically and objectively to the majority of the business opportunities and problems.

The key elements of Mercer's findings were as follows:

- M&S personnel displayed a good understanding of the ARRC's existing business.
- The M&S department demonstrated a solid knowledge of customer demands, both in service and equipment requirements and in the competitive prices needed to move their products.
- The M&S department appeared to be aware of most marketing opportunities that might be available to the Railroad.
- Members of the department had ideas and were willing to express them; intellectual bankruptcy is not a problem in this department.
- M&S personnel were very concerned about the ARMS operation and its potential impact on the company.

The individuals interviewed reflected competency in their areas of responsibility, and Mercer observed an eagerness to become more involved with the Marketing & Sales activities of the company. Concern was expressed that responsibility was too fragmented; M&S Operations and M&S Support generally have to concur on rates, and this slows responses to customers and opportunities. Mercer notes that fragmented responsibility also lowers accountability for results.

Technical Capabilities of the Department

Based on the interviews with the M&S staff, Mercer feels that the technical skills and personal commitment required for an effective M&S organization are present on the ARRC. In any railway M&S organization, Mercer would look for the following:

- Experience in the railway industry
- Understanding of customer economics and markets
- Education, both formal and OJT
- Analytical and personal skills

The ARRC Marketing Department, like any organization, includes people with a variety of skills and experience ranging from adequate to excellent. Nonetheless, the total package constitutes a technically capable and solid organization.

Information Available and Extent Utilized by the Department

Mercer observed that key information is not dispensed or readily made available to the M&S staff. Major M&S initiatives tend to be handled by the VP with input flowing from the staff but not enough flowing back in return for comment nor sufficient staff participation in the outcome.

In addition, there is a problem with the distribution of data such as budgets, customer, and traffic information to the individuals who require the material. While the data are available, they are not in a form that is easily developed or adequately circulated.

As the saying goes, "you can't manage what you can't measure." Mercer found that most of the budget and marketing information managers need to perform their jobs effectively is collected but not easily retrieved from the computer system. As a result, the information flow most closely reflects an individual's knowledge and comfort with the computer system or members of the computer department. The computer department should prepare and distribute reports on budgets and traffic on a regular basis.

The Current M&S Organization Structure and Its Appropriateness for the Railway

Mercer has previously observed that the ARRC's Marketing & Sales organization is structured in a traditional manner. The current organization, which is similar to what one would have found on most railways in the 1960s and 1970s, comprises the following:

- Operations Group (Sales)
- Support Group (Pricing)
- Customer Service (part of the Support Group)
- ARMS

In previous audits, Mercer has stated that this structure should be examined for its appropriateness in the current competitive market. Specifically, Mercer has been and remains concerned about the following:

- That the distinction between sales and pricing dilutes the effectiveness of the people in the M&S department in terms of their dealings with customers and other railways
- That the shared responsibility for establishing a program creates an environment where accountability is difficult to determine

This structure also reflects the traditional distinction between marketing as revenue generation and operations as solely responsible for the movement of the freight. Most railways have abandoned this type of structure, since it does not properly support operations or necessarily handle its own responsibilities efficiently.

In reviewing the ARRC's Marketing & Sales organization structure and its role within the railway, Mercer looked at the type of organization one would expect to find, given the type of business that the ARRC currently carries.

For example, the ARRC business previously described breaks down into two basic categories:

1. Interline, local, and intermodal
2. Bulk and block train business

These are two very different types of business and these businesses each have the following characteristics:

- **Interline, local, and intermodal:**
 - Multiple transactions over a wide geographic area (e.g., rail-truck transfers, multiple rail connections, equipment supply issues, the barge service at Seattle, the loading operation at Houston, etc.)
 - Wide variety and large numbers of customers
 - Immediate, intense, and often low-priced competition
- **Bulk and block trains:**
 - Minimal transactions based on single-train and single-customer services
 - A limited number of customers who can support the heavy investments required to move their products
 - Competition that, because of the large investments required, tends to price and enter markets carefully

Given these types of business and their very different operating, customer, and competitive characteristics, Mercer expected the ARRC's traditionally organized M&S structure to handle these two lines of business independently. This was typical while traditional railway marketing & sales organizations were making the transition to the currently popular business group structure. For example, most traditional railway organizations that handled coal had a Coal Department, and Mercer would anticipate a similar formal organizational emphasis on ARRC's core business. But this was not the case.

What we found instead was a "mutating" organization. The M&S staff below the VP have informally adapted their traditional organization to the current markets out of need. As a result, the organization has acquired some specialization based on the characteristics of the markets serviced.

- The Support group has invested time and effort with the Operating Division in improving, monitoring, and promoting better equipment utilization. This reflects recognition of the fact that the promotion of good equipment utilization practices is essential to generating better margins on the core business and that this is a joint responsibility of M&S and the Operating Division.
- The Sales group has become more involved in pricing ARRC's services, after the reduction in Support personnel slowed the pricing work. For very practical reasons, the "healthy dynamic tension" that is used to defend the current organization structure critiqued in past audits is disappearing.

Out of necessity, the M&S staff has informally begun to adapt itself structurally to the categories of business outlined above. A lack of specific pricing people and the resulting delay in setting prices has encouraged Sales (Operating) with Pricing's (Support) concurrence to help establish rates, especially in the highly competitive and fast-paced interline business. In addition, Support has recognized the need for margins on the core business to be improved through better equipment utilization and has worked well with the Operating Division in an effort to accomplish

this goal. Mercer concludes that senior management needs to recognize that its M&S structure, driven by a talented and concerned M&S staff, is already evolving toward a "business group" orientation.

Left completely out because it doesn't "fit" logically into any one group of the M&S Department is the Seattle organization. The combination of distance and traditional organization in a non-traditional railway line of business has resulted in this group's receiving limited advice and direction. As a result, the skills, knowledge, and energy evident in this group are not being fully exploited. This group needs to be "placed" with someone.

Finally, Mercer feels that as a result of its evolving structure, the M&S organization is not as effectively fulfilling its role in terms of setting goals and priorities for the company. Further, its capable members are trapped in an unstable structure that often frustrates their creativity and certainly reduces their effectiveness. A better organization structure for M&S would yield the ARRC better results.

Review of Passenger Services

In 1993, ARRC's passenger patronage was down for the first time since the federal transfer in 1985. However, passenger revenues were up slightly due to increases in passenger fares and other charges, and the contribution of the service after direct costs of operating the service continue to be significant.

The performance of the railroad's passenger service should be examined in the context of the following components:

- ARRC's own commercial service on the Express and its train service between Seward and Anchorage
- An unsubsidized public service obligation to operate the Whittier Shuttle and Hurricane local service

Some observations with respect to these services follow.

Commercial and Public Service

The railroad's ability to market commercial and public services has met with mixed results.

The commercial and public service ridership appears to be leveling off and in certain areas is decreasing. In fact, ridership in 1993 was at the lowest level since 1989. This trend presents an urgency either to make the current passenger sales efforts more effective or to reduce the cost of rendering these services.

In reviewing this situation, the audit team found a number of commendable factors:

- The Passenger Department appears to make good use of its advertising funds and of the travel and entertainment industry conventions.

- A good training program appears to be in place, and the performance of on-train service personnel is well monitored.
- The appearance and condition of the rolling stock used in the trains appears to very good.
- The on-time performance of the key trains has improved in 1994.
- ARRC has a good relationship with tour industry representatives and has special trains to provide them with a first-hand experience to observe what the railroad has to offer.
- The railroad is aggressive with operating special trains for skiers and works cooperatively with other organizations.
- While the installation and implementation of a new reservations system has some initial problems, it should provide benefits and have some excess capacity that could be used to serve other travel organizations at a profit.
- Efforts to extend service beyond the traditional shoulder season appear promising.

Mercer found two significant deficiencies in the management of the passenger services, however. The first was a lack of definitive goals and objectives and a lack of any effective and meaningful measurement tools to determine how the department is meeting those goals and objectives. The types of detailed control information needed to make an accurate evaluation of the various services are:

- Performance measures such as passenger car-miles of the different services, and expenses such as on-board services incurred by specific trains. With accurate car-mile and train expense information, management can track the economic impact of different on-board service policies and can calculate the impact of the administration costs on the effectiveness of the department.
- Information on the proportion of seats sold on a wholesale basis to other organizations. With this information, management can determine how much it is spending (on a seat-availability basis) on retail marketing and how much this is costing in commissions.

The second deficiency was with the lack of day-to-day and continuing financial management and accountability within the administration of passenger service. While the quality of service appears to be very good, control over the costs of providing the services is inadequate or even non-existent. There is no evidence of an established discipline to monitor and control expenses by means of a standard budgeting procedure. The budget data exists but is not used currently in the marketing and sales hierarchy. For example, the 1994 budget was developed in normal fashion in 1993. But through the end of August no effort was made to obtain actual expenses for any of the months in 1994 to compare with the budget and determine variances so action could be taken. This is just one example of the lack of fiscal responsibility in the department. This occurred in spite of a full-time accountant assigned to the department. Some other examples of the lack of fiscal responsibility were:

- The department was unaware of the monthly cost to operate the reservation system and how this compares to commissions being earned.

- Management was unaware of the source of the monthly commission income.
- The department did not have readily available information on how much block space is sold at a discount to wholesalers (e.g., the glacier boats or other tour interests).
- The department did not appear to have a developed program to employ yield management techniques.

Mercer is also concerned about the effectiveness of the new reservation system. As outlined in last year's audit, this system was suppose to provide a number of benefits, such as: increasing ridership and revenues by reducing lost reservation inquiries; permitting better space management; broadening its marketing reach by linking to nationwide travel agency reservation networks; employing modern yield management methods; and improving opportunities to develop full-service travel packages with other tour operators to generate increased commissions. Unfortunately, the system was installed too late in the season to obtain full benefits, and there is no information that would permit Mercer to measure the system's success in attaining these benefits.

Review of Operations

The Operations Division ensures the safe, efficient, and timely transportation of passengers and freight and is responsible for over three-fourths of the total costs of operating the railroad. The Operations Division expenses (Exhibit II-5) have been relatively stable over the three years shown, at about \$48 million. Over this period general inflation in the United States has increased by about 3 percent annually while railroad inflation has increased by only 1 or 2 percent. This has been accomplished by general improvements in productivity, increased load per car for gravel and coal, and a significant drop in the unit price of diesel fuel.

The Operations Division consists of four separately organized groups:

- A management and administrative group, responsible for controlling overall operations and providing necessary supportive services such as budgeting, safety, and environmental coordination and oversight
- A transportation group, responsible for the movement of trains, the operation of yards, and traffic control
- A mechanical group, responsible for the maintenance of rolling stock, i.e., locomotives, passenger cars, and freight cars
- An engineering group, responsible for the maintenance and upkeep of the railroad's track, structures, and other property

Mercer looked at the management practices and performance in each of these areas, particularly at changes that have taken place or were being considered since the previous audit. Mercer interviewed appropriate operating staff and reviewed various materials provided; our observations on each of the groups are provided below.

Management and Administration

The Operations Division is managed by the Vice President of Operations and includes a support staff of about 17. Overall management of the Operations Division appears to continue to improve, especially as demonstrated by its ability to meet the challenge of a stagnant traffic base and reduced revenues. Mercer found that Operations management is using up-to-date information on the railroad's performance and appropriate approaches to monitor and control operations. At the time of the audit team's visit a new train and car management system was being implemented that should enhance the quality of real-time information available for management. It was unclear, however, what specific enhancements will be realized. Bruce Carr was assigned to assist the Operations Division in resolving these needs.

An important improvement in making service more responsive to the needs of the customers and in controlling the costs of providing that service was the institution of weekly service planning meetings between Operations and Marketing and Sales. These meetings have proven invaluable for both departments, allowing the exchange of information on current and proposed operations and business demands, as well as mutually beneficial decision making.

Environmental

Mercer last reviewed the railroad's environmental activities in the 1992-1993 Management Audit and expressed several concerns, which management has since addressed. One of the most important changes was to bring this responsibility under top management jurisdiction, which was accomplished two years ago with the addition of an environmental professional reporting to the Vice President of Operations. This group, including the manager, consists of a staff of four with responsibilities for the entire ARRC environmental program, including providing for the remediation/cleaning up and monitoring of contaminated sites, managing the appropriate disposal of waste generated by the railroad, keeping current on regulations for waste disposal, and providing required documentation and reports.

Mercer is not in a position with this audit to comment on the suitability of specific actions undertaken by staff, but the general overall effort appears to greatly exceed the practice of railroads its size in the lower states. Mercer surveyed a number of similar railroads in the lower states and found most had no separate environmental group or experienced individuals dedicated to this function. This clearly demonstrates the commitment ARRC has made to environmental concerns. Some recent activities are:

- Negotiating settlement of the \$1.8 million fine imposed by the Environmental Protection Agency for storing waste for a period over 90 days. This included follow-up inspections, as well as discussions with and presentations to state and federal officials. Final settlement was a fine of much less than the original \$1.8 million and a commitment to complete the following supplemental environmental projects:
 - Purchase additional buildings to store waste
 - Undertake an independent pollution prevention assessment at Anchorage Yard
 - Provide training to citizens of Alaska about environmental regulations

- Continuing remediation work on a priority basis for some 50 underground maintenance-of-way fuel storage tanks that had been removed. At each site the ground is being restored to its natural condition. These same efforts are being expended at former spill sites such as Broad Pass, Chase, and Aklutna. Dunbar is being closed out.
- Carrying out a program of environmental initiatives in an effort to earn a Green Star from the Chamber of Commerce. The Green Star is a prestigious award that is earned by successfully completing six mandatory steps and six elective steps chosen from a total of 12.
 - Winning the Green Star award will make ARRC more environmentally conscious and enhance its reputation as being environmentally concerned.
- In accordance with regulations, ARRC is presently conducting a detailed test of the physical condition of the 747,000-gallon fuel storage tank in Anchorage Yard. This includes a measurement of the thickness of the tank and lines as well as a pressure test.

Safety

Safety is a major responsibility of the Operations Division. Although the primary responsibility for safety and injury prevention rests with the individual operating departments, one safety staff officer reports to the Vice President of Operations. His responsibility is to keep the VP Operations fully informed in all safety matters, perform safety audits in the field, participate in safety meetings, assist the departments in developing and carrying out their safety programs, maintain appropriate records and documentation, and submit proper reports to the FRA and other authorities. Several years ago this responsibility was under the Personnel Department, which Mercer believes somewhat isolated this critical function from the operating departments where most of the risks for personal injuries occur.

This year Mercer was impressed by a continuation of efforts to improve the railroad's safety record and by the great improvement over the situation of just a few years ago. In the first audit in 1991 Mercer noted that a deteriorating personal injury situation had existed since the 1985 takeover from federal control. Mercer attributed the problem to a lack of top management commitment, poor morale and a low priority for safety in the line departments.

By 1992 significant change had taken place to effectively address the personal injury problem, and in that year's audit report Mercer commended management on its ongoing activities. Mercer also cautioned that results do not occur overnight, that it takes time to fully effect the necessary changes and to properly indoctrinate all employees.

The efforts of management are now beginning to yield meaningful results. Management successfully pursued an aggressive and many-faceted campaign to reduce personal injuries, and produced dramatic results from 1991 through 1993. As shown in Exhibit III-2 there was a progressive reduction in the number of injuries reported to the Federal Railway Administration. ARRC has also improved its standing relative to other railroads in its class in the United States. In 1991, ARRC, with 9.69 reportable injuries per 200,000 man-hours, was 17th among 27 railroads, but by the first half of 1994 this rate had declined to 4.61, placing ARRC 7th out of 20 railroads.

Exhibit III-2

ARRC Reportable Personal Injuries

Year	Ranking in Railroad Class	Number of Railroads in Class	Number of Reportable Injuries per 200,000 Man-Hours	Total Hours of Work (000)	Number of Reportable Injuries
1985	3	16	1.07	1,855	10
1986	7	13	4.54	1,808	41
1987	12	16	11.18	1,037	58
1988	17	22	9.63	1,059	51
1989	13	20	8.49	1,130	48
1990	16	26	8.83	1,155	51
1991	17	27	9.69	1,156	56
1992	12	24	7.73	1,191	46
1993	14	20	7.50	1,147	43
1994 (6 mo)	7	20	4.61		12
1993 (6 mo)	18	22	9.21		26

ARRC's progress is also evident in all three operating departments, as shown in Exhibit III-3. To provide a comparison of progress-to-date in 1994, this table compares the first eight months of all years from 1991 and shows the decline in reportable injuries and total incidents.

Exhibit III-3

First 8 Months of Year

Dept.	Reportable				Total Incidents			
	1991	1992	1993	1994	1991	1992	1993	1994
Eng'g	13	11	17	5	22	17	27	7
Transp	11	8	6	5	24	17	11	6
MP&E	4	11	12	7	9	24	24	14
Total Oper	28	30	35	17	55	58	62	27
Other	5	1	3	0	5	3	7	4
Grand Total	33	31	38	17	60	61	69	31

It is only through top management commitment, persistence, patience, and a variety of personal injury prevention programs, together with the ability to effectively reach all employees, that these improvements have been attained. It appears that ARRC presently has the proper mixture of dedication, prevention programs, and oversight to sustain this success. ARRC should

continue to realize continued improvements as time goes on so long as the efforts are undiminished.

Efforts that have contributed to the progressive improvements during the past year include:

- Continued training for the safety supervisor to better prepare him to carry out his responsibilities in the most effective manner, and to keep him abreast of those measures and programs that are proving most effective in preventing industrial accidents. Currently the Safety Supervisor is enrolled in a three-year training program with the University of Southern California.
- Appreciation awards have been fine-tuned or altered to make them more effective, and programs that have produced good results have been continued.
 - Cash certificates are available to individuals in recognition of specific achievements at the discretion of the department head.
 - Certain goals are established in concurrence with the employees. If the goals are successfully attained, cookouts or other similar events take place in celebration.
 - Different rewards for achievements, such as the five-year award of a "black jacket" for certain individuals, have been proven successful and are being continued.
- Formal training programs have been established to better prepare employees and supervisors to conduct more useful and informative investigations.
 - Supervisors and some agreement people such as stewards have been given a four-hour training course in how to investigate an accident to ensure that adequate information is obtained on a timely basis.
 - The form that is filled out when an accident is investigated has been improved and a formal checklist prepared to help the investigator develop all the facts and to see that all proper steps are taken and followed up on.
 - This program, which had provided training for about 70 employees at the time of this audit, will continue with enhancements.
- Safety committees, consisting of management and union safety representatives, that collectively identify problems, unsafe practices, or unsafe conditions have been in effect and working well for some time in the Mechanical and Engineering Departments but had not been initiated in the Transportation Department.
 - In 1994 a strong safety committee made up of management and UTU representatives (who represent the train operating crews and hostlers) was instituted within the Transportation Department. Periodic meetings are held with an advanced agenda, and minutes are distributed. The results of this committee should further enhance safety within the Transportation Department.

Transportation

The Transportation Department is responsible for \$18.5 million, or 39 percent of total Operating Division expenses. The audit team found that the Transportation Department is demonstrating

greater resourcefulness and flexibility in managing the railroad freight train services. The audit team noted the following:

- Management is administering effective budgetary controls.
- The internal communications within the department and external communications with other departments has been improved.
- Management has been more responsive in changing train service as customer requirements change and as opportunities to improve efficiency arise.
- Management has effected significant savings in streamlining yard operations and train management and administration.

The Transportation Department appears to have made significant progress toward fiscal responsibility by developing a realistic budget and controlling expenses through close monitoring. Expenses in 1993 were approximately the same as in 1992. In 1994 significant cost reductions were achieved, with year-to-date August 1994 expenses about 11 percent below the same period in 1993.

The department has also improved communication by having more frequent and scheduled staff meetings with formal agendas and by instituting morning conference calls to review the operations and activities of the past 24 hours and to discuss plans for future operations.

The railroad is showing a willingness to adapt freight train service in response to changes in traffic and customer needs and to the need to continuously improve railroad efficiency. While there were relatively few changes in 1993 compared to 1992, the railroad has recently instituted several important changes:

- The intermodal train between Anchorage and Fairbanks known as the FOX was discontinued in July. This train normally operated four days per week.
- To provide for limited intermodal space, capacity was added to the general freight train between Anchorage and Fairbanks to accommodate a maximum of 18 trailers.

As of the time of this audit there has been some disruption to the timely movement of interline traffic resulting from the change in train service. It is necessary to undertake additional switching at Anchorage to move high-priority shipments as room is available on the remaining trains. There is also some concern that the Healy crew change savings may be heavily diluted by the additional expense of having to send relief crews to trains that cannot make the Anchorage-Fairbanks run within the legal time of 12 hours.² Mercer is not in the position to evaluate the present status of these changes, but ARRC's willingness to experiment is very positive.

Finally, improved efficiency was achieved in August 1994 at Fairbanks and Anchorage by a reduction of intermodal activity and improved administration. Total transportation management,

²Subsequent to the audit team's visit, ARRC has decided to reestablish the Healy crew change because most FOX trains have not been able to make the trip in 12 hours.

administrative, and clerical staff at these locations were substantially reduced from a total of 41 to 26, or 37 percent. These changes are expected to result in annual savings of about \$1 million.

The following are a few concerns that the audit disclosed:

- Last year's audit disclosed that a reduction in switching at Fairbanks would be realized by having Mapco provide switch lists of its empty needs when the cars are unloaded in Anchorage. Apparently the railroad has been unsuccessful in getting the Mapco Anchorage staff to cooperate with its refinery staff to accomplish this.
- There appears to be evidence that significant customer switching is performed without charging appropriate tariff switch charges. There was also an indication that cars are being stored for customers without constructive placement and without the collection of appropriate charges.
- The audit team noted that shop tracks at Anchorage must be switched by yard crews, which consumes considerable time on a daily basis. Most railroads of ARRC's size have long given up this practice (if it existed) and now have shop staff position equipment within the confines of the shop tracks using track mobiles, while locomotives are moved by shop employees.
- The audit team is concerned that the morale of transportation staff has suffered from the many changes that have taken place.

Two additional matters concern the audit team. The first is the lack of emergency stop equipment on locomotives that automatically activates should the engineer become incapacitated; ARRC operates some of its passenger trains and freight trains without a second person in the cab. Mercer knows of no cases in the lower states on railroads with passenger and freight services in which trains are operated without such emergency stop equipment, and is concerned that a train could run in an uncontrolled manner for some distance before steps could be taken to stop its movement.

The second concern is over the current dispatching system and the procedures for incurring the safe separation of trains. Last year's audit report noted that a new computer-aided train dispatching system was being considered, but Mercer has since found that this is not being actively pursued. The need for such a system was made evident during the recent visit by the audit team.

- Immediately following the September 1994 derailment in the vicinity of Hurricane, a portion of the train involved in the derailment was temporarily held in Hurricane siding. In setting up a passenger train meet between the northbound and southbound Express trains, the dispatcher inappropriately arranged for the meeting to take place at the occupied Hurricane siding. When the two trains arrived at Hurricane, one had to back up to a prior siding so the meet could be made there instead. Other than considerable train delay and embarrassment, there was no risk of accident or injury. However, it does point out the potential for mistakes with the present dispatching system.
- Computer-aided train dispatching systems are implemented on many railroads to help the dispatcher control the safe movement of trains. For example, if a

dispatcher overlooks a conflict, the system will not permit the dispatcher to arrange for two trains to occupy the same track.

Engineering

The Engineering Department is responsible for \$15.8 million, or 33 percent of total Operating Division expenses. The following sections cover three areas of observations made by the audit team: (1) the railroad's relatively high level of engineering expenses compared to industry practice, (2) accomplishments of the Engineering Department since the last audit, and (3) issues of continuing concern to the audit team.

Expenses

The audit team continues to be concerned about the amount ARRC spends for the engineering work. On one hand there continues to be a large element of deferred maintenance, particularly with ties and rail; on the other hand in comparison to industry experience the railroad's expenses are much higher than what would be expected. It should be emphasized, however, that the railroad's engineering expenses are difficult to compare with other railroads because of some unique operating conditions that exist in Alaska and the distance of the railroad from railroad maintenance support services. Nevertheless, as noted in Mercer's first audit report, ARRC does have a ratio of engineering expenses to revenues and in 1993 was almost twice that of other major railroads in the lower states. Since the first report, Mercer has found this situation to be even worse when compared to railroads its size. This magnitude of discrepancy is difficult to explain solely from an examination of differences in operating conditions. The following items, based on discussions with management and our own observations, could cause the discrepancy:

- The lack of sufficient past capital expenditures for ties, rail, and other elements of track structure
- The inferior ballast upon which the railroad was constructed and used for many years after
- Distance from suppliers of railroad materials and services and contractors
- The lack of a physical connection with another railroad that would permit sharing facilities and equipment in an efficient manner
- The intensity of weather conditions with wide temperature variations and considerable snow
- Permafrost conditions on the north end
- The operation and maintenance of the Fairbanks power plant
- The way the department is organized and equipped to perform the necessary work

Mercer is not satisfied that these reasons adequately explain ARRC's high costs.

Activities

The audit team found that the Engineering Department is fulfilling its responsibility within its limited resources in four basic areas for which it is accountable. First, the railroad conducts a monitoring program similar to that used by most other railroads in the lower states.

- A rail defect car is operated over the railroad annually to identify a variety of physical defects in the rail. The 1994 rail defect test showed some increase in defects over 1993 and 1992.
- A rail geometry car is operated to disclose any significant aberrations in the condition of the track structure, such as gage and cross elevation. The results of these tests can be compared to those of prior tests to determine how the track is holding up to traffic conditions and to measure the effectiveness of maintenance programs undertaken between the tests. ARRC found that there were fewer deficiencies compared to the test in 1993.
- A fifth track inspection team consisting of two persons was added to the existing four teams, primarily to cover Anchorage Yard. These inspection teams perform routine track inspection and correct certain defects as required.

Next, the Engineering Department is conducting regular programs to provide for day-to-day maintenance of the track, structures, and facilities. The highlight of this year's program was the surfacing of 150 miles of track with 60,000 cubic yards of new and superior ballast. Approximately 18,000 ties and three track-miles of new rail were also installed. Positive measures of the maintenance performed this year include the on-time performance of the Express train and the running time of the Anchorage-Fairbanks freight train, which is the best it has been in the last four years. The department is also making some progress in attempting to better manage the bad vegetation/weed condition of the property by undertaking a special symposium to obtain public input and professional advice, to highlight the seriousness of the problem and allow review of potential solutions.

Thirdly, the railroad is making some progress in improving the life of the track structure despite the lack of sufficient capital investment funding to make adequate improvements. As the result of a detailed analysis by an industry expert in the field of rail grinding and confirmation by engineers from another railroad in Canada, a rail grinding program will be started this fall. This will entail grinding and re-profiling the rail head on most curves. This will provide some extended life to rail that would otherwise require replacement in the near future. The program will cover 100 track-miles of curves at a cost estimated to be \$1.3 million. Another effort to extend the life of rail is a rail-end welding program that began last year and has continued in 1994. The program involves one two-man gang using a track mounted welding vehicle. It is expected that this program will double in 1994.

Issues of Concern

The most important continuing problem facing the railroad and a subject of concern of past audit reports is the growing deficiency in tie renewals. The experience of the audit team is that the renewal deficit facing the railroad would not be so severe if the railroad had the cash resources to remedy the situation before an emergency arose. However, it does not appear that ARRC will have the funds to correct this growing problem in a timely manner. The need for rail

replacement may also present a similar problem, but the audit team is not in a position to assess this need. The tie and rail problem is evidenced this year by:

- The placement of speed restriction for the first time due to a tie condition
- Concern by the FRA over both the railroad's tie condition and rail condition for the first time

The deficient tie and rail condition increases the need for efficient day-to-day maintenance and reduces the opportunity to obtain the production gang benefits of program work.

Finally, the dock used by the cruise and pipe ships at Seward will need dredging and new fendering in the near future. It is unclear to Mercer how the commercial fees are established for use of the pier.

Reimbursable Work

ARRC has a number of projects for which the railroad provides services and receives compensation. This work nicely complements the work schedules of the railroad's maintenance personnel in that it provides work opportunities during slow periods that fall outside of the normal maintenance season. A benefit of this is that it helps the railroad maintain employment of a full-time, year-round, highly specialized work force. This, in turn, provides for workers who are familiar with all of the details and nuances of railroad construction work and for a work force well acquainted with the safety issues of operating trains within the confines of a construction site.

Mechanical

The Mechanical Department is responsible for \$13.2 million, 28 percent of total Operating Division expenses. Mercer found that the Mechanical Department is continuing to make good progress in properly maintaining the railroad's passenger and freight rolling stock. The following sections provide Mercer's observations on the department's activities during the past year and on the costs of maintaining the railroad's locomotive fleet.

Activities

The Mechanical Department has made progress in the following areas:

- The staff of the department has been reduced by about five individuals as a result of the recent buy-out program and as part of an effort to improve productivity.
- The expenses of the department have been kept below budget.
- The railroad's 50-year-old open top hoppers were retired and disposed of.
- Quantum speed and activity event records are being installed on the locomotive fleet. This is an important step in providing monitoring information on the operation of locomotives and trains.

- An apprentice program approved by the unions and the state Department of Labor has been implemented and is working out well.
- A program is under way to significantly improve the condition of the railroad's caboose fleet, which consists of seven cabooses.

Mercer is concerned about the following matters:

- Because of labor resistance, management has been unable to successfully implement a plan to contract out most of its rolling bearing work. Doing so would have provided some cost savings, warranty coverage, and the ability to make better use of technicians now doing this work.
- Management is still attempting to develop the necessary management control reports from the new information system.

Locomotives

The performance of ARRC's locomotive fleet has progressively improved in condition and reliability. There have been fewer failures, reliability has been good, and the proportion of locomotives out of service is in line with railroad industry standards.

As reported in Mercer's first audit (FY91-92) there was some deferred maintenance of the railroad's locomotives. This resulted, by the fall of 1991, in 22 percent of ARRC's usable locomotives waiting for repairs or inspection. The current audit found that this situation has improved to 16 percent, enabling management to return four locomotives that were under lease from EMD for a number of years.

It is noteworthy that this achievement has been realized only by a commitment by management to bring the fleet up to a normalized condition. ARRC's direct costs of locomotive maintenance reflect this effort, having increased by 14 percent from 1990 to 1993. As shown in Exhibit III-4, expenditures in 1992 reflect management's efforts to normalize the condition of the fleet by undertaking an aggressive overhaul program. The overhaul program is expected to continue to keep the fleet in its present condition.

Exhibit III-4

Locomotive Direct Maintenance and Inspection Costs
Including labor, materials, and purchased services
(millions)

Year	Amount
1990	\$3.0
1991	3.1
1992	3.8
1993	3.3

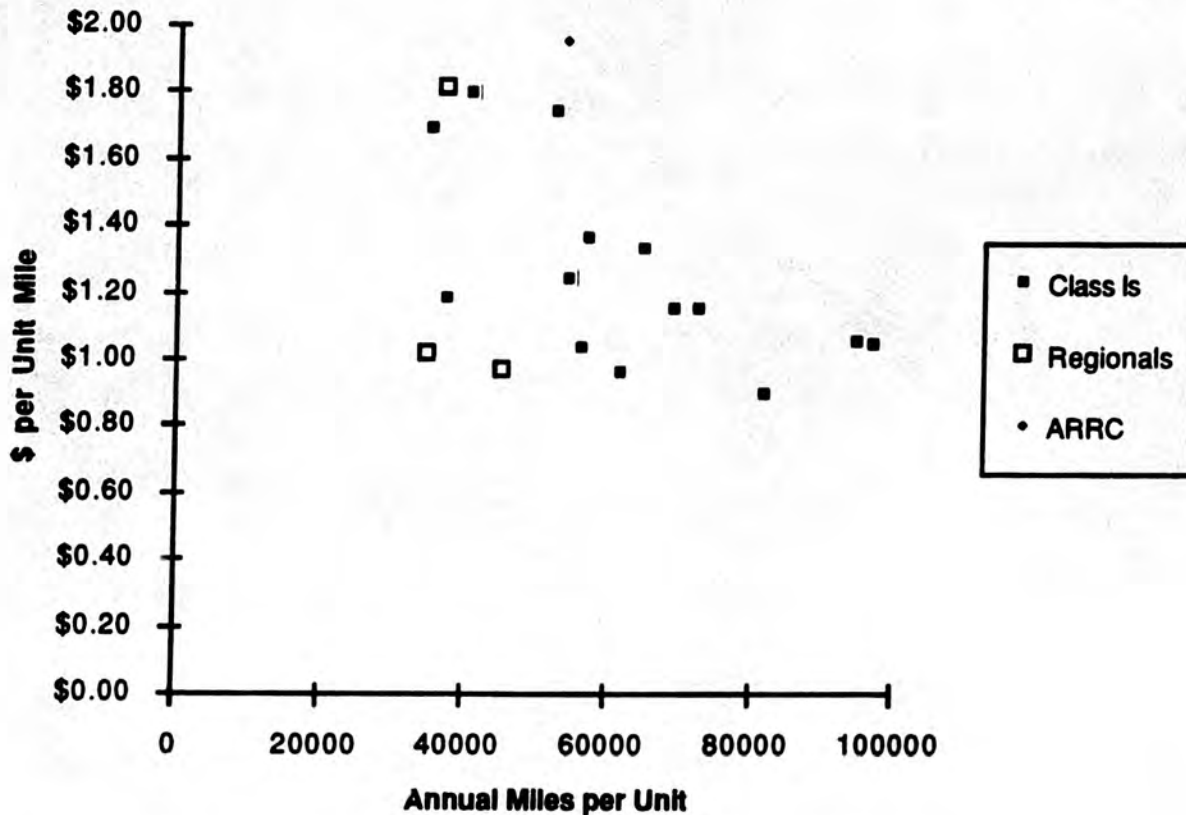
Mercer observed in the FY91-92 audit that the cost of ARRC's locomotive maintenance was somewhat higher than comparable costs of other railroads in the lower states (even though ARRC's maintenance expenditures were low because they were not doing sufficient overhauls). In 1993 ARRC's costs per locomotive-mile, a common means of comparing locomotive maintenance costs, was significantly higher than what would be expected in the railroad industry (Exhibit III-5).³ It is not entirely clear to Mercer why this cost is so much higher, but discussions with management and other experts have revealed some possible causes:

- Costs in 1993 are still somewhat higher because of a higher than normal number of overhauls performed to catch up on deferred maintenance
- Difficult operating and weather conditions
- Distance of the railroad from industry suppliers and contractors
- Age and condition of repair facilities

³ The calculation of ARRC's per-mile cost included the direct costs shown in the exhibit plus an allocated portion of shop and administrative expense.

Exhibit III-5

ARRC versus Class I and Regional Locomotive Maintenance
(maintenance cost per locomotive-mile versus annual miles per locomotive)



Real Estate

Real estate income continues to play an important part in the finances of ARRC, as it has for most railroads in the United States. Railroads are at a distinct disadvantage compared to their motor carrier competitors as they must incur all of the expense of maintaining a right-of-way, track, and structures.⁴ To partially compensate for this burden, railroads have relied on income from their real estate and other sources. Mercer estimates that railroads receive about \$8,000 per mile from these sources. This compares closely to what ARRC has been receiving in recent years.

ARRC's real estate earnings in 1993 were \$3.7 million. This is approximately 25 percent lower than what ARRC formerly received in the mid-1980s, shortly after transfer of the railroad from

⁴Conversely, trucks can share road improvement and maintenance costs with automobiles. Even in this regard there have been many engineering studies that show current road use charges for trucks fail to compensate for the extra costs trucks cause in the construction specifications of highways (specifically in road alignment, more moderate grades, and in other construction requirements) and in the maintenance of roads.

the federal government. Income from real estate reached a high of \$4.9 million in 1986 due to the more vigorous economy.

The Real Estate organization, which consists of a staff of five, appears to be well organized and will likely enjoy the earnings upswing from the lull in income during recent years. Some of the more important matters that are being pursued are:

- Continuation of the hotel, restaurant, and recreational vehicle park at Fairbanks on railroad property. The hotel is scheduled to open in June or July 1995, the RV park next summer, and the restaurant in 1996. These should have a very positive impact on real estate income and passenger patronage.
- Lease of land at Talkeetna for construction of a Princess Tours hotel. This will provide income for the leased property and should increase passenger ridership.
- Development of the Whittier area. Cruise ship landings at Whittier and Seward have increased in recent years from 92 calls in 1993 to 102 in 1994 and 126 expected in 1995. Larger cruise ships are expected to again revert to Whittier for docking. Whittier will provide the best location for development and increased passenger income for the railroad.
- A new fiber optics contract, which will generate about \$450,000 annually over a 15-year period.
- Real Estate is working with procurement to lease Warehouse Number 1 to an outside concern.

Section IV: Issues and Recommendations

This section reviews the recommendations made last year and summarizes management's response. The second part of this section uses the insights gained from this year's audit, which are presented in Sections II and III, to develop a set of new recommendations.

In Section A, last year's recommendations and actions taken in response are summarized, and in Section B this year's recommendations are presented.

A. Action Taken on Last Year's Audit Report Recommendations

In the FY1993-1994 management audit Mercer reported a number of recommendations to the Board for consideration. Most of the recommendations did not require significant expenditures, as Mercer was well aware of the limited capital funds available for investment.

Management has been very conscientious in responding to Mercer's recommendations in past years. Obvious time and effort has been expended by ARRC management, its staff, and Board members in evaluating the recommendations and in composing their ultimate decisions.

Management thoroughly reviewed the 28 recommendations presented in last year's audit and submitted a detailed response to the Board on January 11, 1994. This response was discussed at the January 19, 1994, Board meeting. Management basically agreed with 22 of the items, disagreed with 5, and did not comment on another.

Of the 22 that were agreed upon, all but one has been the subject of positive action or required no further remedy. The one on which no action has been taken could not be pursued because of insufficient funding.

The status of the various recommendations, organized into the various categories as they appeared in last year's audit report, follows.

Management

Specific action has been taken on three of the five recommendations that were agreed upon:

- Management has been aggressive in continuing to find ways to streamline administrative support services and effect manpower reductions in most areas of the railroad, as evidenced by:
 - The restructuring process that was conducted early in 1994 to determine the baseline needs of the administrative and other needs of the railroad under specific scenarios
 - An early retirement and separation program that resulted in management and administration reductions throughout most of the system

- Attempts are being made to develop a much more realistic revenue budget with a spending plan driven by that forecast. Unfortunately, the results of the railroad for the first eight months of 1994 are not very favorable.
- Management disagreed that a more independent status for the planning function should be developed, other than within the Marketing and Sales Department, claiming that its location within the railroad management organization was not important.
- There was also disagreement with the development of a realistic contingency plan in the event the Seattle barge service proves to be unacceptable. Mercer now believes this to be of even greater importance.

Marketing and Sales

Of the six recommendations directed toward this department:

- Three were adopted and certain steps initiated for their implementation, all dealing with effecting improvements to the Seattle barge service.
- One concerned the need to hold the line on export coal rates, which was agreed upon but thought to be partially outside the ability of ARRC to control.
- Two recommendations were rejected:
 - Integrating the pricing function within the Marketing and Sales Department to improve customer response was disagreed with on the grounds that the present organization creates a healthy dynamic tension within the department responsibilities.
 - Establishing an accounting format to compare the "new" Seattle operation with those prior to the change was disagreed with, as was the suggestion that good revenue/expense data was necessary to better manage ongoing operations.

Management Information Systems

Management agrees with the four MIS recommendations, and efforts are under way to carry out three of them. The fourth, a need to strengthen internal MIS project management to successfully complete application projects, was agreed to in part, but management disagrees that the expertise must rest in MIS. The user department must provide its own project management.

Safety

Of the three recommendations for personal injury prevention, two were agreed with and steps taken to carry them out. However, there was disagreement with the suggestion that outside services be retained to assist in the safety effort. Management is of the opinion that the steady improvement realized through 1993 makes this unnecessary.

Passenger

There was general agreement on the two recommendations in the passenger area, but no action was taken to lengthen the scheduled running time of the express train. Performance did improve this past season without effecting any schedule change.

Real Estate

Management's response to the one recommendation concerning the impact Emergency Rule 17 might have in hindering the development of the railroad's real estate for passenger and freight needs, pointed out that no projects have been presented for which any loss or impact would be measured.

Operations Division

Management was in accord with the six recommendations and has taken positive steps on all but one.

- In the Engineering department, steps are being taken to reduce heavy equipment inventory and continue efforts to solve the vegetation problem throughout the system. However, the department is unable to start a program to reduce deferred maintenance in tie renewals due to inadequate funding.
- Transportation has taken corrective measures in response to their two recommendations, and Mechanical is again looking at the feasibility of using locomotive coolant/lube oil heating systems to reduce fuel consumption while engines are idling during winter months.

B. New Observations and Recommendations

This section presents a number of recommendations Mercer has developed as a result of the subjects covered in Sections II and III of this report. In fact, several of these recommendations refer specifically to findings covered in detail in Section III.

Seattle Service

An immediate effort should be undertaken at the highest management level to eliminate the significant losses being incurred by the present Seattle barge operation.

The substantial losses resulting from the present operation demand that the ARRC establish a course of action based upon a realistic forecast of the continued financial impact of this service in accordance with a complete evaluation of each of the following alternative scenarios.

A senior RR official should be selected to manage this task. It is important that person be impartial, have good analytical skills, have some degree of independence, and be able to generate the results on a timetable that will be developed for completion.

Management should take a variety of steps to lower costs and increase revenues of the present Seattle service.

- To ensure an adequate supply of freight cars for the Seattle consolidation business and reduce car hire costs, ARRC should continue its efforts of leasing or acquiring cars to meet those requirements so long as they are economically justified.
- To ensure existing and to expand source loaded traffic, ARRC should investigate supplying appropriate cars to the UP and BN source loaded equipment pools in order to overcome the reluctance of BN and UP to solely supply this equipment.
- ARRC should carefully analyze the present costs of contracting with North Star at Seattle to perform consolidation services and aggressively negotiate with Crowley to improve efficiency and reduce costs. Also, to employ improved management oversight on a day-to-day basis.
- ARRC should continue the development of an additional or substitute consolidation service at Seattle with priority given to the Sea-Pac facility located on the BN. This could result in a suitable but less expensive service and would also provide some competitive leverage in dealing with North Star.
- In order to provide management with a clear understanding of the progress or deterioration in the economics of providing the Seattle service, ARRC should organize the barge operations, Seattle terminal operations, and staff as an independent profit center. Revenues should reflect those allocations of revenues that were formerly earned by Crowley prior to takeover. Expenses should include all expenses that were new to the ARRC since takeover including the proportion of car hire costs formerly assumed by Crowley.
- ARRC's Marketing and Sales Department should be charged with developing a comprehensive marketing program to generate an increase in the higher revenue, source-loaded traffic which would include improved communication and cooperation with other railroads in the lower states as well as a broader scope of customer contacts. The success of this effort should be measured through the use of a specific, attainable set of goals and objectives with milestones along the way.
- ARRC should consider closing the Seattle office facility and relocating its staff to a point much closer to the terminal base of operations, possibly North Star. This would undoubtedly offer some savings in office rental together with the opportunity for improved efficiency of the staff.

ARRC should be more aggressive in investigating opportunities to lower costs, increase revenues, and improve service by integrating all or part of its barge operation with that of the CNR and other potential partners in the Pacific Northwest. ARRC should:

- Aggressively continue to pursue a reasonable integration of barge service with the CNR working toward a goal of establishing a cost-effective weekly sailing schedule to and from Seattle/Price Rupert and Whittier.
- Initiate discussions with Ketchikan Pulp and Paper (KPP) to determine their interest and benefits to the ARRC resulting from an integration of service through the use of ARRC excess barge capacity.

- Initiate discussions with British Columbia Railway and Canadian Pacific Rail concerning areas of potential cost reductions or additional revenue opportunities through a coordination of barge service.
- Investigate feasibility of coordinating with other parties involved in marine service on the Alaska/Canadian/Lower 48 service on utilizing the North Star facility for transloading and consolidation, thus lowering ARRC's share of North Star costs.

If the timetable for at least reaching breakeven is found not to be achievable, steps should be taken to immediately terminate the present Seattle barge service and develop a partnership with the CNR to divert as much of the better business as possible via Prince Rupert.

To enhance the competitiveness of the service, ARRC should establish a more predictable sailing schedule.

The absence of a regular sailing schedule, e.g., every Tuesday from Seattle, frustrates shippers who depend on routines in their shipping programs. Shippers and their serving railways require set schedules so that shipments are timely, car utilization predictable, and operations can be better coordinated.

Marketing and Sales

In establishing rates for export coal, ARRC should include in its cost the entire expense of maintaining the track and structures south of Portage.

Without export coal, ARRC could not justify continued operations beyond Portage as the remaining freight and passenger traffic is insufficient.

ARRC should establish a strategy for lowering its operating costs on export coal through a relocation of its export coal facility from Seward to a more easily accessible deep water port.

Examples would be Whittier or, if adequate funding were available for track construction and port development, Port McKenzie. In order to remain competitive in the world export coal business, it is essential that operating costs and excessive capital resources such as locomotives and track devoted to this line of business be significantly reduced.

ARRC should improve its Anchorage transloading capabilities and services by establishing a new operation in warehouse #1.

ARRC, if it is to offer a competitive interline business, requires a truck/container competitive facility that will promote the efficient, low-cost, and safe transfer of products from railcar to truck under all conditions. The ARRC's warehouse #1 would be perfect for this function as well as providing temporary storage and inventory services if required.

Marketing and Sales should restructure its M&S Department to reflect the two major lines of freight business described in Section III and establish suitable profit centers in each of the two areas.

Most railways in North America have adopted business group organizations for Marketing and Sales. This practice combines services and/or commodities into logical business units whose managers are held accountable for meeting the railroad's objectives. To facilitate maximum control over the success of the two lines of business, a profit center approach should be considered for each. ARRC has capable managers whose skills and energy could make such an organization successful.

In implementing profit centers for each of the business units, management should develop its information capabilities to appropriately monitor operations and to control its activities in meeting its specific goals and objectives.

Whether profit centers are established or not, Mercer found that M&S's current use of information, particularly for the Seattle service, is inadequate to effectively monitor progress. Providing the information necessary to evaluate the Seattle service in an ongoing objective manner should be top priority with management.

To remedy this situation, management should assess its information needs, then work with MIS to obtain the necessary reports in proper format on a timely basis.

Passenger Recommendations

Establish the railroad's passenger services as a profit center with a strong set of objectives and a well-defined strategy to monitor ongoing performance and exploit its potential.

Mercer found a lack of accountability in that management was not using cost control methods on a current basis, nor did it have adequate information on how the different passenger services were performing financially. It appears that management's current effort is focused primarily on day-to-day operations with limited attention to the revenues and expenses or future direction. Mercer found that the information necessary to establish adequate cost control measures and develop analyses to guide future strategy is available but currently is not being accessed.

- Many of the costs of this service are either directly incurred (i.e., passenger department and coach maintenance budgets) or can be closely estimated (e.g., locomotive maintenance) to provide a reasonable basis for measuring performance against revenues.

A strong manager should be appointed and placed in charge of this passenger profit center and provided with a clear set of performance expectations.

Management should actively pursue a variety of measures to make the railroad's non-Pull service more profitable, such as:

- Reduce staff at Portage

- Consider ways of reducing on-board staff by improving their efficiency, such as the use of the PA systems through the cars
- Contract out the reservations system and use excess reservation system capacity to provide service to other travel companies

Management should carefully study its approach to adding capacity to the Express train and under what conditions, if any, a second train should be added.

A dilemma facing management is that the Pull operators may add enough equipment to use the full capacity of the Express train.

Management should conduct an audit of its reservation system to determine whether the anticipated benefits were realized and confirm its financial justification.

This project was justified on the basis of increasing revenues, and Mercer was not confident that this would occur. Reasons for not attaining the goals of the system should be known as this might be useful information for improving the integrity of future capital project requests.

The passenger department should employ yield management techniques to maximize its revenues and improve equipment utilization.

The department's manager appears to manage yields through seasonal and third-party discounts. However, Mercer is concerned that there appears to be no overall strategy for how these discounts should be applied and how the new reservation system can be used in the yield management process.

Management should review the safety aspects of inviting passengers to occupy the rear vestibule of the Seward train.

A member of the audit team observed passengers in the rear car vestibule looking out of the open top of the dutch doors or the rear expandable gate. This proved to be a popular vantage point but poses a potential safety hazard for unattended children. If this policy is to continue, a higher gate should be installed to prevent climbing over it, and the use of the vestibule should be more closely monitored by railroad staff.

Management

Post-audit reviews of capital projects should be performed routinely to ensure that the project was carried out within budget, on schedule, and that the purpose of the project has been achieved.

An established post-audit process will encourage the development of more accurate proposals and justification of projects as the sponsor will be held accountable.

Management should vigorously pursue capital improvement funding through available federal sources.

Over the past two decades, the federal government has provided enormous grant funds (billions of dollars) to state-owned and -operated passenger and freight railroads as well as some privately operated freight railroads.

Transportation

Management should move forward expeditiously in the implementation of a computer-aided dispatching system

This is especially important on a railroad such as ARRC, which does not have signal protection and where passenger trains operate.

Management should consider installing an emergency stop apparatus, at least on its passenger locomotives.

As noted in Section III, such apparatus is almost always used by railroads in North America for safety.

Management should undertake a cost-benefit analysis of extending certain key sidings to permit the operations of longer freight trains. This should improve the efficiency of train operations and improve service.

Management should press Mapco to overcome the present impasse in obtaining advanced switch lists for spotting empties at the refinery.

The necessary cooperation from Mapco staff to permit the preclassification of empty tank cars at Anchorage should be sought at the highest levels of management necessary. Mercer notes that if this were instead a Mapco pipeline, the pipeline would not be able to operate without this type of advance planning information.

Instead of switching the Anchorage shops with a yard crew, management should consider equipping mechanical department employees with a Trackmobile, or other type of car mover.

In addition to reducing switching costs, this would provide the mechanical department with switch movements more closely aligned with its own needs.

Mechanical

Management should take a close look at the cost of locomotive maintenance to make sure that it fully understands the reasons why its cost per locomotive-mile is higher than on most railroads in the lower states (with similar utilization experience).

Mercer realizes that ARRC has to contend with some unique factors, which in aggregate appear to justify higher costs, but it is unclear whether these fully explain the higher costs.

Engineering

Management should take a close look at the cost of maintenance-of-way to make sure that it fully understands all of the reasons for the railroad's very high costs as discussed in Section III.

The railroad, with the assistance of industry experts, should undertake a detailed analysis to make sure that its extremely high engineering expenses are suitably explained by the railroad's unique operating conditions. Mercer is of the opinion that a review of the present method of performing day-to-day maintenance could result in a more efficient and cost-effective maintenance process. As in the case of the rail grinding program, good use may be made of outside expertise.

ARRC should attempt to mitigate its vegetation control problem through an innovative approach, with the financial support of the EPA or other similar agencies.

ARRC should investigate the opportunity of obtaining EPA or other federal funding for experimental vegetation control. The railroad's vegetation problem has reached near-crisis levels and must be addressed.

Appendix A

Robert B. Waldner

Mr. Waldner, a senior consultant to Mercer Management Consulting, is a specialist in transportation with a focus on railroads, freight and passenger. He has served in operating and marketing capacities within the railroad industry and has more than 20 years of experience as a transportation and general business consultant. He has addressed problems requiring a broad knowledge of the marketing, regulatory, operating, and financial environment in which the railroad industry functions. Mr. Waldner's consulting work includes the following projects:

- In 1992, helping Agent Banks assess the preparedness of the EruroTunnel (France-England tunnel) management to operate the tunnel railway
- Assisting several railways abroad in evaluating the efficiency and effectiveness of their commuter railway operations
- Performing an annual review of the operations of the Alaska Railroad, which contracts with two companies for their luxury tourist train operation
- Helping Amtrak design and use passenger train costing systems, work that involved custom-designing cost models for approximately 20 trains
- Assisting railroads, motor carriers, and state and federal agencies with transportation market analysis and forecasting
- Preparing forecasts of future freight car needs for equipment suppliers and determining the value of freight cars owned by lessors
- Helping coal companies review their coal transportation needs
- Assisting various users of transportation in developing transportation costing methodologies
- Furnishing general counsel on railroad market prospects, operating costs, asset requirements, and asset valuation to financial institutions, railroads, shippers, and parties interested in acquiring railroad properties
- Assisting a European government in reviewing the operations of its rail system and in designing new intermodal services for the Channel tunnel
- Helping railways determine the reasonableness of their rail freight rates
- Assisting the American Association of Railroads and a lessor of freight cars in determining the marketing impact of combination trucks on the railroad industry

Mr. Waldner was previously a senior associate in the operations management practice at Mercer. Before joining Mercer, he worked at Harbridge House, Inc.

Robert B. Waldner

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Earlier, Mr. Waldner was with Illinois Central Industries, where he served as director of service evaluation in the Information and Control System Department and, later, as director of service and equipment evaluation in the Market Research Department. His responsibilities included designing an information and control system and preparing reports for obtaining better control of operations. He also served the St. Louis-San Francisco Railway in both operating line and staff capacities. He helped implement one of the first successful service quality control systems in the railroad industry and assisted with the application of terminal and network models to railroad operations. At Melpar, Inc., he was involved in systems design and operations research.

Mr. Waldner received a B.S. in engineering from Princeton University and an M.S. in transportation engineering from Cornell University.

Alan G. Dustin

Mr. Dustin has almost 20 years of experience as a senior executive of small to-medium-sized railroads.

He recently served for more than four years as vice president and general manager of New Jersey Transit Rail Operations, where he was responsible for the operation of a growing commuter service with an annual operating budget of \$255 million and a capital budget of \$175 million. Under Mr. Dustin's leadership, the railroad increased ridership by 40 percent while reducing rail costs per passenger mile by 15 percent; achieved a 60 percent ratio of fare-box recovery to operating expenses, the best in the nation for a rail commuter operation; and successfully carried out, under traffic, a massive program for rehabilitating and improving track and facilities.

As president and chief operating officer of the Boston & Maine Corporation/Maine Central Railroad, Mr. Dustin participated in the planning and implementation of the consolidation of these two railroads following their purchase by Guilford Transportation Industries, Inc. He was responsible for the operation of freight and commuter service with an annual budget of \$200 million and developed strategies for improving profitability.

Earlier in his career, as president and chief executive officer of the Boston & Maine Corporation, Debtor, Mr. Dustin turned around a bankrupt \$180 million freight and commuter railroad, guiding it through a reorganization that led to its sale as a viable company. In this capacity, he negotiated innovative wage, work rule, and crew size agreements, saving \$8 million annually; established a strong marketing department that developed more than \$22 million in new sources of revenue to offset losses from a shrinking industrial base; and reduced annual labor costs \$5 million over a 10-year period by consolidating, mechanizing, and centralizing station agencies, train control towers, and manual crossing protection.

Mr. Dustin has also served as executive vice president of the Bangor and Aroostook Railroad, chairman of the board of the Pittsburgh and Shawmut Railroad, and division superintendent of the Erie Lackawanna Railroad.

Michael V. Smith

Mr. Smith, a Consultant to Mercer Management Consulting, specializes in railway marketing and sales. His experience includes: directing teams in creative management and development of marketing, sales, and acquisitions programs for small and regional railroad clients; supervising annual rail car, rail-highway transfer and intermodal revenue development up to \$15 million; managing small and mid-market carriers for interim periods during transitions and start-ups; performing due-diligence analysis for mid-market acquisitions; and managing a locomotive leasing division that is profitable.

Previously, Mr. Smith worked as acting vice president for marketing and sales at Wheeling & Lake Erie Railway, where he restructured WLE's failed marketing and sales effort on the basis of specific commodity and car type responsibilities for each member of the department. WLE was able to increase its carloadings by almost 4 percent and its revenues by over 10 percent, despite a poor economy and a reduced department staff. Utilizing existing personnel, Mr. Smith established a car management group on the WLE that was able to generate savings in per diem and lease expenses for the railway of over \$30,000 per month.

Prior to working at WLE, Mr. Smith was executive vice president at Toledo, Peoria & Western Railway Company. There he was responsible for arranging financing and acquisition, managing the marketing and sales department (which grew traffic revenue levels by 28 percent in a one year period), and negotiating joint use of the Remington, IN intermodal facility.

Mr. Smith was also a vice president at the Boston and Maine Railroad Corporation and founder of its marketing department. He oversaw the design and implementation of marketing programs which resulted in the receipt of three coveted industry awards for marketing excellence from *Modern Railroads*. Under his direction, B&M achieved significant revenue growth (from \$76 million to \$115 million) and traffic growth (from 12.6 million tons to 13.2 million tons) while Conrail, the B&M's largest volume connection, lost over one-third of its total business during the same time period. Mr. Smith also successfully managed the start-up of BMX, a B&M trucking subsidiary that served the intermodal purposes of the railroad. Mr. Smith was president of BMX.

Mr. Smith holds a B.A. in political science from Amherst College.

**Fiscal Year 1997-1998 Management
Performance Audit**

Public Review Document—Final

November 1997

**Prepared for:
The Alaska Railroad Corporation**

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**Prepared for:
The Alaska Railroad Corporation**

**Prepared by:
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Introduction

This report contains the results of Mercer Management Consulting's seventh annual management audit of the Alaska Railroad Corporation (ARRC).¹ Mercer performed the audit in September and October of 1997 under a contract with the ARRC Board of Directors in response to statutory requirement A.S.42.40.270. The ARRC Board is required to have an annual performance audit conducted by a recognized railroad management expert to ensure that the railroad is being efficiently managed and operated.

This draft contains the following four sections:

Section I: Scope of the Audit and Personnel Involved

Section I reviews the topics covered by previous audits and this year's audit, describes the principal members of the audit team, and lists those on the railroad and its Board who were interviewed.

Section II: Update of ARRC's Financial and Operating Performance

Section II contains a review of the overall financial performance of the railroad using data that has been tailored for and by Mercer so that ARRC's current performance can be compared with past performance as well as that of other railroads.

Section III: Findings of the Management Audit

This section contains Mercer's findings in the areas of railroad activity specifically selected for review and includes the key observations and concerns of the audit team.

Section IV: Issues and Recommendations

This section examines the actions that management has taken on last year's audit observations and recommendations and then presents additional observations and recommendations based on this year's audit.

¹ Mercer Management Consulting was formerly Temple, Barker & Sloane/Strategic Planning Associates.

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Section I: Scope of the Audit and Personnel Involved

Subject Areas and Approach

This year's management audit is the seventh annual audit undertaken by Mercer. Prior audits have covered a variety of topics; a summary of these is provided in Exhibit I-1.

For the current audit, Mercer concentrated on two topics:

- A review of the railroad's safety and personal injury record. This review was requested by the railroad's audit committee, as management is concerned about an increased number of personal injuries at ARRC.
- An examination of the proposed locomotive acquisition program, which envisions the dramatic step of replacing ARRC's relatively old locomotive fleet with new state-of-the-art locomotives. Because of time limitations with respect to the replacement decision, Mercer provided a preliminary review of the proposed program in a letter, sent approximately one week after the visit of the Mercer team. This audit report includes the information from that preliminary review together with some additional observations.

Because of the level of effort required to fully evaluate these two topics, the report does not provide detailed analyses on any additional areas, except maintenance-of-way.

Inspection trips that were undertaken included riding the Express and the Whittier Shuttle and hi-railing over the track where recent federally funded tie and ballast projects had been undertaken.

Exhibit I-1
Focus of Previous Management Audits

Audit Year	Primary Topics Covered
FY 1991-1992	• For the first audit, Mercer developed a basic understanding of the railroad and its organization, operating characteristics, efficiency, markets, and physical condition. • Special attention was given to examining the railroad's physical plant and maintenance, understanding MOW practices and procedures, and observing the railroad's physical condition. This included an inspection of the main lines by a professional track engineer.
FY 1992-1993	• Analyses of the prior year were updated and Mercer reviewed the many management changes that had taken place since the last audit and assessed their likely impact on all aspects of the railroad. • A detailed examination was made of the railroad's marketing/sales organization, the Mechanical Department, and the condition of rolling stock. The team also inspected the property from Fairbanks to Anchorage using the business car and took a hi-rail trip from Whittier to Anchorage.
FY 1993-1994	• In addition to updating analyses from the prior years' audits and reviewing continuing management changes, Mercer made a brief examination of the expected financial impact of the Seattle barge service, which ARRC management took over in March 1993. • As a major revamping of the railroad's information systems was under way, two railroad information systems experts joined the audit team to look at the railroad's MIS plans and progress.
FY 1994-1995	• Mercer examined the financial impact of the new Seattle barge service arrangement that ARRC had established with Crowley Marine and looked at options available to help lessen the financial burden of the arrangement. • The Marketing and Sales organization was assessed to determine its adequacy for meeting the challenges facing the railroad and market opportunities were evaluated. The audit team also analyzed the effectiveness of the Passenger Department.
FY 1995-1996	• Mercer conducted a special examination of the condition of the railroad's track and structures and assessed the effectiveness of the Engineering Department to adequately and efficiently maintain the railroad. • The audit also described the most essential future maintenance requirements of the railroad, together with recommendations as to how this might be best achieved.
FY 1996-1997	• The audit team undertook a special review of the railroad's passenger services. The increased importance of this business, plus the recent appointment of a new director to manage it, suggested that this was an appropriate time for an in-depth review. • Mercer also examined the impact of management changes involving newly recruited personnel as well as changes in responsibility for top management staff.

Members of the Audit Team

The principal members of the audit team were Robert Waldner, Alan Dustin, and Hollis Henderson (resumes are presented in Appendix B). Their roles were as follows:

Mr. Waldner organized the inspection visit and interviewed key members of the railroad's management. He brings to the audit effort a broad national and international background in operations, planning, and marketing. He has assisted railroads, other transportation carriers, financial institutions, government agencies, and users of transportation in a large variety of management assessment studies, including extensive operational reviews of freight and passenger railroads in North America and abroad.

Mr. Dustin focused his efforts almost entirely on the personal injury review. He also interviewed key members of management. His personal injury knowledge stems from his experience as CEO of several railroads; in that capacity, he made personal injury reduction a major priority. He has also been a major contributor to the personal injury observations contained in past Mercer audits of ARRC.

Mr. Henderson is a well known railroad industry expert on locomotives and other mechanical equipment. He also has experience with facility maintenance. He has undertaken numerous special studies for Mercer worldwide and brought to this audit a wealth of experience on the mechanical, engineering, and personal injury issues covered.

Railroad Personnel Interviewed

The audit was conducted on the property of ARRC between September 10 and September 13, 1997. The first day entailed an inspection of the Fairbanks mechanical facilities, a ride on the Express from Fairbanks to Denali, and a hi-rail trip south to Anchorage. Over the remaining three days, the Mercer team met with key management in the various areas being studied and undertook an inspection trip to Seward and Whittier.

Following is a list of those individuals interviewed:

- | | |
|----------------------|--|
| • James Blasingame | Vice President, Corporate Affairs |
| • Tom Brooks | Chief Engineer |
| • Thomas Cannon | Business Development & Transportation Analyst |
| • Frank Coletta, Jr. | Manager, Health and Safety |
| • Joshua Coran | Chief Mechanical Engineer |
| • David Eagle | Vice President, Real Estate |
| • George Erickson | Vice President, Marketing, Sales, and Transportation |

- Don Freestone **Manager, Locomotive Operations**
- Deborah Hansen **Manager, Passenger Business Unit**
- John Kincaid **Chief Mechanical Officer**
- Rick Leggett **General Roadmaster**
- Dale Lindsey **Board Member**
- Evan McKinney **Vice President, Maintenance and Engineering**
- Patrick Shake **Transportation Superintendent**
- Bill J. Sheffield **President and CEO**
- Steven Silverstein **Senior Director, Freight Services**

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Section II: Update of ARRC's Financial and Operating Performance

This section, as in previous audits, provides an overview of ARRC's financial and operating performance and compares it with performance in prior years.

Financial Performance

ARRC had another good year in 1996, posting record earnings for the second straight year (see Exhibit II-1). The modest improvement in 1996 earnings over 1995 earnings was due entirely to investment activities, including increased interest income and decreased interest expense, which together offset a slight decline in contribution from railroad operations and real estate.

ARRC's results from operations have leveled off but continue to benefit from recent efforts to reduce costs. Also for the second year in a row, ARRC's operating ratio (operating expenses as a percentage of operating revenues) fell below 95 percent. Although this is an improvement over previous years, it should be noted that even small expense increases would quickly erase this operating contribution.

The results of ARRC's real estate activities are more disappointing from the viewpoint of their unfulfilled potential. In Mercer's previous audits, this potential has been noted by management and substantial growth in real estate earnings has been projected, yet relatively little earnings growth has actually occurred. Some modest growth did occur in real estate revenues in 1996, but this was more than offset by expense increases.

Exhibit II-1
Financial Performance of ARRC – 1980-1996
(\$000)

	1980	1985	1990	1991	1992	1993	1994	1995	1996	Percent Change			
										1980-85	1985-90	1990-95	1995-96
Operating													
Operating Revenue	\$ 25,544	\$ 57,092	\$ 61,913	\$ 61,773	\$ 61,840	\$ 56,920	\$ 51,844	\$ 60,177	\$ 62,195	123.5%	8.4%	-2.8%	3.4%
Operating Expenses	\$ 33,187	\$ 55,413	\$ 59,904	\$ 59,630	\$ 62,427	\$ 62,822	\$ 57,934	\$ 56,072	\$ 58,187	67.0%	8.1%	-6.4%	3.8%
Operating Ratio	129.9%	97.1%	96.8%	96.5%	100.9%	110.4%	111.8%	93.2%	93.6%				
Income from Ops.	\$ (7,643)	\$ 1,679	\$ 2,009	\$ 2,143	\$ (587)	\$ (5,902)	\$ (6,090)	\$ 4,105	\$ 4,008	0.0%	19.7%	104.3%	-2.4%
Non-Operating													
Real Estate	\$ 1,687	\$ 4,095	\$ 3,718	\$ 3,592	\$ 3,616	\$ 3,799	\$ 3,941	\$ 4,568	\$ 4,435	142.7%	-9.2%	22.9%	-2.9%
Other Income	\$ 124	\$ 1,920	\$ 879	\$ 436	\$ 509	\$ 544	\$ 222	\$ 206	\$ 429	1448.4%	-54.2%	-76.6%	108.3%
Other Exp. (interest)	0	\$ (561)	\$ (2,066)	\$ (1,729)	\$ (1,189)	\$ (1,114)	\$ (1,256)	\$ (1,008)	\$ (863)		268.3%	-51.2%	-14.4%
Net Income	\$ (5,832)	\$ 7,133	\$ 4,540	\$ 4,442	\$ 2,349	\$ (2,673)	\$ (3,183)	\$ 7,871	\$ 8,009		-36.4%	73.4%	1.8%

Note: Operating revenues and expenses have been adjusted to include reimbursables as credit to expenses rather than as revenues. This is the normal practice in railroad accounting.

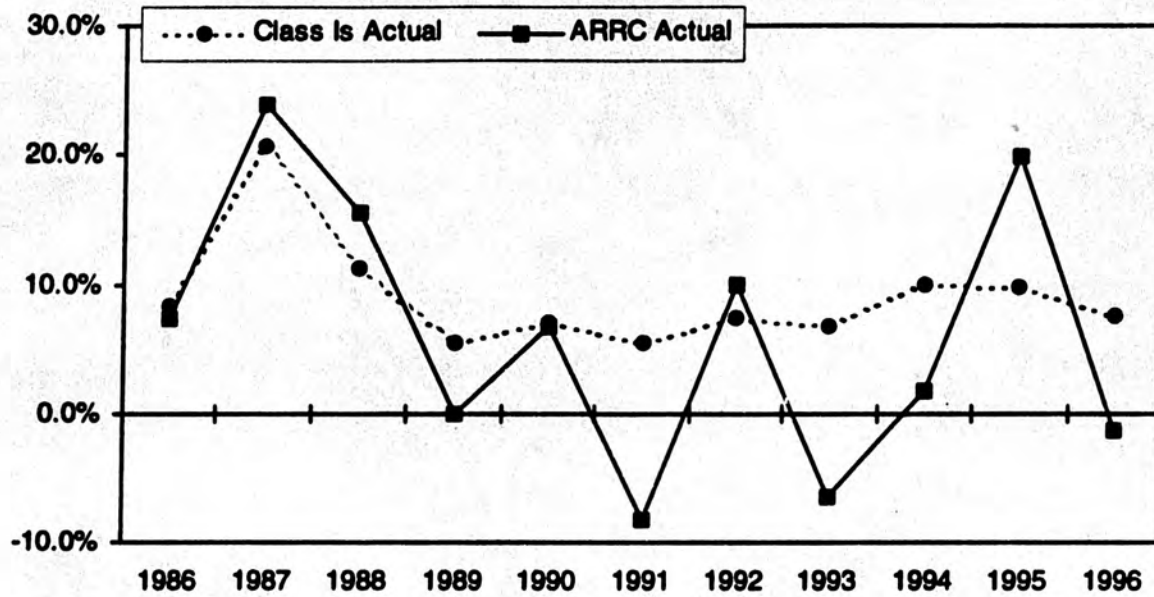
Employee Productivity

The railroad industry has been and continues to be under pressure to reduce costs in order to compete effectively with other transportation modes. Obtaining substantial improvement in employee productivity has been a key element of most railroads' cost reduction strategies. The major U.S. Class I railroads, for example, have improved employee productivity an average of 9 percent a year over the past 10 years (see Exhibit II-2).

The major Class I railroads have made a considerable commitment to improving employee productivity and are considered to be the pacesetters for the industry in this regard. In using the Class I railroads as a benchmark to evaluate ARRC's level of employee productivity improvement, Mercer recognizes that the comparison may be slightly distorted, since ARRC's figures include both passenger and freight employees. However, since 85 percent of ARRC's revenues are freight-related, the effect of the passenger component, in our judgement, is not sufficient to offset the overall trend, which indicates that ARRC's level of productivity improvement per year is actually declining versus that of the Class Is'. Over the 1986 to 1996 period, ARRC's employee productivity improved by about 6 percent a year on average. If we examine only the period from 1990 to 1996, however, we find that productivity improvement averaged only about 4.5 percent per year (half that of the Class I railroads).

Since many of the methods used by the Class I railroads to enhance employee productivity are unrelated to whether a railroad hauls freight or carries passengers, it is not likely that the passenger component of service is responsible for ARRC falling so far below the Class I benchmark. Some of the difference is likely to be remedied by projects currently under way, such as the locomotive fleet upgrade. Mercer believes, however, that ARRC will need to take a more extensive look at the factors that are holding employee productivity down if it wants to achieve a more aggressive level of improvement.

Exhibit II-2
ARRC Staff Productivity versus U.S. Class I Railroads – 1986-1996
 (percent annual change in average revenue ton-miles per employee)



Contents

Introduction

**Section I. Scope of the Audit and Personnel
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**Section II. Update of ARRC's Financial and
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→ Section III. Findings of the Management Audit

Section IV. Issues and Recommendations

Appendixes

Appendix A. Safety Database

Appendix B. Resumes

Section III: Findings of the Management Audit

This section presents the basic findings of Mercer's review of the railroad. Each year, Mercer's audits generally focus on one or two topics, rotating among major functional areas. This approach has allowed us to examine most railroad activities in detail over time. Additionally, Mercer provides every year a somewhat less intensive review of other elements of the railroad's functions.

This year, ARRC requested that we specifically focus our efforts on two areas:

- A review of the reasons underlying the persistent occurrence and recent alarming increase in employee personal injuries during the past two years
- A review of the proposed locomotive replacement program, which represents a dramatic change in fleet composition with little precedent on other railroads of ARRC's size and operating characteristics

Safety Review

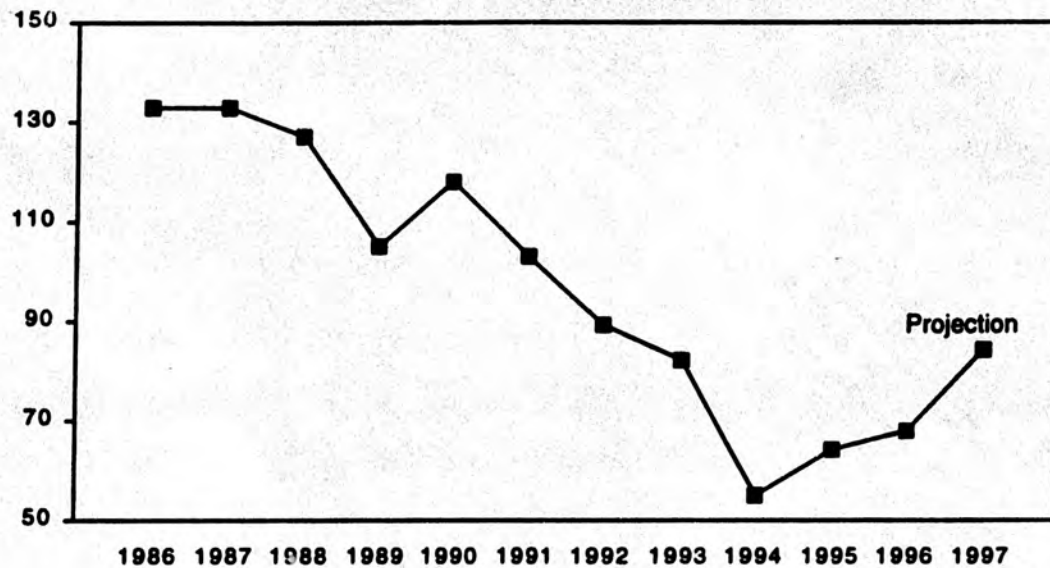
Overview

Mercer recognized that a persistent personal injury problem existed on the railroad during our first audit in 1991. We reported at the time that there appeared to be a "lack of commitment from top-level management, low morale, and a low priority given to safety in the line departments," and offered several recommendations.

Late in 1991, a number of changes were made in top management and the commitment to safety was significantly strengthened. The president of ARRC placed a much more intensive and aggressive emphasis on personal injury prevention activities and this attitude permeated throughout the entire organization. Consequently, continuous improvement was made in reducing total injuries up until mid-1996. During 1996, the incidence and severity of employee personal injuries increased; in 1997 thus far the situation has become even worse. Mercer believes that it is most appropriate for ARRC to be very concerned about this alarming rise in injuries.

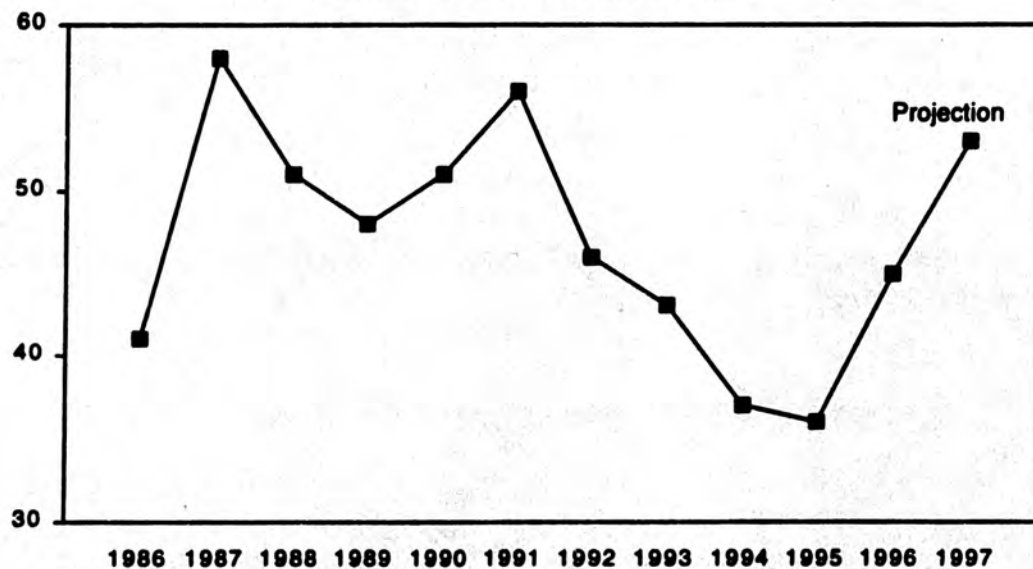
Exhibits III-1 through III-3 provide an overview of employee personal injury statistics for 1986 through 1997 using the three most common methods for reporting personal injuries: total incidents, FRA "reportables," and injuries resulting in lost time. As shown, the total number of personal injuries declined dramatically through 1994 and those that were classified as FRA "reportables" nearly kept pace. Lost time injuries, however, did not follow this downward trend.

Exhibit III-1
Annual Number of Total Incidents
 (fourth quarter of 1997 is projected)



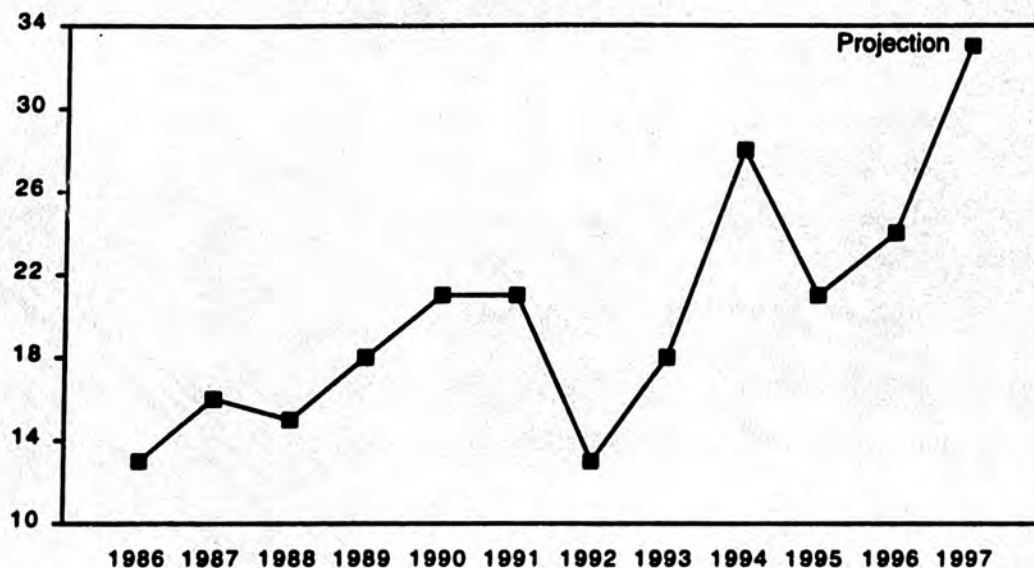
Note: Projected 1997 was based on actual results over the first nine months projected to twelve months, assuming the same injury rate occurs during the last three months of the year.

Exhibit III-2
Annual Number of FRA Reportable Injuries
 (fourth quarter of 1997 is projected)



Note: Projected 1997 was based on actual results over the first nine months projected to twelve months, assuming the same injury rate occurs during the last three months of the year.

Exhibit III-3
Annual Number of Lost Time Injuries
 (fourth quarter of 1997 is projected)



Note: Projected 1997 was based on actual results over the first nine months projected to twelve months, assuming the same injury rate occurs during the last three months of the year.

Methodology

To better understand the problem and to identify possible steps that might be taken to reduce injuries, Mercer undertook a comprehensive review and analysis that included:

- Interviews with the president and CEO, a board member, operating vice presidents, department heads, health and safety manager, and administration leaders
- A review of the safety rule manual, personal injury and investigation report requirements, safety programs, external evaluation of employee perceptions of ARRC personal injury program and activities, FRA statistics, and proposed measures to be implemented
- Development of a database that catalogues all personal injuries from January 1, 1995, through September 30, 1997
- Gathering statistics on the three measures of personal injury reports from 1986 through 1997

Database Development

To properly assess the nature of personal injuries sustained by employees at the railroad, Mercer compiled a detailed database of personal injuries for first quarter 1995 through third quarter

1997. To compile the database, Mercer undertook a detailed review of each individual personal injury report and then assessed the likely cause of injury.¹

- **Factual Information** – Mercer's database includes the following information about each incident, obtained from individual personal injury reports:
 1. Employee name, age, occupation, and department and date of incident
 2. Years of service in present occupation
 3. Seriousness of injury (lost time, FRA, or non-reportable)
 4. Number of lost time and/or light-duty days
 5. Type of injury (sprain, cut, etc.)
 6. Body part affected (head, shoulder, back, etc.)
 7. Supervisor's name
- **Probable Cause Information** – Considerable time was devoted to categorizing each incident according to probable cause and preventability. This was the most challenging aspect of developing the database, as it required a detailed review of all of the factors and information available. Unfortunately, a number of the reports provided insufficient detail, so that some guesswork was required. In developing causal factors, Mercer drew upon the combined expertise and experience of the members of the Mercer team, including the team's knowledge of ARRC operations.

The following criteria were used to categorize each personal injury into what Mercer considers to be meaningful groupings and to determine the common sense reasons for most incidents. An assessment was made for injuries in two of the categories, "work practices" and "unsafe conditions," to determine if ARRC could have possibly prevented the injury.

- **Carelessness:** Personal injury could have been prevented through the exercise of more care in performing duties, and the injury occurred either because the employee did not know any better, did not use good judgement, or was not paying attention.
- **Work Practices:** Injury occurred when performing routine duties. Culpability was often shared between the employee and the railroad. In some cases, improper work practices were followed and/or wrong tools used.
- **Unsafe Conditions:** Injuries caused by an event beyond the control of the employee; some of these, however, could have been prevented by the railroad.

¹ Appendix A provides an excerpt of the database, showing the information used for statistical analyses. This excerpt includes all of the information discussed under "factual information" and "probable cause information" except employee and supervisor names and employee occupations.

- **Non-event:** Personal injury reports that could not be traced to any particular causal activity by the employee, such as a slip, trip, fall, etc. Some represented a recurrence of a prior injury.

Reportable Injury Measures

Mercer examined personal injury rates on the basis of the three measures most commonly used to evaluate a railroad's performance with regard to the success of its personal injury prevention activities:

1. **Total incidents** – Includes all instances of personal injury experienced while on duty, regardless of the level of severity.
2. **Federal Railroad Administration (FRA) reportable injuries** – FRA's reporting criteria require that an incident be reported to the FRA if:
 - a. Time is lost due to the injury
 - b. Light duty is required
 - c. Medical treatment is required beyond first aid
 - d. Certain medication is prescribed

For FRA reporting purposes, it is not necessary that an employee lose time. It is mandated that railroads report personal injuries in the prescribed manner and that audits be performed to ensure compliance. FRA criteria provide a wide latitude as to the seriousness of the injury; based on the criteria, a reportable injury can range from one that is very serious or a fatality to a very minor one that requires only over-the-counter medication. Mercer believes the real value of the FRA's "reportable" requirements is that they provide a consistent method for reporting by all railroads and can thus be used for benchmarking purposes to compare railroad performance.

3. **Lost time injuries** – Those injuries that cause an employee to lose time from regular duties, regardless of the number of days lost. This is also considered an FRA "reportable."

Overall Comparison of ARRC with Peers

Mercer began its analysis by comparing the number of FRA reportable injuries per man-hours worked for ARRC and its peer railroads. As shown in Exhibit III-4, ARRC has usually ranked toward the bottom of the group in the past 10 years and has never placed any better than the mid-point on this measure. ARRC's ratio of reportable injuries per man-hours did however decline from 1991 through 1994, before rising again. A look at the first six months of 1997 shows a large increase in the ratio, thus dropping ARRC to the bottom of the ranking for the first time.

Exhibit III-4
Reportable Injuries for ARRC and Peer Railroads

Year	ARRC Ranking	Total Railroads in Class	Reportable Injuries per 200,000 Man-Hours	Total Hours Worked (000)	Total Reportable Injuries
1986	7	13	4.54	1,808	41
1987	12	16	11.18	1,037	58
1988	17	22	9.63	1,059	51
1989	13	20	8.49	1,130	48
1990	16	26	8.83	1,155	51
1991	17	27	9.69	1,156	56
1992	12	24	7.73	1,191	46
1993	14	20	7.50	1,147	43
1994	10	19	7.24	1,022	37
1995	15	21	7.58	946	36
1996	16	20	8.47	—	44
1995 (6 mos.)	18	20	9.04	—	21
1996 (6 mos.)	12	20	6.02	—	15
1997 (6 mos.)	19	19	9.90	—	25

Detailed Analysis of Recent Personal Injury Trends

Mercer analyzed overall trends in personal injuries in detail for the first quarter of 1995 through the third quarter of 1997. In our analysis, we sought to understand whether there were discernible patterns or trends that might help to explain changes in injury rates. Some of the questions we examined included:

- How has the level of personal injuries varied in each reporting category, i.e., in terms of total injuries, FRA reportable injuries, and lost time injuries?
- Have causal factors for injuries changed over time?
- Are there any trends in the number and type of injuries by department?
- Can the level of injury be related to length of work experience?

Our assessment of personal injuries along four dimensions is presented below.

Assessment of Personal Injuries In Each Reporting Category

Mercer found that injuries at ARRC have trended upward in all three personal injury reporting categories, although the jump in lost time incidents was not as large as FRA reportable and total incidents during the second and third quarters of 1997 (see Exhibit III-5). Personal injury

numbers in all three categories did not really start to climb until sometime during the second quarter of 1996. The relatively low numbers for 1995 were a result of the Mechanical Department's excellent safety performance during that year.

Exhibits III-6 through III-8 present the reporting for each of the three measures by quarter, with a projected number for the fourth quarter of 1997. Changes in the number and seriousness of injuries since mid-1996 are particularly evident when looked at this way.

Exhibit III-5
Breakdown of Employee Injuries by Measure
(1Q95 through 3Q97)

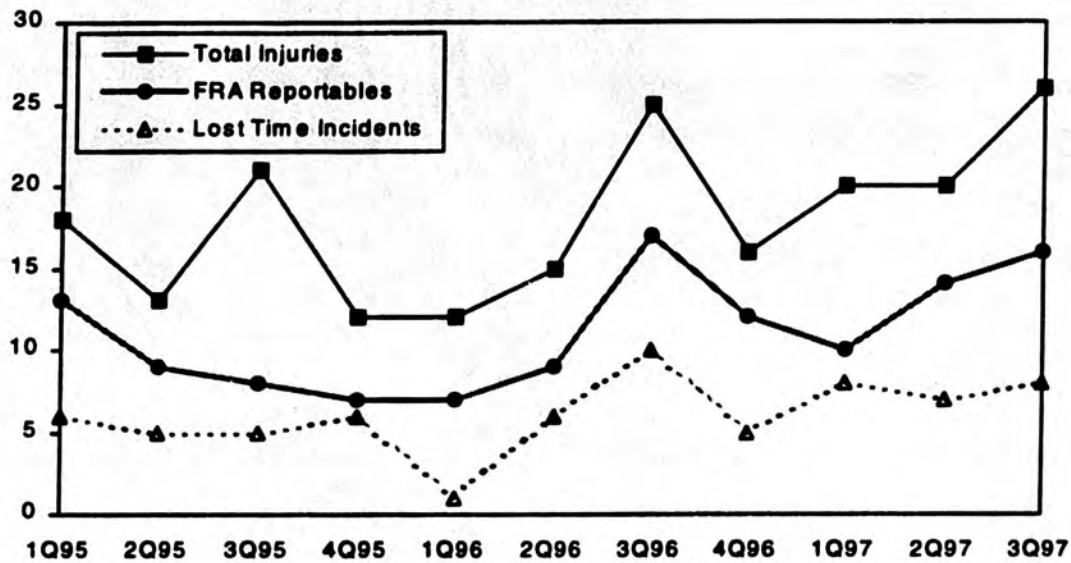


Exhibit III-6
Total Employee Injuries by Quarter
(1Q95 through 3Q97)

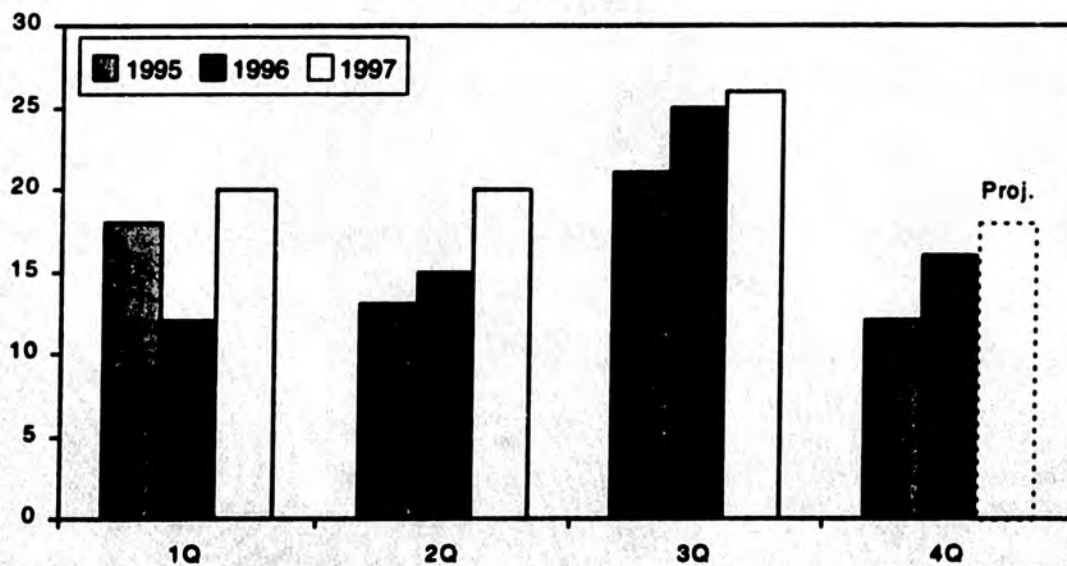


Exhibit III-7
FRA Employee Injuries by Quarter
 (1Q95 through 3Q97)

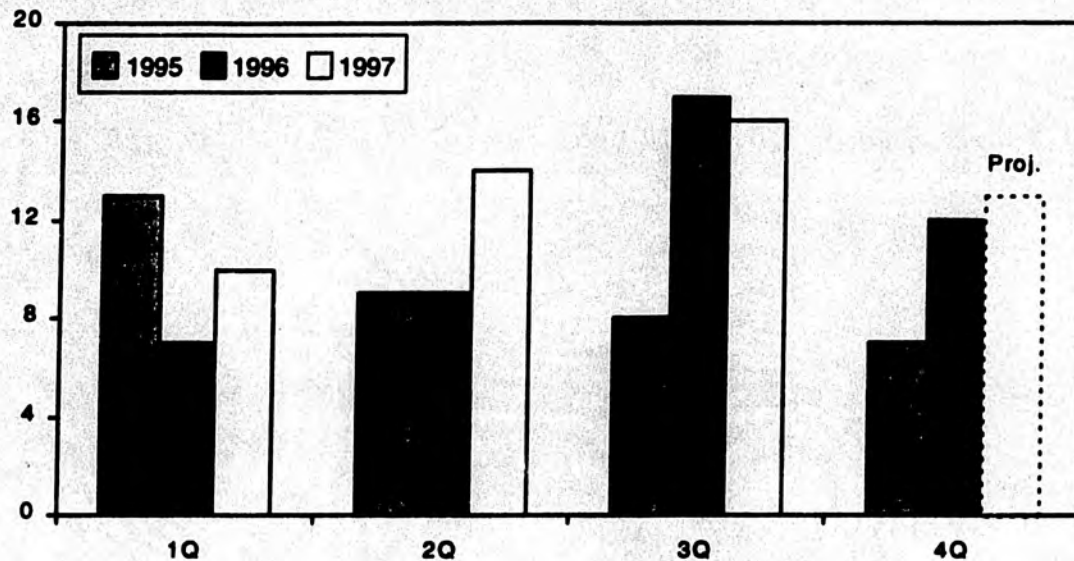
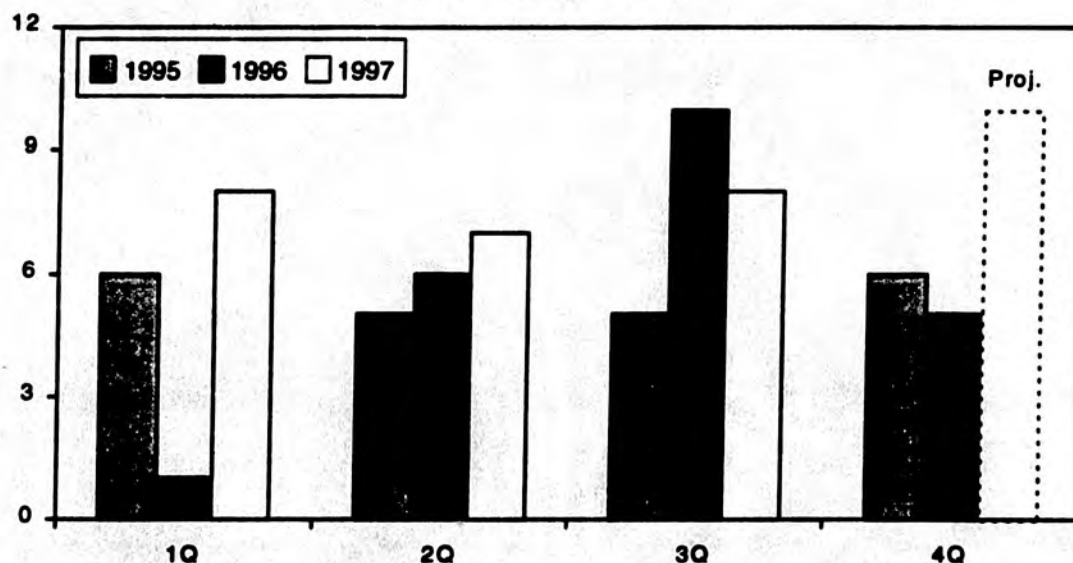


Exhibit III-8
Lost Time Employee Injuries by Quarter
 (1Q95 through 3Q97)



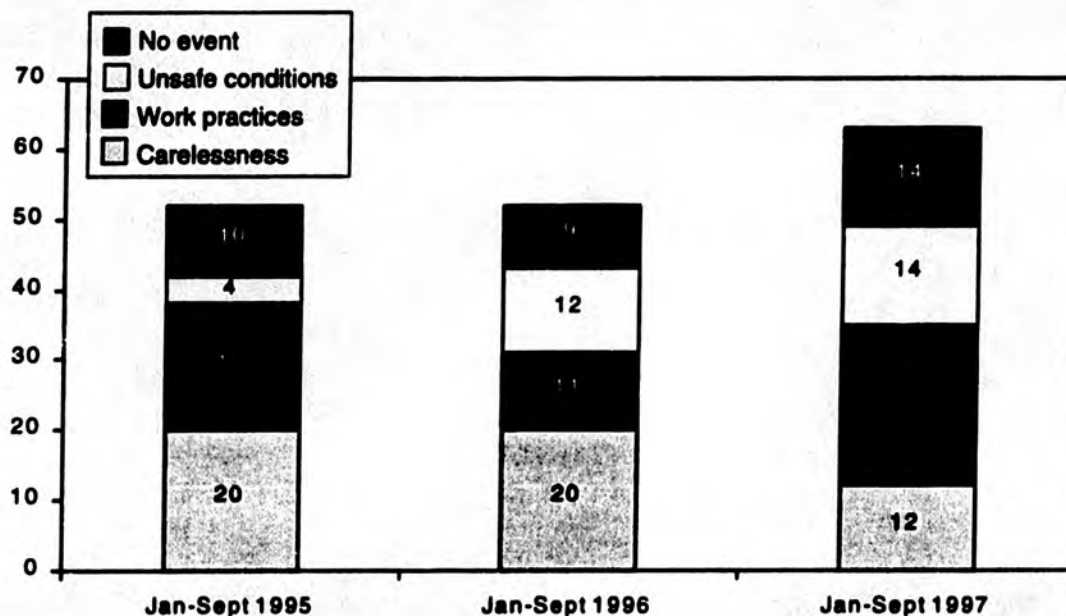
Primary Causal Factors for Personal Injuries

As discussed above, Mercer divided causal factors for injuries into four categories: carelessness, work practices, unsafe conditions, and non-events. We found that for the first nine months of 1995, 1996, and 1997, those personal injuries attributed to carelessness on the part of the employee declined, while those due to a non-event (usually involving an employee with a pre-

existing physical condition) increased. These trends are evident in Exhibits III-9 and III-10, which provide a breakdown of total and lost time personal injury incidents classified by cause.

Mercer also finds troublesome a significant increase in the number of injuries due to work practices and unsafe conditions. We believe that a number of incidents related to these factors could have been prevented by the railroad. As shown in Exhibit III-11, lost time days attributable to unsafe conditions in particular have increased tremendously, which points to a need for ARRC to be more diligent and responsive to problem areas on a timely basis. Most of the lost time days due to unsafe conditions in 1997 were the result of slips, trips, or falls due to wet floors or steps, ice in an authorized walkway, or depressions in the ground.

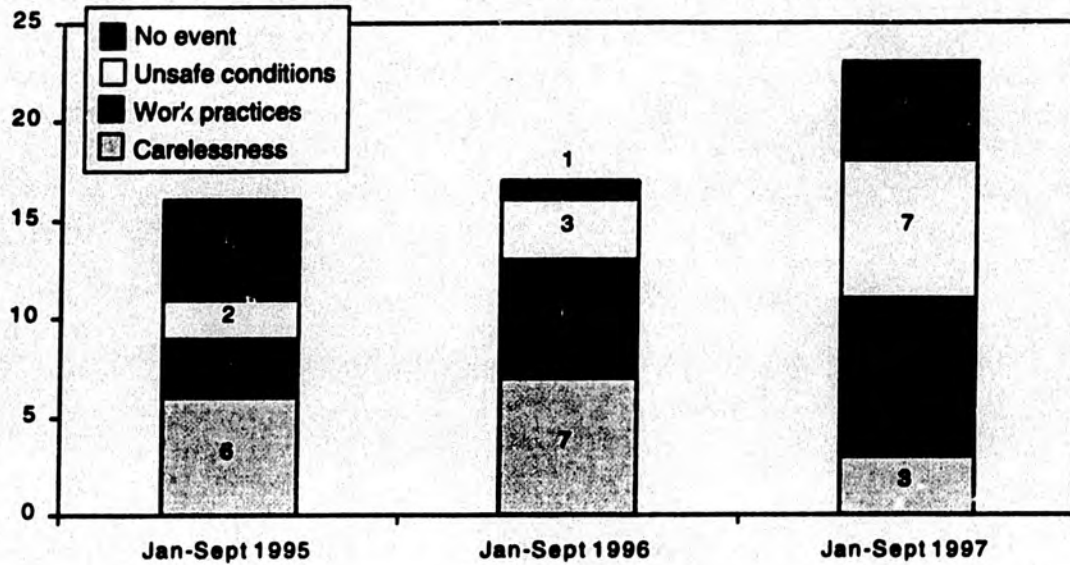
Exhibit III-9
Analysis of Total Incidents by Cause
(first nine months of each year, 1995-1997)



Preventable Incidents

Unsafe conditions	2	8	8
Work practices	5	1	2

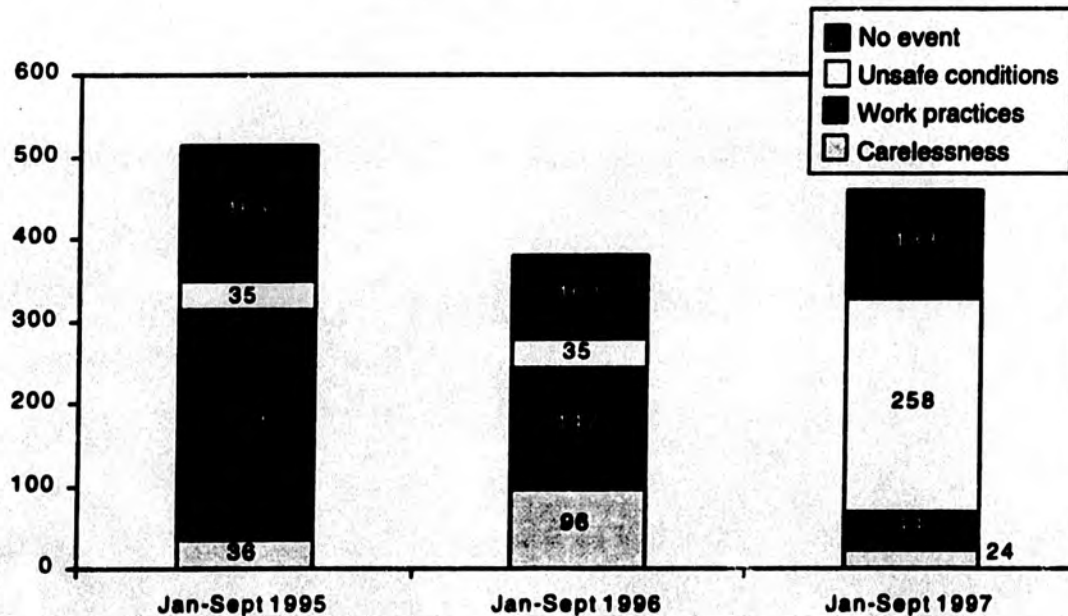
Exhibit III-10
Lost Time Incidents by Cause
 (first nine months of each year, 1995-1997)



Preventable Incidents

Unsafe conditions	-	2	4
Work practices	1	1	-

Exhibit III-11
Lost Time Days by Cause
 (first nine months of each year, 1995-1997)



Personal Injuries by Department

Mercer assessed how injuries have varied by department over the past three years and found some interesting trends:

- The Passenger Department has experienced a particularly alarming increase in injuries, especially in view of the small size of this department relative to the operating departments (see Exhibits III-12 and III-13).
- The Engineering Department's incident rate has markedly improved; this is even more notable in light of the major track rehabilitation programs undertaken by the department in 1996 and 1997.
- The Mechanical Department, on the other hand, after an excellent showing in 1995, has seen its incidents rise in 1996-1997.
- Transportation is also showing an increased level of total incidents in 1997.

When serious employee injuries are assessed by department (in terms of number of lost time incidents and total lost time days), it is apparent that the Transportation Department has experienced a tremendous increase in serious injuries. Although the Passenger Department's level of total injuries increased this year, these incidents for the most part have not resulted in lost days. Both Mechanical and Engineering, on the other hand, show a reduction in serious incidents for 1997. These trends translate into a decline in total average days lost per incident overall. See Exhibits III-14 through III-16.

Exhibit III-12
Total Employee Injuries by Department
 (1Q95 through 3Q97)

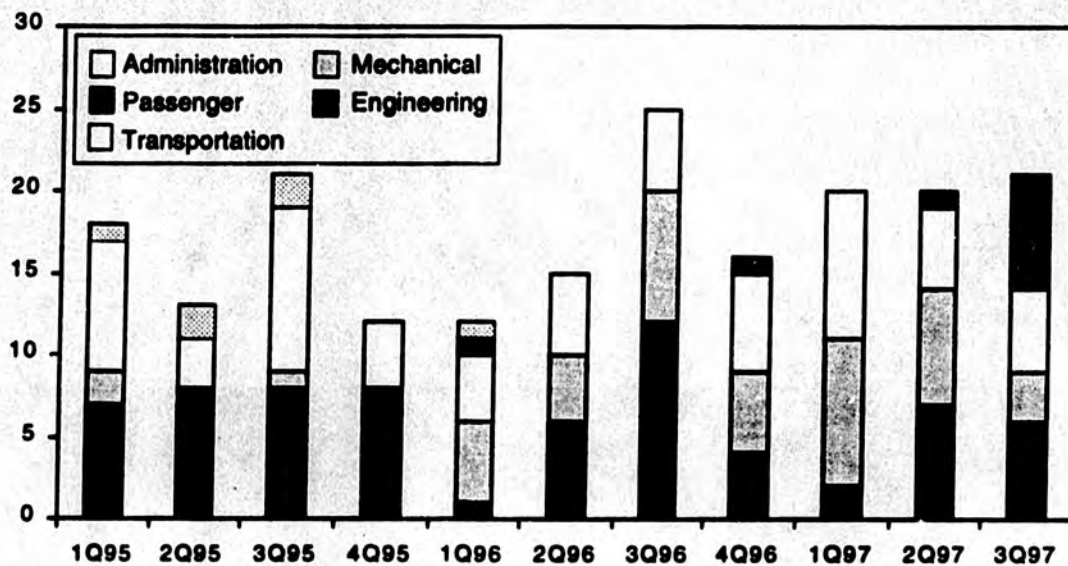


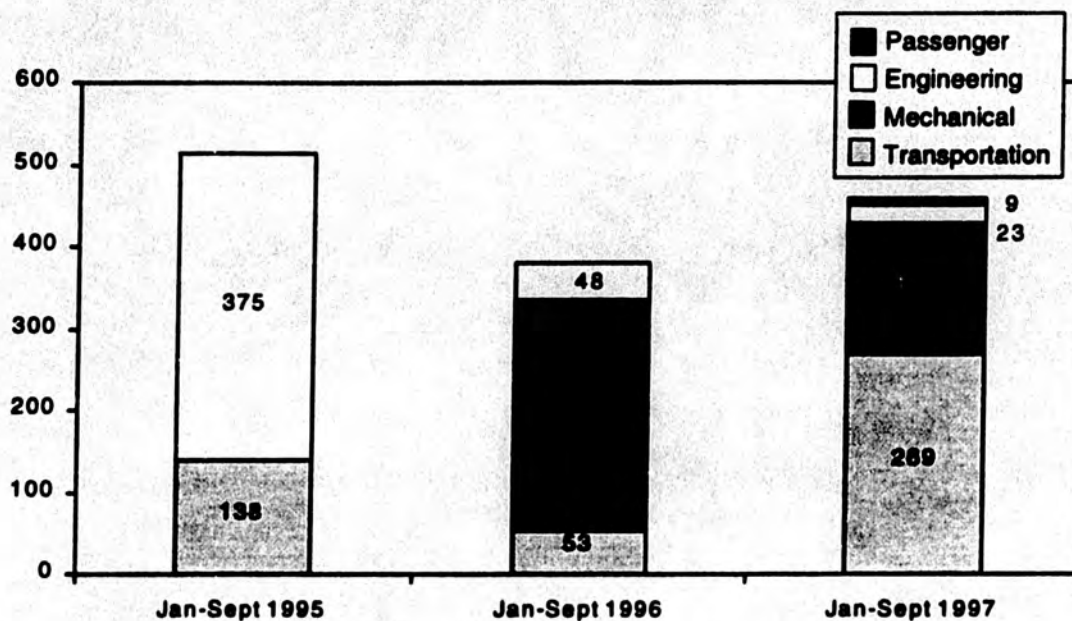
Exhibit III-13
Total Incidents by Department
 (First nine months of each year, 1995-1997)

Department	First Nine Months			Trend
	1995	1996	1997	
Passenger	0	1	8	↑
Administration	5	1	0	↓
Transportation	21	14	21	↑
Mechanical	3	17	19	↑
Engineering	23	19	15	↓

Exhibit III-14
Lost Time Incidents by Department
 (First nine months of each year, 1995-1997)

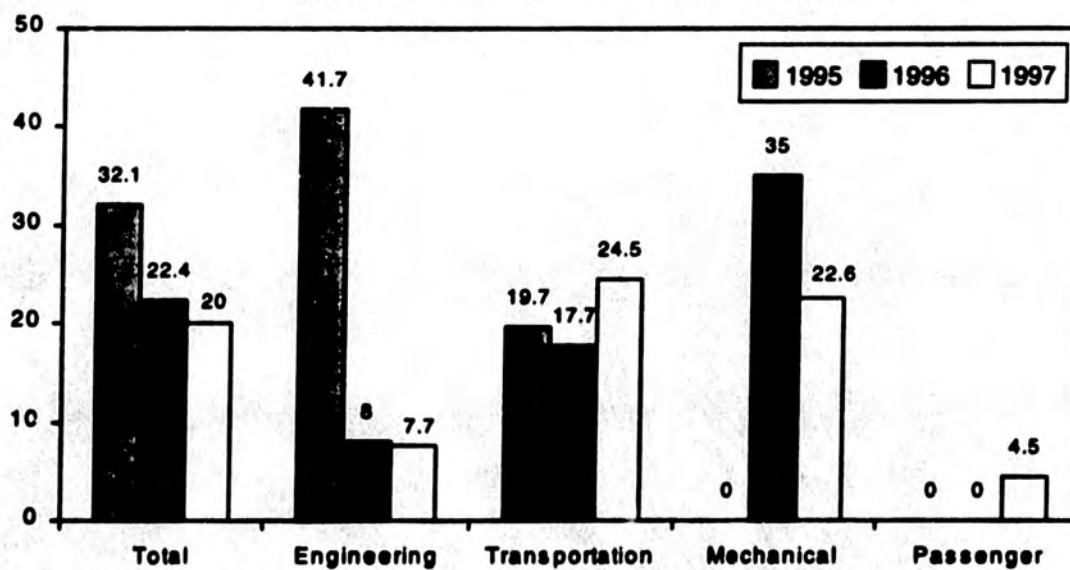
Department	First Nine Months			Trend
	1995	1996	1997	
Passenger	0	0	2	↑
Administration	0	0	0	-
Transportation	7	3	11	↑
Mechanical	0	8	7	↓
Engineering	9	6	3	↓

**Exhibit III-15
Lost Time Days by Department**



Note: Administration had no lost time days in this period; Passenger had no lost time days in 1995-1996; Mechanical had no lost time days in 1995.

**Exhibit III-16
Average Days Lost per Lost Time Incident**



Personal Injuries by Length of Experience

Mercer looked at length of work experience to see if there was some relationship between injury rates and how long an employee had been on the job. We divided employees into "new" employees (those with two years or less of work experience at ARRC) and all other employees (more than two years of work experience).

Surprisingly, we found a most significant development regarding the number of personal injuries involving employees with less than two years of service during the third quarter of 1997 (see Exhibit III-17). From mid-June to the end of August this year (only 2 ½ months), 16 out of 22, or nearly three-fourths of all incidents, were incurred by a "new" employee. This is certainly a "new" phenomenon! Eight of the new employees who experienced injuries appear to have had some type of pre-existing physical condition, which could well have contributed to the occurrence of their injuries or may have been the sole cause. Of the 10 injuries attributable to work practices and the 4 assigned to no event, 9 injuries appeared related to a physical condition of the employee that greatly increased his/her risk (see Exhibit-18). These "physical condition" incidents point to a serious lack of adequate screening during the hiring process.

When new employee incidents are looked at by department, they appear to be relatively well dispersed among the three operating departments and the Passenger Department (see Exhibit III-19). However, the ratio of incidents experienced by new employees in the Passenger Department was much higher than for the operating departments, if one considers the much smaller relative size of the Passenger Department. Surprisingly, the Engineering Department, which had the most new employees in 1996 and 1997, had an injury rate for these employees close to that of the other three departments in 1997.

As shown in the right-hand box of Exhibit III-19, there was a significant jump in the third quarter in injuries to new employees. The Transportation, Engineering, and Passenger groups were primarily responsible for this increase.

Exhibit III-19 also shows the number of personal injuries in each department for all remaining employees over the three-year period. It is interesting to note that total incidents for "experienced" employees (those with more than two years of service) have actually been trending downward.

In summary, length of employment is a major factor in ARRC's recent increase in personal injuries. As shown in Exhibit III-20, all of the increase from 1995 to 1997 occurred among new hires. For all other employees, three fewer incidents are actually expected in 1997 than occurred in 1995.

Exhibit III-17
Employee Injuries by Length of Service
 (1Q95 through 3Q97)

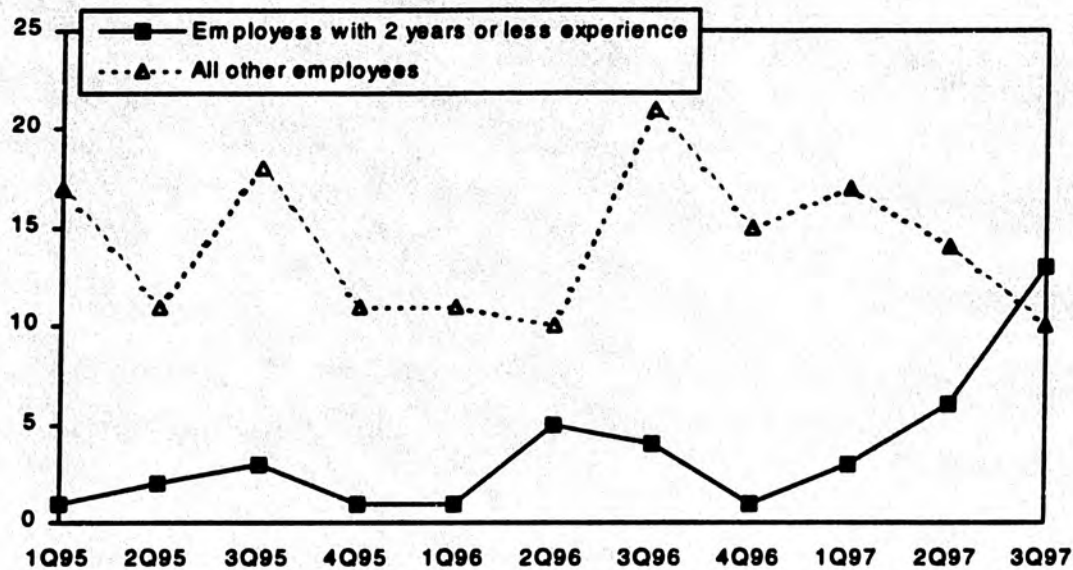


Exhibit III-18
Total Incidents by Cause for Employees With Two Years or Less of Service
 (1Q95 through 3Q97)

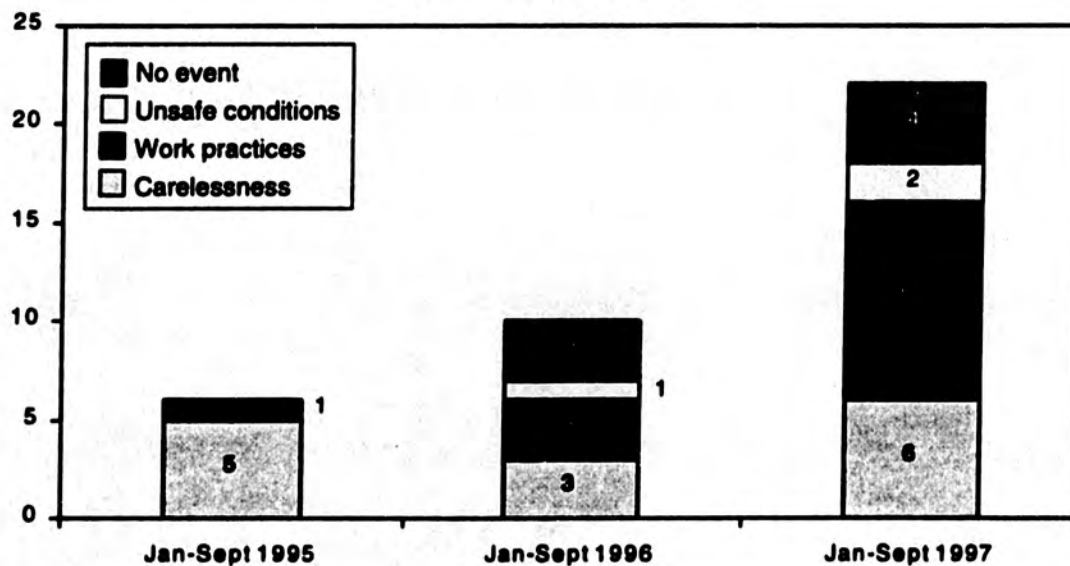


Exhibit III-19
Total Incidents by Department and Length of Service

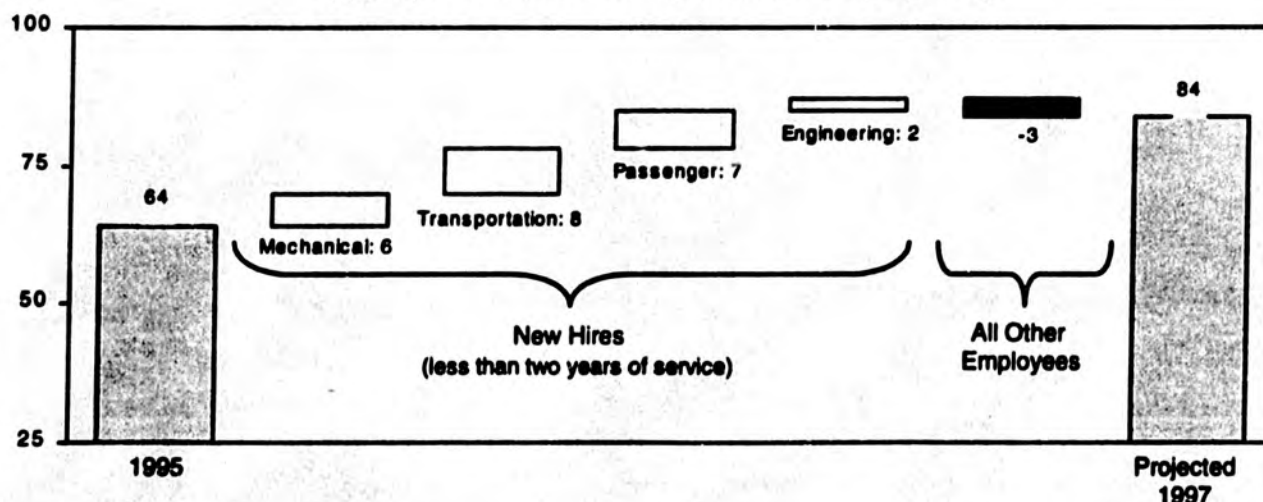
Two Years or Less Service

Department	First Nine Months			1997		
	1995	1996	1997	1Q	2Q	3Q
Passenger	0	0	5	0	1	4
Administration	1	1	0	0	0	0
Transportation	0	1	6	1	1	4
Mechanical	1	1	5	2	2	1
Engineering	4	7	6	0	2	4
Total	6	10	22	3	6	13

More Than Two Years Service

Department	First Nine Months		
	1995	1996	1997
Passenger	0	1	3
Administration	4	0	0
Transportation	21	13	15
Mechanical	2	16	14
Engineering	19	12	9
Total	46	42	41

Exhibit III-20
Change in Total Incidents for 1995 versus 1997
 (by length of service and department, 1997 projected)



Mercer's Evaluation of ARRC's Safety Record

Based on Mercer's evaluation of total and lost time injuries and worker's compensation payments, there is room for improvement in ARRC's safety record. It is clear that such improvement is possible, based on the lower levels of injuries sustained by employees prior to 1996, as well as the lower rates sustained by ARRC's peers.

In terms of achieving an overall reduction in the number of injuries, determining exactly "what went wrong" can be complicated and frustrating, as the concept of safety involves many complex and interrelated factors. Our assessment focused on three areas that generally impact a railroad's safety and personal injury prevention record:

- Whether there are inherently unsafe conditions and practices in evidence at the railroad
- Whether safety administration and injury prevention programs (including screening, orientation, training, review, and monitoring) are adequate and properly administered
- Whether employee and management attitudes are having an impact on the level of injuries

Inherent Safety of Railroad Conditions and Work Practices

From a physical standpoint, the railroad appears to provide a safe place to work for those areas within ARRC's control. A review of the type of injuries incurred from 1995-1997 generally confirms this. The several injuries that did involve unsafe conditions appear due to wet floors and steps and icy conditions.

The railroad also appears to be following through on correcting problem areas that have been reported by employees. The most apparent deficiency in the railroad's efforts to correct such problems is the lack of a formal procedure for response and remediation once an unsafe condition or practice has been reported. Although well-defined instructions exist for *reporting* a problem, there appears to be no process in place to:

- Acknowledge receipt of information provided by a employee
- Provide a follow-up report (within a specific time frame) that explains the status and/or action taken

Mercer also found some evidence of injuries resulting from improper work practices. It appears that these work practices are condoned by management. In some cases, improper tools and equipment were used, sometimes as a shortcut, sometimes because "we've always done it that way." A process to review and monitor work practices to ensure compliance with proper methods and procedures appears to be lacking.

Safety Administration and Injury Prevention Programs

Administration of Safety Programs: Mercer assessed the Safety Manager's roles and responsibilities (see Exhibit III-21) and evaluated the effectiveness of safety management based on the following factors:

- The ability of the Safety Manager to act in the capacity of a neutral, independent inspector and observer in the workplace, for the purpose of detecting unsafe work practices, conditions, and employee activities and then handling any problem areas with the appropriate operating personnel.
- The quality of the relationship between the Safety Manager and the operating departments, which are essentially his customers; whether he makes himself available to assist them in their personal injury prevention activities and acts in a sensitive manner when matters involve sharing responsibility with the line department managers.
- The effective use of information from a safety database to identify aberrations, trends, etc. and to refine or customize safety programs to address problem areas.

Exhibit III-21

Responsibilities of the Health and Safety Manager

Safety programs	Work with the operating departments to plan, develop, and implement
Safety training programs	Oversee development and presentation
Safety inspections	Inspect the workplace environment regularly for all aspects of ARRC operation and handle safety concerns for correction as appropriate
Emergency response plans	Participate in development, implementation, and evaluation
Reporting	Keep the CEO fully informed of the overall safety situation on the railroad and advise the CEO on matters involving safety
Other support	Provide technical support on safety standards and other administrative support as required

The current Health and Safety Manager appears to be fulfilling his responsibilities in general, including participating in the implementation of a wide variety of safety programs. His effectiveness, however, has been stymied by ARRC's failure to fully identify what his role should be within the organization. In addition to this lack of a defined role, Mercer identified the following as the most serious deficiencies in the management of health and safety at ARRC:

- The relationship of the Safety Manager and the operating department managers is poorly defined and ripe for potential conflict. The duties and responsibilities of the Manager overlap that of the line managers, with the Safety Manager acting as an overseer rather than as an advisor.

- The duties of the Safety Manager require a high level of diplomacy and patience and the establishment of good relationships with line departments. Interviews indicated that for the most part, the line departments consider the Safety Manager to be more of a critic of their operations and a policeman overseeing their activities rather than an ally in the effort to reduce personal injuries.
- The reporting and investigation of personal injuries is inadequate (see further discussion below).
- The data that are collected on the underlying reasons for personal injuries are sparse. There is no uniform database available for performing detailed analyses of trends and changes in the number and type of personal injuries.

Safety programs: ARRC probably has had more diverse safety programs in recent years than most railroads its size. It is Mercer's impression that the various types of safety meetings, committees, outside assistance, and focused activities that have been used should have contributed considerably to a good safety culture. Although Mercer is not able to evaluate the effectiveness of these efforts (as we are not in a position to measure employees' responses), it appears that, on the basis of the rise in personal injuries, the safety culture is not benefiting from these programs.

Mercer did observe that certain safety rules are not consistently being complied with or are being overlooked by supervisors; in particular, safety rules related to proper protective gear (clothing, eyewear, hard hats, footwear, etc.) This is of concern, as first line supervisors are key in ensuring that safety programs and rules are followed. If first line supervisors do not fully embrace safety programs or don't practice safety initiatives on a day-to-day basis, employees will soon detect the lack of interest and develop a lax or negative attitude toward safety programs. If supervisors condone the violation of a safety rule or don't enforce compliance, the importance of the rule is diminished and employees may be confused as to its applicability.

New employee selection and training: ARRC appears to lack an aggressive and effective selection and training program for new employees. The high level of injuries among new employees at the railroad particularly demonstrates the importance of having a focused program to prepare new employees to do their jobs in an acceptably safe manner. Also lacking is a follow-up program to oversee and monitor new employees' progress.

Training for experienced employees: Mercer found that training for experienced employees at the railroad is also lacking. Training for more experienced employees fulfills a number of functions: it reinforces earlier training, helps employees maintain a heightened awareness about safety, and ensures employees are up to date on the latest safety information and problem areas. Continued safety training and reinforcement of the railroad's safety philosophy also demonstrate management's commitment to safety and concern for workers' well being, thus helping to create a bond of trust and confidence between employees and management and possibly improving employee morale.

Management safety training: First-line supervisors and middle managers also require safety training. They need to know how to carry out the railroad's safety policies

effectively, including the fundamentals for dealing with subordinates on safety issues. Far too often, supervisors and managers are promoted from the ranks with little or no training in this area.

Apparently, the formal training program and the position of training manager were discontinued several years ago. We are gratified to learn that training sessions are scheduled this fall for 20 non-agreement first line supervisors; continuing and expanding this training for all levels of management would be worth considering. We also understand that the Health and Safety Manager is developing a program related to repetitive motion and carpal tunnel syndrome injuries.

Reporting and investigation: Mercer found some deficiencies in ARRC's personal injury reporting and investigation process. We consider such a process to be one of the most important elements of an effective personal injury prevention program. A proper procedure would address the following:

- An accurate initial report containing all of the pertinent information available at the time
- A comprehensive investigation that would be conducted by the supervisor, including causal factors and what might have been done to prevent the injury
- A close-out report assigning a definitive cause and the steps taken to prevent a recurrence, if any.

When a derailment occurs, there is usually a significant effort made to determine a definitive cause so measures can be taken to prevent a recurrence. Personal injuries are no different and should be treated in the same manner.

Mercer received copies of all documents in the possession of the Health and Safety Manager for injuries that occurred between January 1, 1995, and September 30, 1997. It was disappointing to find that a preponderance of the reports did not go beyond the initial reports submitted by the supervisor. The following critical information was missing in many of the reports:

- Cause of the incident
- What might have prevented the incident
- What steps were taken to prevent a recurrence
- Whether there was a pre-existing physical condition that might have been a factor
- Whether proper procedures were followed
- Whether proper tools and appliances were used
- If an inspection was made of the implement used, such as switch, hand brake, vehicle brake, etc.

- Whether there were any extenuating circumstances, such as the weight of the individual
- If any disciplinary action was taken
- If protective gear such as safety glasses, footwear, gloves, knee pads, etc. was used or available

With all of the instruction, training, and other efforts ARRC has undertaken to prevent injuries over the past several years, it is difficult to accept the poor quality of information available. The lack of critical information represents a significant gap in proper investigation procedures. Mercer can only assume that since reports do not contain complete information, they are either not being reviewed by department heads or there is a lack of interest in following up to obtain more complete information on incidents. Or, perhaps subsequent documentation is not being provided to the Health and Safety Manager.

There has been some improvement since new FRA forms came into use this year, but much more needs to be done in this area if a comprehensive and useful database of incidents is to be maintained. Since departments average only about 2 or 3 incidents a month, a complete investigation and close-out report would not represent a significant increase in work. Thorough reporting could, however, help reduce overall injuries if more were known about the causes and circumstances of each incident.

Management and Employee Attitudes on Safety

The safety record of any organization is subject to a key intangible: the attitudes of employees. This is particularly the case for a railroad, where exposure to potential injury is inherent in the business. Current social standards, which have tended to shift the responsibility for injury prevention from employees to management, has made the issue of employees' attitudes and expectations in regard to safety more important than ever. Management's response must be to provide better leadership, clearly defining expectations for employees in regard to their job functions and their responsibilities for safety. If safety is indeed the "most important element in performing duties" as stated in the Safety Manual, all levels of management – from the CEO on down – must provide consistent focus and direction in ensuring a safe operation.

Mercer found several factors have contributed to weaken management's leadership in setting expectations about safety:

- Key changes in top management positions over the past six years have interrupted and continue to affect the consistency of personal injury prevention efforts, as the priority given to safety is to some extent based on the interest level of each "new" manager. These changes also disrupt the relationships between management and employees that usually help reinforce attitudes and perceptions about safety.
- The changes in top management, combined with a lack of sufficient recognition and support, may be affecting middle and first-line managers' abilities and motivation to adequately carry out their personal injury prevention responsibilities. Mercer believes

there may be some confusion among middle and line managers regarding the goals and objectives of the railroad and the amount of support they can expect to receive in resolving disciplinary and personal injury issues.

- Management does not appear to have a clear understanding regarding the extent and causes of personal injuries at the railroad. Without knowing where and when incidents are occurring (e.g., which departments are most affected, whether less experienced employees have more injuries), it is difficult to develop appropriate solutions. None of the managers Mercer interviewed had a ready explanation for the increased number of personal injuries.
- Management has been unable to clearly define employees' responsibility for their own safety. For example, most of the management staff appear to share the opinion that employees do not accept responsibility when an injury is solely the fault of the individual. By comparison, when employees were asked in the "Perception" survey (conducted by Northwest Safety Management, Inc.) if they were held accountable for actions that impact the safety of their work areas, *all* of those questioned said "yes." In fact, the results of the survey disclosed a rather large gap between the railroad's objectives and employees' perceptions of those objectives.

Mercer also found that poor employee morale could be contributing to the safety problem. In each of the years Mercer has conducted its audit, the question of low morale, poor employee attitudes, and distrust of management has often been mentioned in connection with personal injury discussions. This concern seemed most prevalent in mid-1996, at the height of labor negotiations. Since then a number of factors that contribute to employee morale have gotten better – including settlement of labor issues and improvements at the railroad – so it is disturbing to find that poor morale continues to be an issue.

Some factors that may be contributing to this morale problem include a lack of communication and poor management-employee relationships, with employees as a result feeling less invested in the railroad. Staffing reductions in past years may also be contributing to the situation, as the remaining employees have had to deal with changing job requirements and new responsibilities.

The most direct evidence of the impact of poor morale is an increase in those injuries that are beyond the railroad's ability to control, i.e., injuries that cannot be attributed to specific events or that may be linked to an employee's pre-existing physical condition. In the first nine months of 1997, for example, almost 50 percent of total incidents were of these types (15 incidents were not event specific and another 14 were due to a physical condition complaint, such as back pain, etc.). The level of injuries in these two categories can be difficult for a railroad to manage, because:

- The recognition of what constitutes an injury has changed to include not only acute injuries that result from specific events (broken bones, cuts, bruises, etc.) but also unspecified or chronic conditions that surface or are aggravated when an employee is working.

- Legislation and changed attitudes have made it more difficult for employers to consider the physical limitations of an employee; the burden is now on the employer to prove that a physical condition disqualifies an individual for specific work.
- It has become somewhat more acceptable in society to claim an injury at work when it is not entirely certain that the injury was the responsibility of the employer or was actually related to work on the railroad.
- Poor morale can lead to a general attitude of indifference among employees and the loss of accompanying peer pressure to "play by the rules," thus opening the door to many incidents that would either not have happened or that were actually due to activities performed away from work.

Review of Proposed Locomotive Acquisition

Overview

ARRC plans to take the unprecedented step of replacing a large portion of its relatively old locomotive fleet with new state-of-the art locomotives. This move will both simplify and rejuvenate ARRC's fleet, which will shrink from 50 locomotives of six different types to 30 locomotives of just three types. The new fleet will include 16 technologically advanced SD70MAC six-axle AC locomotives, 10 rebuilt or recently overhauled four-axle GP38s, and 4 MP15 switch engines. The new SD70s will be the workhorses of the fleet and will be used on the key long distance trains that account for two-thirds of the train trips operated annually by ARRC (see Exhibit III-22).

The benefits of this replacement plan are expected to flow through all phases of railroad operations. The following are the primary benefits specifically projected by management:

- Upgrade the overall quality of the fleet to ensure higher levels of reliability under the harsh operating conditions faced by ARRC
- Reduce the basic costs of locomotive maintenance, since
 - The size of the fleet will be reduced and standardized around a few locomotive types
 - High-maintenance locomotives will be replaced with locomotives that are inherently less costly to maintain
 - The total miles of locomotive use will be substantially lowered, since fewer of the more powerful SD70MACs will be needed per train
- Reduce the costs of inventory and facility assets required to support the locomotive fleet, by reducing spare parts inventory needs and eliminating obsolete maintenance facilities
- Lower other operating costs such as fuel and sand use

Exhibit III-22
Summary of ARRC Train Trip to Be Powered by SD70MACs
 (based on 1996 train trips)

Train No.	Direction	Name	Total Annual Trips	Trips to Be Powered by SD70MACs
Freight				
110	N	Sew-Anch Frt	31	-
110	S	Anch-Sew Frt	32	-
118	N	Port-Anch Frt	1	-
118	S	Anch-Port Frt	1	-
120	N	Whitt-Anch Frt	161	-
120	S	Anch-Whitt Frt	158	-
130	N	Anch-Fbx MAPCO	363	363
130	S	Fbx-Anch MAPCO	366	366
135	N	Anch-Fbx FOX	130	130
135	S	Fbx-Anch FOX	122	122
140	I	Palmer Turn	27	-
150	I	Gravel-AGG	61	61
155	I	Gravel-AS&G	123	123
157	I	Gravel-CPP	109	109
175	I	Nenana Turn	1	-
175	N	Nenana-Fbx	1	-
175	S	Fbx-Nenana	2	-
181	I	SUNEEL	119	119
183	I	SUNEEL	119	119
188	I	North Coal	134	134
188	N	North Coal	7	7
190	N	Other Nth Frt	18	-
190	S	Other Sth Frt	22	-
191	I	Other Turns	21	-
191	N	Other Nth Frt	1	-
191	S	Other Sth Frt	1	-
Passenger				
210	I	Seward	114	-
220	I	Shuttle	269	-
230	N	Nth Express	158	158
230	S	Sth Express	160	160
240	I	Hurricane	64	-
290	I	Misc.	46	-
290	N	Misc.	11	-
290	S	Misc	10	-
Total			2,963	1,971
SD70MAC Trains as % of Total				66.5%

Source: ARRC 1996 train performance statistics, prepared by Bruce Carr.

- Improve locomotive utilization, as the high reliability of the new locomotives plus their overall increased availability will permit faster turnaround times between runs

Since the proposed acquisition will result in a smaller and easier-to-maintain fleet, management anticipates that the railroad's locomotive maintenance facilities can be substantially modified in the future. The facilities currently have more capacity than needed to maintain the existing fleet and are old, obsolete, and inefficient compared to modern facilities.

ARRC also studied the impact of the locomotives on the track structure and concluded that because of the radial trucks, the impact would be negligible. In fact, less rail wear is anticipated due to the improved tracking of the SD70 trucks. The only major track changes required will be additional rail anchors.

Mercer's Assessment of Proposed Acquisition

Mercer is aware of no other railroad of ARRC's size that has replaced such a large portion of its fleet with new locomotives. Other than its original conversion from steam to diesel locomotives and the 1950s rail replacement program, this is the largest capital program ever undertaken by ARRC.

The decision to replace a large part of the fleet was in part influenced by the need to make a long-term change in the total cost of doing business. Over the past several years, ARRC has struggled to improve its productivity and lower its costs in order to be more competitive in the transportation marketplace. The high costs of operating and maintaining an aging locomotive fleet was an obvious target, as new locomotive technology offers many cost benefits not previously available.

In Mercer's view, ARRC's fleet replacement plan will impact nearly every facet of rail operations. The economics projected by management are for the most part limited to lowering maintenance costs, but in our opinion the ability to improve train operations and to rationalize maintenance facilities will yield large additional benefits that have yet to be quantified.

Our assessment examined the following aspects of the fleet replacement plan:

- Rationale for fleet replacement
- Pulling power of the smaller fleet
- Impact on reliability and availability
- Impact on locomotive maintenance costs
- Impact on maintenance facility requirements
- Alternative locomotive maintenance and financing options
- Impact on inventory costs

- Use of SD70MACs on passenger trains
- Impact on track

Rationale for Fleet Replacement

The decision and rationale for the purchase of the new locomotives appears to be sound. The costs to maintain the current fleet have risen by 43 percent in the past six years, from \$3.0 million in 1990 to \$4.4 million in 1996, while other ARRC operating costs declined by 12 percent. This trend is only expected to worsen, since some maintenance has been deferred and the railroad will eventually have to deal with this. In particular, ARRC has done fewer overhauls than it should have and the overhauls completed have been of a lower quality than is usually recognized as sufficient in the industry.

The railroad could attempt to upgrade the current fleet on its own, but doing so could take many years. The railroad would also be handicapped by using locomotives that could not be upgraded at an economical cost with the newest technology; ultimately, ARRC would be relying on obsolete assets.

Pulling Power of the Smaller Fleet

While the plan calls for a substantial reduction in the number of units operated by ARRC, the effective pulling power of the new fleet should be equal to that of the current fleet. The plan projects a 40 percent reduction in the number of locomotives, from 50 units to 30 (excluding MP15 switch engines, road haul locomotives will be reduced from 46 to 26). The horsepower of the road haul locomotives will decline by 31 percent, from 127,250 hp to 84,000 hp, but the fleet will produce the same or more pulling capability (tractive effort) at normal speeds and with higher levels of reliability and availability (see Exhibit III-23).

Test results by the manufacturer and the Association of American Railroads indicate that the traction effort could be as much as 10 percent more than that expected by ARRC; if this is the case, the total tractive effort of the road haul fleet could increase by 5 percent or more than current tractive effort.

Impact on Reliability and Availability

The new fleet should ensure a high degree of reliability. It is true that the railroad has made great progress in recent years in improving reliability and it is estimated that the fleet experiences less than one failure per locomotive per year; this compares well with industry standards. This performance, however, comes at a relatively high cost and, as noted above (and mentioned in prior audits), ARRC's locomotive maintenance cost per unit-mile is high. The new locomotives have a high level of reliability incorporated into their design and recent full service agreements between the manufacturers and railroads have called for 95 percent reliability in over-the-road operations.

Management acknowledges that the availability of the new locomotives will be far superior to that of the present fleet due to their larger fuel tanks, greater cold weather adaptability, and greater reliability. Management, however, does not show any improved utilization from this advantage, except to the extent that the new MAPCO oil train will be expanded without any further locomotive acquisitions. With the increased availability of the new fleet, there should be other opportunities to use the SD70MACs even more efficiently to cover trains otherwise scheduled to be pulled by the GP38s.

Exhibit III-23

Planned Changes in Tractive Effort for Road Haul Fleet
(current numbers for 1997)

Locomotive Type	Number in Fleet		Tractive Effort (lbs)	
	Current	Projected	Current	Projected
GP38-2	8	10	482,000	614,000
GP9	1	0	52,500	—
GP35	3	0	186,720	—
GP40-2	19	0	1,235,000	—
GP49	9	0	607,500	—
Leased ¹	6	0	195,000	—
SD70MAC ²	0	16	—	2,400,000
Total	46	26	2,758,720	3,014,000

¹ Leased locomotive tractive effort is calculated at 65,000 pounds of force per unit for six months per year.

² Mercer assumed 36% adhesion, 150,000 pounds per unit, which is within the adhesion rate claimed by the manufacturer. An even more conservative estimate of 30% adhesion, 137,000 pounds per unit, would still result in a total fleet tractive effort of 2,806,000 pounds.

The ARRC should also consider how the new locomotives could be used to reduce waiting time between runs. The new locomotives have the capability for faster turnaround, due to their larger fuel tanks and adaptability to cold weather. At a minimum, they will be available for running the occasional extra train to relieve excess tonnage.

Impact on Future Locomotive Maintenance Costs

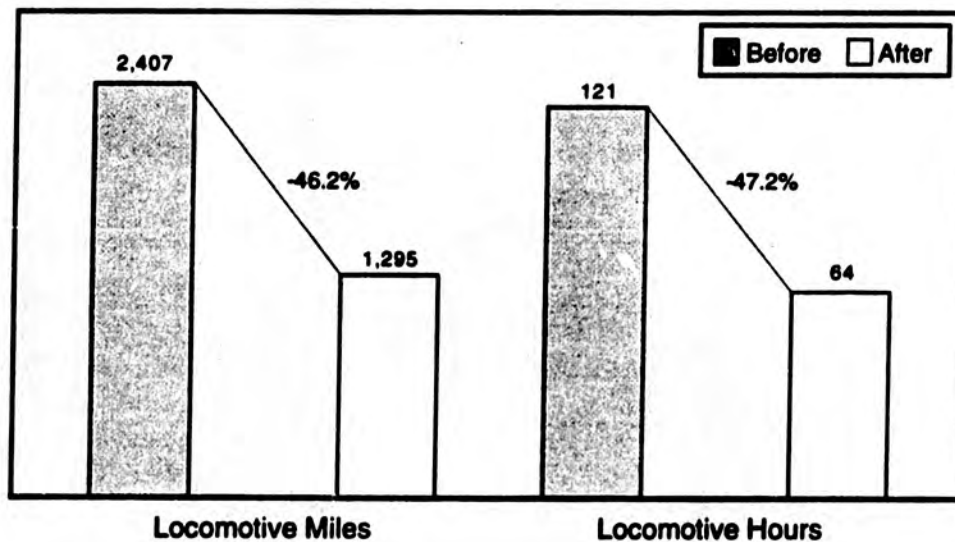
Lower locomotive maintenance costs will be the most important direct economic benefit of the new fleet. These costs will decline in direct proportion to the reduction in miles traveled by the new fleet as compared to the current fleet. Mileage will decline because fewer of the new

SD70MAC locomotives will be required per train, given their higher per unit² horsepower and traction. The average number of locomotives per train will be reduced from 4 to 2.1 units per train. Since the SD70MACs will account for 84.4 percent of total train miles and 94.5 percent of gross ton-miles, locomotive unit miles can be expected to decline by more than 40 percent (see Exhibits III-24 through III-26).

Exhibit III-24
Physical Characteristics of the Locomotive Acquisition

	Trains Slated for SD70MACs	Percent of Total Trains	All Other Trains	Total Trains
GTMs (millions)	2,264	94.5%	131	2,395
Train Miles	605,129	84.4%	111,469	716,598
Avg. Miles Per Train	307		106	237
Avg. Hours Per Train	16.2		10.7	15.2
Avg. Train Speed	19.0		9.9	15.7

Exhibit III-25
Changes in Locomotive Use for Trains Slated for SD70MACs
(miles and hours in 000s)



²The word "units" as used in this context is synonymous with locomotives. The usual officially defined railroad locomotive is one unit, or more than one when operated with interconnecting controls so that all of the individual units can be operated as one locomotive.

Exhibit III-26

Total Impact of Acquisition on Locomotive Miles and Hours

	Trains Slated for SD70MACs	Percent of Total Trains	All Other Trains	Total Trains
Locomotive Miles				
Before	2,406,966	93.2%	175,996	2,582,962
After	1,295,031	88.0%	175,996	1,471,027
% Change	-46.2%		0.0%	-43.0%
Locomotive Hours				
Before	120,883	73.3%	44,102	164,985
After	63,790	59.1%	44,102	107,892
% Change	-47.2%		0.0%	-34.6%

The impact of the new locomotives on ARRC's overall train operating productivity is expected to be impressive (see Exhibits III-27 and III-28). For example, the gross tonnage hauled per locomotive unit-mile will increase by 75.6 percent (to 1,628 tons), bringing ARRC much closer to the productivity achieved by the U.S. Class I railroads (which haul an average of 1,800 tons per locomotive unit-mile). ARRC will accomplish this with an average of only 2.1 locomotive units per train, significantly fewer units than used by the Class Is, which average about 3 locomotives per train.

Exhibit III-27

Productivity Changes for Trains Slated for SD70MACs

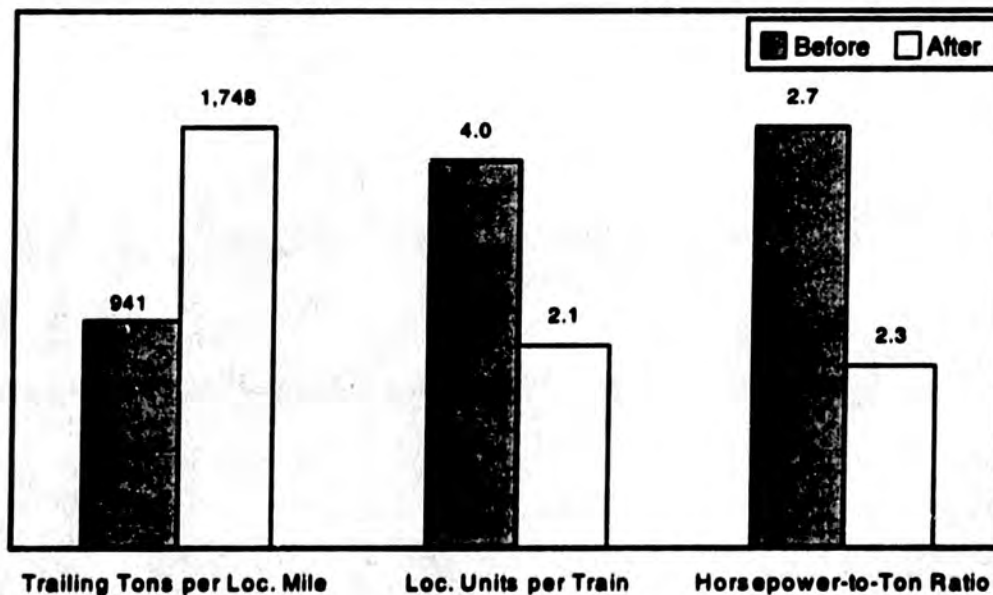


Exhibit III-28
Total Impacts of Acquisition on Productivity

	Trains Slated for SD70MACs	All Other Trains	Total Trains
Trailing Tons per Locomotive Mile			
Before	941	745	927
After	1,748	745	1,628
% Change	85.9%	0.0%	75.6%
Locomotive Units per Train			
Before	4.0	1.6	3.6
After	2.1	1.6	2.1
% Change	-46.2%	0.0%	-43.0%
Horsepower-to-Ton Ratio			
Before	2.7	--	--
After	2.3	2.7	--
% Change	-16.3%	--	--

ARRC should expect to obtain additional savings, as the new locomotives will be less expensive to maintain compared to the current fleet. While the new locomotives require certain minimum inspections as designated by the FRA, they can be expected to require far less frequent repair because of inherent design features:

- The locomotives have fewer major components; for example, solid-state electronics have replaced complicated electrical apparatus (including contractors and relays)
- On-board modern diagnostic equipment is standard, thus enabling quick identification of problems and resolution with minimal time and effort
- Components are longer lasting; for example, the AC traction motors do not have carbon brushes and the overall inherent design provides for twice the life as DC motors, wheel life is double, and the diesel engine has longer life components as well

Maintenance costs will also be minimized because the new locomotives are covered by a warranty that will cover all major work and some miscellaneous problems for the life of the warranty. The only work not covered would be problems due to the railroad's negligence and normal servicing and inspection (including FRA required inspections and other usual requirements, it is estimated that servicing and inspection work represent about 20 percent of the current budget). The costs for the routine inspections to meet industry standards also will be lower, as daily trip inspections will be done by the locomotive engineer. This change should reduce inspection costs by a significant amount.

In addition to the cost reductions noted above, the reduction in the number and types of locomotives will obviously have a substantial impact on costs. In particular, the reduction of locomotive types will allow for greater standardization of components and work procedures.

Another key element in support of the cost of purchasing the new locomotives will be the much smaller workforce required for locomotive maintenance and the reduction in associated labor cost.

The only reservations Mercer has on the cost savings anticipated by management are as follows:

- We believe that the costs contained in the pro forma analyses overestimate the costs that ARRC will experience for the first several years. The costs used appear to be based on longer-term experience.
- The costs used for the SD70MACs do not fully reflect the longer service life of the major components; for example, it is assumed that the wheel sets of the SD70s are replaced at the same rate as GP38 wheel sets, while in actuality the SD70 wheel sets should have double the life.
- The costs to maintain the GP38s in the past have been somewhat understated, as materials were drawn from an inventory that was valued at no cost when the railroad was purchased by the state. Future GP38 costs have not been adjusted to include the full cost of materials as inventory is replenished.
- The railroad is planning to raise the status of its GP38 fleet, making the GP38 the only road locomotive type in addition to the SD70MAC and thus will need to ensure that these locomotives maintain a high level of reliability. The railroad, however, has no plans to upgrade this fleet other than to rebuild and convert two GP40 into GP38 type locomotives. In addition, the maintenance costs assumed for the GP38s may not be sufficient to maintain them at the level necessary for the high level of reliability that will be required.

Impact on Maintenance Facility Requirements

Mercer concurs that the program will drastically alter the type and number of facilities needed for locomotive maintenance. ARRC has considerable surplus locomotive facility maintenance capacity already and this will grow to unacceptable levels with the purchase of the new locomotives. The following factors will be important:

- The SD70MACs will require less servicing at facilities, as the daily inspections will be performed by the locomotive engineers and larger fuel tanks will permit less servicing.
- Expected maintenance repairs will occur far less frequently.
- Warrantied repairs to the new locomotives could be performed by the manufacturer at facilities of his choosing; the desire to keep costs to a minimum might lead the manufacturer to perform the work elsewhere. For example, EMD has hired a contractor to do warranty work in the lower 48 states.

A net result of these changes is that ARRC may be placed in the position of being unable to economically repair locomotives according to modern standards, since the volume of

maintenance and repair work will be insufficient to warrant installing modern tooling and to ensure economies of scale in production processes and inventory turnover. Unless it is willing to financially support an increasingly obsolete and underutilized maintenance plant, ARRC will have no choice except to take drastic action in revamping its locomotive maintenance practices.

Alternative Locomotive Maintenance and Financing Options

Management has not fully explored all of its options for financing and maintaining the proposed locomotive fleet. Management did examine several purchase financing arrangements, but did not explore options that many other railroads have considered, such as full-service leasing, financial leveraged leasing, and maintenance under extended warranty. As noted above, ARRC will have difficulty providing its own maintenance at a competitive cost because of its relatively small fleet and the reduced complexity of repairs needed on the smaller fleet.

Impact on Inventory Costs

ARRC currently has a locomotive inventory with a stated value of \$4.5 million plus additional shop floor inventory, all of which will be greatly reduced with the purchase of new locomotives. Additional benefits will include much lower associated materials handling and administrative costs.

Use of SD70s on Passenger Trains

The least beneficial use of the new locomotives will be to use them on the passenger trains. GP38 locomotives are capable of handling passenger trains at 49 mph as well as SD70MAC locomotives. The SD70MACs are really more suitable (in terms of tractive effort per unit) of hauling heavy freight trains.

Impact on Track

The railroad industry has had little experience using SD70MACs or similar locomotives on the type of track structure used by ARRC. Almost all of ARRC's track is jointed rail of 115 pound weight, while the main line rail used by other railroads that have purchased such locomotives is primarily much heavier continuous welded rail (132 pound rail is a common standard). It is therefore difficult to evaluate ARRC's plan on the basis of experience at other railroads. That experience, however, can be partially extrapolated to ARRC's conditions. The following observations of anticipated engineering impacts are based on the experience of the Mercer team plus limited discussions with other railroads and manufacturers:

- The forces exerted on the track structure by the new locomotives when starting on grades and sharp curves could reach unacceptable levels, particularly on angle bars and bolt holes. The railroads contacted by Mercer are sufficiently concerned to add additional anchors, and where they have jointed rail, they use longer 6-hole angle bars.

- From discussions with several major railroads, the general feedback is that the SD70s are easy on the track structure in most respects. The principal problem is on turnouts of number 8 or smaller, where the torque forces of these locomotives can be excessive and cause potential derailments. One of the railroads undertook a detailed stress analysis to determine the limits of the different types of forces on rail and concluded the torque forces were the most critical.

Review of Rolling Stock Repair Facilities

ARRC provides rolling stock maintenance and servicing at two locations, Anchorage and Fairbanks, both of which have relatively old facilities. The Anchorage facility is the major provider and consists of a group of connecting or adjoining facilities: locomotive shop, car shop, MOW shop, and support shops. The support shops provide traditional functions such as wheel repair, axle and roller bearing work, electrical equipment repair, and sheet metal and pipe repair. At Fairbanks, two basic shop buildings are used for freight car and locomotive maintenance.

The shops of both facilities were designed several decades ago, at a time when ARRC had substantially more equipment than it now owns. For example, in 1980, ARRC had almost twice the number of revenue freight cars as it does now (1,700 versus 872) and a quarter more locomotives (63 versus 50). The maintenance work done by ARRC has also been influenced by railroad industry trends; the railroads are maintaining fewer cars (and, in some cases, locomotives) themselves and sending more work to specialty shops and other kinds of contract facilities, such as those owned by lessors. ARRC's shop activity has been further reduced since it uses some leased locomotives and its major customer, MAPCO, provides its own tank cars.³

ARRC will be stressed financially should it try to maintain the new locomotive fleet using its current rolling stock maintenance facilities:

- The tools, machinery, and work methods now in use at these facilities are archaic and inefficient. Although ARRC could manage when it had a relatively old fleet, maintaining and repairing its new locomotive fleet will require a radically different approach.
- The current obsolete setup of the buildings at both facilities and the need to set up new machinery, tooling, and employee training to maintain the SD70MACs will make it prohibitively expensive to maintain the new fleet using the current shop facilities.
- The Fairbanks locomotive shop is clearly not suitable or needed for its current primary purpose (to work on power assembly change-outs during the winter months using cross-function staff). The quality of work suffers from poor housekeeping and there should be plenty of shop capacity in Anchorage to handle this work.⁴

³ ARRC services and performs minor repairs on over 300 tank cars provided by MAPCO. Most of the heavy repairs needed by the tank cars are performed by contract shops elsewhere in the United States.

⁴ At Fairbanks, the Mercer team observed engine parts haphazardly placed in containers and finished machined engine surfaces damaged because of improper handling.

The car shops at Anchorage and Fairbanks are adequate for their workloads. The housekeeping is very good, the buildings are heated and well lighted, and adequate tooling is available. The primary problem observed by Mercer was the approach to repairing the MAPCO tank cars, which is on an "as needed" basis rather than a periodic (or mileage) basis. The use of these cars for moving an environmentally sensitive product such as petroleum justifies a more aggressive approach to maintenance.

Review of Engineering

In 1993, the Engineering Department was given special attention in Mercer's review. Of concern was the level of expenditures required to maintain the railroad, deferred tie replacement, and the condition of rail and ballast. In past audits, Mercer has pointed out the potential deterioration of track structure due to excess weed growth, particularly on the south end of the railroad. This audit briefly covers all of these issues except expenditures, which have been distorted due to the special capital programs of the last two years.

Ties

Mercer has pointed out in past audits the potential crunch the railroad will face as it is compelled to replace a large number of ties installed by the federal government in the 1950s. The average age of the railroad's ties is now 32 years, far beyond acceptable standards. Since ARRC's rail ties have an estimated life of 45 years, the overall average age of ARRC's ties should be about one-half the average life of an individual tie, or 22.5 years. This translates into a potential backlog of over 300,000 ties in need of replacement.

During the last two years, ARRC has obtained federal financial assistance in installing nearly 180,000 ties. While this is a great improvement over its recent installation record, the railroad has only installed 235,000 ties in total over the last eight years, or 29,375 ties a year. Since Mercer expects that a normal rate of tie replacement for a railroad of ARRC's size would be 43,000 ties replaced annually, ARRC is replacing ties at a rate 30 percent below normal.

With these observations in mind, it is clear that ARRC will need to continue to devote a sizeable portion of its capital resources to tie replacement. Assuming a backlog of 300,000 ties plus normal replacement requirements, ARRC will require an average annual expenditure of \$6 million to \$7 million for ties over the next 10 years.⁵

Rail

Most of ARRC's track is made up of 115-pound jointed rail, with most sections in standard 39-foot lengths. Joints are mostly 4-hole angle bars and there is very limited use of 6-hole bars.

⁵ This assumes that 30,000 of the backlog ties would be replaced each year in addition to about 43,000 at the normal rate. The cost assumes current installation costs with the normal ballast and surfacing that accompanies a tie program.

ARRC's rail was installed by the federal government in the 1950s along with the tie investments noted above. While the rail on the south end of the railroad (south of Anchorage) has received relatively low total tonnage over the years, the north end has received significant tonnage, and at certain locations, particularly in areas with many curves, significant wear is evident. The railhead on 10 to 14 degree curves is about 50 percent worn, particularly on the inside (low) rail. Mercer found evidence of potential rollover conditions due to worn rail at certain locations.

Rail replacements during the last six years have averaged about 2.5 track miles annually. At this pace, ARRC's rail would be replaced in about 200 years. Given current and projected volumes of traffic and the increasing use of heavier-loading cars of 90 to 100 net tons, the railroad will be faced with the need to replace its rail at a faster rate. Mercer's estimate is that ARRC's rail should be replaced at the rate of four track miles annually, with a progressive upgrade program to heavier rail weight. An aggressive rail maintenance program, including periodic rail grinding, would postpone extensive replacement for about 40 years.

Ballast

During the last ten years, ARRC has been using an average of 52,000 cubic yards of ballast per year. In 1997, approximately 80,000 yards will be used. Mercer has observed evidence that past levels of ballast use have been inadequate, particularly with respect to the lower quality of ballast used. Particularly noticeable was inadequate ballast between Dunbar and Fairbanks on the north end and Portage to Seward on the south end of the railroad. Even between Denali and Cantwell where the audit team saw new ballast, the rock was mostly on the surface and not sufficiently tamped under the crossties.

Vegetation Control

Vegetation control is needed throughout the ARRC right-of-way. Uncontrolled growth of brush and trees creates hazards and accelerates the deterioration of the grade and subgrade. Some of the major problems are:

- Sight reduction of the locomotive engineer at road grade crossings
- Restricted vision where track and other maintenance gangs are working along the right-of-way
- Improper footing for train crews, resulting in sprained ankles, knees, and pulled muscles
- Dry brush and weeds, which pose a fire hazard for the surrounding area (including ties, bridges, and non-railroad property such as forests and dwellings)
- Restriction of proper drainage which, in turn, causes accelerated track, road bed, and tie deterioration

The efforts of most railroads to control vegetation have been subject to public concern over the environmental impacts of the herbicides that are used. Railroads in the lower 48 states have been

largely successful in being able to use herbicides. The following survey of 25 large and small railroads shows the extent of use and types of herbicide used (Exhibit III-29).⁶

Exhibit III-29

Use of Herbicides by Selected U.S. Railroads

Railroad	Total Miles	Miles Treated	Miles Not Treated	Reason Not Treated	Chemicals Used
Ann Arbor	54	54	0		Contractor supplied
Arizona & California	248	0	248	Desert	None
Bangor & Aroostook	421	421	0		Contractor supplied
Bessemer & Lake Erie	355	355	0		Contractor supplied
CP Rail – Soo Line	5,139	5,139	0		Mostly Roundup
CSXT	6,000	6,000	0		Roundup, Oust, 2-4-D, Garland
Conrail	7,241	7,241	0		Roundup, Oust, 2-4-D
Cedar Rapids & Iowa City	55	55	0		Arsenal, Oust, 2-4-D
Dakota, Missouri Valley & Western	364	304	60	Track out/serv.	Quest, Oust, Karmex
Great Miami & Scioto	65	65	0		Contractor supplied
Idaho Northern & Pacific	220	220	0		Roundup, Oust, 2-4-D, Escort, Telar
Illinois Central	2,687	2,687	0		Arsenal, Oust, 2-4-D
Indiana & Ohio	453	453	0		Contractor supplied
Iowa Interstate	552	552	0		Contractor supplied
Kansas City Southern	2,955	2,955	0		Arsenal, Oust, 2-4-D
Maryland & Pennsylvania	25	25	0		Contractor supplied
Nebraska Central	340	340	0		Oust, Crovar, 2-4-D, Roundup
New Hope & Ivyland	18	18	0		Contractor supplied
Providence & Worcester	200	190	10	Mass. Law – public water supply	Contractor supplied
Red River Valley & Western	710	710	0		Roundup, Karmex, 2-4-D
South Branch Valley	53	53	0		Contractor supplied
Texas, Oklahoma & Eastern	86	86	0		Includes Arsenal
Wisconsin Central	3,000	800 (as needed)	2,200	Budget constraints	Contractor supplied
Wisconsin & Southern	600	600	0		Contractor supplied – includes Roundup
Yorkrail	16	16	0		Contractor supplied

Note: Mileages for CSXT and CR are for specific regions for which information could be obtained.

⁶ Mercer contacted a large group of railroads for this survey. The twenty-five railroads shown were those that responded.

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Section IV: Issues and Recommendations

This section recaps the answers received from management with regard to the recommendations submitted with last year's audit. It also contains new recommendations resulting from our findings during this year's audit.

A. Actions Taken on Last Year's Audit Report Recommendations

In the FY 1996-1997 management audit, Mercer listed 30 recommendations in nine functional areas of the railroad. In view of our primary focus on Passenger Services, about half of the recommendations were related to this department. Management agreed with 25 of the recommendations and did not respond to the other five. The five recommendations which drew no response involved the Passenger Department, information service, safety, and labor relations.

Passenger Operations

With increased patronage, new pull contracts, new management, and a projected bright future for tourism in Alaska, the Passenger Department is gearing up to exploit its potential for growth. All of Mercer's recommendations from last year's audit were agreed with; one was not responded to.

- The 1997 business plan, together with the initial draft of a five-year plan and initiatives, has been completed. Mercer's suggested guidelines were included and some have been implemented. Organizational and managerial changes have been made to improve the department's ability to carry out the plan.
- The train dispatching system is being planned and constructed to include the "conflict check" feature as well as an improved communication and a GPS/Collision Avoidance (Positive Train Separator) system. A project manager is overseeing the program.
- Passenger train on-time performance has significantly improved due to more focused accountability, improved track conditions, and the establishment of definitive performance objectives.
- Passenger Department managers and staff are riding trains more frequently and plan to further escalate their train riding during the 1998 season.
- Train crew size will be reduced where it is prudent to do so and other reductions will be negotiated. As train crews are optimized, operation and safety duties will be transferred to trained on-board passenger services personnel.

- Train crews are now reporting directly to the Passenger Department for all matters involving passenger trains.
- Automated ticket vending machines are being considered for use at certain locations.
- Plans are being developed for joint functions with pull companies. Pre-season planning, post-season evaluation, and joint depot planning have been initiated. Potential strategies are being evaluated to enhance the profitability of both the pull services and ARRC's own offerings on a long-term basis.
- An accelerated capital improvement program has been implemented to improve facilities at each station. Anchorage has been the focus of significant improvements.
- Top management wants to ensure that the entire railroad organization understands its commitment to the railroad's passenger service. To that end, management will seek to clarify its objectives with regard to this service and then obtain buy-in across the organization to ensure its success over the long term.
- A more effective budgeting and cost control process and improved financial analysis is being developed. The Director of Passenger Services and the Chief Financial Officer are focusing on the measurement of passenger service profitability.
- Existing food service and cleaning contracts have been renegotiated to reduce costs, increase profitability, and ensure that performance objectives are met.

Management

Management agreed with the four recommendations made in this area:

- The new CFO will explore possible approaches to more closely monitor financial objectives.
- Some improved measures and management reports are now in place. Each group is accountable for developing its reports and measures in line with stated plans, goals, and objectives. Transportation Managers are now accountable through a performance-based Quality Improvement Process (QIP).
- The Authorization for Expenditure manual has been updated. Training will be provided for everyone involved in the process. Methods have been established to control project costs.

Human Resources

Mercer's two recommendations in this area were accepted.

- The Vice President, Finance and Administration, has begun to examine the most appropriate means to fulfill the services provided by Human Resources.
- The most aggressive program to date for formalized training and benchmarking was put in place in 1996. This program has been made available to virtually the entire staff, especially in Transportation.

Engineering

Management agreed with the one recommendation.

- On the first day of 1997, the accounting system was changed to follow a more basic tracking plan. This will provide an audit trail and database to identify what is spent where and for what purpose.

Mechanical

The one recommendation was accepted.

- In late 1996, the Mechanical Department began looking at the operating costs for each function of work. They are developing direct, overhead, and other elements of expense to enable the composite cost to be determined for each activity. This cost can then be compared to other sources and be used for benchmarking purposes.

B. New Observations and Recommendations

This section contains Mercer's recommendations, most of which are driven by the findings and discussion in Section III of this report.

Personal Injury Prevention

Reducing New Employee Injuries

- 1.) The Passenger Department needs to work more intensively on controlling personal injuries among its staff (especially for new employees).**

During 1997, the Passenger Department experienced a much higher number of incidents in proportion to its total staff, especially among employees with less than two years of service.

- 2.) The time and quality of new employees' orientation and training should be increased.**

There has been a marked increase in personal injuries among new employees not only in the Passenger Department but in the Transportation and Mechanical departments as well.

- 3.) Periodic reviews of new employees' performance need to be conducted for the first two years after an employee is hired.**

The first two years of work appear to be critical in the development of proper injury prevention practices and safe work habits.

- 4.) ARRC should develop a more effective program to screen new employees for physical problems that could prevent them from carrying out their duties without incident.**

The current hiring process is deficient. A high percentage of the new employees who experienced personal injuries in 1997 were found to have physical conditions that either caused the injury or contributed to it. Mercer understands that a specific program to screen employees must conform to acceptable employee hiring standards and legal requirements.

- 5.) ARRC should provide closer monitoring of new employees.**

Supervisors need to keep better tabs on new employees. ARRC could consider a formal "mentoring" program that uses volunteers to help advise new employees. A mentoring program would involve assigning a responsible and experienced employee to each new hire within his or her work group.

Enforcing Safe Work Practices

- 6.) ARRC should take steps to ensure that safe work practices are established and followed.**

To ensure unsafe work practices don't persist, especially in controlled environments such as the shop facilities, a qualified person should regularly visit each shop to inspect the tools and equipment used and the methods and practices followed in performing all of the tasks carried out in the shop. This person could be from the ARRC or some other railroad. Where problems are found, corrective steps should be taken and information provided to all employees. Monitoring must then be instituted to ensure compliance.

- 7.) ARRC should ensure that all safety rules are consistently enforced.**

In some cases, rules now in effect are not always complied with; this gradually reduces the respect employees have for vital safety rules. Rules that cannot be reasonably enforced should be modified or eliminated.

- 8.) A formal process should be initiated for employees to report unsafe conditions and practices.**

This process would include developing a report format for employees to use and ensuring that an appropriate and timely response is made to employees who do submit reports. Some employees who have submitted suggestions in the past have expressed frustration over the lack of response or level of corrective action taken (if any).

Safety Administration and Injury Prevention Programs

- 9.) ARRC should redefine the responsibilities of the safety manager to reinforce his role as a supporting resource and eliminate any potential conflict in responsibilities.**

As currently defined, the responsibilities of the safety manager conflict with the responsibilities of department managers. Steps should be taken to encourage a closer working relationship between the safety manager and the operating departments.

- 10.) Assistance should be provided to the safety manager to ensure adequate safety monitoring during peak seasons.**

The significant increase in all levels of activity during the summer months could be much better monitored with the addition of a part-time safety assistant.

- 11.) A comprehensive training program should be considered for all levels of management and for other employees in key areas of responsibility.**

The lack of adequate training appears to have contributed to the current personal injury problems. The type of training should be customized to meet the most pressing needs of the railroad.

- 12.) ARRC should establish continuing dialogue with peer railroads to share information on personal injury experience and prevention activities.**

Other railroads in the United States are conducting their operations in essentially the same manner as ARRC, with varying results in terms of personal injury experience. A regular exchange of information on personal injury and safety should assist ARRC in developing more effective programs along the lines of those used successfully on other railroads to reduce injuries.

- 13.) ARRC should regularly participate in the Safety Section of the Association of American Railroads (AAR) to gather information on personal injury performance and prevention nationwide.**

Information available from AAR can help ARRC understand trends and experience in the railroad industry as whole.

Improving Personal Injury Tracking and Evaluation

- 14.) ARRC should establish a comprehensive personal injury database for use by all departments.**

This database should provide sufficient information that managers can evaluate where corrective action must be focused and what types of safety programs ought to be considered.

It is most important that absolute causal factors be properly identified and classified as part of the database. For example, knowing about the specific factors that lead to injury or that injuries are occurring primarily among certain groups (e.g., new employees) is key to establishing corrective actions that will effectively redress the problem. Each department should be able to access the database so that it can analyze its own personal injury experience and develop appropriate remedial actions.

Improving Reporting and Investigation

- 15.) The reporting, investigation, and "close-out" on incidents must be formalized and much more complete.**

Full information on each incident is an essential element in developing effective personal injury prevention programs. The reports that Mercer reviewed for the past three years were often far from complete and seriously lacking in the information required to formulate prevention programs.

Improving Morale

16.) Management needs to develop a more open, trusting relationship with employees.

Improving employee morale and attitudes could go a long way toward improving the railroad's safety record. Some ways to do this include more honest, two-way communication, regularly acknowledging employee contributions, and encouraging a greater level of interest and participation by employees in the railroad as a whole.

A variety of approaches should be considered, including the following:

- Open forums might be conducted at key locations such as Anchorage, Seward, and Fairbanks for employees and their families. These informal discussions about the railroad could include brief statements from key managers about all aspects of the railroad (good and bad), question periods, etc. The CEO, VPs and department heads (as well as the local Board member and local management supervisors) should participate. A brief video of the railroad could also be shown at such forums, as many employees and their families probably are not familiar with the "big picture" of what is happening at ARRC. Such a video could show the canyon and track improvements, new locomotives to be acquired, dock improvements, etc.
- All managers should make it a point to increase the frequency of trips out on the railroad to increase their visibility, improve communications, and provide an opportunity for dialogue with employees at all levels.

17.) Top management needs to provide greater support to middle and lower managers.

First-line managers are key to a successful injury prevention program. Special effort at the highest levels of management needs to be made to resolve the concerns of these managers and provide them with the support they need to effectively carry out injury prevention programs.

18.) ARRC should develop a program to recognize employees who have excellent safety records or who have acted in a manner that has contributed to safe operations.

Personal recognition is an important incentive. It can make employees feel more involved in the railroad's progress in reducing injuries. The current safety program does not appear to include this type of recognition.

- 19.) ARRC should consider establishing a friendly "competition" between departments to improve personal injury performance.**

Using the ratio of number of incidents per 200,000 man-hours as a measure of performance, an annual competition could be established between the three major departments. The incentive could be, for example, an engraved "trophy cup," which would go to the winning department for the year, and would then pass the following year to the next department to win. Awards could also be made at an annual safety luncheon, with appropriate staff invited and recognized for their contributions to safety at the railroad.

Other Suggestions

- 20.) ARRC might consider a professional safety review, such as that provided by DuPont.**

An independent review by a recognized railroad consulting firm in the field of safety would provide a more detailed diagnosis of the causes of ARRC's current injury prevention problems and offer the best approaches to reducing injuries.

New Locomotive Fleet

- 21.) Special locomotive engineer instructions and training must be established for proper train handling of the SD70MAC locomotives; train handling should be monitored using the train's on-board microprocessor control.**

The high tractive effort of the new locomotives will warrant careful control in how they are handled over certain vulnerable locations in the railroad's track structure.

- 22.) Detailed stress testing should be performed to measure track forces caused by the new locomotives to determine the level of longitudinal and lateral stresses.**

If a problem is indicated, the following corrective actions should be considered where excess strain on track occurs:

- Modify engineer train handling instructions as necessary
- Consider a rail welding program at critical locations
- Replace 4-hole angle bars with 6-hole bars
- Place additional rail anchors and upgrade tie condition as needed at critical locations

23.) ARRC should investigate alternative financing and ownership options, particularly the advantages of leasing the GP38s and having them rebuilt and maintained by the lessor.

24.) ARRC should upgrade sidings that are substandard, particularly on the Anchorage to Fairbanks route.

Certain sidings are clearly inadequate for use by the new locomotives.

25.) The planned use of the new locomotives on the Express and Suneel trains should be reexamined.

It is more difficult to justify the use of the new locomotives on these trains.

26.) ARRC should program additional funds for rebuilding the eight GP38s within the next five years.

With a smaller fleet, the GP38s will play a more critical role in providing service than is now the case. The fleet will require higher levels of availability than is obtainable from ARRC's current plans for these locomotives. Planned maintenance costs should also be reexamined to ensure that they are sufficient, given the higher levels of reliability that will be required.

Mechanical Department

27.) The Fairbanks locomotive maintenance shop should be closed.

ARRC has surplus locomotive maintenance shop capacity now and will have even greater surplus with associated costs in the future with the acquisition of the SD70MAC locomotives.

28.) ARRC needs to provide better maintenance for the MAPCO tank cars.

The MAPCO tank cars are now repaired on a defect-card basis. The continuation of this exception-type approach could expose the railroad to unacceptable risk, particularly given the growth in this business segment and the plan to accomplish much of this growth by better utilizing the existing fleet. Mercer recommends that arrangements be made with MAPCO to establish a periodic (or mileage) basis for inspection and repair as necessary.

Engineering Department

29.) ARRC should continue the program of replacing 60,000 cross-ties per year for the next six years.

ARRC's program for tie replacement has been lagging in recent years and

while federal assistance in 1996 and 1997 has helped restore a more normal replacement cycle, a relatively high level of tie replacements needs to be continued.

- 30.) Rail replacement is needed at a rate of 4 track miles per year. Rail grinding is needed every 3 to 4 years rather than every 5 to 6 years. Improvement in rail joint maintenance is needed as well.**

With the heavier per car loadings now used by ARRC (compared to lighter loadings just a few years ago) and the expected increase in petroleum traffic, a more aggressive rail maintenance program appears to be warranted.

- 31.) ARRC needs to be using 80,000 cubic yards of ballast per year.**

In recent years, ARRC has used an average 52,000 cubic yards of ballast annually. To maintain an adequate infrastructure, a higher level of use is recommended.

- 32.) ARRC should develop a program of vegetation control for the right-of-way.**

Poor vegetation conditions are clearly a hazard and add to the cost of infrastructure maintenance.

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Appendix A: Safety Database: Injury Reporting for 1997

Employment Date	Mercer Incident No.	Date of Incident	Dept.	Age	Level Of Severity				Injury Type	Area Affected	Causal Factor				Physical Condition	Back Problem
					NR	LT Days	FRA	LD Days			Careless	Work Practice	Unsafe Cond.	No Event		
Oct-74	1	3-Jan	M	40		18			Strain	Back			1		1	1
Dec-74	2	30-Jan	T	51		106			Strain	Arm & Shoulder			1			
Aug-85	3	31-Jan	M	55			1		Pain	Hand & Arms				1	1	
Jun-94	4	6-Feb	M	53			1	30	Fracture	Thumb			1			
Mar-75	5	9-Feb	T	42	1				Pain	Back		1			1	1
Aug-74	6	10-Feb	T	46	1				Pain	Back			1		1	1
Apr-84	7	12-Feb	M	58	1				Bruise	Hand	1					
Jun-73	8	13-Feb	T	49		21			Pain	Back				1	1	1
Sep-96	9	13-Feb	M	50	1				Bruise	Wrist	1					
Jul-74	10	18-Feb	M	43		16			Hemia	Hemia		1			1	
Mar-95	11	18-Feb	M	52	1				Pain	Wrist		1				
Jul-74	12	19-Feb	E	46		8			Strain	Back		1			1	1
Mar-76	13	24-Feb	E	48	1				Pain	Neck				1	1	
Jun-82	14	24-Feb	M	51		89				Various			1			
Sep-87	15	26-Feb	T	56	1				Strain	Arm			1			
Mar-96	16	26-Feb	T	40		85			Pain	Back				1	1	1
May-90	17	6-Mar	T	35		1			Bruise	Foot			1			
Aug-72	18	13-Mar	T	54	1				Pain	Back			1			1
Feb-87	19	21-Mar	M	53	1				Strain	Shoulder	1				1	
May-75	20	21-Mar	T	41	1				Strain	Back			1			1
Aug-95	21	4-Apr	E	26		12			Bruise	Knee	1				1	
May-90	22	6-Apr	T	35		2			Strain	Leg		1			1	
Apr-93	23	8-Apr	M	45	1				Pain	Hand		1				
Oct-82	24	10-Apr	M	49			1	11		Arm				1	1	
May-90	25	16-Apr	T	39	1				Pain	Knee			1			
Oct-93	26	22-Apr	E	31	1				Eye	Eye	1					
May-81	27	24-Apr	T	60		24			Strain	Knee			1		1	
May-85	28	30-Apr	T	54		5			Strain	Shoulder		1			1	
Feb-92	29	2-May	M	48		5			Strain	Back		1			1	1
Jul-77	30	6-May	E	41			1		Strain	Back		1			1	1
May-97	31	7-May	T	40	1				Strain	Knee		1				
Feb-75	32	7-May	M	53	1				Bruise	Hand			1			
May-97	33	18-May	P	46		5			Fracture	Elbow	1					
Mar-92	34	27-May	M	43		22			Strain	Shoulder				1	1	
Mar-92	35	30-May	E	39			1		Pain	Hand		1				
Mar-93	36	3-Jun	E	37	1				Cut	Nose		1				
Jun-96	37	18-Jun	E	32			1	1	Pain	Arm		1				
Mar-97	38	19-Jun	M	34			1	35	Strain	Back		1			1	1
May-90	39	23-Jun	E	37			1	2	Pain	Toe	1					
Oct-96	40	25-Jun	M	55			1		Strain	Thumb	1					
Mar-97	41	7-Jul	P	30			1			Various				1		
May-95	42	8-Jul	P	19			1		Strain	Hand	1					
May-96	43	14-Jul	E	38			1	2	Cut	Arm		1				
Aug-75	44	15-Jul	M	45		1			Pain	Knee		1				
Dec-96	45	25-Jul	M	27					Strain	Elbow		1			1	
Apr-96	46	28-Jul	T	43		19	1		Strain	Knee			1			
Jun-97	47	30-Jul	E	28	1				Pain	Abdomen		1			1	
Apr-91	48	1-Aug	T	36		2			Strain	Neck				1		
Apr-97	49	4-Aug	E	51			1	9	Strain	Knee		1				
Jun-93	50	5-Aug	P	45	1				Strain	Back					1	1
Apr-97	51	13-Aug	P	27	1				Pain	Hand				1	1	
May-97	52	13-Aug	E	32		3			Strain	Shoulder				1	1	
Aug-97	53	13-Aug	T	28		1			Cut	Shoulder			1			
May-96	54	16-Aug	P	22	1				Strain	Back		1			1	1
May-96	55	20-Aug	P	39		4			Strain	Back		1			1	1
Apr-97	56	24-Aug	T	33	1				Strain	Ankle	1					
Mar-99	57	30-Aug	P	51	1				Strain	Foot				1		
Apr-96	58	31-Aug	T	29			1		Strain	Wrist	1					
Apr-94	59	2-Sep	M	61		7			Strain	Knee	1				1	
Sep-87	60	5-Sep	T	56			1	5	Pain	Knee				1	1	
May-92	61	11-Sep	E	50	1				Strain	Groin				1	1	
May-83	62	16-Sep	E	50			1		Strain	Back				1	1	1
Aug-90	63	22-Sep	T	50		3			Pain	Hand		1				

Appendix A: Safety Database: Injury Reporting for 1996

Employment Date	Mercer Incident No.	Date of Incident	Dept.	Age	Level Of Severity				Injury Type	Area Affected	Causal Factor				Physical Condition	Back Problem
					NR	LT Days	FRA	LD Days			Careless	Work Practice	Unsafe Cond.	No Event		
Sep-74	1	2-Jan	M	44	1				Pain	Hand	1					
Jul-73	2	2-Jan	M	47	1				Pain	Groin	1					
Mar-84	3	4-Jan	M	46			1		Cut	Knee	1					
Jun-91	4	14-Jan	M	33			1	4	Pain	Back				1		1
Jul-90	5	3-Feb	T	26		1			Pain	Knee			1		1	
Jun-80	6	5-Feb	T	36			1		Cut	Eyebrow	1					
Jun-89	7	18-Feb	P	25			1		Pain	Back			1			1
Aug-73	8	23-Feb	M	42			1	5	Cut	Hand			1			
Apr-81	9	24-Feb	T	41	1				Pain	Back			1			1
Jan-96	10	26-Feb	A	37			1		Pain	Back			1			1
May-73	11	5-Mar	E	47	1				Hearing	Ear				1		
May-86	12	29-Mar	T	39	1				Pain	Back			1		1	1
Jul-76	13	3-Apr	T	38	1				Pain	Eye			1			
May-74	14	5-Apr	E	52	1				Pain	Back		1			1	1
Jul-75	15	11-Apr	M	51		6		39	Pain	Back		1			1	1
May-83	16	12-Apr	E	58	1				Pain	Eye	1					
Jun-84	17	19-Apr	M	52		19		6	Pain	Back		1			1	1
Nov-82	18	19-Apr	M	37			1		Pain	Hand				1	1	
Mar-85	19	15-May	E	45			1	13	Pain	Back			1	1	1	1
Apr-76	20	20-May	T	38	1				Pain	Hearing			1			
May-86	21	21-May	T	32	1				Pain	Eye				1		
Mar-85	22	22-May	T	39			1		Pain	Hand	1					
Jun-73	23	28-May	T	48		2			Cut	Hand	1					
May-86	24	15-Jun	E	44		1		5	Pain	Hand	1					
Jun-86	25	18-Jun	E	24		5			Pain	Toe	1					
Aug-81	26	19-Jun	M	56		7			Pain	Arm		1			1	
Apr-89	27	26-Jun	E	38	1				Cut	Hand	1					
Mar-85	28	2-Jul	E	45			1		Strain	Arm		1			1	
Mar-89	29	8-Jul	E	39			1		Pain	Back	1					1
May-81	30	8-Jul	T	59			1		Pain	Back		1			1	1
Jun-84	31	11-Jul	M	54		63			Strain	Arm		1			1	
May-79	32	12-Jul	T	44		50			Fracture	Ankle	1					
Jul-71	33	20-Jul	E	48		6			Misc		1					
Jun-84	34	23-Jul	M	54	1				Cut	Lip		1				
May-84	35	28-Jul	M	41	1				Mental	Mental				1	1	
May-82	36	1-Aug	E	30			1		Cut	Hand	1					
Aug-74	37	5-Aug	T	45			1		Infection	Ear				1		
Jun-92	38	6-Aug	M	43		40		54	Cut	Hand		1				
Apr-90	39	9-Aug	M	50		103			Strain	Hand				1	1	
Aug-83	40	13-Aug	E	46	1				Pain	Eye	1					
Apr-82	41	14-Aug	M	28			1		Cut	Hand	1					
Aug-85	42	19-Aug	M	54		12		15	Strain	Back		1			1	1
Apr-89	43	20-Aug	E	36		2			Cut	Hand	1					
Jul-86	44	20-Aug	E	23	1				Cut	Hand				1		
Jul-75	45	21-Aug	T	47	1				Strain	Foot			1			
Mar-85	46	29-Aug	E	52	1				Pain	Ankle	1					
May-86	47	4-Sep	E	27		29			Cut	Ankle			1			
May-83	48	9-Sep	E	58		5			Strain	Ankle			1			
Aug-74	49	11-Sep	E	49		30		45	Strain	Ankle	1					
May-82	50	17-Sep	T	37	1				Hearing	Ear			1			
May-86	51	24-Sep	E	40			1	12	Strain	Back		1			1	1
May-82	52	30-Sep	E	35	1				Cut	Leg	1					
May-89	53	1-Oct	T	33		6			Strain	Back		1		1	1	1
Mar-89	54	7-Oct	E	39		60			Strain	Back				1	1	1
Jun-86	55	11-Oct	T	43			1		Pain	Shoulder				1	1	1
Aug-71	56	26-Oct	T	44	1				Strain	Back		1			1	1
Jun-70	57	29-Oct	E	52			1	43	Pain	Wrist				1	1	
May-83	58	3-Nov	T	33	1				Pain	Hand	1					
Jan-75	59	6-Nov	M	46			1	7	Pain	Elbow				1	1	
Sep-85	60	7-Nov	M	29			1	34	Cut	Knee	1					
May-82	61	10-Nov	M	52		14		21	Pain	Shoulder	1					
Sep-75	62	14-Nov	T	49			1		Pain	Arm				1	1	
Jun-80	63	18-Nov	E	40		4			Strain	Back		1			1	1
May-78	64	21-Nov	E	43	1				Strain	Back	1					1
Sep-74	65	25-Nov	M	44		26			Cut	Hand			1			
Mar-89	66	19-Dec	P	50			1		Strain	Back				1	1	1
Aug-85	67	20-Dec	M	54			1		Pain	Shoulder	1					
May-80		20-Dec	T		1				Pain	Hand	1					

Appendix A: Safety Database: Injury Reporting for 1995

Employment Date	Mercer Incident No.	Date of Incident	Dept.	Age	Level Of Severity				Injury Type	Area Affected	Causal Factor				Physical Condition	Back Problem
					NR	LT Days	FRA	LD Days			Careless	Work Practice	Unsafe Cond.	No Event		
May-85	1	2-Jan	E	46			1	17	Strain	Back		1				1
Jun-78	2	9-Jan	T	39		1			Pain	Shoulder				1	1	
Aug-81	3	27-Jan	T	53	1				Strain	Shoulder		1				
Aug-93	4	31-Jan	E	37			1		Strain	Back				1	1	1
Apr-86	5	1-Feb	E	46			1		Pain	Jaw	1					
Mar-92	6	10-Feb	E	24		235			Strain	Back		1				1
Jun-73	7	13-Feb	T	47		27			Strain	Back				1	1	1
Apr-84	8	26-Feb	T	42	1				Pain	Arm				1	1	
Jun-75	9	18-Feb	T	39	1				Pain	Neck		1				
Jul-91	10	23-Feb	M	30			1		Strain	Back		1			1	1
Aug-71	11	24-Feb	T	43	1				Strain	Knee	1					
Jun-78	12	26-Feb	T	39		46			Strain	Knee				1	1	
Jun-80	13	26-Feb	E	43		1			Strain	Back		1				1
Aug-82	14	2-Mar	A	55			1		Strain	Back		1				
Apr-89	15	8-Mar	E	47		1		7	Strain	Hip	1					
Oct-92	16	20-Mar	M	40			1	4	Strain	Arm		1				
Jun-86	17	23-Mar	T	42	1				Pain	Hand	1					
Dec-91	18	28-Mar	E	31			1		Pain	Eye	1					
May-73	19	10-Apr	E	46	1				Strain	Back		1			1	1
Aug-74	20	18-Apr	T	41	1				Hearing	Ear				1	1	
May-83	21	20-Apr	A	37	1				Pain	Wrist				1	1	
Feb-95	22	20-Apr	A	45	1				Pain	Knee	1					
Aug-73	23	21-Apr	T	52			1		Cut	Hand	1					
Aug-74	24	24-Apr	E	47		1		18	Strain	Back	1				1	1
Jan-95	25	12-May	E	25		2	1	1	Pain	Chest	1					
May-92	26	2-Jun	E	34			1		Pain	Eye		1				
May-92	27	8-Jun	E	25		2			Cut	Eye	1					
Apr-91	28	11-Jun	T	26		21			Strain	Ankle	1					
May-89	29	11-Jun	E	35			1		Cut	Hand		1				
Jul-85	30	13-Jun	E	41		43			Pain	Hand						
Jul-82	31	26-Jun	E	54	1				Pain	Shoulder			1			
Jun-89	32	3-Jul	A	24	1				Pain	Leg		1				
Mar-92	33	11-Jul	A	42	1				Pain	Ankle	1					
Jun-74	34	14-Jul	T			2			Pain	Back			1			1
Apr-90	35	15-Jul	T		1				Pain	Neck		1				
Oct-81	36	15-Jul	T	39	1				Strain	Neck		1				
Apr-91	37	15-Jul	T	27	1				Strain	Neck		1				
May-83	38	25-Jul	E	47	1				Strain	Abdomen		1				
May-74	39	1-Aug	T	43		8			Strain	Back				1	1	1
Apr-90	40	18-Aug	T	28	1				Cut	Hand			1			
May-83	41	21-Aug	T	42	1				Pain	Hand	1					
May-91	42	21-Aug	T	26	1				Pain	Head	1					
Aug-95	43	23-Aug	E	24			1		Cut	Hand	1					
Jan-74	44	23-Aug	T	44	1				Pain	Eye		1				
Nov-94	45	29-Aug	E	27			1		Strain	Ankle	1					
May-92	46	30-Aug	E	27		9			Pain	Toe	1					
Jun-93	47	6-Sep	E	29	1				Strain	Groin	1					
Feb-92	48	12-Sep	E	22			1	8	Pain	Elbow				1	1	
May-89	49	21-Sep	T	46		33			Pain	Misc			1			
Apr-94	50	22-Sep	M	44	1				Pain	Elbow	1					
May-82	51	25-Sep	E	45		81			Strain	Back				1	1	1
Jun-93	52	27-Sep	E	36	1				Cut	Foot	1					
Feb-83	53	13-Oct	E	43		19		25	Strain	Knee				1	1	
Nov-75	54	15-Oct	T	40		5			Strain	Back		1				1
Apr-84	55	17-Oct	E	30		9			Cut	Mouth	1					
Apr-89	56	23-Oct	E	29			1	37	Strain	Shoulder				1	1	
Apr-88	57	24-Oct	T	61	1				Pain	Head			1			
Apr-91	58	26-Oct	T	23		3			Strain	Ankle			1			
Apr-89	59	26-Oct	T	26		38			Strain	Knee			1			
Feb-93	60	31-Oct	E	40	1				Pain	Hip	1					
Jun-82	61	13-Nov	E	44	1				Pain	Arm			1			
Mar-95	62	13-Nov	E	52	1				Strain	Arm			1			
Jun-80	63	20-Dec	E	36	1				Strain	Back		1			1	1
May-80	64	21-Dec	E	27		6			Strain	Wrist		1				

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Hollis A. Henderson

Mr. Henderson, a Senior Consultant to Mercer Management Consulting, specializes in locomotive and rollingstock management restructuring, maintenance facilities and procedures rationalization, and workshop management organization and restructuring. He has 40 years of railway operating experience in management and engineering, and in his six years of consulting has worked extensively in Australia and the United States.

As chief mechanical officer for the Southern Pacific Railroad, Mr. Henderson was responsible for locomotive and rollingstock design, reliability, and operation within budgetary limits. He served in management positions at Conrail as vice president, rehabilitation and planning, of motive power, rollingstock, and track equipment. As Conrail's chief mechanical officer, he was responsible for the consolidation and restoration of the entire fleet – seven railways' combined locomotives, rollingstock, EMUs, carriages, and track infrastructure maintenance equipment.

Mr. Henderson has worked with the State Rail Authority (SRA) of New South Wales since 1988. The projects he was involved with include:

- Locomotive and rollingstock management restructure
- Staffing level rationalization in accord with revised maintenance procedures and facilities
- Rationalization of all maintenance facilities for Rail Freight and CityRail operations
- Improvement and reduction of locomotive and rollingstock fleet
- Design and implementation procedures for rollingstock run-through facilities for locomotives and freight wagons

Since 1992, Mr. Henderson has worked with Queensland Rail to address various mechanical and rollingstock issues. He was the author of the December 1992 Passenger Rollingstock Study – Maintenance and Workshop Requirements. He also participated in the consolidation and amalgamation of workshops and depots for reducing maintenance costs of locomotives and rollingstock, and reviewed all passenger rollingstock maintenance facilities in Brisbane as well as throughout the Queensland Rail system.

Mr. Henderson is affiliated with the Association of American Railroads, the American Society of Mechanical Engineers, the Railway Maintenance Officers Association, the Pacific Railways Association, and the New York Railway Association. He holds degrees at the university level in transportation management, electrical engineering, mechanical engineering, industrial engineering, and labor law.

Alan G. Dustin

Mr. Dustin, a Consultant to Mercer Management Consulting, has almost 20 years of experience as a senior executive of small to medium-sized railroads.

During the past seven years, he has served as a consultant on a variety of railroad studies, either independently or as a member of a consulting team. His recent activities have included:

- **Studies on Amtrak's ability to become self-sufficient**
- **Several due diligence investigations**
- **Commuter and long-distance passenger privatization in Buenos Aires**
- **Operational audit of the tunnel rail operations for the Channel tunnel**
- **Analysis of the extension of the subway system in Washington, D.C.**
- **Preparation of several bids for acquisition of shortline freight systems**
- **Preparation of bids for commuter train operating systems**
- **Analysis of commuter systems and cost savings for four South African systems**
- **Annual operational and financial audit of the Alaska Railroad Corporation over a six-year period**

Mr. Dustin recently served for more than four years as vice president and general manager of New Jersey Transit Rail Operations, where he was responsible for the operation of a growing commuter service with an annual operating budget of \$255 million and a capital budget of \$175 million. Under Mr. Dustin's leadership, the railroad increased ridership by 40 percent while reducing rail costs per passenger mile by 15 percent; achieved a 60 percent ratio of fare-box recovery to operating expenses, the best in the nation for a rail commuter operation; and successfully carried out, under traffic, a massive program for rehabilitating and improving track and facilities.

As president and chief operating officer of the Boston & Maine Corporation/Maine Central Railroad, Mr. Dustin participated in the planning and implementation of the consolidation of these two railroads following their purchase by Guilford Transportation Industries, Inc. He was responsible for the operation of freight and commuter service with an annual budget of \$200 million and developed strategies for improving profitability.

Earlier in his career, as president and chief executive officer of the Boston & Maine Corporation, Debtor, Mr. Dustin turned around a bankrupt \$180 million freight and commuter railroad, guiding it through a reorganization that led to its sale as a viable company. In this capacity, he

negotiated innovative wage, work rule, and crew size agreements, saving \$8 million annually; established a strong marketing department that developed more than \$22 million in new sources of revenue to offset losses from a shrinking industrial base; and reduced annual labor costs \$5 million over a 10-year period by consolidating, mechanizing, and centralizing station agencies, train control towers, and manual crossing protection.

Mr. Dustin has also served as executive vice president of the Bangor and Aroostook Railroad, chairman of the board of the Pittsburgh and Shawmut Railroad, and division superintendent of the Erie Lackawanna Railroad. He is a member of the National Research Council's "Committee for High-Speed Ground Transportation," which has oversight of Federal Railway Administration research and development and next generation rail needs at the request of the House of Representatives.

Robert B. Waldner

Mr. Waldner, a Senior Consultant to Mercer Management Consulting and a former Senior Associate with the firm, is a specialist in transportation with a focus on freight and passenger railroads. He has served in operating and marketing capacities within the railroad industry and has more than 25 years of experience as a transportation and general business consultant. He has addressed problems requiring a broad knowledge of the marketing, regulatory, operating, and financial environment in which the railroad industry functions. Mr. Waldner's consulting work includes the following projects:

- Assisting an Eastern U.S. state in determining its fair share of the deficit of a commuter rail operation that it shares with an adjacent state
- Assisting several railroads in disposing of light density lines, including serving on bid review committees examining the suitability of alternative proposals for continued operations
- Assisting the Agent Banks assess the preparedness of the EuroTunnel (France-England tunnel) management to operate the tunnel railway
- Assisting several railways abroad in evaluating the efficiency and effectiveness of their commuter railway operations
- Performing an annual review of the operations of the Alaska Railroad, including all aspects of operating and non-operating functions
- Helping Amtrak design and use passenger train costing systems, work that involved custom-designing cost models for approximately 20 trains
- Assisting railroads, motor carriers, and state and federal agencies with transportation market analysis and forecasting
- Preparing forecasts of future freight car needs for equipment suppliers and determining the value of freight cars owned by lessors
- Creating and using proprietary benchmark databases for various railroad studies to identify opportunities for improvement
- Assisting various users of transportation in developing transportation costing methodologies
- Furnishing general counsel on railroad market prospects, operating costs, asset requirements, and asset valuation to financial institutions, railroads, shippers, and parties interested in acquiring railroad properties
- Assisting a European government in reviewing the operations of its rail system and in designing new intermodal services for the Channel tunnel

Robert B. Waldner

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- **Helping railways determine the reasonableness of their rail freight rates**
- **Assisting the American Association of Railroads and a lessor of freight cars in determining the marketing impact of combination trucks on the railroad industry**

Mr. Waldner was previously a senior associate in the operations management practice at Mercer. Before joining Mercer, he worked at Harbridge House, Inc.

Earlier, Mr. Waldner was with Illinois Central Industries, where he served as director of service evaluation in the Information and Control System Department and, later, as director of service and equipment evaluation in the Market Research Department. His responsibilities included designing an information and control system and preparing reports for obtaining better control of operations. He also served the St. Louis-San Francisco Railway in both operating line and staff capacities. He helped implement one of the first successful service quality control systems in the railroad industry and assisted with the application of terminal and network models to railroad operations. At Melpar, Inc., he was involved in systems design and operations research.

Mr. Waldner received a B.S. in engineering from Princeton University and an M.S. in transportation engineering from Cornell University.

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Date: Sat, 20 Nov 1999 02:55:59 -0500

From: SUZANNE LINFORD <73653.2140@compuserve.com>

Subject: Privatization Commission

Sender: SUZANNE LINFORD <73653.2140@compuserve.com>

To: Marco Pignalberi <Marco_Pignalberi@legis.state.ak.us>

CC: Lee Wareham <clwancak@aol.com>

Message-ID: <199911200256_MC2-8DE1-E18C@compuserve.com>

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Content-Disposition: inline

Content-Transfer-Encoding: 8bit

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Thank you, Marco, for considering me as a member of the subcommittee dealing with the Alaska Railroad.

It is indeed my loss that I will be out of town and unable to participate under this sub committee's time constraints. I am currently serving on a Task Force related to Ship Creek and entitled the Municipality of Anchorage Ship Creek Multi-Model Transportation Plan Task Force. (How's that for a mouthful!) Formerly, I served on the Mayor's Ship Creek Task Force. This current committee is composed of a broad cross section of members which includes the Alaska Railroad. In fact, I believe, that it had it's "birth" at the Railroad's Master Planning sessions.

When you speak of Ship Creek transportation, you immediately know that the majority ownership and movements on the area's land belongs to the Railroad. The Railroad's leased land and the businesses that occupy structures on it, travel in, out and around this area. The location of the Creek and the resources in it brings people to the area. Add to this mix the location of our Regional Port of Anchorage and you have a potpourri for the transportation kettle. (Maybe a "fine kettle of fish".) Additionally, since the Railroad owns a majority of the land the capital needs to provide the transportation infrastructure become most complex to acquire. So why should or does the Railroad own so much of the land that is not directly connected with the day to day operation of the Railroad? And does it need to own this type of land? The Railroad would argue that the land and monies derived from its leases contribute to the overall operation and well being of the Railroad. I'm a land owner with property immediately adjacent to the Railroad in the Ship Creek/depot area. I pay taxes to the Municipality of Anchorage to among other things provide adequate transportation planning and routes to and from my property. Does the Railroad do the same for its tenants? Should the existing tenants be given the opportunity to obtain the land they occupy? Wouldn't this be an incentive to these then owners of property to clean-up and take pride in their property and businesses? There is plenty of junk, unnecessary equipment and delapidated structures that can be cleaned up by both the Railroad and the tenants. Wouldn't the private ownership and subsequent taxation of that land contribute to the well being of more citizens?

I believe that there is a strong argument to be made for privatization of SOME of the Ship Creek area Railroad lands. Those lands that, if the

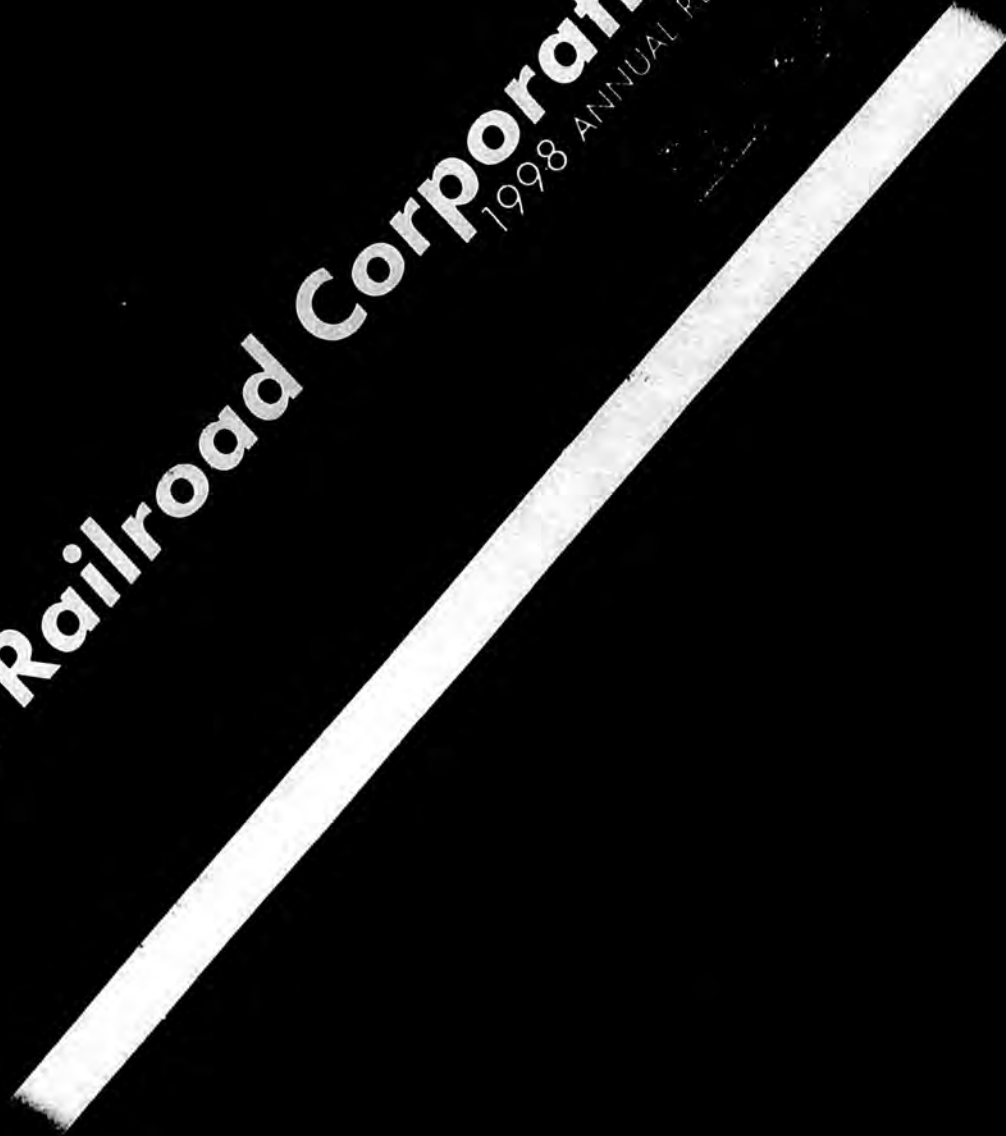
tenants desire to, can be obtained fee-simple by existing occupants under a one time offer. This has many merits - pride of ownership, a tax base for the Municipality, a real owners control of its business' destiny, and an opportunity to become a part of Downtown Anchorage in a real way - a link with the community.

Sorry for the lengthy narrative. Just some late evening thoughts. Thanks again.

Sue

Alaska Railroad Corporation

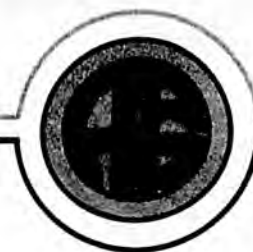
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ALASKA RAILROAD CORPORATION



Corporate Address: P.O. Box 107500, Anchorage, Alaska 99510
327 W. Ship Creek Avenue, Anchorage, Alaska 99501

June 16, 1999

Dear Friend:

I doubt there's another railroad in America that does as much business, in as short a time, with as few employees - and with as much financial success - as we do here on the Alaska Railroad. "Getting the work done" has been the core value here for a long time.

The temptation is to look at the numbers that have been going up in the past few years -- earnings, revenue ton miles, passenger counts, freight moved -- and say that's what is most important at the Alaska railroad. But the most important number is the one that went *down* last year -- namely a 25 percent reduction in injuries to our employees.

The core value I want to instill at our railroad is that the safety of our employees, our customers, and our neighbors is our most important job. Earnings will follow safety, because safety requires attention and care, and quality and service follow attention and care.

Take a look at this annual report. Reflect on the fact that we made 1998 one of the three most financially successful years in our history. Take pride in the fact that we run a self-sustaining railroad. Feel good about the fact that Alaskans love their railroad - and that we take good care of it.

But most important, take pride in the fact that we are working safer and better every year. If we take that same attitude to work every day, we'll be even more successful in the future.

Please accept this annual report along with my sincere thanks to you for your interest and support.

Sincerely,

Governor Bill Sheffield
President & CEO



CHAIRMAN'S MESSAGE

These are exciting times for the Alaska Railroad Corporation. In 1998, with the support of Alaska's Congressional delegation and Gov. Tony Knowles, we were able to put into motion the most ambitious capital improvement plans the Railroad has seen since construction began 85 years ago.

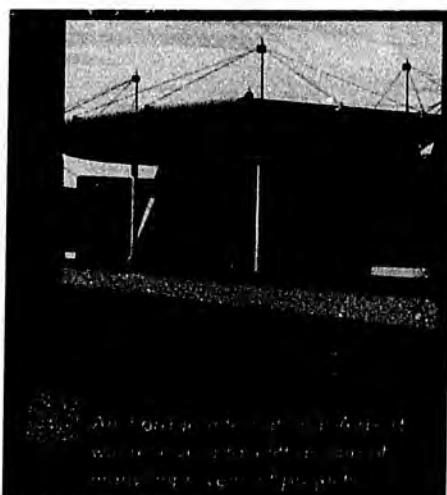
Within the next few years, the Alaska Railroad will be serving its customers with new, safer, more efficient port facilities at Seward and Whittier; a comfortable, full-service depot at Denali National Park; a new depot and public transit center in Fairbanks; and a central rail station at Alaska's gateway, Anchorage International Airport. And by 2005, we hope to be carrying commuters from the Matanuska-Susitna Valley and Girdwood into Anchorage with safe, cost-effective, environmentally-friendly rail transit.

Who would have thought in 1923, when the Railroad was completed, that by the end of the century we would be going from a twisting, wilderness rail link to a 21st century, full-service transit and transportation system?

It's a bold vision and a lot of work, but our capital program is founded on solid ground. What you'll be seeing in the Alaska Railroad's capital program is basic investment in Alaska's major transportation hubs – our ports and major cities – and investment in the links that make the Railroad work seamlessly with air, water and road transportation.

This is not a case of "build it and they will come." They're already here. In Seward and Whittier, the visitor industry is clamoring to keep up with rapid growth, and the Railroad enhances that growth. At Denali Park, with the National Park Service phasing out its old hotel facility (the Alaska Railroad was the original owner), the Railroad is playing a more prominent role in

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filling the needs of the tens of thousands of visitors we bring to America's premier tourist attraction.

In Fairbanks, the heart of Alaska's Interior, the growth of the region demands a practical approach to providing integrated transit services. In Anchorage, we have the chance to do now what cities all over the world are trying to do after the fact – build a proper rail link into their gateway airport. And with commuter service, we will only be catching up to a need that's been there for a decade as the outlying areas of Anchorage grow exponentially.

With the vision and direction of our elected leaders – Gov. Knowles, Sen. Ted Stevens, Sen. Frank Murkowski, Rep. Don Young and the Alaska Legislature – this public corporation's Board of Directors has been able to chart a course for growth that meets Alaska's needs. Our goal is to serve you better through the next century as well.





PRESIDENT'S MESSAGE

We are an interesting company. We're a door-to-door freight shipper and we handle barge traffic on a 1,500-mile haul from the south. We are one of Alaska's prime tourist attractions, but we are also the lifeline for rural Alaskans off the road system. We move jet fuel refined from Alaska crude oil to help keep the state's air cargo business in the air. We move Alaska coal to Korea to help keep the lights burning in Seoul.

And we're owned by the public. We make a living by doing business the way every good company does business – safety, customer service, reinvestment in the asset – but we also have at our core a public mission to be a catalyst for growth and the backbone of Alaska's surface transportation system.

That's where our earnings go – to that public mission. Every nickel this Railroad earns goes right back into the asset. There are no dividends for shareholders or stock options for management. What we earn each year goes back into ties, ballast, equipment, fuel, facilities, improvements and our employees. We want to continue to improve on the asset and make our earnings more secure for the years to come.

In this annual report, we list the name of every employee who works here to re-enforce the fact that whatever you see in the color photos and the graphs and the financial statements is a reflection of the work of all those folks.

In 1998, that good work – and the loyalty of our good customers – helped the Alaska Railroad Corporation to another year of near-record earnings. In 1999, those earnings will be put to work as match for federal grant funds, payment on the purchase of our new SD70MAC locomotives and other improvements that will allow the Railroad to grow its business.

Our focus in 1999 is to keep the Alaska Railroad self-sustaining, safe and service-driven. Our thanks go to our employees, our customers and our shareholders – the people of Alaska.

1998 YEAR IN REVIEW

The Alaska Railroad Corporation once again enjoyed a banner year, posting near-record profit in 1998. It compiled net earnings of \$9.93 million – second most in the Railroad's 14 years under State ownership.

The Railroad registered near-record returns in all phases of operation. Net operating revenue totaled \$5 million, better than in any year but 1997. Net revenue from real estate amounted to \$4.4 million, up from last year's \$4 million total. The Corporation's assets are now worth \$168.51 million, an increase of 25.2 percent from 1997.

Having celebrated its 75th anniversary over the summer, the Railroad heads into the next millennium with several improvement projects in the works and financial stability ensured for years to come.

In 1998, the Railroad was as active as ever. It completed a variety of renovation projects, laid down thousands of feet of track, installed nearly 100,000 new crossties and transported a record number of passengers.

The Railroad had its best showing hauling freight, although numbers were down in some areas. More than 6.4 million tons of freight were hauled by the Railroad in 1998, an increase of 3.9 percent from 1997.

The demand for gravel was greater than in the past as 3.3 million tons of it were transported by the Railroad, marking a 12.1 percent increase from 1997. Construction and road projects made 1998 a near-record year for the transportation of gravel.

Gravel wasn't the only freight to be hauled more frequently in 1998. Every kind of freight the Railroad carried increased in tonnage, with the exception of export coal. Due to decreased demand, export coal shipments ended three months early, in September 1998.

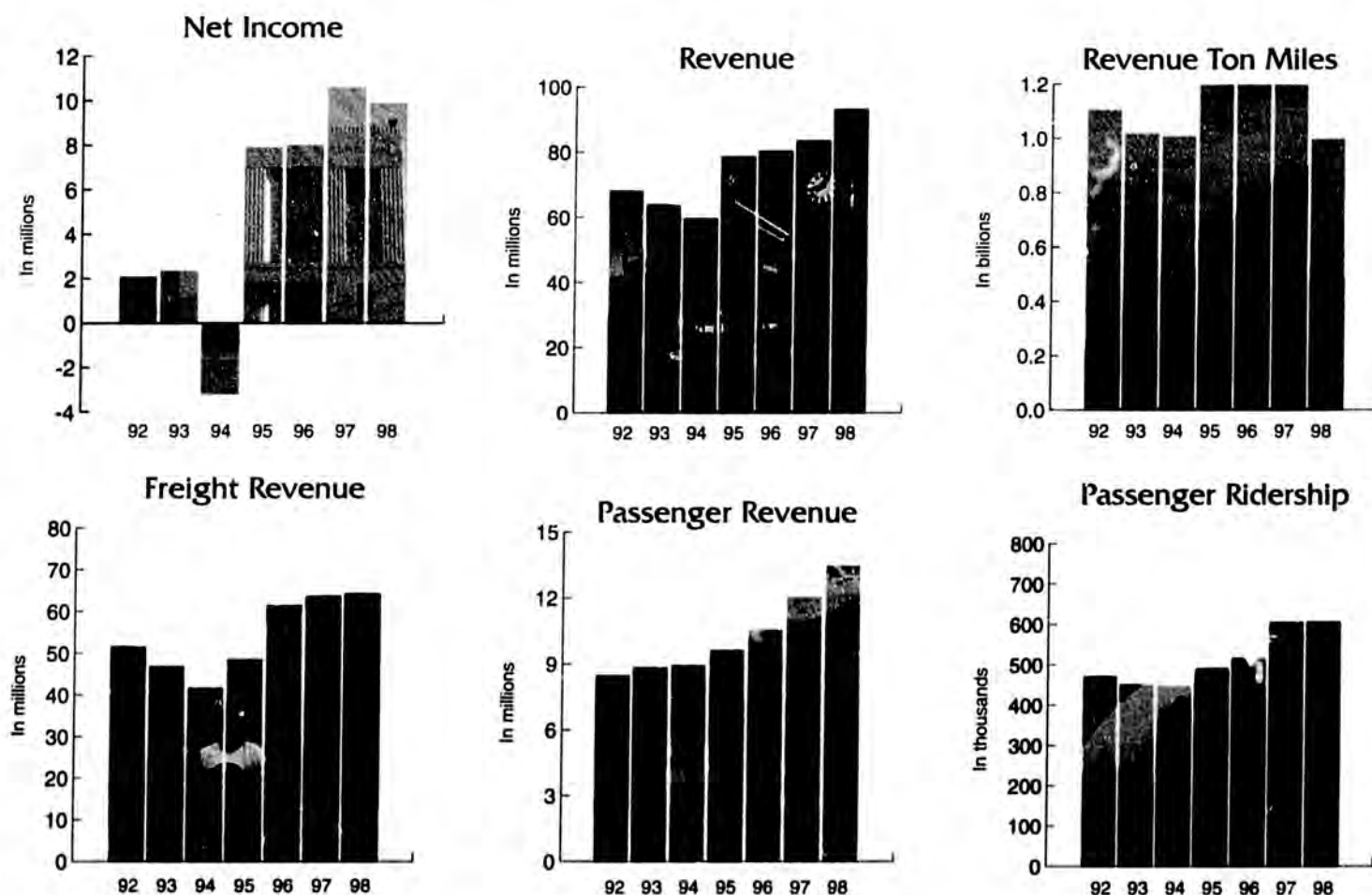
The Railroad also had a superior year on the passenger front. It carried a record number of passengers: 614,236. But the growth of passengers riding

the train has tapered off. After a whopping 20 percent increase in 1997, there was an increase of less than 1 percent in 1998 – or about 1,800 more passengers.

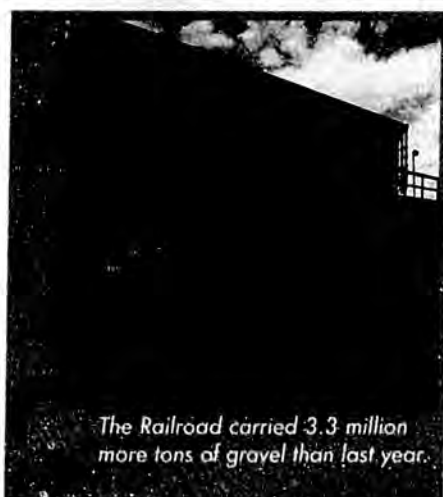
In 1998, the Alaska Railroad reduced FRA reportable injuries by 23 percent when compared to 1997. The Railroad spent \$445,000 on claims in 1998, down 11 percent from the \$511,000 total of 1997. However, the goal of the Railroad to reduce its FRA reportable injuries to one injury per 200,000 hours worked will require outside assistance and the Railroad plans to hire a safety consultant in 1999.

Planning continued for the arrival of new SD70MAC locomotives due for delivery in late 1999. These locomotives will change the complexion of the Alaska Railroad forever. It will mean fewer locomotives with more power, more efficiency with less impact on the environment.

The Alaska Railroad will enter a new era in 1999. Projects are being developed for a new, expanded Denali Depot, Seward Dock, Whittier Pedestrian Overpass, Fairbanks Intermodal Facility and for a rail station at Anchorage International Airport.



1998 COMMODITIES



The Railroad carried 3.3 million more tons of gravel than last year.



RAILFREIGHT

The Alaska Railroad hauled more freight than in any previous year, even though oil prices fell in 1998. Every aspect of the Railroad's freight operations – from local coal to gravel to petroleum – grew from last year. Freight accounted for \$65 million of gross revenue, up 1 percent from last year's total of \$64 million. The only exception was export coal tonnage, which dropped 46.7 percent in large part because shipments were halted between September and December. The recent downturn in the Asian economy produced cheap coal in the spot market, lowering the overall demand for coal.

Construction and road projects fueled a 12.1 percent increase in gravel tons shipped over the year. The Railroad transported more than 3.3 million tons of gravel – nearly a half-million tons more than last year. The Railroad has not hauled that much gravel since Alaska's construction boom 15 years

ago. The Railroad's biggest jump occurred in its interline barge breakbulk operations, totaling a 39.7 percent increase from 1997. In addition, there were increases in interline tonnage of 4.7 percent. Interline freight as a whole accounted for \$23.1 million gross revenue, 35.9 percent of freight's total gross revenue. Interline connections did decline in southbound revenue.

Intermodal units shipped grew by 3.4 percent over the previous year. Intermodal transport has room to grow, but has been slow due to low fuel prices and a surplus of truckers poised to haul oilfield supplies from Fairbanks to Prudhoe Bay. Local railcar business, encompassing the transportation of logs, pipes and other miscellaneous articles, posted an improvement of 18.7 percent in revenue from 1997. The shipment of pipes and logs in and out of Seward is expected to drop in 1999, but other small lines of business are expected to pick up due to increasing construction projects. Local coal tonnage increased by 11 percent, primarily due to the rebuilding of Fort Wainwright's stockpile. The outlook for local coal shipments in 1999 is stable.

The transportation of petroleum is expected to improve in 1999. With the completion of the Williams Company refinery expansion at the end of 1998, December figures were up by 25 percent compared to those in 1997. The shipment of petroleum was once again a significant contributor to the Railroad's bottom line. It produced \$22.5 million of gross revenue, 35 percent of freight's total.



PASSENGER SERVICES

The Alaska Railroad marked its second straight year of record ridership in 1998, as a total of 614,236 passengers rode the rails. It was another first-rate year for passenger services, although the growth rate was slight at .3 percent from 1997.

While the total number of passengers stayed about the same as last year, there was a great deal of difference in how and where the passengers traveled in 1998.

Charters and specials, led by a Christmas train to Seward that sold out, showed a 25.1 percent increase. But a handful of other routes recorded declining numbers. The most significant was a 16.7 percent decline in the Denali-to-Fairbanks route on the "Denali Star," producing an overall decline of 2.6 percent on the entire Anchorage-to-Fairbanks "Denali Star" route.

While the number of tourists visiting Alaska continued to increase, the growth rate has reached a plateau, which was reflected in smaller growth for the Railroad. Nearly all of the



Service remains an important factor in the continued increase in Alaska Railroad passengers.

Railroad's passenger services noted changes of less than 2 percent. In fact, the Portage-to-Whittier shuttle reported nearly the exact figures from last year: 170,679 passengers in 1997; 170,639 in 1998.

LANDMANAGEMENT

Real estate once again played a significant role in the Alaska Railroad's portfolio, accounting for nearly half of the Corporation's total net revenue. The Real Estate Department began to more aggressively market its portfolio in 1998.



The Alaska Railroad's Whittier Branch provides a good example of the Ship Creek Master Plan's development.

Real estate contributed \$4.4 million to the Railroad's \$9.94 million total net revenue, or 44.3 percent of the total. Fair-market-value leases within Railroad reserves along the railbelt provided the bulk of the real estate revenue. Additional revenue is generated by the Whittier and Seward docks, and various permits. One hundred and ten cruise ships used Railroad docks and accounted for \$1.2 million in revenue.

The Railroad signed a lease with the City of Whittier in 1998 in preparation for the completion of the tunnel road in May of 2000. The lease covers non-operational Railroad land and gives the city the flexibility to lease the land to customers they feel will best enhance the city's master plan.

Real estate net income was up 8.6 percent from last year's \$4.1 million total. Gross revenue was up, climbing a million dollars to \$7.9 million. This increase came despite increased expenses, most of them coming from first-time environmental expenditures such as tests and remediation. Also, prior year financial statements were reclassified to consistently reflect a change in accounting methods relating to allocation of corporate overhead.

The Ship Creek Master Plan neared completion, mapping out future development in the area. The plan gathered ideas from a wide group of users and considers business, recreation and environmental concerns.



RAILMAINTENANCE

The Alaska Railroad had an industrious 1998 keeping the tracks maintained, installing new rail and ties, rebuilding engines and much more.

The Railroad was most active making improvements to the track itself. More than 19,000 feet of new rail was laid, while another 17,000 feet of track was transposed to equalize wear.

Nearly 100,000 ties were installed, replacing the nearly 50-year-old ties that were originally installed just after World War II. Replacing the old ties is an ongoing project. The benefits of new ties and ballast are making a difference marked by fewer problems, especially on the north end. The Railroad also built more than 14,000 feet of new track in places such as Bear Valley, Fairbanks and Girdwood.

Accomplishments by the Mechanical Department included four locomotive power assembly changes, 10 truck rebuilds, extensive locomotive cab improvements to better insulate against cold weather, the refurbishment of passenger dome car #502 and the conversion of roller bearings in passenger cars.

The Alaska Railroad entered a new era in 1998, thanks in large part to Alaska's Congressional delegation, Senators Ted Stevens and Frank Murkowski and Representative Don Young, and the Knowles Administration. Through their efforts, the Railroad will receive considerable federal grant funding for capital improvements through 1999.

Many of the projects have already started, although they are still in preliminary stages. The following is a run-down of each project:

1998 PROJECT REPORT

Anchorage International Airport

What It Is: A \$28 million project to develop a state-of-the-art rail station at the Anchorage International Airport. The station will be the centerpiece of all passenger services development at the Railroad, connecting Seward, Whittier and Girdwood, making commuter services to Wasilla and Palmer a more viable option.

1998 Update: A number of studies have been initiated, including a market identification study and operational and equipment analysis. The architectural firm of McCool, Carlson and Green is working on schematic design (*see below*).

Military Base Line Changes/Anchorage-Wasilla Track Upgrade

What It Is: A safety enhancement to eliminate or reduce curves on the rail line between Anchorage and Wasilla. It will increase track speed and the viability of commuter service to Wasilla and Palmer.

1998 Update: The Railroad is working on both military installations and between Eagle River and Wasilla. Negotiations continue for land acquisitions between Eagle River and Wasilla and will involve a land trade with Eklutna Native Corporation. An environmental assessment has begun. Construction is expected to begin in the summer of 1999, starting in the Chugiak area.

Denali Depot

What It Is: A project to build a new and expanded passenger depot in Denali National Park. The large facility will handle the increase of people due to the future closure of the park hotel. The Railroad is working with the Park Service, which is also planning construction.

1998 Update: Selection of an architectural firm continued at the close of 1998. Construction is expected to begin in the fall of 2000, after the tourist season ends at Denali.



Alaska Railroad Corporation Major Projects

Fairbanks

- Yard study complete December 1999.
- New Intermodal construction begins 2000.



Denali

- New depot construction begins 2000.

Wasilla

- Curve reduction begins summer 1999.

Girdwood

- Study complete December 1999.

Anchorage

- Yard study complete 1999.
- Airport rail station construction complete 2002.

Whittier

- Pedestrian overpass complete June 2000.

Seward

- Multiphase dock project begins May 1999 completion November 2004

SERVICE AREA

Legend

- Existing Track
- Future Commuter Track

Seward Dock

What It Is: An \$11.14 million project consisting of multiple facets, including the construction of a new freight dock and the conversion of the existing dock into a passenger services-only dock.

1998 Update: An environmental analysis has been started. Construction of the freight dock is expected to be finished in April 2000. The passenger dock should be ready by November 2001.

Whittier Pedestrian Overpass

What It Is: A \$2.1 million safety enhancement project to construct a pedestrian overpass over the rail yard in Whittier. This will give pedestrians safe passage over the railyard, which lies between the town and the dock.

1998 Update: A total of \$700,000 has been appropriated for the project, with additional funding still being sought. The overpass is expected to be completed in the spring of 2001.

Fairbanks Intermodal Facility

What It Is: The construction of a new intermodal facility to accommodate rail, bus and truck traffic will allow trains to park, unload and pull up for maintenance at the same facility. The construction of the new facility will prevent the hour-long stoppage of rush-hour traffic that occurs daily in downtown Fairbanks during the summer.

1998 Update: Once an environmental analysis is completed and a design is finalized, construction is expected to begin in 2001.

Girdwood Transportation Study

What It Is: A \$25,000 contribution to a study of transportation options within the Girdwood bowl. Since rail is a potential service provider in Girdwood, the Alaska Railroad was asked to participate in the funding of the rail portion of this Municipality of Anchorage study.

1998 Update: Members of the Railroad staff helped select a firm to conduct the study. However, the Anchorage Assembly has final approval on the selection of the firm.

Anchorage/Fairbanks Yard Study

What It Is: A \$400,000 study to determine the future needs of the Alaska Railroad's customers. The study will develop a Railroad traffic estimate looking out 30 years, plus study track length, location and needs for double track. It will also include railyard designs for Anchorage and Fairbanks, looking at needs for capacity up to 30 years.

1998 Update: A contractor has been selected to conduct the study, which began in May 1999.



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 • SEAN STAENLI • BRIAN STAFFORD • LOREN STATZ • JEFFREY STERBENZ • WARNER STEWART • CRAIG STOSKOPF • ROBERT STOUT • JOHN STOVER • TROY
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 VOGEL • DUANE VOSSER • DAVID WADE • SANDRA WANNER • JAMAR WASHINGTON • SCOTT WATKINS • LEE WAYNE • MICHAEL WEATHERELL • MARTIN
 WEATHERELL • GALE WEATHERELL • KEITH WEBSTER • STEVE WELSH • DWIGHT WEST • ED WESTWOOD • ANDREW WHITE • KEITH WHITE • JASON WHITE •
 ROBERT WHITENHEAD • LARRY WICK • MICHAEL WIESKAMP • MARY WILLIAMS • TIFFANY WILSON • GARY WING • HERBER WINKELMAN • FRANK WITNEY •
 KEVIN WOOD • DONALD WRIGHT • GREGORY WYATT • JEFFREY WYATT • ROBERT YOST • DARRELL ZABLE • HENRY ZAWADSKI • TIMOTHY ZIMBRICH

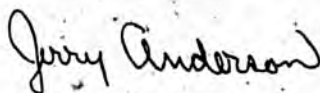
Management Statement: Alaska Railroad Corporation

The management of the Alaska Railroad Corporation is responsible for the fair statement of the accompanying financial statements and all other information contained in the annual report. The financial statements were prepared in conformity with generally accepted accounting principles and prevailing railroad industry practices and reflect Management's judgments and estimates concerning effects of events and transactions that are accounted for or disclosed. The financial information contained elsewhere in the annual report is consistent with that in financial statements.

The Alaska Railroad Corporation maintains accounting systems that are supported by internal accounting controls. These systems and controls provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with Management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the related benefits. Management believes the company's system provides this appropriate balance in all material respects.

The financial statements have been audited by KPMG Peat Marwick LLP, independent certified public accountants, who are appointed by the Board of Directors. Their audit is conducted in accordance with generally accepted auditing standards which include an objective, outside review of operating results, financial condition, and the Corporation's system of internal controls. The opinion of the independent auditors is contained in this annual report.

The audit committee of the board of directors, composed solely of outside directors, meets with independent auditors and management periodically to discuss audit findings and other accounting and financial matters. The committee reviews the scope and results of the audit effort with the independent auditors as well as the annual financial statements and recommends their approval by the board of directors.



Vice President, Finance and Administration

The Board of Directors Alaska Railroad Corporation:

We have audited the accompanying balance sheets of the Alaska Railroad Corporation as of December 31, 1998 and 1997, and the related statements of income, equity and comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Railroad Corporation as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

February 19, 1999

KPMG LLP

BALANCESHEETS

ALASKA RAILROAD CORPORATION

December 31, 1998 and 1997

(In Thousands)

Assets	1998	1997
Current assets:		
Cash and cash equivalents	\$ 5,209	5,918
Accounts receivable, net of allowance for doubtful accounts of \$638 in 1998 and \$524 in 1997	10,992	11,536
Materials and supplies	3,839	3,180
Prepaid expenses and other current assets	353	967
Total current assets	20,393	21,601
Operating property and equipment		
Road and roadway structures	99,226	83,549
Equipment	47,475	43,921
Road materials and supplies	2,216	1,357
Construction in progress	8,502	5,276
Accumulated depreciation and amortization	(59,544)	(52,433)
Total operating property and equipment, net	97,875	81,670
Land (note 10)	13,850	13,850
Board designated assets (note 3)	9,166	3,210
Restricted assets (note 4)	26,750	13,857
Other assets (note 5)	474	367
	\$ 168,508	134,555
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt (note 6)	\$ 1,096	1,954
Accounts payable and accrued liabilities	4,765	4,073
Payroll liabilities	5,321	6,759
Unearned revenues	1,678	2,250
Total current liabilities	12,860	15,036
Long-term debt, less current portion (note 6)	4,069	37
Accrued postretirement and pension benefits (note 7)	8,037	6,881
Deferred grant revenue (note 8)	34,741	14,704
Deferred revenue (note 4)	14,673	13,857
Total liabilities	74,380	50,515
Equity:		
Investment by the State of Alaska	34,174	34,174
Retained earnings	59,802	49,866
Accumulated other comprehensive income - net unrealized gain on securities available for sale	152	—
Total equity	94,128	84,040
Commitments and contingencies (notes 6, 7, 11, 12 and 13)	\$ 168,508	134,555

See accompanying notes to financial statements.

INCOMESTATEMENTS

ALASKA RAILROAD CORPORATION
Years ended December 31, 1998 and 1997
(In Thousands)

	1998	1997
Operating revenue:		
Freight (note 9)	\$ 64,987	64,029
Passenger	13,491	12,119
Other	296	238
	<u>78,774</u>	<u>76,386</u>
Grant revenue (note 8)	1,607	1,230
	<u>80,381</u>	<u>77,616</u>
Operating expense:		
Transportation	37,376	37,076
Engineering (note 8)	20,118	17,852
Mechanical	9,918	10,158
General and administrative	7,947	6,078
	<u>75,359</u>	<u>71,164</u>
Income from operations	<u>5,022</u>	<u>6,452</u>
Other income (expense):		
Real estate income, less direct expenses of \$3,560,000 in 1998 and \$2,880,000 in 1997 (note 10)	4,402	4,054
Interest income	602	352
Interest expense	(90)	(268)
	<u>4,914</u>	<u>4,138</u>
Net income	<u>\$ 9,936</u>	<u>10,590</u>

EQUITYSTATEMENTS AND COMPREHENSIVE INCOME

	Investment by the State of Alaska	Retained Earnings	Accumulated other Comprehensive Income	Total Equity
Balance at December 31, 1996	\$ 34,174	39,276	—	73,450
Comprehensive Income - Net Income	—	10,590	—	10,590
Balance at December 31, 1997	34,174	49,866	—	84,040
Comprehensive Income:				
Net Income	—	9,936	—	9,936
Change in unrealized holding gain on securities available for sale	—	—	152	152
Total comprehensive income			152	10,088
Balance at December 31, 1998	\$ 34,174	59,802	152	94,128

See accompanying notes to financial statements.

CASHFLOWS

ALASKA RAILROAD CORPORATION
Years ended December 31, 1998 and 1997
(In Thousands)

	1998	1997
Operating activities:		
Net income	\$ 9,936	10,590
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,567	6,758
Gain on disposal of assets	(150)	—
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable, net of allowance for doubtful accounts	544	(376)
(Increase) decrease in materials and supplies	(659)	166
(Increase) decrease in prepaid expenses and other assets	507	(766)
Increase (decrease) in accounts payable and accrued liabilities	692	(1,427)
Increase (decrease) in payroll liabilities	(1,438)	1,236
Increase (decrease) in unearned revenues	(572)	795
Increase in accrued postretirement and pension benefits	1,156	884
Increase in deferred revenue	816	791
Net cash provided by operating activities	<u>18,399</u>	<u>18,651</u>
Investing activities:		
Purchases of operating property and equipment	(23,772)	(15,310)
Proceeds from sales of operating property and equipment	150	—
Increase in board designated assets, net of unrealized gain on available-for-sale securities	(5,804)	(3,210)
Increase in restricted assets	(12,893)	(791)
Increase in deferred grant revenue	20,037	6,885
Net cash used in investing activities	<u>(22,282)</u>	<u>(12,426)</u>
Financing activities:		
Payments on long-term debt	(2,186)	(5,121)
Proceeds from long-term debt	5,360	—
Net cash provided by (used in) financing activities	<u>3,174</u>	<u>(5,121)</u>
Net increase (decrease) in cash and cash equivalents	<u>(709)</u>	<u>1,104</u>
Cash and cash equivalents at beginning of year	<u>5,918</u>	<u>4,814</u>
Cash and cash equivalents at end of year	<u>\$ 5,209</u>	<u>5,918</u>
Supplemental disclosure of cash activity:		
Interest paid	<u>\$ 92</u>	<u>277</u>

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION
Notes to Financial Statements
December 31, 1998 and 1997

(1) Organization and Operations

The United States Congress authorized construction of the Alaska Railroad (ARR) in 1914 and operations began in 1923. The federal government operated the railroad until its sale to the State of Alaska in January 1985. The sale of the ARR to the State of Alaska was authorized under the Alaska Railroad Transfer Act of 1982, which was signed into law on January 14, 1983. The Alaska Railroad Corporation (the ARRC) is a corporation created by the State of Alaska legislature to own and operate the railroad and manage the railroad's rail, industrial, port and other properties. The ARRC commenced operations on January 6, 1985.

The ARRC operates 525 route miles, providing both freight and passenger services. The ARRC serves the cities of Anchorage and Fairbanks, the ports of Whittier, Seward, and Anchorage as well as Denali National Park and military installations. Vessel and rail barge connections are provided from Seattle, Washington, and Prince Rupert, British Columbia.

(2) Summary of Significant Accounting Policies

In preparing the financial statements in accordance with generally accepted accounting principles management is required to make a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and revenue and expenses for the reporting period. Actual results could differ from these estimates. The more significant accounting and reporting policies and estimates applied in the preparation of the accompanying financial statements are discussed below.

(a) Basis of Accounting

The ARRC is subject to the jurisdiction of the Surface Transportation Board (STB). Accordingly, the ARRC has prepared the accompanying financial statements in accordance with the STB rules and regulations (US CFR Title 49), which are generally consistent with generally accepted accounting principles as promulgated by the Financial Accounting Standards Board.

(b) Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include time deposits, money market accounts and repurchase agreements with original maturities of three months or less.

(c) Materials and Supplies

Materials and supplies inventories are carried at the lower of average cost or market. Road materials and supplies include rail, ties, ballast, and other track materials. These items will generally be capitalized when placed into service, and accordingly are included in operating property and equipment.

(d) Operating Property and Equipment

Operating property and equipment are stated at cost. Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the related assets, ranging from 5 to 32 years.

(e) Board Designated Assets

Board designated assets represent investment securities held by the ARRC in anticipation of funding future postretirement benefits and locomotive and equipment purchases. Management has both the ability and intent to hold the investment securities designated for locomotive and equipment purchases to maturity, and accordingly, has elected to account for them at amortized cost under Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Investment securities designated for postretirement benefits are invested in equity mutual funds and are accounted for as available for sale securities under SFAS No. 115. Available for sale securities are stated at fair value with unrealized holding gains and losses excluded from earnings and reported as a separate component of other comprehensive income.

(f) Restricted Assets

Restricted assets represent investment securities held by the ARRC in anticipation of the approval of future capital projects. Management has both the ability and intent to hold the investment securities to maturity, and accordingly has elected to account for them at amortized cost under SFAS No. 115. Funds received but not yet expended are recorded as deferred revenue.

(g) Grants

Grant revenue is recorded in the same period as expenses related to the grant. Grant funds received but not yet expended are recorded as deferred grant revenue.

(h) Income Taxes

As a corporation owned by the State of Alaska, the ARRC is exempt from Federal and State income taxes.

(i) Environmental Remediation Costs

The Corporation accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Costs of future expenditures for environmental remediation liabilities are not discounted to their present value.

(j) Fair Value of Financial Instruments

Fair values of financial instruments, as defined under SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, are estimated by the ARRC's management. Fair values of restricted assets and related deferred revenue are based on quoted market prices, when available, and quoted market prices of comparable instruments, when not available. Fair values for accounts receivable are estimated using cash flows in comparison to assets with similar estimated average lives but bearing current market interest rates. Fair values of long-term debt are based on the discounted value of contractual cash flows and interest rates being offered for similar debt. ARRC has determined the fair values of financial instruments do not differ significantly from their carrying amounts with the exception of investments which are discussed in notes 3 and 4.

(k) Reclassifications

Certain reclassifications have been made to the prior year balances in order to conform to the current year presentation.

(l) Comprehensive Income

On January 1, 1998, the ARRC adopted SFAS No. 130, *Reporting Comprehensive Income*. SFAS No. 130 establishes standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income consists of net income and net unrealized gains and losses on securities and is presented in the statement of equity and comprehensive income. The statement requires only additional disclosures in the financial statements; it does not affect the ARRC's financial position or results of operations.

(3) Board Designated Assets

Through December 31, 1998, the ARRC Board of Directors has designated investments for the purchase of locomotives (note 13), for vehicles and equipment, and for postretirement benefits (note 7) as follows (in thousands):

Description of Security	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
1998:				
Available for Sale				
Equity mutual fund	\$ 706	152	—	858
Held to Maturity				
Money market accounts	5,755	—	—	5,755
U.S. Agency notes (maturing within one year)	2,553	1	—	2,554
	\$ 8,308	1	—	8,309
1997:				
Held to Maturity				
U.S. Agency notes (maturing within one year)	\$ 3,210	—	—	3,210

(4) Restricted Assets

The ARRC received \$9,000,000 from the State of Alaska in 1990 for the purchase of locomotives and coal hopper cars for the Wishbone Hill Coal project. Any remaining funds, along with interest earned on the \$9,000,000 while in the possession of the ARRC, may be used to purchase other equipment and improvements related to the project. This contribution from the State of Alaska is accounted for as deferred revenue, which will be amortized over the life of the project. According to the agreement, the ARRC is to refund the \$9,000,000 plus interest earned less administrative fees during the holding period if the Wishbone Hill Coal Project is canceled. At December 31, 1998, these restricted assets totaled \$14,434,000.

Also included in restricted assets is \$239,000 received in 1990 from the Department of Natural Resources. These funds are being managed by the ARRC in anticipation of future capital projects. If no capital projects are undertaken, the funds, including accrued interest, would be returned to the Department of Natural Resources.

As part of the 1997 Taxpayer Relief Act passed by the U.S. Congress, states without Amtrak service are due a benefit to be spent on passenger service improvements in lieu of the tax benefits received through Amtrak subsidies over the years. Alaska's share of this benefit is \$23,230,000, \$11,615,000 of which was received by ARRC in 1998, with the remaining \$11,615,000 to be received in 1999. The unspent portion of the amount received, along with investment income thereon, is reported as deferred grant revenue (note 8). At December 31, 1998, these restricted assets totaled \$12,077,000.

Securities considered Held to Maturity at December 31, 1998 and 1997 consisted of the following (in thousands):

Description of Security	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
1998:				
Money market accounts	\$ 1,605	—	—	1,605
U.S. Agency notes (maturing within one year)	2,022	3	—	2,025
U.S. Agency notes (maturing in 1-5 years)	18,234	22	(35)	18,221
Corporate notes (maturing in 1-5 years)	4,889	33	(4)	4,918
Total	\$ 26,750	58	(39)	26,769
1997:				
Money market accounts	\$ 351	—	—	351
U.S. Treasury strips (maturing within one year)	2,912	—	(1)	2,911
U.S. Agency notes (maturing within one year)	1,629	2	—	1,631
U.S. Agency notes (maturing in 1-5 years)	7,129	22	(11)	7,140
Corporate notes (maturing within one year)	1,033	—	—	1,033
Corporate notes (maturing in 1-5 years)	803	2	—	805
Total	\$ 13,857	26	(12)	13,871

(5) Investment in Partnership

During 1992, the ARRC entered into a general partnership agreement to develop and operate a hotel complex in the Ship Creek area. The ARRC entered into a 35-year lease with the partnership for the land on which the hotel is located for \$1 per year. In return, the ARRC received a 40% interest in the partnership, which is accounted for using the equity method. The ARRC has no cash investment in the partnership. The ARRC's equity in the earnings of the partnership totaled \$63,000 and \$191,000 at December 31, 1998 and 1997, respectively.

(6) Long-Term Debt and Notes Payable

Long-term debt at December 31, 1998 and 1997 consists of the following (in thousands):

	1998	1997
Note payable, secured by equipment, due in monthly payments of \$74,173, including interest at 4.28%, matures September 2003.	\$ 3,819	—
Note payable, secured by equipment, due in monthly payments of \$30,603, including interest at 4.28%, matures October 2003.	1,309	—
Note payable, secured by equipment, due in monthly payments of \$18,616 including interest at 4.44%, matures February 1999.	37	254
Note payable, secured by equipment, due in monthly payments of \$132,699 including interest at 4.6%, matured August 1998.	—	521
Note payable, secured by equipment, due in monthly payments of \$82,066 including interest at 4.50%, matured October 1998.	—	804
Note payable, secured by equipment, due in monthly payments of \$88,066 including interest at 5.8125%, matured May 1998.	—	412
	5,165	1,991
	1,096	1,954
Less current portion	\$ 4,069	37

ARRC has met all debt covenants at December 31, 1998.

Long-term debt maturities are as follows at December 31, 1998 (in thousands):

<u>Year ending</u> <u>December 31</u>	
1999	\$ 1,096
2000	1,104
2001	1,124
2002	1,026
2003	815
	<u>\$ 5,165</u>

The ARRC has arrangements for short-term unsecured lines of credit of up to \$10,000,000 each with two banks. The general purpose line of credit allows borrowing up to \$10,000,000 at a rate of 56% of the prime rate of a major bank. The self-insurance line of credit allows borrowing up to \$10,000,000 at a rate of 65% of the prime rate of a major bank. ARRC has met the debt covenants of both lines of credit, which have due dates of August 1, 1999. The ARRC believes these lines will be renewed when they mature or additional commitments will be obtained on similar terms.

(7) Employee Benefits

On January 1, 1998, the ARRC adopted SFAS No. 132, *Employers' Disclosures about Pension and Other Postretirement Benefits*. SFAS No. 132 revises employers' disclosures about pension and other postretirement benefit plans. SFAS No. 132 does not change the method of accounting for such plans.

(a) Defined Benefit Plan

The ARRC has a defined benefit pension plan (Plan) covering all regular represented and nonrepresented employees who are not covered by the Civil Service Retirement System. Benefits under this Plan are based upon the employee's years of service and final average compensation. The ARRC's funding policy is to contribute each year an amount equal to the net periodic pension cost. In 1998 and 1997, the ARRC contributed an amount for the periodic pension cost which was net of a prepaid pension amount. Employees contribute an amount equal to 9% of compensation. Contributions are made continuously throughout the year. Plan assets are comprised of fixed income securities and common stocks.

The following table sets forth the Plan's funded status at December 31, 1998 and 1997 (in thousands):

	1998	1997
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 20,349	15,944
Service cost	865	698
Interest cost	1,516	1,215
Participant contributions	1,453	1,279
Actuarial loss	512	1,640
Benefits paid	(472)	(427)
Benefit obligation at end of year	<u>24,223</u>	<u>20,349</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	22,332	18,882
Actual return on plan assets	3,713	2,598
Participant contributions	1,453	1,279
Benefits paid	(472)	(427)
Fair value of plan assets at end of year	<u>27,026</u>	<u>22,332</u>
Funded status	2,803	1,983
Unrecognized net actuarial gain	(5,088)	(3,701)
Unrecognized prior service cost	1,027	1,100
Unrecognized transition asset	182	243
Accrued benefit cost	<u>\$ (1,076)</u>	<u>(375)</u>

The following table sets forth the Plan's weighted average assumptions used in determining the actuarial present value of the projected benefit obligation at December 31, 1998 and 1997:

	1998	1997
Discount rate	6.75%	7.25%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.00%	4.75%

Components of 1998 and 1997 net pension costs are as follows (in thousands):

	1998	1997
Service cost	\$ 865	698
Interest cost	1,516	1,215
Expected return on plan assets	(1,814)	(1,550)
Amortization of prior service costs	73	73
Amortization of unrecognized transition obligation	61	61
Recognized net actuarial gain	—	(78)
Net periodic benefit cost	<u>\$ 701</u>	<u>419</u>

(b) Defined Contribution Plan

Federal employees who transferred to the ARRC continue to participate in the Civil Service Retirement System (CSRS). ARRC is required to contribute 8.5% of the transferred employees' base pay. Pension expense related to CSRS was \$815,000 and \$687,000 for the years ended December 31, 1998 and 1997, respectively.

(c) Postretirement Benefits Other Than Pension

The ARRC sponsors a defined benefit health care plan (Plan) that provides postretirement medical benefits to employees receiving retirement under the corporate retirement plan and retired CSRS employees who do not qualify for the federal medical insurance. The Plan is contributory, with retiree contributions adjusted annually, and contains other cost-sharing features such as deductibles and coinsurance. The accounting for the Plan anticipates future cost-sharing changes to the written plan that are consistent with ARRC's expressed intent to increase the retiree contribution rate by the amount of that year's premium increase. ARRC's policy is to fund the cost of medical benefits in amounts determined at the discretion of management. At December 31, 1998, the ARRC has designated assets with a market value of \$858,000 for the funding of these benefits (note 3).

The ARRC accounts for postretirement health care by accruing these benefits over the period in which active employees become eligible for such postretirement benefits. The following table sets forth the Plan's funded status, at December 31, 1998 and 1997 (in thousands):

	1998	1997
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 5,271	7,437
Service cost	432	417
Interest cost	314	317
Actuarial gain	(10)	(2,700)
Benefits paid	(200)	(200)
Benefit obligation at end of year	5,807	5,271
Funded status	(5,807)	(5,271)
Unamortized prior service costs	(298)	(325)
Unrecognized net actuarial gain	(856)	(910)
Accrued benefit cost	\$ (6,961)	(6,506)

The components of 1998 and 1997 net periodic cost for these postretirement benefits are as follows (in thousands):

	1998	1997
Service costs	\$ 432	417
Interest costs	314	317
Recognized prior service costs	(27)	(27)
Recognized net actuarial gains	(64)	(42)
Net periodic cost	\$ 655	665

For measuring the 1998 expected postretirement benefit obligation, a 9% annual rate of increase in the per capita claims cost was utilized. This rate was assumed to decrease over a four-year period to an ultimate rate of 5.25% in 2002.

For measuring the 1997 expected postretirement benefit obligation, a 10% annual rate of increase in the per capita claims cost was utilized for all participants. This rate was assumed to decrease over a five-year period to an ultimate rate of 5.25% in 2002.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in thousands):

	1998		1997
	One percentage point Increase	One percentage point decrease	One percentage point Increase
Effect on total service and interest cost components	\$ 239	(178)	382
Effect on postretirement benefit obligation	\$ 1,479	(1,124)	1,556

The effect of a one-percentage-point decrease in assumed health care cost trend rates was not available for 1997.

(8) Federal Grants

The ARRC received \$10,000,000 grants in 1998, 1997 and 1996 from the Federal Railroad Administration (FRA) for capital rehabilitation and improvements benefiting passenger operations. FRA grant expenditures totaled \$9,844,000 and \$9,201,000 for the years ended December 31, 1998 and 1997.

Spending on road and roadway structures, which have a 15 to 25 year life, has totaled \$21,333,000 through December 31, 1998, and spending on a positive train control system, which has a 10 to 15 year life, totaled \$3,490,000. The ARRC will recognize grant revenue equal to depreciation on these assets each year.

In 1998, the ARRC received \$11,615,000 of the \$23,230,000 benefit due from the 1997 Taxpayer Relief Act (note 4). Expenditures under this grant totaled \$25,000 for the year ended December 31, 1998.

The ARRC recognized the following grant revenues during years ended December 31:

	1998	1997
FRA Grant:		
Depreciation on assets constructed	\$ 725	432
Grant funded engineering expense	857	798
Taxpayer Relief Act -		
Grant funded project planning expense	25	—
	\$ 1,607	1,230

Deferred revenue as of December 31 represents the following (in thousands):

	1998	1997
FRA Grant:		
Net book value of assets constructed	\$ 23,494	15,230
Amount receivable from grantor	(830)	(526)
Taxpayer Relief Act -		
Grant funding received in advance	11,590	—
Investment earnings on funding	487	—
	\$ 34,741	14,704

(9) Major Customers

One ARRC customer accounted for 34% of freight revenue in both 1998 and 1997.

(10) Land

The ARRC leases a significant portion of its land to various parties under long-term agreements. Rental income on these leases, which is included in Real Estate income, was \$6,385,000 and \$5,460,000 in 1998 and 1997, respectively.

The following table summarizes future minimum lease payments receivable as of December 31, 1998 (in thousands):

<u>Year ending</u> <u>December 31</u>	
1998	\$ 6,277
1999	6,550
2000	6,886
2001	6,810
2002	6,681
Thereafter	138,026
	<u>\$ 171,230</u>

The ARRC has \$1,291,000 in rent credits outstanding on these leases at December 31, 1998.

(11) Operating Leases and Agreements

The ARRC leases its headquarters, certain operating equipment, and barge services under operating leases and agreements. Payments under the leases and agreements totaled \$15,707,000 and \$13,630,000 in 1998 and 1997, respectively. Future minimum lease payments as of December 31, 1998 are summarized as follows (in thousands):

<u>Year-ending</u> <u>December 31</u>	
1999	\$ 15,014
2000	13,563
2001	3,247
2002	945
2003	818
Thereafter	6,933
Amounts to be received under non-cancellable sub-leases	(3,968)
	<u>\$ 36,552</u>

(12) Insurance

The ARRC is self-insured to certain limits for employee health benefits, personal injury, property and casualty damage claims which are funded by a line of credit (note 6). The ARRC is also self-insured against workers' compensation claims. The ARRC carries commercial insurance policies limiting its exposure for health benefits to \$2.5 million, for casualty/liability to \$5 million and for property to \$10 million at December 31, 1998.

(13) Commitments and Contingencies

During 1997, and as amended in 1998, the ARRC entered into an agreement to purchase 16 locomotives for approximately \$32,200,000. The locomotives are scheduled to begin delivery in the last month of 1999. The Board of Directors has designated assets with a carrying value of \$3,936,000 toward the purchase of these locomotives (note 5).

During 1992, the EPA filed a complaint seeking to fine the ARRC for alleged violations of the Resource Conservation and Recovery Act in relation to storing hazardous wastes at the Anchorage rail yard. A consent agreement was executed during 1994 settling the alleged violations. The accrual included in the financial statements does not reflect any costs to clean up any contamination in the area covered by the settlement. No contamination has been discovered, but the ARRC believes most, if not all, contamination in this area would have occurred prior to the transfer of the ARRC from the federal government to the State of Alaska. That liability for contamination will be ultimately imposed on the federal government under the transfer act and a 1990 agreement between the federal government and the ARRC.

Several of the ARRC unions have filed a grievance relating to the gain sharing provisions in their respective contracts. No reserves have been established for this claim as the ultimate amount of claim to be paid, if any, is uncertain. Although the eventual disposition of this claim cannot be predicted with certainty, it is the opinion of ARRC's management that the ultimate outcome will not have a material adverse impact on the ARRC's financial position, but may have a significant impact on the statement of income in a given year.

The ARRC is a defendant in various legal proceedings related to the conduct of its business. Provision has been made in the financial statements for probable losses, if any, from such litigation. In the opinion of management, the outcome of the litigation will not have a material effect on the financial position of the ARRC.

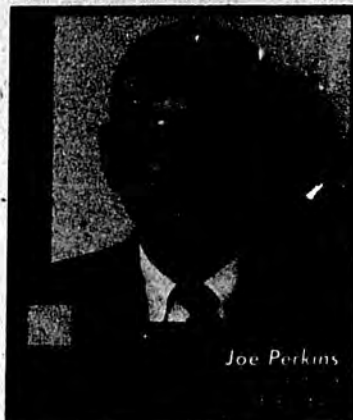
THE BOARD



John Bankley
Chairman



Dale R. Lindsey
Vice Chairman



Joe Perkins



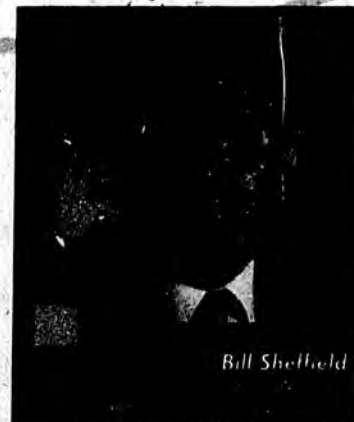
Deborah Sedwick



Ed Bauer



Jack Burton



Bill Sheffield

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Governor Bill Sheffield, President & CEO

James B. Blasingame, Vice President, Corporate Affairs

George L. Erickson, Vice President, Transportation Services

Phyllis C. Johnson, Vice President, General Counsel

Jerry Anderson, Vice President, Finance & Administration

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Eileen Reilly, Chief Information Officer

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Patrick C. Shake, Superintendent, Transportation

John E. Kincaid, Chief Mechanical Officer

CONTACT NUMBERS

Alaska Railroad Corporation Offices

P.O. Box 107500, Anchorage, Alaska 99510-7500

Anchorage, Alaska

Offices	Physical Address	Telephone	Fax
Headquarters Offices	327 W. Ship Creek Avenue	(907) 265-2300	(907) 265-2312
Ticket Office	411 W. 1st Avenue	(907) 265-2494	(907) 265-2509
Yard Office	1221 Whitney Road	(907) 265-2434	(907) 265-2698

Fairbanks, Alaska

Offices	Physical Address	Telephone	Fax
Passenger Depot	280 North Cushman	(907) 458-6025	(907) 452-5582
Yard Office	1888 Fox Avenue	(907) 458-6022	(907) 458-6052
Freight House	1888 Fox Avenue	(907) 458-6048	(907) 458-6061

Seward, Alaska

P.O. Box 95, Seward, Alaska 99664

Telephone: (907) 224-5552 or 265-2696

Fax: (907) 265-2660

Seattle, Washington

Suite 215, 2203 Airport Way S., Seattle, WA 98134

Telephone: (206) 624-4234

Fax: (206) 624-9677

800 Numbers

	Within Alaska (Outside Anchorage)	From Lower 48
Customer Service	1-800-478-2442	1-800-247-3153
Marketing	1-800-321-6518	1-800-321-6518
Passenger Service	1-800-544-0552	1-800-544-0552
Seattle Office	1-800-843-2772	1-800-843-2772

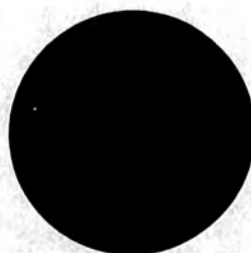
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Calvin W. Hall, Clark J. Mishler.

Printing: Northern Printing

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**Corporate Headquarters
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Anchorage, Alaska 99510-7500
(907) 265-2300
<http://www.akrr.com>**

fax #
265 -
2312

[illegible]

Wendy -

There is no written record, however from Marcos memory, all individuals who were present, voted in favor of the subcommittee report. Two members were absent, them being John Haxby and Jim Sanders.

Anwetter

269-0222 phone

Plan would merge 2 state agencies

Privatization task force pitches idea

By CATHY BROWN
Morris News Service-Alaska

A committee of the state Privatization Commission has come up with a way to help close the state's fiscal gap.

The idea: Put the money from the Alaska Industrial Development and Export Authority into the state's general fund and merge the authority with the Alaska Housing Finance Corp.

State officials, however, say the idea is not workable and such suggestions hurt the Privatization Commission's credibility.

"Many of the recommendations hopefully by the time the group is completed won't even show up because there hasn't been a legitimate look at the issues," said Jeff Bush, deputy commissioner of the Department of Community and Economic Development.

The subcommittee of the Legislature's Commission on

Privatization and Delivery of Government Services suggested moving AIDEA's net worth of about \$847 million into the state's general fund, then merging AIDEA with AHFC.

AIDEA provides financing for economic development projects in Alaska, while AHFC provides financing for housing.

Katelyn Markley, a development specialist with AIDEA, said such a move would hurt AIDEA's bond rating, which would make the financing it provides for projects more expensive.

Another problem is the \$847 million net worth isn't just sitting in a bank waiting to be withdrawn. Some of it is tied up in projects AIDEA has ownership in and some of it is required to be set aside to back the bonds AIDEA sells, she said.

"We were kind of surprised to see the recommendation because

See PLAN, back page

Plan

Continued from page A-1

they hadn't even talked to us," Markley said.

Lee Wareham, co-chairman of the subcommittee that made the proposal, said the recommendation was sent on to the full commission with the idea that it would get more review there.

"What happened was we got kind of behind in terms of time," he said.

Sen. Jerry Ward, co-chairman of the full commission, said he doesn't know what the commission will do with the AIDEA rec-

ommendation. However, the Anchorage Republican said despite the department's dislike, the suggestion could still be good.

The AIDEA move is among a multitude of recommendations subcommittees of the Privatization Commission have come up with. Separate subcommittees looked at each department.

They've been turning in their reports this month, and the last is scheduled to go to the full commission next week.

The commission will begin deliberating Dec. 1 on which ideas to recommend pursuing, said Marco Pignalberi, an aide to commission co-chairman Rep. John Cowdery, R-Anchorage.

Ward said the goal is to have a report finished by mid-December.

Other recent subcommittee recommendations are to:

- Have legislative committees look at the possibility of having private attorneys prosecute misdemeanor criminal cases.

- Move the Department of Transportation's bridge design section from Juneau to Fairbanks or Anchorage and trim the number of employees from 21 to three, contracting out most of the work.

- Transfer ownership and maintenance of more roads from the state to local governments.

- Privatize the permitting work of the Department of Natural Resources.

Subject: Re: Information Request on Herbicides

Date: Wed, 24 Nov 1999 11:45:24 -0900

From: "Ernie Piper" <PIPERE@akrr.com>

To: <Marco_Pignalberi@legis.state.ak.us>

1. The direct cost for vegetation control on the Alaska Railroad is approximately \$900,000 for 1999, which includes burning, hot water, brush cutting, and use of other on-track equipment such as a spreader, undercutter, or ballast regulator. Some of the maintenance work is not entirely attributable to uncontrolled vegetation, but it is substantially a result of fouled ballast. This also includes fines levied against us by the FRA for failing to adequately control vegetation. The alternative methods aren't good enough.

2. To repair the cumulative cost of damage caused by 15 years of uncontrolled vegetation would require a minimum of \$1.2 million in work.

3. In all states (with the possible exception of Vermont, which is changing its policies) right of way vegetation control is largely achieved with the use of herbicides of varying kinds. Most states with large-scale agriculture industries have more substantial regulatory control of herbicide use, which actually makes it easier for companies to use it. Because of fairly complete public oversight, the public is more comfortable with herbicide use. Alaska has a very limited regulatory program, and, ironically, I think this gets in the way of both state and private agencies when they consider using herbicides. Again, ironically, there is more Roundup sold on a May weekend at Eagle Hardware than would have been used in the entire 1999 ARRC program, had we been allowed to proceed.

4. So-called "alternative" methods of control do not work, and have been proven not to work not only in Alaska but in other states and provinces as well. People not familiar with the subject

put this in the category of, "Well, if we can put a man on the moon, we MUST be able to . . . etc." But the fact is, our space program notwithstanding, no consistently effective non-chemical control has been developed to solve the most pressing problems faced by railroads by vegetation.

5. Mr. Wareham asked if we would net about \$2 million more if we were allowed to use herbicides. We would certainly net more, but more on the order of \$750,000. The reason is, that if we were able to free up maintenance crews from vegetation control work, we would move them on to other pressing maintenance projects. Where we would save actual money is on direct costs of contracting for ineffective methods year after year. An herbicide program would cost about \$120,000 a year, as opposed to the cost of flaming, steaming, hand-pulling, etc.

>>> Marco Pignalberi <Marco_Pignalberi@legis.state.ak.us> 11/22/99 10:09AM >>>
Ernie,

This is Andree McLeod using Marco Pignalberi's e-mail address.

The Alaska Railroad Subcommittee of the Commission on Privatization and Delivery of Government Services would like to make a positive recommendations concerning herbicide use by the railroad.

In support of this recommendation, we would like some backup.

How much money is used for the herbicide project?

What are the costs and benefits of the using herbicides?

What do they do in other states?

Please include anything that would justify the use of herbicides.

Thank you for your prompt attentions to this request

Andree

11-29-99

PRIVATIZATION SUBCOMMITTEE ON THE ALASKA RAILROAD

PROPOSED RECOMMENDATIONS

Unanimous

1. The legislature shall cause to be issued a Request for Proposals for the purchase or operating lease of the Alaska Railroad. The RFP may offer for sale the ROW and shall offer for sale other land, equipment and assets necessary for operation of the railroad. The RFP shall exclude land that is not necessary for rail operations.

- The ARRC shall pay all costs associated with the preparation and advertising of the RFP.
- The RFP shall be advertised for not less than six months.
- The RFP shall be prepared in accordance with statute by qualified counsel and with oversight and guidance by an RFP Preparation Committee composed of:
 - An appointee of the Governor
 - An appointee of the Senate President
 - An appointee of the House Speaker
 - An appointee employed by the Alaska Railroad
 - A private sector appointee of the Governor
 - A private sector appointee of the Senate President
 - A private sector appointee of the House Speaker
- Criteria for mandatory acceptance of a respondent's proposal shall be included in the RFP to ensure that a proposal will be accepted if it meets the proscribed criteria.
shall maintain operations
- The RFP shall stipulate that if the purchaser ceases operation of the railroad then ownership and control shall revert to the State of Alaska.
- The sale shall be effected with existing labor contracts in place.
- Proposers must stipulate that railroad employee pension benefits will be maintained on par with existing plans.
- ARRC shall make all operating and financial information available to prospective respondents.
- The evaluation team shall be identified in the proposal and subject to confirmation by the Legislature. They shall be required to avoid ex parte communication with prospective proposers. Not more than one of five evaluators shall be employed ARRC. Not more than one member shall be from outside Alaska.

- The evaluation team's selection of a successful proposer, if any, shall be ratified by the legislature.

UNANIMOUS

2. The Alaska Railroad shall offer to sell land presently leased to leaseholders to the leaseholders for fair market value, ~~if the RR is sold.~~

UNANIMOUS

3. The Alaska Railroad shall offer to sell for fair market value all land that is non essential to railroad operations and is non revenue generating.

UNANIMOUS

4. The Alaska Railroad shall implement a vegetation control program including use of herbicides. (See Appendix A)

PRIVATIZATION SUBCOMMITTEE ON THE ALASKA RAILROAD

PROPOSED RECOMMENDATIONS

1. The legislature shall cause to be issued a Request for Proposals for the purchase or operating lease of the Alaska Railroad.

- **The ARRC shall pay all costs associated with the preparation and advertising of the RFP.**
- **The RFP shall be advertised for not less than six months.**
- **Criteria for mandatory acceptance of a respondent's proposal shall be included in the RFP to ensure that a proposal will be accepted if it meets the proscribed criteria.**
- **Proposers must stipulate that they will operate the railroad in perpetuity and will not attempt to liquidate its assets.**
- **Proposers must stipulate that railroad employee pension benefits will be maintained on par with existing plans.**
- **ARRC shall make all operating and financial information available to prospective respondents.**
- **The evaluation team shall team shall be identified in the proposal and subject to confirmation by the Legislature. They shall be required to avoid ex parte communication with prospective proposers. Not more than one of five evaluators shall be employed ARRC. Not more than one member shall be from outside Alaska.**
- **The evaluation team's selection of a successful proposer shall be ratified by the legislature.**

2. The Alaska Railroad shall implement a vegetation control program including use of herbicides. (See Appendix A)

3. The Alaska Railroad shall offer to sell land presently leased to leaseholders to the leaseholders for fair market value.

4. The Alaska Railroad shall offer to sell for fair market value all land that is non essential to railroad operations and is non revenue generating.

KATHRYN THOMAS
direct e-mail is
arctech@ptialaska.net

If it goes to the
STATE Chamber, some
one MUST be in office
to forward to me.

ArcTech Services
Box 3005
Kenai, Alaska 99611

FROM: Kathryn Thomas

PHONE NO: 907-776-5515
FAX NO: 907-776-5132

FAX COVER SHEET

Number of pages including this cover sheet

TO: Annette

DATE: NOV 17, 1999

COMPANY NAME:

Rep. Cowdry

FAX NO:

269-0223

Message:

Here is the address

Gilbert Carmicheal
2209 Highway 45 West Ste 500
Meridian, Mississippi
39361

Andrea

228
601
555-1212

Robert A. Evans

Attorney at Law

P. O. Box 100384
Anchorage, Alaska 99510
Phone: (907) 274-2393
Fax: (907) 248-6720

P. O. Box 20493
Juneau, Alaska 99802
Phone: (907) 586-6252

November 26, 1996

RE: Alaska Railroad Privatization

Dear State Chamber Members:

The purpose of this letter is to briefly introduce myself and more fully introduce Montana Rail Link, Inc. of Missoula, Montana. I represent Montana Rail Link in its efforts to acquire the Alaska Railroad Corporation (ARRC). As their consultant, I have met with many business leaders around the state as well as our government leaders. The response has been very positive; however, the ARRC is very important to this state and people have many questions about what privatization of the ARRC means.

Montana Rail Link operates the rail line from Spokane, Washington to Laurel, Montana (east of Butte). It is one of the Washington Corporations owned by Dennis Washington. Washington Corporations have interests in construction, mining, environmental management and heavy equipment sales, as well as transportation. In August, Mr. Washington acquired Morrison-Knudsen Construction Company. Most recently, Mr. Washington and Canadian Pacific Railway announced they have reached agreement leading to the sale of a portion of the CPR network in the Midwestern United States to the Washington organization. The Washington Corporations were valued, prior to the two above-mentioned acquisitions, at 2.3 billion dollars.

Montana Rail Link and the Washington Corporations are ready and able to do business in Alaska. They bring capital and expertise in areas that are at the base of Alaska's economy. Montana Rail Link does business in the Pacific Northwest. They are involved in construction, transportation, mining and environmental management. The similarity to Alaska in terms of climate and dealing with the long distances that their customers have to the ultimate market is great. Montana Rail Link can bring this experience to benefit Alaska.

The ARRC has been important in the development of Alaska since it was completed in 1923. It is central to the growth of Alaska's future. It has done a good job. However, it can do more -- much more as a private railroad.

What is the future of the ARRC? As a corporation owned by the state, that future is most likely limited to the status quo. The ARRC does not presently have the capital to fund an aggressive development agenda. Nor is it likely to. First, the state continues to face declining revenues and will be unable to sustain an aggressive development agenda. Furthermore, because the Board of Directors is subject to change with each administration, even if the funding were available, it is uncertain an aggressive development agenda would survive a change of Directors.

Page 2

November 26, 1996

Privatization of the ARRC will lead to the establishment of long-term goals and objectives. Montana Rail Link will have the capital and expertise to fund an aggressive development agenda. It must, in order to enhance profitability. As an example, Alaska is currently enjoying expansion in its mining sector. Think of the growth that would occur if the railroad could expand to areas not accessible to road or rail. The railroad should be privatized.

The private railroads in the Lower 48 are at full capacity. They are growing at unprecedented rates since the end of World War II. Montana Rail Link is one of the most aggressive lines in the contiguous United States. Montana Rail Link has doubled its union labor force since 1987. Privatization of ARRC would be consistent with what is happening in Australia, New Zealand, Argentina, Mexico, Great Britain and Canada. Privatization is the goal of the Resource Development Council, State Chamber of Commerce, The Alliance and many in state government. Virtually every plan dealing with Alaska's budget gap recommends privatization. If we cannot privatize the Alaska Railroad, what can we realistically hope to privatize?

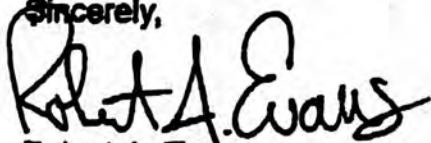
Beyond upgrading and expanding the Alaska Railroad, there are numerous other advantages to privatization. They are:

- 1) management performs better with profit responsibility;
- 2) private railroads capitalize on entrepreneurial opportunities;
- 3) once a railroad is profitable, governmental participation is unnecessary. Indeed, once a railroad is profitable, isn't it better to have it paying taxes to state and local governments?

The proponents of the status quo are well-meaning. The opportunities of change (privatization) are great. In order to have change, the collective voice of Alaska's business community must be heard. Please contact the Governor and the Legislature and urge them to begin immediately the privatization of the Alaska Railroad. Again, Montana Rail Link is ready and able to do business in Alaska. However, Montana Rail Link needs to know that Alaska is ready and interested in doing business with it.

If you have any questions, please contact me.

Sincerely,


Robert A. Evans

11/24/99

11/24/99 2:11 PM

Alaska Railroad Corporation

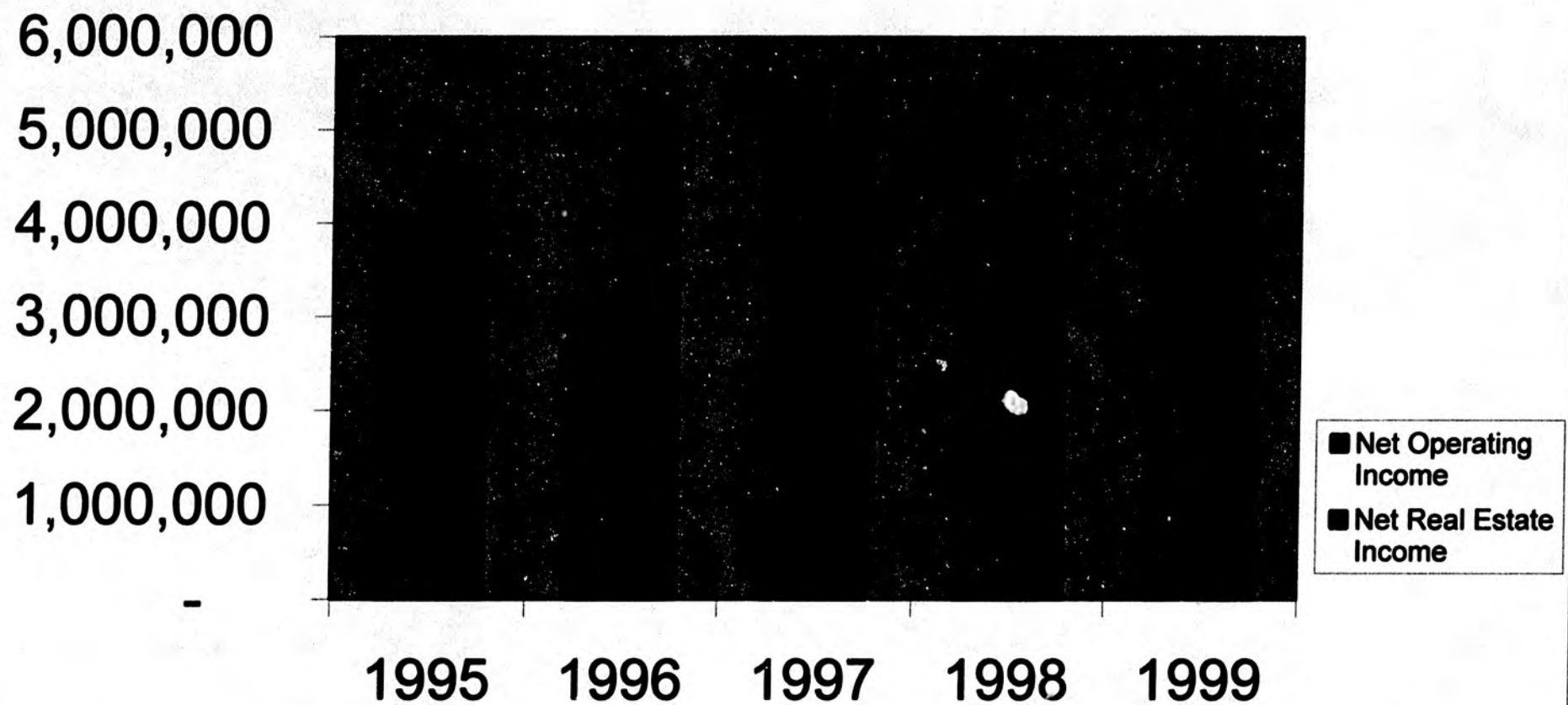
Privatization Sub-Committee Hearing

Wednesday, November 17, 1999



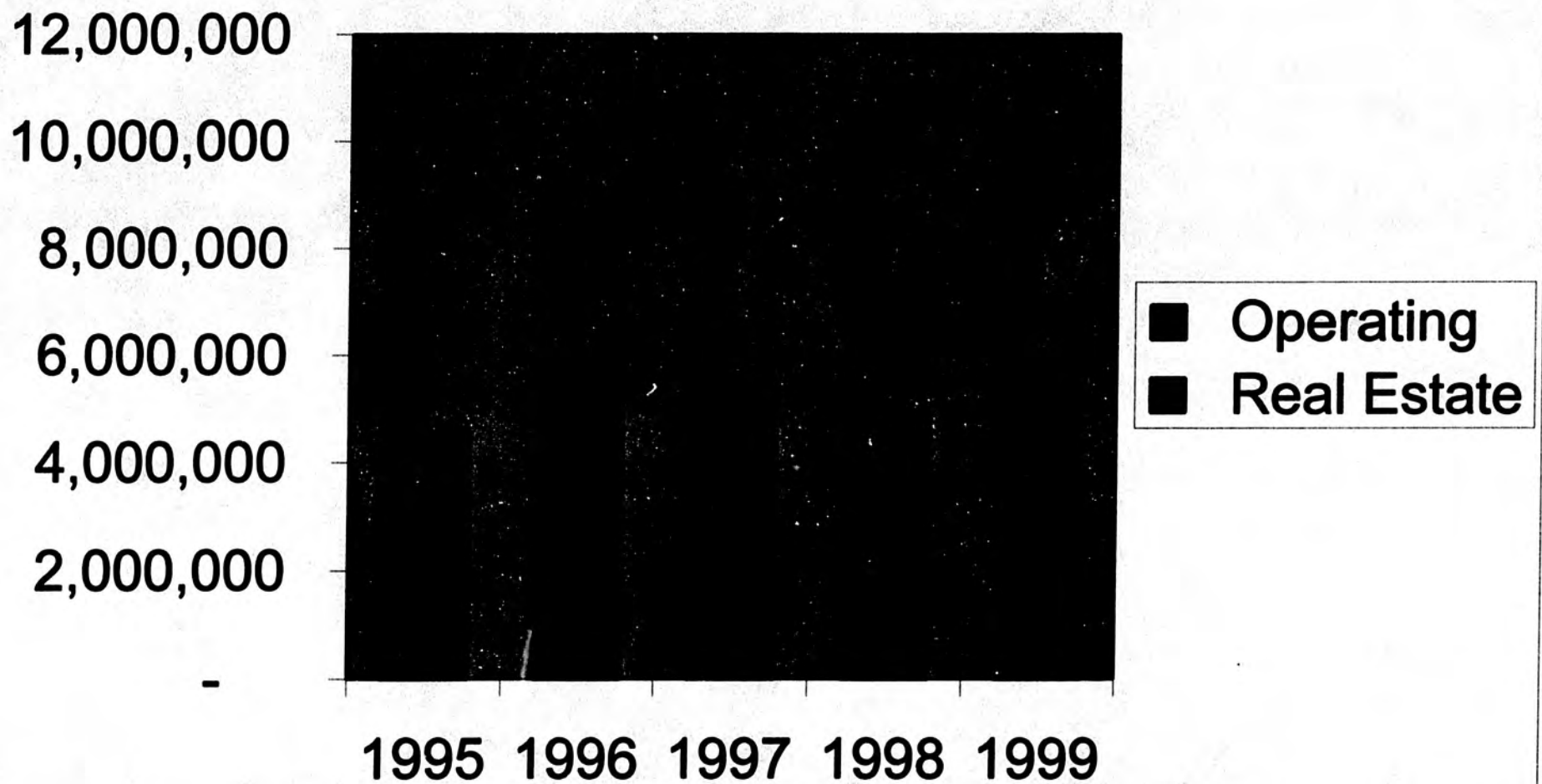
ALASKA RAILROAD CORPORATION

5 Year Comparison of Net Real Estate Income and Net Operating Income

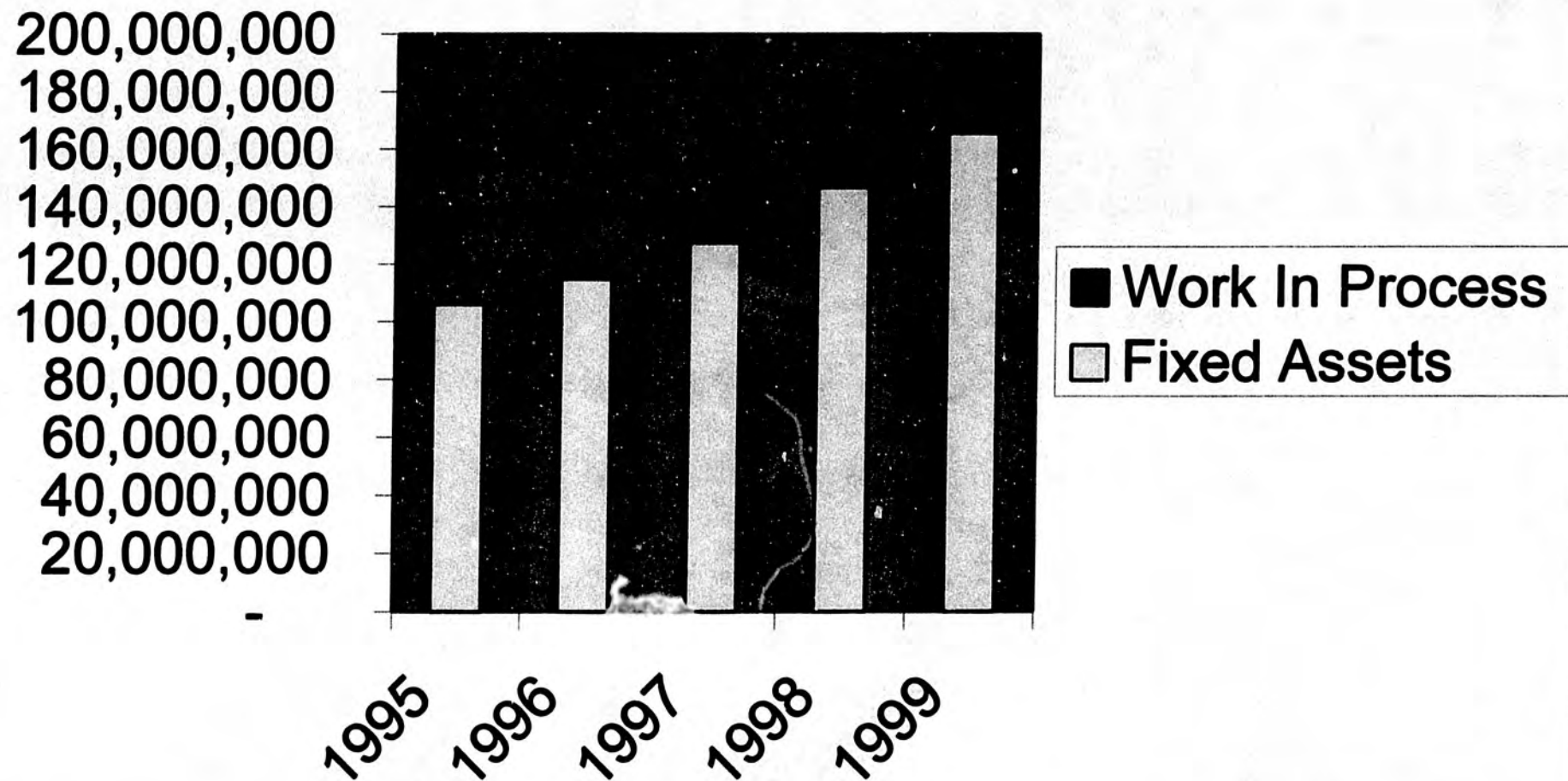


ALASKA RAILROAD CORPORATION

5 Year Comparison of Net Real Estate Income and Net Operating Income
w/o Depreciation Expense



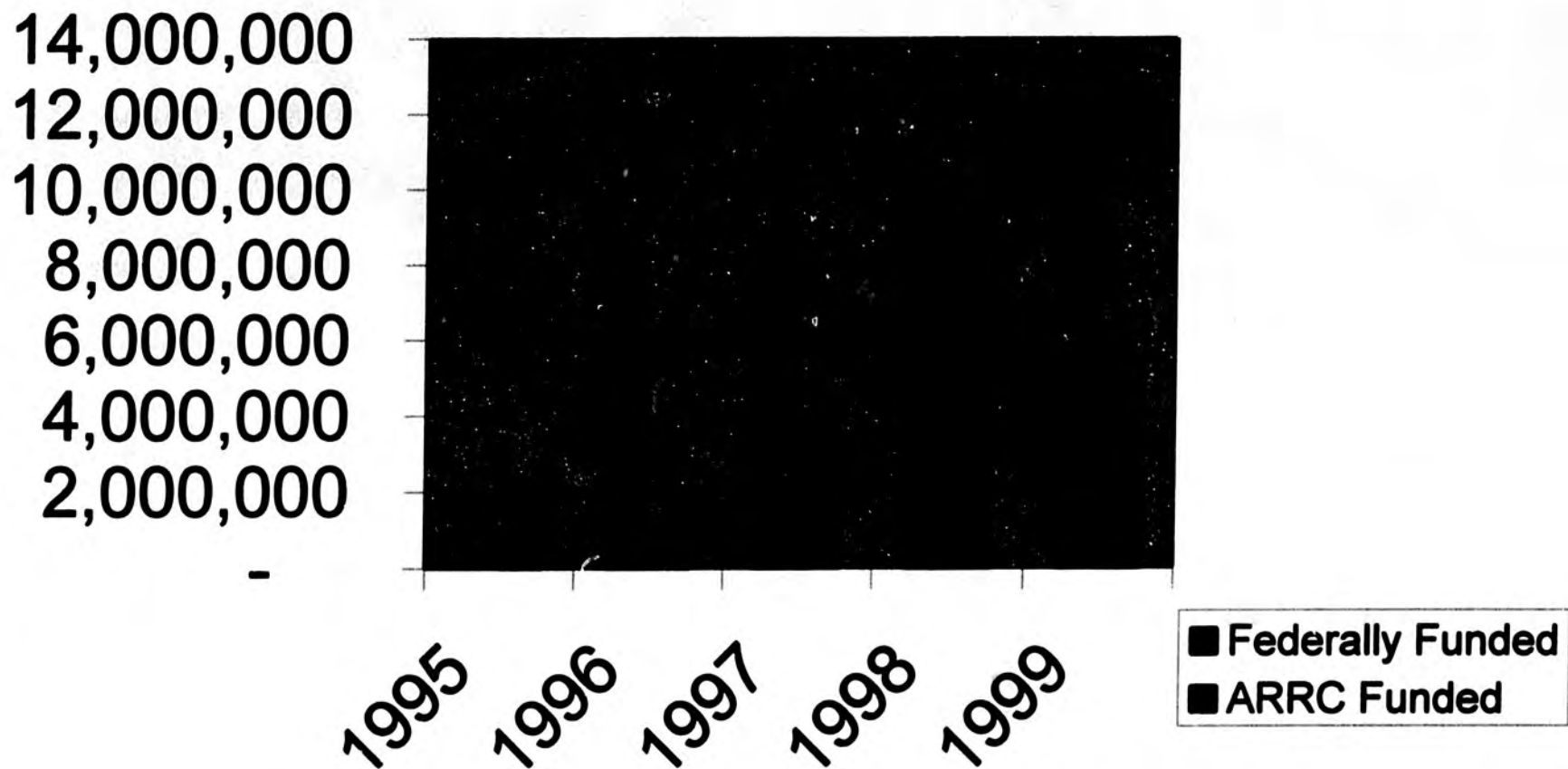
ALASKA RAILROAD CORPORATION
5 Year Analysis of Capital Activity
Federally Funded and Internally Funded



ALASKA RAILROAD CORPORATION

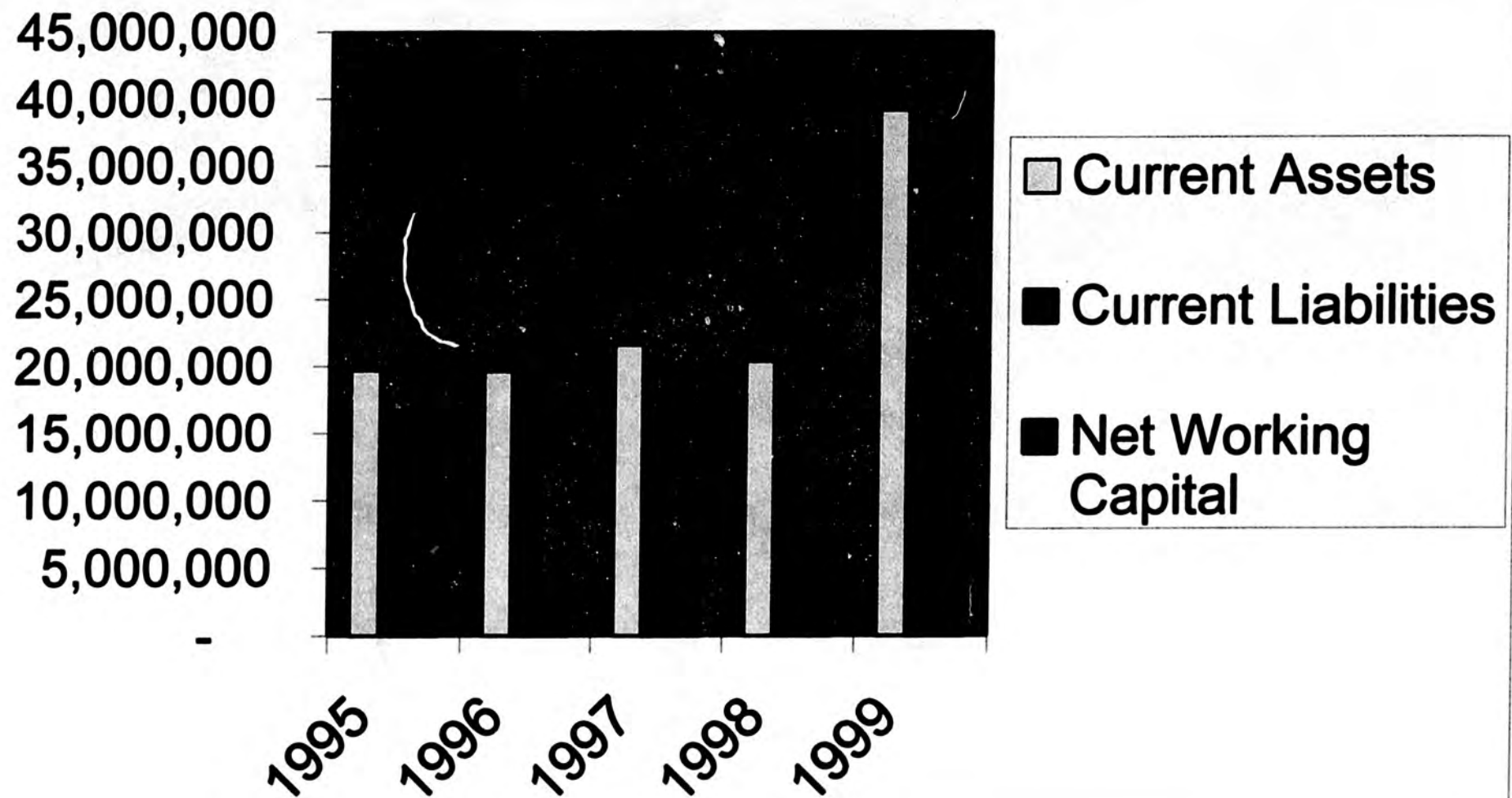
5 Year Analysis of Fixed Asset Additions

Federally Funded vs ARRC Funded

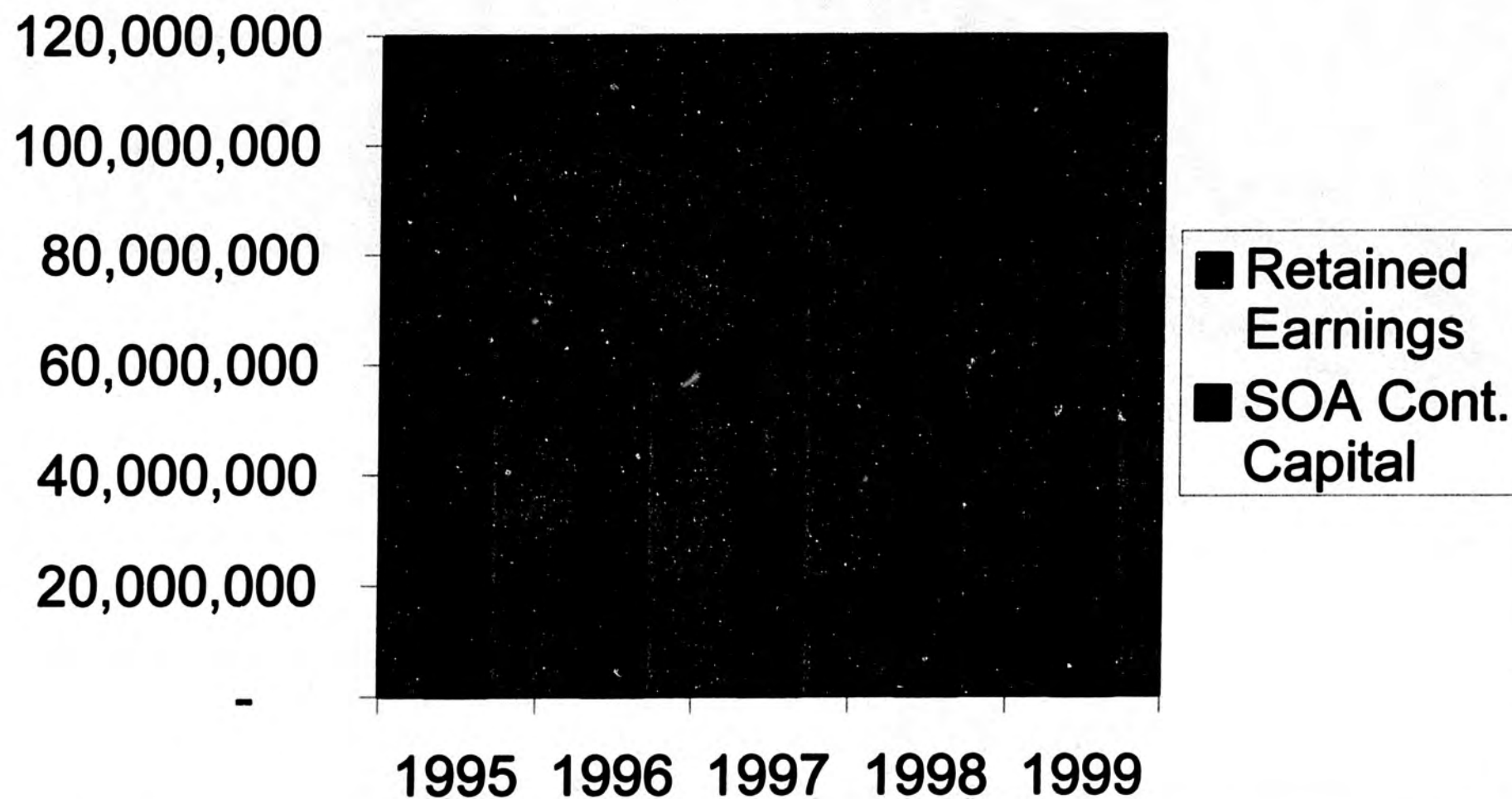


ALASKA RAILROAD CORPORATION

5 Year Net Working Capital Analysis



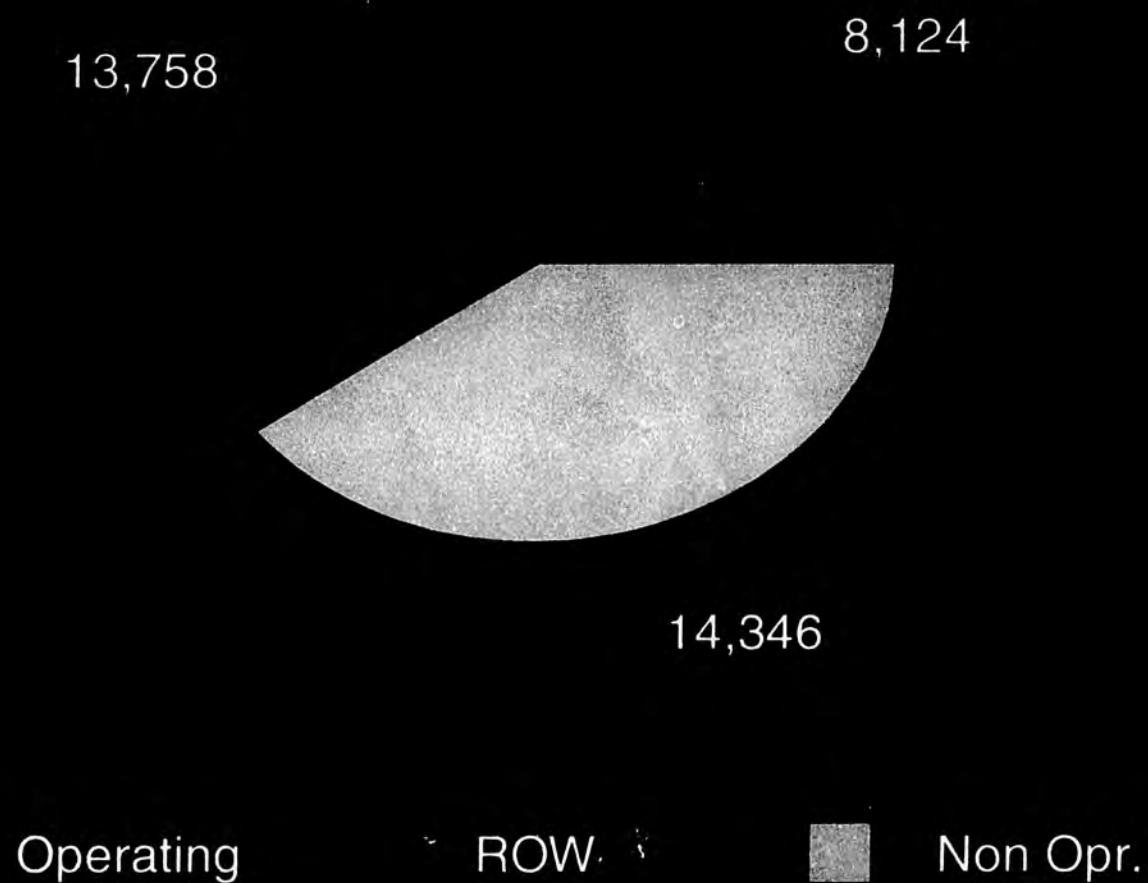
ALASKA RAILROAD CORPORATION
5 Year Analysis of Equity



Alaska Railroad Corporation
(In Thousands)

	1997 Actual	1998 Actual	1999 Forecast	2000 Projection
Net Income	10,590	9,936	9,530	7,286
Total Equity	84,040	94,128	103,658	110,944
<u>Ratio:</u>				
Gross Real Estate Revenue/ Gross Operating Revenue	0.058	0.064	0.102	0.111
Land at Cost	13,850	13,850	13,850	13,850
Grant Receipts	8,675	21,155	26,486	46,486

Distribution of ARRC Lands



Total Lands = 36,228 Acres

Alaska Railroad Reserves

The Alaska Railroad Corporation holds 36,000 + acres of land, of which 22,000 acres are affected by rail operations. 'Mainline' Right of Ways from Seward to Eielson, and including the Whittier to Portage line total 12,400+ acres. The balance of operating land is contained in rail yards at Seward, Whittier, Anchorage, and Fairbanks.

The Corporation may lease non-operating lands for up to 35 years. Lease rates are established by independent appraisal. ARRC currently has approximately three hundred active leases. The Corporation utilizes a permit system for short-term uses and for use of operating lands. Many permits are non revenue, contributing only an administrative fee. A number of permits are issued for public access such as roads, railroad crossings, and utilities. There are currently over 500 permits.

Below is a table which shows the number of acres of ARRC land within each borough or city.

City/Borough	Total Area	Federal	State	ARRC
Kenai	6,238,025	3,461,340	1,569,639	380
Whittier	10,880	n/a	4,325	291
Municipality of Anchorage	1,251,620	927	494,976	2,629
Matanuska-Susitna	16,056,576	1008	64182	9,775
Denali	8,192,000	unavailable	unavailable	8,716
Nenana	5,440	n/a	n/a	264
Fairbanks North Star	4,711,040	1,681,607	1,498,522	454
Valdez	172,800	n/a	n/a	86

On the following pages, we have listed and described each ARRC reserve by borough.

Alaska Railroad Corporation

Financial Statements
October 1999



Proprietary Information - Not for Public Disclosure

ALASKA RAILROAD CORPORATION
FINANCIAL SUMMARY
October 31, 1999

October Highlights:

Actual Net Income for October	\$	179,733
Latest Estimate Net Loss for October	\$	(732,384)
Budgeted Net Income for October	\$	767,489
Monthly Latest Estimate Variance	\$	912,117
Monthly Budget Variance	\$	(587,756)

Actual YTD Net Income	\$	11,214,899
Latest Estimate YTD Net Income	\$	10,706,122
Budgeted YTD Net Income	\$	10,301,792
YTD Latest Estimate Variance	\$	508,777
YTD Budget Variance	\$	913,107

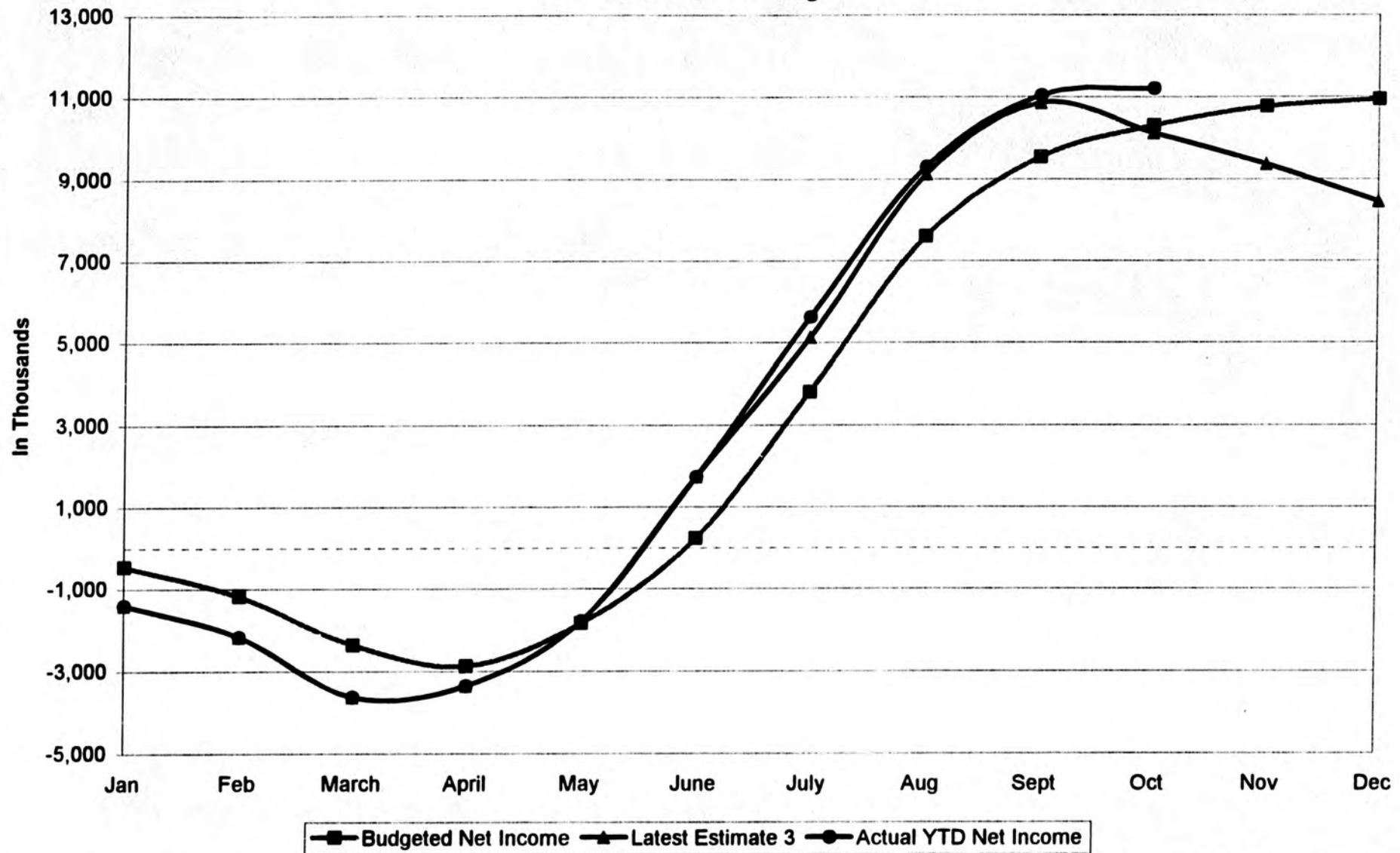
Revenue and Expenses:

During the ten months ended October 31, 1999 the ARRC earned \$78.6 million in revenue which is \$3.6 million less than was budgeted. This unfavorable variance is attributable to lower than anticipated freight revenue, specifically export coal and interline service. Total expenses of \$67.4 million were \$4.5 million less than was budgeted. Operating revenue totaled \$70.7 million while operating expenses were \$64.6 million. This equates to an operating ratio of .91. Through October 31, 1998 ARRC's operating ratio was .91.

Assets, Liabilities and Equity:

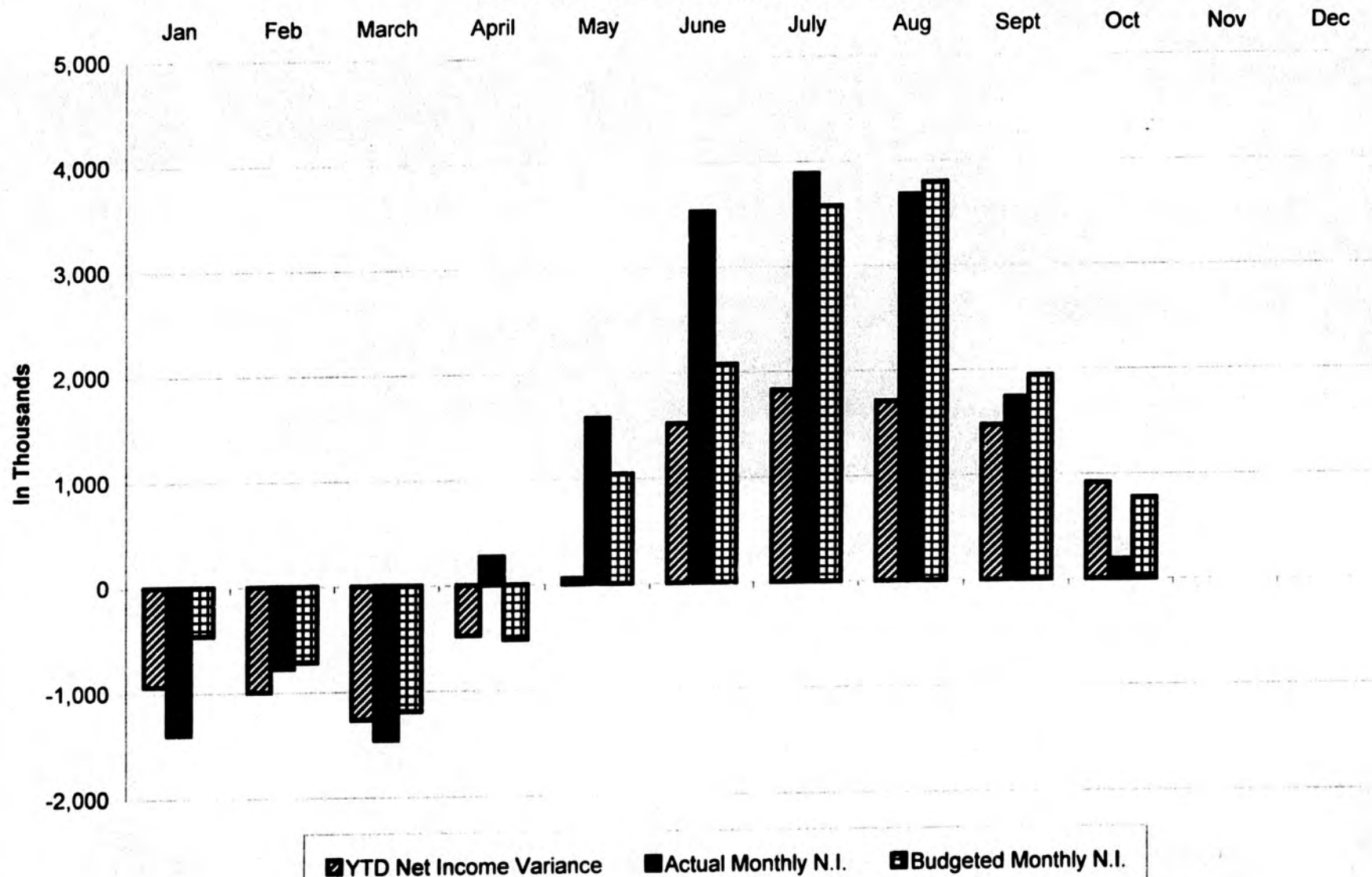
Total assets at the end of October were \$226 million. ARRC currently has \$23.6 million in net working capital and a current ratio of 2.52:1. As of October 31, 1998 net working capital and current ratio was \$17.3 million and 2.34:1, respectively. In September ARRC obtained \$20 million of financing to purchase ten SD70MAC locomotives. Accordingly, long-term debt increased since the beginning of the year. Equity of \$105.4 million reflects a \$10.9 million increase from the balance at October 31, 1998.

Year to Date Net Income 1999 Actual vs Budget



Net Income Analysis

1999 Actual vs Budget thru October



11/04/1999 10:44:21

Income Statement for the Month Ended OCT 1999

FRMISXMTL

	OCT, 1999	YEAR TO DATE	OCT, PRIOR YR	YTD, PRIOR YR
Operating Revenue:				
Freight	5,900,265	55,673,602	5,815,180	55,496,388
Freight Related	31,758	424,950	43,205	367,650
Passenger	89,574	14,414,561	85,353	12,777,837
Other	(9,221)	187,622	23,116	239,886
	-----	-----	-----	-----
	6,012,376	70,700,735	5,966,854	68,881,761
Transportation Services				
Transportation	1,750,876	16,761,281	1,453,716	15,133,071
Passenger Services	213,049	4,136,149	188,792	3,606,280
VP & Staff	138,636	821,667	80,411	872,159
Freight Services	1,116,890	11,658,515	1,340,917	12,811,627
	-----	-----	-----	-----
	3,219,451	33,377,612	3,063,836	32,423,137
Operations				
Mechanical	796,509	8,016,718	985,069	8,411,604
Engineering	1,332,409	14,775,946	1,398,866	13,686,484
Operations Admin	53,223	558,785	68,380	666,698
	-----	-----	-----	-----
	2,182,141	23,351,449	2,452,315	22,764,786
General & Administrative				
Finance	198,914	2,129,121	223,062	2,203,535
Information Systems	193,919	1,771,294	184,838	1,854,372
Corporate Overhead	732	97,698	23,227	130,013
Exec & Board of Directors	80,869	1,208,858	93,396	1,260,036
Legal	103,075	1,650,246	147,799	1,563,107
Project Planning	67,519	203,632	(9,229)	47,540
Health, Safety & Environment	70,661	859,954	53,618	630,994
	-----	-----	-----	-----
	715,689	7,920,803	716,711	7,689,597
	-----	-----	-----	-----
Total Operating Expense	6,117,281	64,649,864	6,232,862	62,877,520
	-----	-----	-----	-----
Net Income from Operations	(104,905)	6,050,871	(266,008)	6,004,241
Other Income (Expense)				
Real Estate - Permits/Leases	582,251	5,792,738	563,588	5,392,434
Real Estate - Dock	22,910	1,362,781	25,826	1,422,353
Real Estate Expense	(394,536)	(2,407,143)	(200,825)	(2,790,370)
	-----	-----	-----	-----
	210,625	4,748,376	388,589	4,024,417
Interest Income	179,124	747,552	62,313	472,222
Interest Expense	(105,111)	(331,900)	(17,495)	(53,666)
	-----	-----	-----	-----
	74,013	415,652	44,818	418,556
	-----	-----	-----	-----
Other Inc (Exp), Net	284,638	5,164,028	433,407	4,442,973
	-----	-----	-----	-----
Net Income (Loss)	179,733	11,214,899	167,399	10,447,214
	=====	=====	=====	=====

Statement of Cash Flow
For the Ten Months Ended October 1999
(In Thousands)

	Month of October 1999	Year To Date
Operating Activities		
Net Income	\$ 180	11,215
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	834	6,785
Gain on Disposal of Assets		
Decrease (Increase) in Accounts Receivable	225	578
Decrease (Increase) in Inventory and Supplies	217	(2,357)
Decrease (Increase) in Other Assets	1,677	(29,886)
Increase (Decrease) in Accounts Payable & Payroll	315	1,566
Increase (Decrease) in Deferred Revenues	949	25,387
Increase (Decrease) in Postretirement Benefits	130	244
Increase (Decrease) in Other Liabilities	17	(162)
Net Cash Provided by Operating Activities	<u>4,544</u>	<u>13,370</u>
Investing Activities		
(Purchase) Disposal of Property and Equipment	(887)	(4,079)
(Increase) Decrease in Construction in Progress	(835)	(23,958)
Net Cash Provided (Used) in Investing Activities	<u>(1,722)</u>	<u>(28,037)</u>
Financing Activities		
Proceeds from Short-Term Debt		20,000
Payments on Short-Term Debt		
Proceeds from Long-Term Debt	-	(916)
Payments on Long-Term Debt	(89)	(916)
Net Cash Provided (Used) by Financing Activities	<u>(89)</u>	<u>19,084</u>
 Increase (Decrease) in Cash & Cash Equivalents	 2,733	 4,417
 Cash at Beginning of Period	 6,890	 5,206
 Cash at Period End	 <u>\$ 9,623</u>	 <u>9,623</u>

11/04/1999 10:11:25

Year to Date Income Statement for the Month Ended OCT 1999

FREYCOMPBC

	Actual	Budget	+/-	Latest Estimate	+/-	Prior Year Actual	+/-
Operating Revenue:							
Freight	55,673,602	59,586,773	3,913,171-	56,880,559	1,206,957-	55,496,388	177,214
Freight Related	424,950	239,638	185,312	345,607	79,343	367,650	57,300
Passenger	14,414,561	14,815,570	401,009-	14,566,570	152,009-	12,777,837	1,636,724
Other	187,622	66,401	121,221	90,085	97,537	239,886	52,264-
	70,700,735	74,708,382	4,007,647-	71,882,821	1,182,086-	68,881,761	1,818,974
Transportation Services							
Transportation	16,761,281	17,045,059	283,778-	16,789,079	27,798-	15,133,071	1,628,210
Passenger Services	4,136,149	3,544,791	591,358	3,630,800	505,349	3,606,280	529,869
VP & Staff	821,667	982,628	160,961-	798,921	22,746	872,159	50,492-
Freight Services	11,658,515	12,307,343	648,828-	11,661,767	3,252-	12,811,627	1,153,112-
	33,377,612	33,879,821	502,209-	32,880,567	497,045	32,423,137	954,475
Operations							
Mechanical	8,016,718	9,476,154	1,459,436-	8,555,871	539,153-	8,411,604	394,886-
Engineering	14,775,946	16,417,747	1,641,801-	15,993,057	1,217,111-	13,686,484	1,089,462
Operations Staff	558,785	634,264	75,479-	614,447	55,662-	666,698	107,913-
	23,351,449	26,528,165	3,176,716-	25,163,375	1,811,926-	22,764,786	586,663
General & Administrative							
Finance	2,129,121	2,108,143	20,978	2,109,151	19,970	2,203,535	74,414-
Information Systems	1,771,294	1,926,221	154,927-	1,746,383	24,911	1,854,372	83,078-
Corporate Overhead	97,698	824,114	726,416-	296,131	198,433-	130,013	32,315-
Exec & Board of Directors	1,208,858	1,281,838	72,980-	1,227,437	18,579-	1,260,036	51,178-
Legal	1,650,246	1,500,194	150,052	1,609,705	40,541	1,563,107	87,139
Project Planning	203,632	145,448	58,184	191,530	12,102	47,540	156,092
Health, Safety & Environment	859,954	732,569	127,385	809,714	50,240	630,994	228,960
	7,920,803	8,518,527	597,724-	7,990,051	69,248-	7,689,597	231,206
Total Operating Expense	64,649,864	68,926,513	4,276,649-	66,033,993	1,384,129-	62,877,520	1,772,344
Net Income from Operations	6,050,871	5,781,869	269,002	5,848,828	202,043	6,004,241	46,630
Other Income (Expense)							
Real Estate - Permits/Leases	5,792,738	5,770,166	22,572	5,788,584	4,154	5,392,434	400,304
Real Estate - Dock	1,362,781	1,303,500	59,281	1,309,557	53,224	1,422,353	59,572-
Real Estate Expense	2,407,143-	2,833,296-	426,153	2,572,201-	165,058	2,790,370-	383,227
	4,748,376	4,240,370	508,006	4,525,940	222,436	4,024,417	723,959
Interest Income	747,552	448,441	299,111	504,809	242,743	472,222	275,330
Interest Expense	331,900-	168,888-	163,012-	173,455-	158,445-	53,666-	278,234-
	415,652	279,553	136,099	331,354	84,298	418,556	2,904-
Other Inc (Exp), Net	5,164,028	4,519,923	644,105	4,857,294	306,734	4,442,973	721,055
Net Income (Loss)	11,214,899	10,301,792	913,107	10,706,122	508,777	10,447,214	767,685

11/04/1999 11:25:53

Projected Income Statement for the Period Ended DEC 1999

FRYBEC

	Latest Forecast	Latest Quarterly Estimate	+/-	Budget	+/-	Prior Year Actual	+/-
Operating Revenue:							
Freight	66,107,657	67,314,614	1,206,957-	72,446,485	6,338,828-	64,446,642	1,661,015
Freight Related	477,050	397,707	79,343	271,338	205,712	540,408	63,358-
Passenger	14,495,453	14,647,462	152,009-	14,916,378	420,925-	13,490,767	1,004,686
Other	199,622	102,085	97,537	78,401	121,221	295,920	96,298-
	81,279,782	82,461,868	1,182,086-	87,712,602	6,432,820-	78,773,737	2,506,045
Transportation Services							
Transportation	19,487,270	19,515,069	27,799-	19,950,542	463,272-	17,165,881	2,321,389
Passenger Services	4,567,494	4,062,534	504,960	3,969,857	597,637	4,157,244	410,250
VP & Staff	1,026,803	1,004,057	22,746	1,188,390	161,587-	1,051,732	24,929-
Freight Services	14,138,018	14,141,269	3,251-	14,900,876	762,858-	14,892,969	754,951-
	39,219,585	38,722,929	496,656	40,009,665	790,080-	37,267,826	1,951,759
Operations							
Mechanical	9,782,475	10,321,628	539,153-	11,227,445	1,444,970-	9,917,864	135,389-
Engineering	17,945,630	19,162,741	1,217,111-	19,539,391	1,593,761-	16,790,551	1,155,079
Operations Staff	682,521	738,183	55,662-	755,409	72,888-	794,261	111,740-
	28,410,626	30,222,552	1,811,926-	31,522,245	3,111,619-	27,502,676	907,950
General & Administrative							
Finance	2,536,052	2,516,082	19,970	2,510,161	25,891	2,634,158	98,106-
Information Systems	2,113,229	2,088,319	24,910	2,295,841	182,612-	2,433,979	320,750-
Corporate Overhead	393,000	591,433	198,433-	1,119,416	726,416-	551,715-	944,715
Exec & Board of Directors	1,411,220	1,429,799	18,579-	1,489,471	78,251-	1,536,309	125,089-
Legal	1,961,426	1,920,886	40,540	1,800,756	160,670	2,078,706	117,280-
Project Planning	242,381	230,279	12,102	166,477	75,904	55,457	186,924
Health, Safety & Environ.	1,018,906	968,667	50,239	886,346	132,560	793,969	224,937
	9,676,214	9,745,465	69,251-	10,268,468	592,254-	8,980,863	695,351
Total Operating Expense	77,306,425	78,690,946	1,384,521-	81,800,378	4,493,953-	73,751,365	3,555,060
Net Inc from Operations	3,973,357	3,770,922	202,435	5,912,224	1,938,867-	5,022,372	1,049,015-
Other Income (Expense)							
Real Estate - Permits/Leas	6,940,472	6,936,318	4,154	6,917,900	22,572	6,466,606	473,866
Real Estate - Dock	1,390,331	1,337,107	53,224	1,314,000	76,331	1,495,571	105,240-
Real Estate Expense	3,178,760-	3,343,818-	165,058	3,475,016-	296,256	3,560,113-	381,353
	5,152,043	4,929,607	222,436	4,756,884	395,159	4,402,064	749,979
Interest Income	837,552	594,809	242,743	538,441	299,111	602,186	235,366
Interest Expense	432,496-	274,051-	158,445-	269,484-	163,012-	90,736-	341,760-
	405,056	320,758	84,298	268,957	136,099	511,450	106,394-
Other Inc (Exp), Net	5,557,099	5,250,365	306,734	5,025,841	531,258	4,913,514	643,585
Net Income (Loss)	9,530,456	9,021,287	509,169	10,938,065	1,407,609-	9,935,886	405,430-

BALANCE SHEET as of October 1999

	<u>10/31/99</u>	<u>10/31/98</u>
Assets		
Cash	\$ 9,623,385	\$ 4,812,667
Accounts Receivable	10,413,768	12,468,268
Board Designated Assets	14,486,577	9,005,379
Materials and Supplies	4,427,273	3,738,588
Other Current Assets	198,506	92,146
Total Current Assets	<u>39,149,509</u>	<u>30,117,048</u>
Road & Roadway Structures	99,665,042	84,302,120
Inventory-Road Materials	3,985,284	2,103,580
Equipment	50,867,585	46,374,262
Accumulated Depreciation	<u>(66,081,553)</u>	<u>(58,262,197)</u>
	88,436,358	74,517,765
Construction in Progress	32,460,331	23,221,515
Land	<u>13,850,000</u>	<u>13,850,000</u>
Total Road & Equipment	134,746,689	111,589,280
Other Assets	51,807,546	26,794,837
Total Assets	<u><u>\$ 225,703,744</u></u>	<u><u>\$ 168,501,165</u></u>
Liabilities & Equity		
A/P - Interline	\$ 2,559,142	\$ 1,904,966
A/P - Trade	1,662,996	948,147
Payroll Payable	7,087,516	6,963,018
Unearned Revenue	1,411,835	1,452,253
Current Portion, LT Debt	1,854,233	1,206,665
Other Current Liabilities	<u>938,437</u>	<u>381,920</u>
Total Current Liabilities	15,514,159	12,856,969
Long-Term Debt	22,394,069	4,248,974
Deferred Revenue, FRA Grant	34,706,592	23,022,479
Deferred Revenue, AMTRAK	24,496,678	11,963,997
Deferred Revenue, Wishbone Hill	15,120,164	14,297,645
Deferred Revenue, FEMA	239,460	-
Post Retirement Medical Benefit	<u>7,790,388</u>	<u>7,565,921</u>
Total Liabilities	120,261,510	73,955,985
Equity		
Investment - State of Alaska	34,173,555	34,173,555
Retained Earnings	<u>71,268,679</u>	<u>60,371,625</u>
Total Equity	105,442,234	94,545,180
Total Liabilities & Equity	<u><u>\$ 225,703,744</u></u>	<u><u>\$ 168,501,165</u></u>

NOTES TO FINANCIAL STATEMENTS

NOTE 1--ORGANIZATION AND OPERATIONS

Congress authorized construction of the Alaska Railroad (Railroad) in 1914 and operations began in 1923. The federal government operated the Railroad until its sale to the State of Alaska in January 1985. The sale of the Railroad to the State of Alaska was authorized under the Alaska Railroad Transfer Act of 1982 (ARTA), which was signed into law on January 14, 1983. The Alaska Railroad Corporation (ARRC) is a public corporation created by the State of Alaska legislature to own and operate the Railroad and manage the Railroad's rail, industrial, port, and other properties. The ARRC commenced operations on January 6, 1985.

The ARRC operates 525 route miles, providing both freight and passenger services. The ARRC serves the cities of Anchorage and Fairbanks as well as the ports of Whittier, Seward, and Anchorage; Denali National Park; and military installations. Vessel and rail barge connections are provided from Seattle, Washington and Prince Rupert, British Columbia.

NOTE 2--SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The Railroad is subject to the jurisdiction of the Surface Transportation Board. Accordingly, the Railroad has prepared the accompanying financial statements in accordance with the STB rules and regulations (US CFR title 49), which do not differ from GAAP as issued by the FASB.

Materials and Supplies Inventories: Materials and supplies inventories are carried at the lower of cost (average cost) or market. Road materials and supplies include rail, ties, ballast, and other track materials. Because these items will generally be capitalized when placed into service, they are included in transportation properties.

Property and Equipment: Property and equipment are stated at cost. Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the related assets. Preacquisition depreciable property was depreciated on a straight-line basis over its estimated original remaining life of five years. Monthly and cumulative depreciation expense for 1999 is \$834,000 and \$6,785,000, respectively.

Income Taxes: As a public corporation, the ARRC is exempt from Federal and State income taxes.

NOTE 3--COMMITMENTS AND CONTINGENCIES

The ARRC has entered into an agreement with another entity for rail barge services between Washington and Alaska and related administrative responsibilities. The agreement expires in February 2001. Minimum payments are required, which are reflected in the financial statements.

The ARRC is a defendant in legal proceedings related to the conduct of its business. Provision has been made in the financial statements for possible losses from litigation. In the opinion of management, the outcome of the litigation will not have a material effect on the financial position of the ARRC.

NOTE 4--LONG-TERM DEBT & LEASES

Long-term debt consists of the following (in thousands) at October 31, 1999:

Note payable, secured by equipment, due in monthly payments of \$74,173 including interest at 4.28%, matures 09/03	\$ 3,204
Note payable, secured by equipment, due in monthly payments of \$30,603 including interest at 4.28%, matures 10/03	\$ 1,045
*Note payable, secured by equipment, due in monthly payments of \$163,936 including interest at 5.38%, matures 9/14	<u>\$ 20,000</u>
	\$ 24,249
Less Current Portion	<u>\$ (1,854)</u>
	<u><u>\$ 22,395</u></u>

Long-term debt maturities are as follows (in thousands):

1999	\$ 180
2000	\$ 2,018
2001	\$ 2,088
2002	\$ 2,043
Thereafter	<u>\$ 17,920</u>
	<u><u>\$ 24,249</u></u>

*Principal and interest payments begin on 1/1/00. In 1999 there are three interest payments totaling \$248,078.

MARCO - Here's what I came up with this morning, and what we're double-checking right now.

1999 Contract costs + ARRC costs

\$425.0 Tejas, Inc (flaming)
Asplundh (hot water)

\$110.0 Department of Corrections (manual labor)

525.0 Subtotal - Direct Costs 1999

\$75.0 Contract admin, crew oversight

\$125.0 Brushcutting w/ ARRC personnel, equipment

725.0 Subtotal, ARRC costs for veg control

\$200.0 Lost opportunity costs (Crews working sub-par veg. control instead of doing regular maintenance)

925.0

~\$1.5M Estimated cumulative damage/maintenance costs related to uncontrolled veg. since 1983

Estimated cost of ARRC herbicide program in 1999, as proposed — \$120.0

Gov. Sheffield's >\$2 million estimate includes both direct costs and the cost to repair actual damage. It does not include cost of actual, additional maintenance problems due to veg. on year-to-year basis

1. Shall the RR

- sell its land that is non essential for RR ops
- sell its non revenue producing land that is non essential to RR ops

11-22-99

[illegible]

Sold the office car -

@ UNIV. of COLORADO -

13-High Speed RAIL CORRIDORS

13-High Speed Rail Corridors: Midwest, Northwest - Vancouver - Seattle, "Large interest in buying RR if state decides to sell; BARTFL candidate for P222 & growth."

? What will printer monitor be w/ it? Answer is based on RFP you put it out. BC Canada to FBK is being looked at by BC.

Sell narrow ROW w/ infrastructure in place; separate the extra property; keep focus on R/L opt.

Investors are there - willing to upgrade.

Must look @ connection w/ Canada & lower 48.

"Fed grants are small compared to what private ~~firm~~ ^{sector} would do. Need Strategic Rail Plan

1. land disposal
2. stock issuance
3. ESOP
4. Buyer's coop
5. Lease Out

Gil) grants will cease if you privatize but price^{it} will be attractive -

covenants can require continued operation,

Mark Lindsey, CHIEF COUNSEL,



pax

6 month RFP response -

Post Purchase - double part

How much to some golden contribute to profit

ARRC - runs up legal bills for tenants when they need clearance -

48-6.5 mm } 95-99- 24.4 mm net income for owner
 99-6.9 mm } 21.9 mm other ops; (+ DEPR would be \$51 mm)

300 leaseholders (leases)
 buy leases?

1. ARRC shall ~~bring~~ offer to sell leases to tenants under open market.

ARAC

11-17-91

SHEFFIELD

1. 22.7 purchase

10.0 WC.

NO OPS OR CAPITAL B

2. State own shares

3. (\$15-20 mm) annual for ops & int'l -
(Rule of thumb) (8-11 profit) (+depr. 8-9 mm)

* See Performance Audit

* See MERCER Rept. - WHITTIER BARGE LOSSES

4. GPS = positive control - remote control

5. See Mission $\neq$ FOSTER Econ. Dev.

700 employees
CUSTOMER OPS
\$ MTNC INCREASE

6- COAL EXPORT @ LOSS

SUBSIDY

600K TONS + 200K TONS TEST SHANT.

2.5mm - .75mm = SUBSIDY = \$1.25mm

USIBELLI selling at a loss:

(MUST MAINTAIN BTU TO BTU COMPARABILITY)

SINCE ~~85-86~~ 85-86

2 yrs - low period ?

? WOULD WE DO THIS FOR LOCAL COMPANY

7. \$160mm fed grants since '95

miles of track per state ?

★ Fed \$ not available to private
Would have to pay back.

1. ~~GIVE UP~~ ^{SELL} SOME LAND

2. ISSUE STOCK

3. BUY LAND - INHOLDINGS IN FED. AREAS

4. WHAT FEDERAL \$ DO PRIVATE RR RECEIVE

? Missile Site Impact

??? How much of NON OPS. LAND is NON REV. PRODUCING

HERBICIDES

Shall the Alaska Railroad be put up for sale? _____

Should limitations be put on the sale so that only existing in-state companies would be eligible to buy it?

Should it be sold to its employees under an ESOP program.

If it is to be sold, what conditions and minimum bid would be acceptable? _____

If the railroad is not sold, should it be required to sell or transfer some of its land, i.e.,

- _____ Require them to transfer land that is non essential to operations, vacant and within local gov't. boundaries to the local government
- _____ Require them to offer for sale their leased land to the lease holders at FMV
- _____ Require them to offer for sale their non revenue generating land



and Delivery of Government Services

www.privatizealaska.org

NOTICE OF SUBCOMMITTEE MEETING

Subcommittee Name: **Alaska Rail Road Corporation**

Committee Members:

David Cottrell	Don Schroer
Gene Furman	Kathryn Thomas
John Haxby	Lee Wareham
Jim Sanders	Samantha Wilson

Date:

Wednesday, November 24, 3:00 PM
Monday, November 29, 3:00 PM

Place:

Legislative Information Office
716 W. 4th Avenue
Second Floor Conference Room
Ketchikan, Mat-Su LIO Teleconference Available

If you have any questions please call Representative John Cowdery's office at 269-0222.

The web site that has a current list of members and schedule of meetings
posted daily!

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P. 01

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Alaska Division of Legislative Audit

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SUMMARY OF: A Special Report on the Department of Commerce and Economic Development, Alaska Railroad Corporation, Equipment Acquisitions and Disposals, March 24, 1997.

PURPOSE OF THE REPORT

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we conducted an audit of the Alaska Railroad Corporation's (ARRC or the railroad) activities related to selected acquisitions and disposals of heavy rail equipment in 1996.

BACKGROUND INFORMATION

ARRC received a \$10 million federal grant in 1996 to undertake an extensive railroad tie replacement program and smaller track stabilization projects. To complete such efforts, the railroad believed it needed the use of new equipment; ARRC's current machinery was not thought to be sufficient for the tasks envisioned. As such, the railroad leased both tie replacement and track surfacing machinery during 1996; these procurements were effected through two invitations to bid (ITB) issued under the auspices of "emergency procurements." Additionally, ARRC issued an ITB for brushcutting equipment to be used for routine maintenance of way activities. ARRC then disposed of its wholly-owned equipment that the leased machinery replaced; the railroad negotiated sales of the items to two rail service companies based outside of Alaska. ARRC received \$408,908 in proceeds.

REPORT CONCLUSIONS

No formal analysis of equipment options performed

No formal analysis documenting the basis for ARRC's decision to lease new equipment and sell the owned machinery was prepared. The railroad did not perform any comparison of the cost or productivity of ARRC's equipment to that of the prospective leased machinery. Without this type of information, it is impossible for ARRC to know if it correctly evaluated all available options and made a sound business decision.

Disposals of equipment not competitively handled

During the latter part of 1996, ARRC privately placed 30 pieces of heavy rail equipment and ancillary parts to two rail service companies; no competitive offering was apparently considered. We believe this violates good business practices and the spirit of the railroad's surplus property disposal policy; ARRC had no way of knowing if it received a fair price for the machinery. We believe a disposal of this

magnitude warrants a competitive offering.

Equipment sales decisions made by lower-level supervisor

No documentation is available to show that the proper approvals were provided prior to the retirement and sales of the subject equipment and parts. A lower-level supervisor was the only ARRC signer on many authorization for retirement and bill of sale forms. No executive management authorization was evident in any of the forms available for our review.

Weaknesses noted in procurement of leased equipment

We noted weaknesses in the methodology ARRC followed to procure leases of equipment. Specifically, we have concerns about the railroad not advertising the ITBs within Alaska, the bid evaluation criteria not being well-defined, ARRC not protecting itself through the use of liquidated damage provisions in contracts, and the railroad modifying the details of an ITB after selecting a contractor.

ARRC definition of emergency procurements overly broad

ARRC's definition of what may constitute an emergency procurement does not appear to be substantially equivalent to that in the state procurement code. Under the railroad's definition, almost any procurement could be construed as impacting ARRC's financial condition and therefore classified as an "emergency." We do not believe this rule to be necessary as it could encourage circumvention of competitive practices.

FINDINGS AND RECOMMENDATIONS

1. ARRC should document the rationale behind its management decisions.
2. ARRC should competitively offer significant disposals of its assets.
3. ARRC should ensure asset disposals show evidence of management approval.
4. ARRC should improve its competitive bid procedures.
5. ARRC should modify its purchasing rules related to emergency procurements.

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March 24, 1997

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

**DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
ALASKA RAILROAD CORPORATION
EQUIPMENT ACQUISITIONS AND DISPOSALS**

March 24, 1997

Audit Control Number
08-4552-97

The objective of this audit was to determine if the Alaska Railroad Corporation's activities related to selected 1996 acquisitions and disposals of heavy rail equipment were reasonable and in compliance with applicable statutes and the railroad's rules.

The audit was conducted in accordance with generally accepted government auditing standards. Field work procedures utilized in the course of developing the findings presented in this report are discussed in the Objective, Scope, and Methodology section of this report. Audit results can be found in Report Conclusions and Findings and Recommendations.

Randy S. Welker, CPA
Legislative Auditor

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BACKGROUND INFORMATION

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LEGISLATIVE AUDITOR'S ADDITIONAL COMMENTS

OBJECTIVE, SCOPE, AND METHODOLOGY

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we conducted an audit of the Alaska Railroad Corporation's (ARRC or the railroad) activities related to selected acquisitions and disposals of heavy rail equipment in 1996.

Objective

The objective of our audit was to determine if ARRC's activities related to specific 1996 acquisitions and disposals of heavy rail equipment were reasonable and in compliance with applicable statutes and ARRC rules.

Scope

Acquisitions: We reviewed ARRC's procurement of leased heavy rail equipment to be used on railroad tie replacement, rail surfacing, and brushcutting activities during 1996. A total of eleven such items were leased by ARRC during portions of 1996.

Disposals: We reviewed six 1996 ARRC sales of used rail equipment and associated parts that included 30 pieces of heavy machinery.

Methodology

Our methodology included review and analysis of ARRC procurement and disposal files for the subject items, including ARRC bid documents, contractor replies to bids, ARRC evaluation of bids, correspondence, contracts, bills of sale, and railroad property records. We also reviewed Alaska Statutes and ARRC asset procurement and disposal rules. Further, we examined railroad organizational charts, delegations of authority, and a relevant consultant report. We also reviewed trade publications, complaints about the railroad to the state ombudsman's office, and the 1996 deferred maintenance grant agreement between ARRC and the federal government.

Additionally, we interviewed ARRC management and staff, representatives from the state ombudsman's office, personnel from the Department of Transportation and Public Facilities, and representatives of various heavy rail equipment manufacturers.

ORGANIZATION AND FUNCTION

The Alaska Railroad Corporation (ARRC or the railroad) was established by AS 42.40 after the railroad was purchased for \$22.3 million by the State from the federal government in January 1985. ARRC is a public corporation and an instrumentality of the State within the Department of Commerce and Economic Development, but by statute it has a legal existence independent of, and separate from, the State. The corporation's board of directors is responsible for its management, but has delegated the powers and duties necessary for the administration of daily affairs and operations of the corporation to

the chief executive officer (CEO). In turn, the CEO has designated other executive officers to oversee the various departments.

The Maintenance and Engineering Division is directed by a vice-president and includes areas of functional responsibility such as the engineering and mechanical departments, environmental services, and purchasing. Engineering and purchasing were the two departments with primary responsibility for the acquisition and disposal of the equipment that is the subject of this audit.

ARRC is not subject to the Executive Budget Act; capital improvement programs are approved by the railroad's board of directors. While the board members are appointed by the governor and subject to confirmation by the legislature, neither the executive nor legislative branch has direct control over the daily financial and program activities of the corporation.

BACKGROUND INFORMATION

In late 1995, the Alaska Railroad Corporation (ARRC or the railroad) applied for a grant from the U.S. Department of Transportation, Federal Railroad Administration (FRA) to provide the majority of the funding of particular capital rehabilitation and improvement projects. Specifically, the railroad wished to undertake a major railroad tie replacement program in 1996 estimated to cost approximately \$9.6 million; additional smaller track stabilization projects were also planned for that year. As a result, FRA granted ARRC \$10 million to complete the tie and stabilization projects. The scope of the grant included funding the purchase and installation of approximately 81,000 cross ties as well as stabilizing the track structure in Healy Canyon. The work was to be completed by the end of calendar year 1996.

ARRC has represented that the federal grant monies and the resulting extensive tie replacement program were major impetuses in its actions relating to its 1996 acquisition and disposal of heavy rail equipment. According to the railroad, ARRC's last major tie replacement program occurred in 1989 when approximately 120,000 ties were installed. Since that point, the railroad's tie programs had been considerably smaller, averaging approximately 9,000 ties per year. As a result, ARRC did not believe that its current heavy equipment used in tie replacement and track surfacing activities would be sufficient to complete a project of the magnitude planned. The railroad decided to use a portion of the federal grant monies to lease new equipment to be used on the work effort. ARRC determined it needed to lease equipment both for tie replacement and track surfacing activities.

To effect these procurements, ARRC issued two invitations-to-bid in late January 1996. Both were issued under the auspices of ARRC procurement rule 1400.3, *Emergency Procurements*, permitting "*competition that is practicable under the circumstances*." Soon after, ARRC entered into lease contracts for the equipment it desired. ARRC used the machinery throughout 1996 on the extensive work effort; approximately 98,000 ties were replaced before weather concerns halted the program for the year. At completion of the project for the year, the railroad returned the majority of the equipment to the lessors, exercising a purchase option on one piece of machinery; lease costs totaled \$374,746 for this equipment for the year, while ARRC paid \$181,000 to exercise the purchase option. For the 1997 tie program, ARRC plans to lease more equipment, primarily through sole-source conventions; this approach is based on compatibility concerns for operations and repair.

With ARRC's leasing of this new tie replacement and surfacing equipment, the railroad was faced with the question of what to do with its own wholly-owned equipment that was replaced. The railroad decided to take advantage of what it called "better-than-average" market conditions for used heavy rail equipment and sold 30 pieces of machinery and corresponding miscellaneous parts to two rail service companies based outside of Alaska. ARRC received a total of \$408,908 in proceeds from the sales.

REPORT CONCLUSIONS

As stated in the Objective, Scope, and Methodology section of the report, this audit reviewed the Alaska Railroad Corporation's (ARRC or the railroad) activities related to selected 1996 acquisitions and disposals of heavy rail equipment. We noted shortcomings in both areas. We are concerned that the railroad failed to prepare a formal determination delineating ARRC's rationale for electing to lease new on-track heavy equipment and dispose of its older machinery. Further, the disposal process undertaken by ARRC did not include competitively offering the equipment to the entire marketplace; similar to findings in previous audits, the railroad continues to avoid competitive business practices. We also took issue with a decision of this magnitude seemingly being made by a relatively low-level employee; the railroad could not provide documentation of ARRC management's knowledge nor approval of the disposal proceedings. We also noted weaknesses in the manner in which ARRC attempted to procure the leased equipment used in the 1996 tie replacement and rail surfacing programs. Finally, we believe the railroad's definition of what constitutes an emergency procurement may permit excessive latitude in its business dealings. Our detailed conclusions follow.

No formal analysis of equipment options performed

One of the findings of ARRC's annual management audit performed by an outside consulting firm has been that the railroad appeared to be carrying an "extraordinarily large" heavy equipment fleet; further, the consultants stated that a number of pieces of equipment are in use "well beyond their expected life." As such, the consultants recommended that ARRC reduce heavy equipment ownership and stated that "as equipment needs to be replaced, other alternatives . . . should be carefully examined." [Emphasis added] ARRC has represented to us that, based upon this recommendation, the requirements of the upcoming tie replacement program, and an overall favorable used rail equipment market, the railroad decided to dispose of a considerable amount of on-track heavy equipment and lease the machinery needed for the 1996 work effort.

However, no formal analysis documenting the basis for ARRC's decisions was prepared. The railroad has represented to us that the ARRC general roadmaster and the track and equipment supervisor reviewed work orders and discussed reliability issues with the mechanics who repair the railroad's equipment fleet; this was purportedly done in an effort to determine which machines had been troublesome in the past and should be retired. No documentation of this review was ever prepared, however. More importantly, no comparison of the cost nor productivity of the owned machinery to that of the prospective leased equipment was ever made; it does not appear that the railroad took such concepts as cost per unit of production nor other quantitative measures into account in reaching its conclusion about which course of action to follow.

ARRC had a number of options available in preparing for the 1996 work season. Simply stated, the railroad could have used its existing wholly-owned machinery, leased new equipment, or purchased new equipment. To make such a decision, we believe prudence dictates that the railroad perform some form of analysis that details the relative costs and benefits to be derived from each alternative. Without this information, it is impossible for ARRC to know if it correctly evaluated all options and made a sound business decision.

It is important to note that ARRC's consultant recommended that the railroad examine the alternatives. The firm did not state that ARRC should enter into equipment leases without doing further analysis.

ARRC appears to have made the decision to lease new machinery and dispose of the older equipment without any analysis supporting this determination. Prudent administration of most organizations, particularly government-owned organizations, requires that management document the basis for major decisions. This is especially true when facing questions with far-reaching impacts such as those involving major equipment acquisitions and disposals. As discussed in Recommendation No. 1, we believe ARRC needs to document the rationale behind its actions.

Disposals of equipment not competitively offered

Subsequent to its "decision" as to which items were to be retired, ARRC turned its attention to the manner in which they would be offered for sale. ARRC represented to us that it contacted several

companies that it believed might have potential uses for the equipment; however, these contacts were not documented. From July through November 1996, the railroad's track and equipment supervisor negotiated the sale of 30 items to two companies; prices were purportedly set through the negotiation process, subject to a range determined through review of trade publications. However, no documentation was prepared detailing the negotiations. Further, no competitive offering was apparently considered.

We believe a private placement such as this violates the most basic tenets of good business practices. By not offering the sale of this equipment competitively in the open market, ARRC had no way of knowing if it received a fair price for the equipment. The railroad received \$408,908, a considerable sum; however, it is unknown what proceeds this equipment may have provided if it were offered to a larger number of prospective buyers, each on equal footing.

ARRC Board Rule No. 9 defines the objective of ARRC's surplus property disposal policy as assuring

"... that [ARRC] identifies and disposes of excess personal property in a manner that maximizes the return to the [railroad], and provides a fair and equitable opportunity to all members of the general public who are interested in purchasing the excess property." [Emphasis added]

The rule continues that surplus property may be sold by sealed bid, public auction, or through direct sales. We believe that, in order to meet the intent of the policy requirements, a disposal of this magnitude warrants a competitive offering. See Recommendation No. 2.

Equipment sales decisions made by lower-level supervisor

Alaska Statute 42.40 permits the railroad's board of directors to delegate the powers and duties necessary for the daily administration of the corporation to the chief executive officer (CEO). The CEO may then designate other executive officers different powers. The vehicle used by ARRC to delegate this authority to the officers and others is the railroad's *Approval Authority Guide* (AAG). The intent of this guide is to "show normal day-to-day business activities that are delegated to assure a smooth running company."

The AAG delegates the authority for the disposal of material and equipment to the executive officers. While any of the vice-presidents may declare property excess, only the CEO and vice-presidents of finance/administration and operations may actually approve the transfer of title.

However, no documentation is available to show that the proper approvals were provided prior to the retirement and sales of the subject equipment and parts. In a number of cases, ARRC's track and equipment supervisor was the only railroad signer on the authorization for retirement and bill of sale forms. No executive management authorization was evident in any of the forms available for our review.

While ARRC has represented to us that management was aware of the proposed excess and sales activities, no documentation of such could be provided by the railroad. As we discuss in Recommendation No. 3, there is no substitute for properly documenting that appropriate parties are informed and consent to the determined course of action.

Weaknesses noted in procurement of leased equipment

In its efforts to procure the leases of equipment, ARRC issued two invitations-to-bid (ITBs) for on-track heavy equipment to be used on its tie replacement and track surfacing projects in 1996. Additionally, ARRC wished to lease an on-track brushcutter for routine upkeep of the railroad's maintenance of way; a separate ITB was issued for this purpose.

While we commend ARRC for attempting to use competitive principles in these procurements, we noted weaknesses in the railroad's methodology during our review. Specifically:

- ARRC did not advertise the issuance of the ITBs within Alaska; rather, national trade publications were reviewed and potential vendors selected to receive copies of the solicitations. ARRC has represented that it knows that none of the manufacturers of the subject equipment have dealers or

distributors in Alaska. As such, the railroad reasoned, any Alaskan bidders would only be brokers not truly engaged in selling railroad products on an ongoing basis, but rather reaping the benefits of the Alaska bidder's preference required to be afforded them. This argument does not appear persuasive; if an Alaskan bidder offers a piece of equipment on a competitive basis and performs on all other aspects of the contract, the question of whether it is a manufacturer or reseller appears to be moot. In the spirit of competition and positive public relations, we believe ARRC should have, in addition to the other means it took, advertised the issuance of its ITBs within the state.

- The evaluation criteria used in the surfacing and tie replacement equipment bids was not well defined. The ITBs stated that "[a]n award will be made to the low, responsive, responsible bidder that meets the requirements as set forth in the specifications and compliance thereof." However, the solicitation also states that "[t]he delivery date may be a deciding factor in the award of a contract" and requests the bidders to furnish the earliest firm date for delivery if the delivery date specified in the ITB cannot be met. If ARRC wished to introduce evaluation criteria other than price, we believe it may have been prudent to issue this procurement inquiry as a request for proposal rather than an ITB and explicitly define the criteria and respective point values to be used in the evaluation.
- ARRC did not include a provision for liquidated damages in its lease contracts for the 1996 equipment. As such, there was no tangible incentive for the vendors to meet the promised delivery dates. At least one vendor was substantially late in delivery; ARRC was forced to scramble to find a replacement unit to permit the planned projects to continue. We understand the railroad has included such a clause in some contracts for the 1997 lease procurements; we believe this provision should be included in all ARRC procurement contracts where timeliness of performance is critical.
- In its solicitation for brushcutting equipment, all indications were that ARRC was requesting bids for one machine. However, based on the responses to the ITB, the railroad instead decided to lease two machines from the successful bidder. This doubling of the quantity initially specified in the ITB could have the effect of changing the economics of the bid for the prospective vendors; it may not be feasible for a company to bid on providing one brushcutter, but it may for two such machines. The overall effect is that the railroad may be limiting its options by excluding possible bidders from the pool of prospective vendors; at the same time, ARRC's actions could heighten its exposure to bid protests and lawsuits.

We further discuss this issue in Recommendation No. 4.

ARRC definition of emergency procurement overly broad

Alaska Statute 36.30.015(e) requires the railroad to adopt procurement procedures that are "substantially equivalent" to those of executive branch state agencies as embodied in the state procurement code and accompanying regulations. ARRC's procurement rules appear to mirror the state procurement rules in certain respects. However, a significant difference is evident in an important aspect of emergency procurements.

Both the state procurement code and ARRC's rules define situations under which emergency procurements may be considered necessary. Under both documents, conditions such as fire, flood, epidemic, environmental accident, critical equipment failure, or similar compelling reasons may be adequate justification for bypassing standard competitive practices. Additionally, both state that emergency procurement may be justified in a situation in which the standard practices of competitive sealed biddings or proposals are "impracticable or contrary" to the interest of the agency facing the emergency. However, ARRC's rules continue that such a situation may be due to "delays inherent in the normal procurement process that could cause ARRC to lose a market opportunity. . . ."

Under the railroad's definition, almost any procurement could be construed as impacting ARRC's financial condition and therefore classified as an "emergency." We do not believe this rule to be necessary as it could encourage circumvention of competitive practices. While we did not note evidence

of such in this audit, we believe ARRC should nonetheless modify its procurement rules to eliminate this provision. See Recommendation No. 5.

FINDINGS AND RECOMMENDATIONS

The recommendations presented below are closely tied with the discussion presented in our Report Conclusions section. As such, much of the detail related to these recommendations will be found in that section and has been omitted here.

Recommendation No. 1

The Alaska Railroad Corporation (ARRC or the railroad) should document the rationale behind its management decisions.

Prudent and accountable management are hallmarks of well-run organizations. A primary means of maintaining this accountability is to require that management document the rationale behind decisions, financial and programmatic, that have considerable impact on the entity. ARRC should not be an exception to this standard; quite the opposite, the railroad, in its unique position as a state-owned for-profit corporation, should be in the forefront of providing clear evidence as to the rationale supporting its decisions.

However, this was not the case regarding the 1996 decision to retire certain heavy rail equipment and replace some of it with leased machinery; no formal analysis documenting the basis for ARRC's decision was prepared. We believe a decision of this magnitude should have been subject to such a standard. Some form of analysis that compared the relative costs and benefits of the options available to the railroad and provides support for the decision made should have been prepared and retained. Without it, there is no defensible basis for the decision and therefore no means for ARRC to know if it selected the most appropriate alternative. In the future, we recommend ARRC take the steps necessary to document its rationale behind decisions of such magnitude.

Recommendation No. 2

ARRC should competitively offer significant disposals of its assets.

By not competitively offering the heavy rail equipment disposed of in 1996, ARRC cannot know if it received the best possible price for the machinery. Additionally, the private placement practice that occurred heightens ARRC's exposure to charges of favoritism to certain contractors.

As such, we recommend that significant disposals, such as those that occurred in 1996, be subject to a competitive process in the future.

Recommendation No. 3

ARRC should ensure asset disposals show evidence of management approval.

In the documentation of the 1996 heavy rail equipment disposals, ARRC was unable to provide evidence of management authorization being given. We recommend, for significant future railroad asset disposals, that appropriate management approval be received and documented prior to undertaking retirement or disposal activities. This control not only is a solid business practice, it is required through ARRC's delegation of authority handbook.

Recommendation No. 4

ARRC should improve its competitive bid procurement procedures.

The railroad should ensure that all prospective bidders are given an equal opportunity to bid and that the evaluation criteria presented are clear. Further, we believe ARRC should include liquidated damage provisions in contracts when timing is important. Finally, ARRC should not materially deviate from quantities requested in bid specifications if such a change could impact the prospective bidders.

Recommendation No. 5

ARRC should modify its purchasing rules related to emergency procurements.

The railroad's procurement rules permit excessive latitude in determining what may be considered emergency procurements. We recommend that these requirements be tightened to more closely approximate the state procurement code.

AGENCY RESPONSE: Alaska Railroad Corporation

ALASKA RAILROAD CORPORATION

Corporate Address:

P.O. Box 107500, Anchorage, Alaska 99510
327 W. Ship Creek Avenue, Anchorage, Alaska 99501

June 6, 1997

Randy Welker, Legislative Auditor
Alaska State Legislature
Budget & Audit Committee
Division of Legislative Audit
P.O. Box 113300
Juneau, Alaska 99811

Re:

Preliminary Audit Report on Department of Commerce and Economic Development, Alaska
Railroad Corporation
Equipment Acquisitions and Disposals
March 24, 1997
Your Audit Control Number 08-4552-97

Dear Mr. Welker:

We have reviewed your draft report (08-4552-97) on the Alaska Railroad Corporation ("ARRC"), the stated objective of which was to determine if our activities related to specific 1996 ARRC acquisitions and disposals of heavy rail equipment were reasonable and in Compliance with applicable statutes and ARRC rules. We recognize that your opinions on the reasonableness of specific actions may differ from ours, but do appreciate your willingness to share those opinions with us. Our comments on your specific recommendations follow.

Recommendation No. 1

The Alaska Railroad Corporation (ARRC or the railroad) should document the rationale behind its management decisions.

We agree with the importance of documenting the rationale for significant capital expenditures. ARRC's Authorization for Expenditure ("AFE") process was designed to assure that significant capital expenditures are properly justified and documented. This process is currently being revised to update the procedures and strengthen controls. We will also examine our asset disposition procedures to determine

if the authorization and documentation process needs to be revised.

Recommendation No. 2

ARRC should competitively offer significant disposals of its assets.

We agree that significant asset disposals should be subject to a competitive process, and believe that our disposal processes do provide for reasonable competition. In this instance the auditors are critical of the process used by ARRC since the excess equipment was not sold through a public offering in Alaska. We determined that there was no practical reason to incur the time and expense of a public offering in Alaska since there are no potential buyers in Alaska for railroad track maintenance equipment. In addition, the value of the equipment being sold was based on the seasonal needs of the railroad industry and would likely have decreased had we taken the time for a public offering.

Recommendation No. 3

ARRC should ensure asset disposals show evidence of management approval.

We agree that asset disposals should show evidence of management approval. In this instance the appropriate managers had approved the dispositions, but through oversight had not signed all of the proper forms.

Recommendation No. 4

ARRC should improve its competitive bid procurement procedures.

ARRC strives to continuously improve its competitive bid procurement processes. The legislative auditors' opinions will be considered and implemented as appropriate in future procurement actions.

Recommendation No. 5

ARRC should modify its purchasing rules related to emergency procurements.

ARRC's authorizing legislation (AS 42.40.100(8)) directs it to adopt procurement rules based on those of the railroad industry. Subsequent legislation (AS 36.30.015(e)) requires that ARRC's procurement rules be "substantially equivalent" to those of the State. We believe that our procurement rules are consistent with the dual legislative directions ARRC has been given.

Thank you again for your suggestions and comments.
Sincerely,

William J. Sheffield
Acting President & CEO

LEGISLATIVE AUDITOR'S ADDITIONAL COMMENTS

June 9, 1997

Members of the Legislative Budget
and Audit Committee

We have reviewed the Alaska Railroad Corporation's (ARRC or the railroad) response to the preliminary audit report. In general, we are encouraged by ARRC's apparent willingness to review and update its procedures. However, we noted two areas in the corporation's response that require additional discussion.

Recommendation No. 2

ARRC should competitively offer significant disposals of its assets.

The railroad's response to this recommendation states that Legislative Audit was "*critical of the [disposal] process used by ARRC since the excess equipment was not sold through a public offering in Alaska.*" (Emphasis added) In contrast, nothing within the recommendation nor the related audit conclusion specifically mentioned ARRC not offering the equipment for sale within the State. Rather, we were critical of the railroad's decision to not offer to sell the equipment in any open market, where all prospective bidders would have an equal opportunity to purchase these assets. Our concern was with the private placement and overall lack of open market competition, not merely that a public offering did not take place within Alaska.

Recommendation No. 5

ARRC should modify its purchasing rules related to emergency procurements.

In its response, the railroad states it believes its procurement rules are "*consistent with the dual legislative directions ARRC has been given.*" The dual directions ARRC alleges consist of AS 42.40.100(8), which states that the procurement procedures of the corporation shall "*meet accepted railroad industry standards,*" and AS 36.30.015(e), which states that ARRC shall adopt procedures "*substantially equivalent*" to the State Procurement Code and underlying regulations.

However, contrary to the railroad's apparent interpretation, the differences in these two statutes cannot be used to justify substantial variances from the Procurement Code. The rules of statutory construction clearly favor procurement procedures that are substantially equivalent to the State's Procurement Code, as follows:

- As both of these individual statutes set minimum standards, the more restrictive provisions of the two become the standard to follow. For example, if one statute required a certain procedure for purchases larger than \$100,000 and the other required it for purchases of only \$50,000, the \$50,000 test would become the standard as it is more restrictive. That is, individual statutes are considered to be part of a coherent whole. In no case would procedures less restrictive than substantially equivalent to the Procurement Code ever become the standard.
- The detailed, specific procurement procedures as spelled out in the Procurement Code prevail over the vague, generalized direction to "*meet accepted railroad industry standards.*" Statutory construction favors specific requirements over vague guidelines when differences exist.
- The "*substantially equivalent*" rule also prevails over "*industry standards,*" in areas where they differ, because it is a more recent statute. The rules of statutory construction assume that the legislature was aware of the old "*industry standards*" guideline and wished to modify then-current railroad procedures by mandating that ARRC adopt procedures substantially equivalent to the Procurement Code.

To summarize, we see no "*dual legislative directions,*" mixed signals, confusion, or ambiguity. The statutory requirement for ARRC to follow procurement procedures "*substantially equivalent*" to the Procurement Code is firm. As such, we continue to recommend that the railroad follow purchasing rules that more closely approximate the State Procurement Code.

Randy S. Welker, CPA
Legislative Auditor

GILBERT E. CARMICHAEL

**Chairman of the Board,
University of Denver Intermodal Transportation Institute**

Vice Chairman of the Board, MotivePower Industries, Inc.

Chairman, Amtrak Reform Council

A leading authority on railroad and intermodal transportation policy, Gilbert E. Carmichael served as Federal Railroad Administrator in the administration of President George Bush. He currently is vice-chairman of the board of Motive Power Industries, Inc., chairman of the Amtrak Reform Council, and board chairman of the University of Denver's Intermodal Transportation Institute.

Mr. Carmichael also is board chairman of the M & B Railroad, a director of Great Southern National Bank, and a partner in MiSSouth Development, a family enterprise.

In 1997 he chaired the North American Intermodal Summit, which brought together the transportation secretaries of the United States, Canada and Mexico for high-level discussions on intermodal policy. He also is a contributing editor to Progressive Railroading Magazine.

Mr. Carmichael was instrumental in creating the University of Denver's Intermodal Transportation Institute, which is developing education and research programs to prepare graduates for a transportation environment in which intermodal operation have become a global standard.

As Federal Railroad Administrator from 1989 to 1993 he managed the nation's rail safety and research programs, supervised international railway technical assistance programs, and sponsored the first World Railways Congress in 1991 which brought together senior government and railway officials from 60 nations. In 1990 he received the Founder's Gold Medal Award from the Pan American Railway congress for his paper on the role of rail transportation in the 21st Century. He also helped to develop President Bush's National Transportation Policy, to reform laws to permit intermodal transportation initiatives, and to formulate new federal policy toward the rail mode and Amtrak, the nation's rail passenger service. He chaired the three-year, \$29 million National Maglev Initiative and proposed a network of regional high-speed rail passenger corridors now under development. He also served four years on the board of Amtrak.

Carmichael - Page 2

In 1998 Mr. Carmichael was appointed to the Amtrak Reform Council by Senator Trent Lott, and in January 1999 became the council's chairman. The ARC has the duty of evaluating Amtrak's financial performance and recommending a restructuring plan if the corporation is unable to achieve self-sufficiency.

A Presidential member of the National Transportation Policy Study Commission from 1976 to 1979, he chaired its subcommittee on advanced technology. He served by Presidential appointment, on and as chairman of the National Highway Safety Advisory Committee to the Secretary of Transportation from 1973 to 1976. A successful real estate developer and automobile executive from Mississippi, Mr. Carmichael has been a pioneer leader in transportation in his state. In 1987 he helped originate, author and pass a \$1.6 billion, 1077 - mile statewide four-lane highway construction program, and was instrumental in the creation of a 700-mile regional railroad in East Mississippi and Western Alabama.

He holds a business degree from Texas A&M University and was a fellow in the Institute of Politics, Kennedy School of Government, Harvard University, in 1976. He has presented and published numerous papers on the transportation industry, and promoting the need for a North America and global intermodal freight and passenger system utilizing the world's rail network.

A resident of Meridian, Mississippi, he is an Episcopalian, is married to Carolyn White, and they have one son, G. Scott Carmichael.



and Delivery of Government Services

www.privatizealaska.org

NOTICE OF SUBCOMMITTEE MEETING

Subcommittee Name: **Alaska Rail Road Corporation**

Committee Members:

David Cottrell	Don Schroer
Gene Furman	Kathryn Thomas
John Haxby	Lee Wareham
Jim Sanders	Samantha Wilson

Date:

Monday, November 22, 1:30 PM

Place:

Legislative Information Office
716 W. 4th Avenue
Second Floor Conference Room
Ketchikan, Mat-Su LIO Teleconference Available

Gil Carmichael, Railroad privatization consultant and former National Railroad administrator under President Reagan, will be teleconferencing in.

If you have any questions please call Representative John Cowdery's office at 269-0222.

The web site that has a current list of members and schedule of meetings posted daily!

www.privatizealaska.org

716 W. 4th Ave. Anchorage, AK 99501

Senator Jerry Ward: 907-269-0107 Fax 907-269-0109

Representative John Cowdery: 907-269-0222 Fax 907-269-0223

Since 1996
\$ ~~105~~ million

\$ 105 million

parts from feds

ArcTech Services
Box 3005
Kenai, Alaska 99611

265
2312

FROM: Kathryn Thomas

PHONE NO: 907-776-5515

FAX NO: 907-776-5132

FAX COVER SHEET

Number of pages including this cover sheet

TO: Rail Road Work Group DATE:

Go Rep Cowdery's Office

COMPANY NAME:

FAX NO:

Message:

Misc. information from
my files

Kathryn

31 page

Governor Bill Sheffield
Pouch A
Juneau, AK. 99811

Senator Jalmar Kerttula
President, Alaska State Senate
Pouch V
Juneau, AK. 99811

Representative Joe Hayes
Speaker, Alaska House of Representatives
Pouch V
Juneau, AK. 99811

Gentlemen:

Enclosed herewith is the Interim Report of the Alaska Railroad Transfer Advisory Commission. This report is the product of ten months of public hearing, deliberation, and intensive analysis of the alternatives for management and operation of the Alaska Railroad after transfer from the federal government has been accomplished.

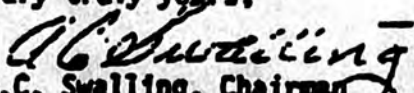
The Commission met a total of nine times in Anchorage, Fairbanks and Juneau. The Commission listened to over fifty hours of public testimony from individuals and groups from literally every corner of the State of Alaska. In addition, we have analyzed almost 1,000 pages of documents and submissions from interested individuals and groups.

In fulfillment of our legislatively mandated duties, we hereby formally tender this report to you for your consideration during the coming months as the transfer of the Alaska Railroad approaches. We hope you will find it helpful not only for the specific recommendation it contains but as a source of information about the wishes, desires and hopes of the people of the State of Alaska.

It should be mentioned that not all Commission members share each and every view expressed within this document. The combination of the change in State Administrations and the convening of the State Legislature made it difficult for the public officials on the Commission to attend all sessions. In many cases, the views expressed in the Interim Report represent an attempt by the Commission to summarize for your consideration consensus opinions heard again and again during public testimony. We feel this provides you with the full benefit of this information as it was expressed to us.

On behalf of the entire commission, I would like to thank you for the opportunity of serving the people of the State in this most important and worthwhile endeavor.

Very truly yours,


A.C. Swalling, Chairman
Alaska Railroad Transfer Advisory Commission

EXECUTIVE SUMMARY

The Alaska Railroad Transfer Advisory Commission met a total of nine times in Anchorage, Fairbanks and Juneau. The Commission listened to over fifty hours of public testimony and heard from over fifty individuals and groups regarding all aspects of the transfer of the Alaska Railroad from federal to state control. This Executive Summary is a compilation of the major policy recommendations of the Commission and a list of specific changes pending state legislation which the Commission feels are most important.

I—POLICY RECOMMENDATIONS OF THE COMMISSION

1. The railroad should eventually be owned and/or operated by private industry. Almost unanimously those testifying before the Commission felt strongly that it was in the best interests of the people of the State of Alaska and the best interests of the railroad to plan for the eventual transfer of the ownership and/or operation of the railroad to private industry.
2. Plans for expansion of the railroad should begin immediately. The Commission recommends the immediate preparation and filing of five right-of-way applications: (1) to Delta, (2) to Canada, (3) to Kenai, (4) to Beluga, (5) to Tanana and Kobuk/Amhler.
3. The railroad should cooperate with local governments. The Commission urges the State not to compete with local governments in the operation of railroad-related facilities, such as ports, which are historically operated by local governments.
4. The railroad should expand into connecting services by contracting with private enterprise. The Commission urges that the policy of the Alaska Railroad should be that, to the maximum extent possible, expansion should occur by contracting private enterprise and by not competing in a service area previously provided by private industry.
5. The interim operation of the railroad should be conducted by an independent authority under a separate department on a temporary basis. The Commission feels that the short term management of the railroad is critical to the overall future of the railroad and the state. Therefore, the Commission recommends the creation of an independent authority under a separate department of state government on a temporary basis as provided for in Article III, Section 22 of the Alaska Constitution.

6. State oversight of the railroad should be kept at a minimum. The Commission recommends that only the bare minimum of oversight consistent with good public policy be provided for in the legislation and that the legislation specifically provide for a public process so that policy determinations made by the board are based upon adequate public input.

7. Alaska railroad mineral rights should be preserved. The Commission recommends that any authority or private operator of the railroad should be able to utilize all subsurface resources and railroad land for railroad purposes without any restriction as to ownership or use of those resources which might otherwise be applicable under existing state law.

8. Additional appropriation for the Commission. The Commission feels that to adequately fulfill its legislative mandate between the date of this interim report and the final transfer of the Alaska Railroad to the State, an appropriation in the amount of \$75,000.00 is essential. This amount will provide the Commission with the ability to hire the necessary staff and incur necessary operational expenses so that a final report can be prepared.

II--SPECIFIC RECOMMENDATIONS FOR CHANGES IN PENDING STATE LEGISLATION

In the body of the report, the Commission makes numerous recommendations for specific changes in SB10, pending state legislation accepting transfer of the railroad. However, in this Executive Summary the Commission would like to call attention to a few specific matters which it considers to be critical.

1. The Commission urges that a seven-member board of commissioners be established for the railroad authority. Balanced geographic distribution for the board is critical and the Commission recommends that at least two members be from areas served by the railroad north of Windy Pass and at least two from south of Windy Pass.

2. If consistent with law, the Commission recommends that the Commissioner of Transportation and Public Facilities be a non-voting member of the authority.

3. The Commission recommends that a representative from the employee bargaining units and the general manager of the Alaska Railroad be non-voting members of the board of Commissioners.

4. Consistent with federal legislation, all bargaining agreements should be honored and maintained for a period of time until renegotiation can be accomplished smoothly and without disruption of rail service.

**ARR (HB 136) EVALUATION NOTES
LEGISLATIVE BUDGET AND AUDIT COMMITTEE**

ANCHORAGE, ALASKA

**REVISED
AUGUST 29, 1996**

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Introduction

A potential transfer¹ of any or all of the Alaska Railroad's assets triggers a variety of socio-economic issues. More than the determination of value is required for prudent decision making.

In conjunction with performing the evaluation called for in Section 1(d) of House Bill No. 136, there are major strategic issues which must be considered to determine whether a sale of the Alaska Railroad is in the state's best interest. They include, but are not limited to, possible advantages or disadvantages to the:

- Residents of Alaska
- Employees of the railroad
- Shippers
- Alaska's economy
- Relationship between the railroad and the state
- Continuation of passenger service
- Continuation of freight service
- Environment

There is a need to identify potential purchasers of the railroad and to ascertain the assets available for transfer. This includes consideration of:

- Covenants and restrictions placed on a sale
- The disposition of non-operating real estate
- Joint ownership possibilities

¹The definition of transfer includes, but is not limited to:

- Outright Sale
- Concession
- Long Term Lease
- License
- Operating Agreement
- Joint Venture

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OPTIONS

Options For Transferring The Rail Operations Of The Alaska Railroad Corporation

1. Status Quo - The rail operations of the Alaska Railroad Corporation would not transfer.
2. Transfer all rail operations of the Alaska Railroad Corporation to a single private sector operator.
3. Transfer the freight rail operations of the Alaska Railroad Corporation to a private sector operator with the state retaining the passenger operations.
4. Transfer the freight rail operations of the Alaska Railroad Corporation to a private sector operator and transfer the passenger rail operations to a different private sector operator.

Options For Transferring The Real Property Of The Alaska Railroad Corporation

1. Status Quo - The real property of the Alaska Railroad Corporation would not transfer.
2. All or some of the real property of the Alaska Railroad would transfer to a single transferee.
3. All or some of the real property of the Alaska Railroad would transfer to multiple transferees.
4. Real property decisions would be determined by rail and non-rail use orientations.
5. Yard properties, rights of way non-rail uses, and existing leases should be strategically packaged for maximum real property use returns.²

²This approach is advisable regardless of any legislative decision affecting the continued ownership and/or control of the ARRC.

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ARR DISPOSITION PLANNING PROCEDURES

Two issues must be resolved as soon as possible. No meaningful strategy can be developed before:

- There is a market value conclusion for each asset category, if transferred to the private sector, and;
- There is a quantified determination of the benefits/liabilities to Alaska of state versus private ownership.

Along with the above, procedures should be designed to:

1. Develop an inventory of operating, non-operating real property, "off-railroad" real property and other assets of the corporation.
2. Determine which assets, if any, would be retained by the corporation.
3. Determine the fair market value of the corporation's assets.
4. Develop a timetable for performing the necessary studies and concluding the transfer process.
5. Determine what conditions would be attached to the transfer of all or part of the assets of the corporation. For example, who would be responsible for maintaining passenger service? Will the state have the right of first refusal if the new owner wants to dispose of the railroad? Would there be a rail use restriction?
6. Develop a strategy for possible transfer.
 - Identify potential purchasers,
 - Determine whether certain of the assets would be transferred through sealed bid or through direct negotiations with the state.
 - Determine whether the assets would be transferred as a package or separately.

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- Determine who should manage the negotiations on behalf of the state.
- Determine negotiating strategy including participants and level of confidentiality.
- Determine conditions that will mitigate any negative effects on the seller.

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**Additional Topics For Discussion At The Legislative Budget And Audit Committee
August 29, 1996**

Management

1. How does the state deal with other land that it holds?
2. Should there be a public-private partnership to manage this real estate?

Rail vs. Non-Rail Use

1. How is it determined?
2. What about Anchorage?

Reservation Properties

1. What is the state's philosophy regarding ownership?
2. What are the highest and best uses for this land?

Observations and Recommendations

1. It is vital to articulate the state's position regarding involvement with, or control of, the railroad.
2. It is important to know the value/price impact of legislation or contractual constraints on any transfer.
3. Agreement is needed on the level of detail required for prudent decision making.

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SUGGESTED VALUATION PROCEDURES FOR THE ALASKA RAILROAD

GOING CONCERN VALUE

The purpose of a Going Concern Valuation (GCV) is to determine value in continued rail service.

Two Going Concern Values are important: Scenario 1 - the GCV of the lines given the current operating environment, and Scenario 2 - the GCV of the lines as these lines would be operated by the acquiring entity. While the methodology used to derive the GCV would be the same in both scenarios, the conceptual approaches are quite different. The first scenario indicates what price the Alaska Railroad (ARR) should be expected to accept using this valuation methodology, while the second indicates what price a buyer should be willing to pay.

The valuation methodology used in deriving the GCV is the discounted cash flow methodology. This methodology requires a projection of cash flows generated by the railroad discounted to present value at a rate that is appropriate for the given scenario. In addition, a capitalized value of the cash flows generated after the projection period must be developed and incorporated into the valuation.

The principal components of a Going Concern Valuation are:

- The stream of revenues generated by the traffic moving on the Alaska Railroad during the forecast period.
- The costs associated with operating the lines being valued. The cost estimates must include the amounts spent for labor, fuel, maintenance-of-way, maintenance-of-equipment, and general administration and overhead.
- The pro forma income statements which are derived from the revenues and costs.
- The pro forma cash flow statements which are derived from the income statement and any capital expenditures to be made during the forecast period.

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- The discount rate to be applied to the net cash flows to produce the net present value. The derivation of a discount rate must consider the underlying cost of capital, opportunity costs, and the level of risk involved.

NET LIQUIDATION VALUE

The Net Liquidation Value (NLV) of the ARR is relevant in developing a negotiating strategy even where there is no possibility of discontinuing rail service over the line. This approach is frequently thought of as establishing the minimum value to be placed on the assets.

The NLV of the ARR is established by determining the value of the assets as if they were sold for their highest and best non-rail use. In most instances this equates to the scrap or salvage value of the physical assets plus the real estate, less the cost of holding and disposition. Essential to this approach is a realistic assessment of the time required for the disposition and the selection of a discount rate.

Valuation of the Track, Infrastructure and Buildings

To determine the NLV of the ARR rail assets, excluding real estate, the following must be done:

- Inventory the rail assets (rail, cross-ties, ballast, switches, communications and signaling devices, and other related rail hardware) and evaluate their condition.
- Determine the market for the assets.
- Estimate the manpower and other costs associated with the disposition process.
- Assess timing and impact of any regulatory delay.
- Deduct disposition costs from proceeds from the sale of assets and apply the appropriate discount rate to determine the NLV of the non-real estate assets.

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Valuation of Real Estate

Operating and Non-Operating Real Estate Valuation When Sold in an Orderly Piecemeal Liquidation

When value is to be determined through a hypothetical, orderly, piecemeal liquidation, the subject is viewed as comprising developable parcels (independently useful and marketable to the general market) and abutter property (useful and marketable only to adjacent owners).

The methodology outlined below forms the basis for a market value conclusion.

- Designate valuation units. All of the subject property is classified as either a developable parcel or an abutter property.
- Analyze sales comparable to the property adjacent to each valuation unit.
- Determine the value for typical property adjacent to the subject based on analysis of the comparable sales.
- Determine across-the-fence (ATF) values.
- Adjust the ATF value for the relevant physical attributes of the subject.
- Determine a reasonable marketing period and pace of disposition.
- Determine the rate at which unsold assets will appreciate in value.
- Calculate yearly gross sales proceeds and interim income.
- Establish the cost of holding property and offering it for sale.
- Determine the cost of completing each year's sales.
- Identify the future net proceeds of track liquidation.

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- Compute each year's cash flow.
- Determine the appropriate discount rate and market values.

Right-of-way valuation under an orderly corridor liquidation

Those portions of the ARR which comprise corridors may have values exceeding that which is available through piecemeal orderly liquidation. This valuation requires direct sales comparisons and/or the employment of a corridor factor.

The major steps include valuing the subject property at a level reflecting unit values (per square foot) identical with those indicated by properties adjacent to or very near the right of way. Then, based on numerous other considerations, the appraiser determines an appropriate factor for multiplication by the ATF resulting in an amount which is often called a gross corridor price. When value and price are synonymous, it is reasonable to assume that such an indicated price is realizable without delay and cost. It is often expected that the marketing of such property, including finding a buyer and attaining STB approval, will take some time. As a result, holding costs, sales costs, and the economic consequences of delay also are considered. The following steps are employed in determining the market value of the ARR if sold as a corridor.

- Designate valuation units.
- Analyze sales comparable to the property adjacent to the valuation unit and/or use corridor sales.
- Determine the value for typical property adjacent to the subject based on analysis of the comparable sales.
- Determine ATF values.
- Adjust the ATF for the relevant attributes of the subject.
- Establish the cost of holding the corridor and offering it for sale.
- Determine the cost of completing the corridor sale.

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- Identify annual amounts of net interim income to be derived from existing corridor leases and fair market rental of the property to be sold.
- Compute each year's cash flow.
- Make direct comparisons with corridor sales.
- Determine the appropriate discount rate and market value.

Alaska Railroad Q's & A's

 Q. What do HB 55 and SB 42 propose to do?

A. As introduced, the bills do only two things—bring the railroad under the Executive Budget Act, so the governor and legislature have greater oversight. Second, the bill directs that the 36,000 acres of land that are to be transferred with the railroad from the federal government will be transferred to the department of natural resources rather than to the ARRC. The bills assume the railroad will be operated as a state corporation and not privatized.

 Q. Why put the ARRC under the Executive Budget Act?

A. As a state corporation controlling hundreds of millions of dollars worth of state assets, the ARRC should have the oversight of the governor and legislature, as required under the state constitution, Article IX, Sections 3, 5, 7, 8, 13, and 14. Currently, the ARRC is the only state corporation not under the EBA. It was not the intent of the 1983-84 legislature to allow the temporary corporation to be excluded from oversight for 14 or more years. We are now on very weak footing, to allow the neglect of our constitutional responsibilities to continue. When we have tried to exercise our oversight, such as when the legislative auditor last summer investigated the ARRC's contracting procedures for gravel, he was met with monumental stonewalling.

 Q. How will being under the Executive Budget Act affect the railroad?

A. Currently, the ARRC draws up and approves its own budget each year, determining without state oversight how its revenues and expenditures will be used. Under the EBA, railroad management would be required to submit its proposed budget to the governor's office of management and budget each year, which would then submit it to the legislature for appropriation. This open, public process allows for ample debate and opportunity for affected third parties to give their views on programs and actions the ARRC proposes for the coming year. This is the process used for every other state agency, whether it's a line agency like DNR or a state corporation like the Alaska Housing Finance Corporation, the Alaska Permanent Fund Corporation, or the Alaska Industrial Development Corporation.

 Q. Why would the legislature want to transfer the land to DNR?

A. We have completed our obligations under the agreement with the federal government to keep the railroad running for 10 years, and so should put the land to its highest and best uses. The authority for DNR's land management programs is found in the state constitution, at Article VIII, sec. 10, which requires that state land cannot be disposed of or leased without proper public notice and other safeguards of the public interest. The state's interest in mineral rights is spelled out in Article VIII, sec. 11. Under DNR's purview, the public's interest in the land and the mineral rights would be

better protected.

Of the approximately 36,000 acres of land to be transferred from the federal government, industry experts estimate the railroad needs only between 18,000 and 22,000 acres for rail operations and maintenance. As a quasi-public corporation, the ARRC would not need to hold title to the land, but would be charged with managing and controlling the 18,000 - 20,000 acres it needs. The remainder could be made available for selection by the municipalities, or by the university, or could even be sold to some leaseholders. Perhaps a land management authority patterned after that of the university lands could be established.

Q. Why is this an issue at this particular time?

A. Under the federal transfer act of 1982, the state was required to operate the railroad for a minimum of 10 years before the lands could be transferred to a third party. And under the 1984 state law putting the transfer into effect, the ARRC was to report to the legislature every five years on its efforts to sell the line, including documentation of at least three offers to sell initiated by the ARRC. Also in the transfer act was a requirement that the governor contract for a report to the legislature in 1987 on steps taken toward privatization. Instead of taking steps to initiate a sale of the line, the railroad in 1988 persuaded the legislature to pass a statute repealing its responsibility to seek privatization. ARRC President and CEO at the time, Robert Hatfield, strongly supported this change in law.

Again, we have fulfilled our obligation to the federal government and are ready to receive the remainder of the 36,000 acres. In fact, the state is losing millions of dollars each year that goes by that the land continues in federal ownership. Another reason the issue has come to the fore at this time is because senior management at the railroad has been highly uncooperative with state officials whose duty it is to audit, inspect and report on the financial and contractual transactions of public entities such as the ARRC.

Q. Why can't the ARRC continue as it is?

A. The ARRC is a unique, and probably unconstitutional, quasi-public corporation that sometimes fancies itself a state agency providing a valuable service to the public, and other times a private corporation with proprietary information to protect. We can't have it both ways. The legislature made a mistake in 1984 when it passed the law establishing the ARRC by not clearly defining what kind of agency it was, and by giving away state oversight. Now is the time to take corrective action.

Q. Couldn't the ARRC be run like a private corporation?

A. At the time of the purchase of the railroad, it was the intent of the legislature and the people of Alaska that the railroad eventually be owned and/or operated by private industry. In setting up the current ARRC scheme, the legislature attempted to make the ARRC as nearly like a private railroad corporation as possible, even to the extent of deliberately keeping an arms-length, distant role for itself. The reason for this may have

been to make an easier transition to private operation; however, it has not worked for long-term management as a quasi-public corporation. In fact, there are significant questions to be answered regarding the constitutionality of managing state assets in a way the assets have been managed by ARRC over the last 12 years.

Q. What about railroad employees? Won't they be hurt by privatization?

A. If the state opts to privatize the railroad or its operations, we can put conditions on the new owner, just as the federal government put conditions on the state 12 years ago. These included a continuity of employment for the union workers, protection of their pension funds, and a requirement that the state had to operate the line for 10 years before the land would be transferred, among others. Railroad employees and their families should not fear privatization.

Q. Isn't the railroad prohibited from competing with private business in non-railroad related ventures?

A. In 1984, the Senate finance committee adopted a letter of intent that said, in pertinent part: "...although the railroad may use public resources or the benefits of its public status to extend its lines or to provide passenger service, it should not use direct subsidies to compete unfairly with privately-owned carriers."

Perhaps this legislative directive should have said it should not compete unfairly with privately-owned carriers *and other non-railroad related businesses*. Despite the legislature's wishes and growing criticism from other businesses, the ARRC has entered into competition with private enterprise ventures, most notably by owning 40 percent of a hotel at Ship Creek, wholly-owning and operating an RV park in Anchorage, leasing land for another RV park in Fairbanks, and is now embarked on a joint venture to operate barge service between Anchorage and the Puget Sound. The railroad is even putting a restaurant in the ARRC headquarters building, further eroding any incentive for rail passengers to visit downtown businesses.

ALASKA RAILROAD CORPORATION

Corporate Address: P.O. Box 107500, Anchorage, Alaska 99510

327 W. Ship Creek Avenue, Anchorage, Alaska 99501

265-2403

FAX 258-1456

Kathryn Thomas
PO Box 3005
Kenai, AK

December 27, 1996

Dear Kathryn,

As you may be aware, the chamber recently adopted a resolution concerning the Alaska Railroad submitted by the lobbyist representing Montana Rail Link. As chairman of the board of directors for the Alaska Railroad Corporation, I would like you to keep in mind three important points as we come into this Legislative session:

- The Alaska Railroad is not a state agency;
- The Alaska Railroad does not take a subsidy from the state;
- The Alaska Railroad makes money.

In 1995, the Railroad earned an \$8 million profit. In 1996, I expect the line will earn more than \$7 million. We have been able to do that by providing good service, using professional railroad management, and aggressively using our assets to increase revenues. We accomplished all this without taking a nickel – not for operating, not for capital, not for labor contracts or benefits – not a single nickel from the state treasury since the purchase 12 years ago. Our employees are not state workers and are not part of the state retirement system. Our labor contracts are in place, long-term, and independent of the state employee unions.

The Alaska Railroad is managed by a board of Alaskans. The operators are professional railroaders. The money the railroad makes is earned in Alaska, and stays in Alaska. Our balance sheet is rock-solid, and we have excellent access to capital for expansion. The bottom line is that the railroad is safe, profitable, professional, and Alaskan.

Very truly yours,



Bill Sheffield
Chairman of the Board
Alaska Railroad Corporation

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

Alaska State Legislature



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JAN 15 - MAY 15 466-3783
STATE CAPITOL
JUNEAU, AK 99901-1121

January 20, 1997

Kathryn Thomas, Chair
Alaska State Chamber of Commerce
ArcTech Services, Inc.
PO Box 3005
Kenai, Alaska 99611

Dear Ms. Thomas:

I am writing to tell you how much I appreciate your interest and the State Chamber's interest in the Alaska Railroad. As the railroad is an asset of the Alaska public, I believe that a broad-ranging debate over its disposition is appropriate at this time.

I would like to thank the State Chamber for its recently-adopted resolution urging the Governor and the Legislature to go forward with the process of investigating the privatization of the railroad. This is the kind of direction we as state officials need as we seek the proper relationship between the Alaska Railroad and the public it serves.

I think it would be appropriate to comment on the letter sent to you on December 27, 1996, by Bill Sheffield, the Chairman of the Board (and now acting CEO) of the Alaska Railroad Corporation. In my view, his letter is laced with disinformation intended to diminish support for the State Chamber resolution on the Alaska Railroad.

Mr. Sheffield states that the railroad is not a "state agency." This depends on how one defines what a state agency is. It is true that the ARRC is not a line agency of the state, with a commissioner sitting on the Governor's cabinet, such as is the Department of Fish and Game. It is, however, a public corporation of the state, wholly-owned by the people of Alaska, and for which the people of the state are ultimately liable. This means that if a trainload of Mapco fuels derails and spills its contents into the Nenana River, the liability for the clean-up does not stop at the ARRC, but will come back on the state treasury.



Kathryn Thomas
January 20, 1997
Page 2

Mr. Sheffield asserts that the railroad "does not take a subsidy from the state... not a single nickel from the state treasury since the purchase 12 years ago." Again, on the surface this statement seems to be true; however, last year, Senator Stevens was successful in obtaining \$10 million in federal money for the railroad. In addition, the railroad is sitting on a 1990 appropriation of \$9 million (now \$12.8 million with accrued interest) for rail cars for the Wishbone Hill coal project. At some future date, the railroad may be authorized to use this money; it would have to be considered a state subsidy. Additionally, the railroad, as a state entity, is exempt from the taxation a private company in its place would have to pay, including corporate income taxes and local property taxes. If this doesn't amount to a subsidy, what would it be?

Mr. Sheffield states that the railroad makes money. Even ARRC officials acknowledge that the land management side of the railroad is where the money is made, subsidizing the railroad operations. One has to question how much greater subsidy would be required if the railroad was addressing all deferred maintenance and replacement of aging facilities.

Finally, I would like to briefly review for you the legislation the Legislative Budget and Audit Committee has introduced. House Bill 55 and Senate Bill 42 (copies enclosed). These bills are identical as introduced and seek to accomplish two things: First, to bring ARRC under the Executive Budget Act (AS 37.07), so that the Governor and the Legislature will have a greater hand in determining the annual budget of the railroad. I recognize that at the time of the state's acquisition of the railroad it was the recommendation of the transfer commission that legislative or state management and oversight be kept to a minimum and at a distance. Unfortunately, distant oversight has not worked, as the Legislative Auditor and the State Ombudsman have found out as they have conducted audits and investigations of the railroad over the past several years.

The second goal of the legislation is to have the title to the railroad lands, about 36,000 acres, transferred to the Department of Natural Resources, rather than to ARRC. It would then be our intention that ARRC continue to control those lands (between 18,000 and 22,000 acres) necessary for right-of-way and operation and maintenance of the railroad. However, excess acreage, if it is not needed for railroad operations, should be made available to the municipalities in which it is located.

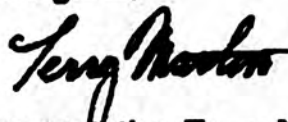
Kathryn Thomas
January 20, 1997
Page 3

I hope this letter has helped to make clear my views on the Alaska Railroad. As you are probably aware, I have been a longtime proponent of privatization of the railroad, as was the sentiment expressed by the majority of Alaskans who spoke out on the issue prior to the state's acquisition of the railroad in 1985. At this time, however, I think it is our responsibility, as public servants, to get a handle on the railroad, which will allow us to understand what we have and what we can do with it. And if privatization becomes a viable option later, that will be fine, too.

Please feel free to share this letter with any of your members whom you choose. Also enclosed you will find a copy of the four-page executive summary and transmittal letter of the interim report of the 1983 Alaska Railroad Transfer Advisory Commission, the first recommendation of which is in favor of privatization, and a copy of the evaluation notes submitted to the Legislative Budget and Audit Committee by Evan Allen and Arnold Tesh last August, which lay out today's alternatives for the railroad.

If you have any questions regarding this issue, please contact me in Juneau at 465-3783.

Best regards,



Representative Terry Martin

enclosures

To: Kathryn Thomas, Chair, State Chamber
ArcTech Services - Kenai FAX 776-5132

From: Rep. Terry Martin - Juneau 465-3783

Date: January 9, 1997

A few comments on Bill Sheffield's letter of 12/27/96:

"• The Alaska Railroad is not a state agency;"

This depends on how one defines a state agency. True, it is not a line agency of the state, such as is the Department of Fish and Game; however, it is a public corporation of the state, wholly-owned by the people of Alaska, and for which the people of Alaska are ultimately liable.

"• The Alaska Railroad does not take a subsidy from the state;"

There has been no on-going subsidy of the railroad; however, at the time of its purchase by the state, the legislature appropriated \$10 million to take care of deferred maintenance. Most recently, last year, Senator Stevens was successful in appropriating another \$10 million in federal dollars for maintenance on the railroad.

"• The Alaska Railroad makes money."

Our investigations have shown that the land management side of the railroad makes money that subsidizes the railroad operations. The railroad itself is a money-loser, especially when one considers the substantial amount of deferred maintenance that has been allowed to pile up along the line.

Also included with this fax:

- Transmittal letter, executive summary and recommendations
Alaska Railroad Transfer Advisory Commission - 4/14/83
- Op-ed by Rep. Martin

We will send more information tomorrow a.m.

Governor Bill Sheffield
Pouch A
Juneau, AK. 99811

Senator Jalmar Kerttula
President, Alaska State Senate
Pouch V
Juneau, AK. 99811

Representative Joe Hayes
Speaker, Alaska House of Representatives
Pouch V
Juneau, AK. 99811

Gentlemen:

Enclosed herewith is the Interim Report of the Alaska Railroad Transfer Advisory Commission. This report is the product of ten months of public hearing, deliberation, and intensive analysis of the alternatives for management and operation of the Alaska Railroad after transfer from the federal government has been accomplished.

The Commission met a total of nine times in Anchorage, Fairbanks and Juneau. The Commission listened to over fifty hours of public testimony from individuals and groups from literally every corner of the State of Alaska. In addition, we have analyzed almost 1,000 pages of documents and submissions from interested individuals and groups.

In fulfillment of our legislatively mandated duties, we hereby formally tender this report to you for your consideration during the coming months as the transfer of the Alaska Railroad approaches. We hope you will find it helpful not only for the specific recommendation it contains but as a source of information about the wishes, desires and hopes of the people of the State of Alaska.

It should be mentioned that not all Commission members share each and every view expressed within this document. The combination of the change in State Administrations and the convening of the State Legislature made it difficult for the public officials on the Commission to attend all sessions. In many cases, the views expressed in the Interim Report represent an attempt by the Commission to summarize for your consideration consensus opinions heard again and again during public testimony. We feel this provides you with the full benefit of this information as it was expressed to us.

On behalf of the entire commission, I would like to thank you for the opportunity of serving the people of the State in this most important and worthwhile endeavor.

Very truly yours,


A.C. Swalling, Chairman
Alaska Railroad Transfer Advisory Commission

EXECUTIVE SUMMARY

The Alaska Railroad Transfer Advisory Commission met a total of nine times in Anchorage, Fairbanks and Juneau. The Commission listened to over fifty hours of public testimony and heard from over fifty individuals and groups regarding all aspects of the transfer of the Alaska Railroad from federal to state control. This Executive Summary is a compilation of the major policy recommendations of the Commission and a list of specific changes pending state legislation which the Commission feels are most important.

I--POLICY RECOMMENDATIONS OF THE COMMISSION

1. The railroad should eventually be owned and/or operated by private industry. Almost unanimously those testifying before the Commission felt strongly that it was in the best interests of the people of the State of Alaska and the best interests of the railroad to plan for the eventual transfer of the ownership and/or operation of the railroad to private industry.
2. Plans for expansion of the railroad should begin immediately. The Commission recommends the immediate preparation and filing of five right-of-way applications: (1) to Delta, (2) to Canada, (3) to Kenai, (4) to Beluga, (5) to Tanana and Kobuk/Amhler.
3. The railroad should cooperate with local governments. The Commission urges the State not to compete with local governments in the operation of railroad-related facilities, such as ports, which are historically operated by local governments.
4. The railroad should expand into connecting services by contracting with private enterprise. The Commission urges that the policy of the Alaska Railroad should be that, to the maximum extent possible, expansion should occur by contracting private enterprise and by not competing in a service area previously provided by private industry.
5. The interim operation of the railroad should be conducted by an independent authority under a separate department on a temporary basis. The Commission feels that the short term management of the railroad is critical to the overall future of the railroad and the state. Therefore, the Commission recommends the creation of an independent authority under a separate department of state government on a temporary basis as provided for in Article III, Section 22 of the Alaska Constitution.

6. State oversight of the railroad should be kept at a minimum. The Commission recommends that only the bare minimum of oversight consistent with good public policy be provided for in the legislation and that the legislation specifically provide for a public process so that policy determinations made by the board are based upon adequate public input.

7. Alaska railroad mineral rights should be preserved. The Commission recommends that any authority or private operator of the railroad should be able to utilize all subsurface resources and railroad land for railroad purposes without any restriction as to ownership or use of those resources which might otherwise be applicable under existing state law.

8. Additional appropriation for the Commission. The Commission feels that to adequately fulfill its legislative mandate between the date of this interim report and the final transfer of the Alaska Railroad to the State, an appropriation in the amount of \$75,000.00 is essential. This amount will provide the Commission with the ability to hire the necessary staff and incur necessary operational expenses so that a final report can be prepared.

II--SPECIFIC RECOMMENDATIONS FOR CHANGES IN PENDING STATE LEGISLATION

In the body of the report, the Commission makes numerous recommendations for specific changes in SB10, pending state legislation accepting transfer of the railroad. However, in this Executive Summary the Commission would like to call attention to a few specific matters which it considers to be critical.

1. The Commission urges that a seven-member board of commissioners be established for the railroad authority. Balanced geographic distribution for the board is critical and the Commission recommends that at least two members be from areas served by the railroad north of Windy Pass and at least two from south of Windy Pass.

2. If consistent with law, the Commission recommends that the Commissioner of Transportation and Public Facilities be a non-voting member of the authority.

3. The Commission recommends that a representative from the employee bargaining units and the general manager of the Alaska Railroad be non-voting members of the board of Commissioners.

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4. Consistent with federal legislation, all bargaining agreements should be honored and maintained for a period of time until renegotiation can be accomplished smoothly and without disruption of rail service.

We're Working On The Railroad

By Representative Terry Martin

Alaskans have a great asset in their Alaska Railroad. It has served us well in the 73 years since President Warren G. Harding drove the ceremonial golden spike at Nenana in 1923. It has since become an integral part of life throughout its route—the "Railbelt."

And it is because the railroad is a valuable asset, belonging to the people of Alaska, that it is important for the legislature to bring it under its careful scrutiny at this time. It is incumbent upon us to see the full picture of what we bought with our \$22.3 million investment 13 years ago.

In 1983, after negotiations were finalized to transfer the railroad from the federal government to the State of Alaska, President Reagan signed the bill. In January 1985, state legislation had been consummated to complete the transfer. At that time, former Governor Bill Sheffield said, at ceremonies in Nenana, "Alaskans will decide the future of this line, whether that means expansion, or whether that means sale to a private corporation."

Certain expectations that were part of the transfer have now ripened and demand attention. First, there are more than 36,000 acres of land at stake, land that can now be transferred from federal ownership to the State of Alaska, because we have faithfully operated the railroad for the 10 years required by the Transfer Act.

It has been difficult obtaining information on this exceptionally valuable land, mainly because the Alaska Railroad Corporation has operated like a private business, and has been reluctant to open all its books to elected officials (which begs one of the fundamental questions to answer: how open should the management of the railroad be?)

Half of this land may be essential to railroad operations, but not all of it. Some of it is leased to other entities, government and business, but whether the leases generate a realistic return or not, we don't know.

In my view, we must establish the procedures needed to complete the transfer of the land to the State itself, not to ARRC. We are already two years behind in transferring the land, and losing millions of dollars each year that goes by.

A second concern is that of privatization. During the debates in 1981-82 over whether the state should purchase the railroad, much concern was expressed about the state's continuing role, and whether it was appropriate for the state to run the railroad. After all, the federal government had been losing millions of dollars on it every year. That's why they wanted to sell it. Even after the purchase, the state government has poured millions of dollars into the railroad and its assets.

With this in mind, the Legislative Budget and Audit Committee has embarked on an extensive review of the railroad, its operations and its assets. We find ourselves at a crossroads, and in order for legislators to make informed decisions, it is imperative that we have the most accurate picture of the railroad that we can get.

Some interest groups are currently asking political candidates where they stand on "selling" the railroad. This terminology limits the options of other choices we should consider for maximizing all the assets and potentials of this vital link for economic growth.

As the public debate unfolds, we have to ask: Do we keep the railroad as it is, with a corporation of the state running it and managing its land assets? Do we allow the ARRC to continue to run the rail business, but transfer the land to state, to be managed by ARRC if it is related to their operations, and by the Department of Natural Resources if it is not essential to the railroad?

*why not
private hands?*

Do we seek to privatize the railroad, through lease or sale? It was clear in 1982 that the public expected the state only to be a conduit to receive the railroad from the federal government and then seek privatization. Can this be accomplished by forming some kind of joint operating arrangement with a private business, such as a concession?

It has become obvious to me that the Alaskan public is wary of snake-oil salesmen, and would balk at handing over such an asset as the railroad too cheaply. There is no need for a fire sale. As a legislator, I second that position. And that is why the Budget and Audit Committee has set in motion the audits, appraisals and investigations needed to obtain the information we need. We would be remiss in our duties not to proceed, however carefully, to a conclusion on the railroad question.

Commentary

Adams: Time for railroad sale

by Senator Adams

At the time our state purchased the Alaska State Railroad and accompanying land from the federal government, about a decade ago, state legislation mandated that private ownership of the railroad be pursued. Since that time, the various political appointees entrusted with management of the rail system have resisted that worthwhile and sensible goal.

Recent reports of an \$8 million operating profit for the railroad and associated properties in 1996 should be taken with a whole shaker of salt. Not a dime of that "profit" reported by current Railroad Chairman, former Governor Bill Sheffield, has been returned to the Alaskan people, who spent \$23 million in general fund dollars to purchase the railroad and another \$11 million in start up/improvement costs. At no time in its state-operated history has the Alaska Railroad provided any cash return on our investment. Beyond the state "contribution," the railroad has received another \$20 million in federal grants over the last ten years.

While my purpose in writing is to convey the desirability of marketing the railroad as soon as possible, I first would like to voice objection to Sheffield's contention that the railroad operates without subsidy from the state. Unlike other businesses in Alaska, the Alaska Railroad pays no municipal or state

taxes. That is a huge subsidy. It pays limited fuel taxes. Again, a substantial gift. The railroad corporation collects revenue from land that was part of the federal transfer but not necessary to railroad operations - revenue in the millions of dollars that the state COULD be collecting. Still another subsidy. And, finally, the absence of debt service on the capitalization of over \$50 million that the state and federal government have poured into the railroad is the largest subsidy of all.

My guess is that if Governor Sheffield had received his former chain of hotels at no cost, with no debt responsibility, received state and federal grants for remodeling and repairs, paid no taxes on them, AND received millions in tax-free lease income from other property he never paid for, he could have shown a profit there as well. However, his less fortunate competitors would have appreciated that as little as the freight and other businesses that currently compete with the railroad.

Sale of the railroad to a private entity would accomplish the following:

1. fulfill original legislative intent;
2. create a much needed additional tax base for the state and affected municipalities;
3. eliminate unfair competition with other related industries;
4. provide a cash return on our original investment;
5. pave the way for expansion and im-

Page 4, please

Adams: Time for railroad sale

Continued from page 2

provision of the railroad by a private entity, and

6. squash the financial plum that the railroad corporation has become for political appointees.

And consider this: sale of the railroad could be the beginning of our education endowment fund.

The process for selling the railroad should be relatively simple. We should get an appraisal and list of all assets and decide which

to sell and which to keep. We should set reasonable conditions for the sale, including provisions requiring continuing operation as a railroad with certain minimum standards. Those could include required service to certain communities, limitations on resale of assets, and treatment of existing union contracts and its employees. And, most importantly, bids for the railroad should be reviewed and decided upon by someone other than the Alaska Railroad Board, which has an obvious conflict of interest in any sale decision.

ALASKA RAIL ROAD CORPORATION Subcommittee

Wareham	Lee	International Path Finder
Cottrell, cpa	David	Mikunda Cottrell & Co.
Furman	Gene	CPA
Haxby	John	Wausheka Alaska Corporation
Sanders	Jim	ASEA
Schroer	Don	
Thomas	Kathryn	Alaska State Chamber of Commerce
Wilson	Samantha	

Attn: Wendy L.

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5 of pages 5

SMALL PROCUR PART B - PF

To: Marco	From: Jim Kubit
Co.	Co. ARRC
Dept.	Phone #
Fax # 269-0223	Fax #

THIS COMPLETED FORM MUST BE THE FIRST PAGE. NO OTHER COVER SHALL BE USED.

Project Title: **State Rail Plan Update**

PROPOSAL REQUIREMENTS

Proposals shall demonstrate comprehension of the objectives and services for the proposed contract; include a brief overview of what will be done; and show a sequence and schedule for each important task. Assumptions made in formulation of the proposal and the support expected from the Contracting Agency shall be defined. The key individuals who will perform services shall be named (including all who would be "in responsible charge" (Ref: AS 01.48) for Architecture, Engineering and/or

Land Surveying with their Alaska registration number). Include a brief -- about one paragraph -- statement for each person named which describes *experience directly related* to the service(s) they will perform. Proposed subcontracts, if any, shall be explained. Resources -- support personnel, facilities, equipment, etc. -- current and projected workload could be summarized. Any *unique* qualifications or knowledge of the project, project area, or services to be provided, should be identified.

ALASKA STATUTORY PREFERENCES		☐ are	☒ are not applicable to this contract.
If applicable, check those preferences that you (Offeror) claim.			
☐ Alaska Bidder (Offeror)	AND >>>	☐ Employment Program	OR ☐ Disabled Persons
2 AAC 12.260(d)	If applicable	AS 36.30.170(c)	AS 36.30.170 (e & f)
Invalid claim(s) will result in the Offeror's disqualification for contract award.			

PROPOSAL

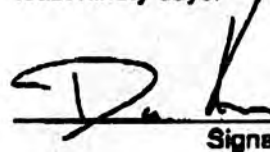
The undersigned has reviewed Part A - RFP of these documents, understands the instructions, terms, conditions, and requirements contained therein and in the Standard Provisions Booklet, and proposes to provide the required services described in Part A in accordance with the attached letter which constitutes our proposal to complete the project.

By my initials below, I certify that the Offeror and all Subcontractors identified in the Proposal shall comply with all requirements for the following items as explained in the Standard Provisions Booklet:

- [X] Alaska Licenses and Registrations.
 [X] Insurance, including Workers' Compensation, Comprehensive or Commercial General Liability, and Comprehensive Automobile Liability.
 [X] Professional Liability Insurance as follows:
☒ As available.
☐ Minimum of \$300,000.

I further certify that I am a duly authorized representative of the Offeror; that this Proposal accurately represents capabilities of the Offeror and Subcontractors identified for providing the services indicated. I understand that these Certifications are material representations of fact upon which reliance will be placed if this contract is awarded and that

failure to comply with these Certifications is a fraudulent act. The Contracting Agency is hereby authorized to request any entity identified in this proposal to furnish information deemed necessary to verify the reputation and capabilities of the Offeror and Subcontractors. This proposal is valid for at least ninety days.



11/15/99

Signature and Date

Name..... **Duane A. Hippe, P.E.**
 Title..... **Senior Vice President**
 Offeror (Firm)..... **HDR Alaska, Inc.**
 Street or PO Box..... **2525 C Street, Suite 305**
 City, State, Zip..... **Anchorage, AK 99503-2639**
 Telephone - Voice..... **907-274-2000**
 Telephone - Fax..... **907-274-2022**

AK Business License Number..... **BL 216873**
 Federal Tax Identification No. **47-0794061**

Type of Firm (Check one of the following):

- ☐ Individual ☐ Partnership
☒ Corporation in state of..... **Alaska**
☐ Other (specify).....

END OF PART B

*State Rail Plan Update***1. Demonstrated Comprehension of Required Services and Proposed Strategy for Performance**

The overall approach the HDR team will use for the rail plan update is to build upon our background in the preparation of the existing rail plan and our overall knowledge of and/or involvement in other state and regional planning studies. Our team, composed of staff from HDR Alaska and Wilbur Smith Associates (WSA), has a long history of working together and with the Alaska Department of Transportation and Public Facilities (DOT&PF), the Alaska Railroad Corporation (ARRC), and rail systems around the country. This background gives us an understanding of the processes and the key players involved in the analysis of railroads in Alaska. We propose the following work plan to update the current State Rail Plan.

Task 1 - Conduct Public Participation.

The HDR team will conduct a successful public involvement effort to ensure that concerns important to the state constituencies and issues that arise from the project are incorporated, as appropriate, into the State Rail Plan. This task will be in conformance with the procedures developed in the Statewide Transportation Plan. Our public involvement plan (PIP) includes both formal and informal public involvement in this task. The key to our approach in the PIP is to involve the public, communicate effectively; and strive to reach consensus. Our first public involvement task is to develop a project mailing list of stakeholders through informing and polling the municipalities and regional planning agencies served by the state's railroads (or located on a possible line extension). Response to these communication efforts will be evaluated and incorporated in the draft plan, as appropriate. After a draft plan is produced, it is our intention to hold public meetings at representative cities such as Anchorage and Fairbanks. These meetings will both inform the public and provide the opportunity for comment.

Task 2 - Describe Policy Revisions.

We will work closely with DOT&PF planners, officials, regulatory agencies, and other interest groups to ensure that proposed policies are consistent with goals of economic development and service to the people of Alaska. HDR's involvement in the Alaska Intermodal Transportation Study, transportation plans around the state, and municipal planning studies in Railbelt towns such as Anchorage, Wasilla, Palmer, and Whittier and throughout rural portions of the state, gives us an understanding of those communities and familiarity with the state's statutes and regulations. Our dealings with the ARRC's intermodal service and line extension studies have given us insight into the goals of the railroad as well as an understanding as to what can be accomplished.

WSA has partnered with HDR in rail studies across the country. WSA's involvement in numerous state rail plans and statewide transportation plans will allow us to benchmark Alaska's rail plan against other states as well as identify possible federal funding sources that might otherwise be overlooked. As national consulting leaders in rail engineering, HDR and WSA have the experience to review the Alaskan rail statistics to project the future of rail in terms of profitability, ownership, transportation alternatives, and assistance. Our involvement in Alaska as well as the Lower 48 gives our team the ability to quickly identify the unique characteristics of Alaska's railroads and form a policy consistent with the other Alaskan state transportation plans.

Task 3 - Update Plan Information.

We will evaluate the existing proposal, section by section, to update the statistical elements of the plan. To control costs, it is our intent to adopt the 1985 State Rail Plan format and update the data, descriptions, mapping, and other information to reflected changed conditions as necessary. To obtain the needed data, we will work closely with ARRC managers such as Jim Blasingame and Bruce Carr, and White Pass and Yukon Route Railroad (WP&YR) president Fred McCorriston, and also use annual reports. The

State Rail Plan Update

feasibility of the proposed rail extensions will be briefly reviewed from both an engineering and economic feasibility standpoint. We will also identify the "boosters" of various extensions in both the private and public sectors. Since the rail extensions were covered fairly extensively in the last report, we will forecast more on the changing mix of rail services rather than line extensions. There have been significant changes in the mix of freight and passenger transport since the last State Rail Plan update.

Task 4 - Identify Potential Title 23 Rail/Highway Crossing Projects.

We will update the lists of potential crossings with both state railroads and update them, as needed. The second part of this task will be to benchmark the existing Alaska Policy to inventory and assign accident prediction values. We will then recommend disposition of that policy. Intelligent Transportation System (ITS) strategies to increase safety include intelligence detection of vehicles, advance grade crossing messages, and other warning devices.

Task 5 - Identify Potential TEA-21/Federal Intermodal Projects.

Funding for railroads under TEA-21 is limited to grade crossings, historic station preservation (under the enhancement provision), and the Rail Rehabilitation and Improvement Financing (RRIF) program (a loan/loan guarantee program that requires payment of a risk premium up front). The final rules for use of the program are yet to be promulgated. The Light Density Line Pilot Program, a replacement for the long unfunded LRFA program, is in the TEA-21 legislation, but is not funded. Rail efforts advanced as part of intermodal projects could be funded through the state transportation/MPO planning process.

State programs will provide another source of funding. A review will be made of Alaska funding programs, and those with the potential for rail use will be identified. The best candidates will most likely be those associated with economic development programs. Incorporated in this effort will be identification of state funding previously used by the railroad.

Task 6 - Analyze the Role Rail Plays in Passenger Movement.

Existing passenger service provided by ARRC and the WP&YR will be described. Data will be gathered from each carrier directly or through secondary sources, such as annual reports. Passenger services, other than the intercity and tourist operations of the ARRC, have been proposed and will also be identified and discussed.

Historic ridership will be documented with available data and will be related to population and tourism over time. Forecasts of future ridership and potential services will be related to available forecasts of population, tourism, and other influences, such as highway and other modal expenditures and policies, residential-workplace relationships, etc., as may be appropriate. Our team has vast experience in all forms of rail passenger patronage forecasting.

The potential for equipment and operating efficiencies, given the seasonal demand for the different services, will be considered in any feasibility analyses. Conflicts with freight service will also be considered as appropriate.

Task 7 - Review the Concurrent Alaska ITS Strategic Plan.

ITS strategies are becoming the wave of the future in many transportation and rail applications. We will examine the state plan that is underway and evaluate how it can be utilized in controlling trains both to utilize efficiencies of operation as well as provide a safer environment for the public. The ARRC's transition to utilizing satellite transmission in its train dispatching as well as the ITS elements of the Whittier Access Tunnel project will be examined.

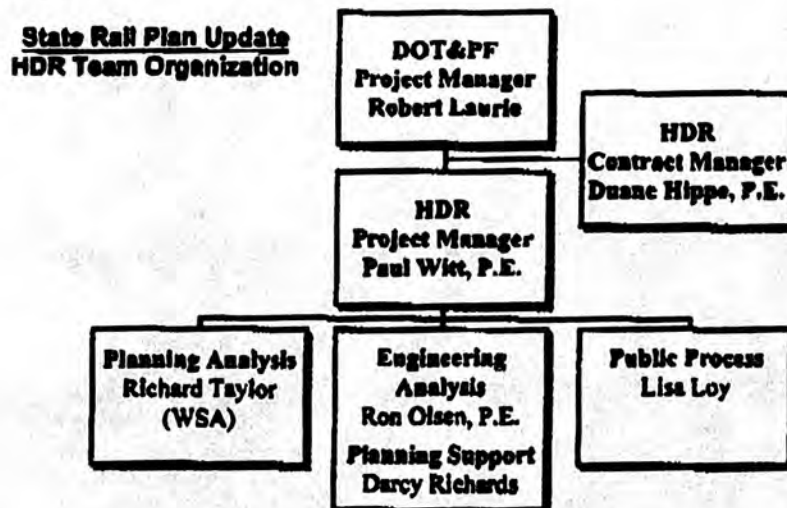
State Rail Plan Update**Task 8 - Draft the Updated State Rail Plan.**

This will be accomplished using the existing Corel Word Perfect database and will add graphics and charts, as needed. If the formatting can be accomplished without extensive retyping, our goal is to translate the final report to the latest version of Microsoft Word currently in use at the DOT&PF. A copy of both the draft and final versions will be made available on the state's Internet server. The Task 9 graphics will be provided both for the report and public participation.

Both final and draft products will be produced in four formats: electronic versions compatible with DOT&PF Statewide Planning software; an electronic version from the authoring software; an Adobe Acrobat version for dissemination via the Internet; and a version suitable for dissemination via the electronic FTP mode. Digital maps delivered to DOT&PF will be in ArcInfo or ArcView format, and ARRC will receive digital maps in AutoCad Version 2000.

2. Relevant Experience and Credentials of Proposed Personnel

The HDR team offers DOT&PF the best rail planning experience in Alaska and nationwide. HDR is one of Alaska's most experienced transportation planning firms. Our long and successful history of projects for DOT&PF ranges from the 1995 Alaska Intermodal Transportation Study to successful environmental impact statements (EISs) like the Whittier Access Project EIS and more than 20 aviation master plans. We have also gained an extensive understanding of rail infrastructure and issues around the state through the DOT&PF-sponsored Whittier Access Project, which began with the Whittier EIS and now includes the tunnel management design/build contract. We have also worked closely with ARRC in a number of planning and engineering studies. Wilbur Smith and Associates (WSA) is one of the nation's leading transportation planning firms. WSA has conducted many rail/transportation projects around the country, such as the current Alaska Rail Plan (being updated by this project), and 24 other state rail plans. WSA and HDR have partnered on many projects, including the recent Washington State Rail Plan. The combined strengths of HDR and WSA ensure DOT&PF of accurate, cost-effective and timely performance of this planning project. Our team members and their respective roles are highlighted in the organization chart below.



Paul Witt, P.E., a senior rail engineer with HDR, will serve as project manager. He has more than 20 years of rail experience in Alaska and around the country. Having managed HDR's engineering contract for the Whittier Access Project for the past two years, Paul has gained detailed knowledge of the state's rail infrastructure and issues surrounding rail expansion. He has also been project engineer for the Girdwood Rail Corridor Feasibility Analysis, and has been a task leader in HDR's planning study of

State Rail Plan Update

construction and operation of a rail connection to Cordova. Prior to joining HDR, Paul worked as a manager for Consolidated Rail Corporation (Conrail), handling positions in planning, design, construction, and maintenance. He was responsible for securing reimbursement for over 40 FHWA Title 23 funded projects every year. For DOT&PF and Conrail, Paul has successfully completed many rail planning assignments driven by tight schedules. His knowledge of railway operations and infrastructure, both in Alaska and nationwide, will accomplish this project's goals on time and within budget.

Duane Hippe, P.E., a senior engineer with HDR, will serve as contract manager, acting as DOT&PF's contact on a day-to-day basis for all contractual matters pertaining to this contract. His 20 years of transportation planning and design experience in Alaska includes managing several DOT&PF projects.

Richard Taylor, a project manager for WSA, will conduct rail planning analysis. He has 14 years experience with the former Southern Railway System (now Norfolk Southern) in engineering and planning positions, and 20 years with WSA in rail planning. Richard has worked extensively in the Pacific Northwest on freight rail issues, line analyses and state rail plans. He has a thorough knowledge of the state rail plan process through working on such relevant projects as WSDOT state rail plan updates in 1991, 1993 and 1998, the 1993 freight rail plan amendment, and the statewide rail passenger program. He has lead the effort in state rail plans or plan updates in over 12 states for the various DOTs, including those in Idaho, Florida, Montana, Connecticut, Wyoming, Iowa, North Dakota, Oregon, Ohio, Georgia, and Nebraska.

Ronald Ohlsen, P.E., a railway engineer with HDR, will conduct engineering analyses. He has more than 10 years experience in the design and management of railroad projects. His background includes managing the current on-call rail engineering contracts for the Washington State Department of Transportation (WSDOT) including the Washington State Rail Plan, alignment design, modeling analysis, and speed studies. Ron's additional rail experience includes working on the Pacific Northwest Rail Corridor Study EIS, the BNSF Stampede Pass and Tacoma Tidelands Circulation Study. He is a professional engineer registered in Washington State.

Lisa Loy, an environmental planner with HDR, will lead the public participation effort. She has more than a decade of experience in Alaska conducting public involvement, planning, and permitting for infrastructure projects around the state.

Darcy Richards, a senior planner with HDR, will provide planning support, as needed. She has more than 20 years of planning experience in Alaska working with communities, non-profit agencies, and state and local governments. Based in HDR's Juneau office, Darcy can coordinate the work of the HDR team with DOT&PF staff.

3. Reasonableness of Proposed Schedule for Performance

DOT&PF has requested that this project be completed in a relatively short timeframe—the Draft Rail Plan by April 15, 1999 with the Final Rail Plan due by July 15, 1999. Reaching the April 15 goal will require a focused and concentrated effort and dedication of staff to the project. Tasks will need to occur concurrently, and decisions and reviews will have to occur in a timely manner. Excellent communication among HDR, WSA and DOT&PF will be necessary. We will follow up with ARRC after the scoping meeting to encourage its staff to comment on the project schedule.

It is anticipated that the public meetings will be held shortly after April 15, and that all comments and suggestions can be received prior to May 20. This should leave ample time to produce the final document. Tasks 1 and 2 will begin immediately following notice to proceed. Tasks 4 through 6 will begin approximately one month later and continue through to completion of a draft report. Tasks 7, 8, and 9 will be accomplished, as required, to meet the requirements of the other sections.

ALASKA RAIL ROAD CORPORATION Subcommittee Membership

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Bill Sheffield

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November 26, 1998

RE: Alaska Railroad Privatization

Dear State Chamber Members:

The purpose of this letter is to briefly introduce myself and more fully introduce Montana Rail Link, Inc. of Missoula, Montana. I represent Montana Rail Link in its efforts to acquire the Alaska Railroad Corporation (ARRC). As their consultant, I have met with many business leaders around the state as well as our government leaders. The response has been very positive; however, the ARRC is very important to this state and people have many questions about what privatization of the ARRC means.

Montana Rail Link operates the rail line from Spokane, Washington to Laurel, Montana (east of Butte). It is one of the Washington Corporations owned by Dennis Washington. Washington Corporations have interests in construction, mining, environmental management and heavy equipment sales, as well as transportation. In August, Mr. Washington acquired Morrison-Knudsen Construction Company. Most recently, Mr. Washington and Canadian Pacific Railway announced they have reached agreement leading to the sale of a portion of the CPR network in the Midwestern United States to the Washington organization. The Washington Corporations were valued, prior to the two above-mentioned acquisitions, at 2.3 billion dollars.

Montana Rail Link and the Washington Corporations are ready and able to do business in Alaska. They bring capital and expertise in areas that are at the base of Alaska's economy. Montana Rail Link does business in the Pacific Northwest. They are involved in construction, transportation, mining and environmental management. The similarity to Alaska in terms of climate and dealing with the long distances that their customers have to the ultimate market is great. Montana Rail Link can bring this experience to benefit Alaska.

The ARRC has been important in the development of Alaska since it was completed in 1923. It is central to the growth of Alaska's future. It has done a good job. However, it can do more -- much more as a private railroad.

What is the future of the ARRC? As a corporation owned by the state, that future is most likely limited to the status quo. The ARRC does not presently have the capital to fund an aggressive development agenda. Nor is it likely to. First, the state continues to face declining revenues and will be unable to sustain an aggressive development agenda. Furthermore, because the Board of Directors is subject to change with each administration, even if the funding were available, it is uncertain an aggressive development agenda would survive a change of Directors.

Page 2

November 26, 1996

Privatization of the ARRC will lead to the establishment of long-term goals and objectives. Montana Rail Link will have the capital and expertise to fund an aggressive development agenda. It must, in order to enhance profitability. As an example, Alaska is currently enjoying expansion in its mining sector. Think of the growth that would occur if the railroad could expand to areas not accessible to road or rail. The railroad should be privatized.

The private railroads in the Lower 48 are at full capacity. They are growing at unprecedented rates since the end of World War II. Montana Rail Link is one of the most aggressive lines in the contiguous United States. Montana Rail Link has doubled its union labor force since 1987. Privatization of ARRC would be consistent with what is happening in Australia, New Zealand, Argentina, Mexico, Great Britain and Canada. Privatization is the goal of the Resource Development Council, State Chamber of Commerce, The Alliance and many in state government. Virtually every plan dealing with Alaska's budget gap recommends privatization. If we cannot privatize the Alaska Railroad, what can we realistically hope to privatize?

Beyond upgrading and expanding the Alaska Railroad, there are numerous other advantages to privatization. They are:

- 1) management performs better with profit responsibility;
- 2) private railroads capitalize on entrepreneurial opportunities;
- 3) once a railroad is profitable, governmental participation is unnecessary. Indeed, once a railroad is profitable, isn't it better to have it paying taxes to state and local governments?

The proponents of the status quo are well-meaning. The opportunities of change (privatization) are great. In order to have change, the collective voice of Alaska's business community must be heard. Please contact the Governor and the Legislature and urge them to begin immediately the privatization of the Alaska Railroad. Again, Montana Rail Link is ready and able to do business in Alaska. However, Montana Rail Link needs to know that Alaska is ready and interested in doing business with it.

If you have any questions, please contact me.

Sincerely,


Robert A. Evans



and Delivery of Government Services

www.privatizealaska.org

NOTICE OF SUBCOMMITTEE MEETING

Subcommittee Name: **Alaska Rail Road Corporation**

Committee Members:

John Binkley	Don Schroer
David Cotterell	Kathryn Thomas
Gene Furman	Lee Wareham
John Haxby	Samantha Wilson
Jim Sanders	

Date:

Wednesday, November 17, 1:30 PM

Place:

Legislative Information Office
716 W. 4th Avenue
Second Floor Conference Room
Ketchikan, Mat-Su LIO Teleconference Available

If you have any questions please call Representative John Cowdery's office at 269-0222.
The web site that has a current list of members and schedule of meetings
posted daily!

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11/12/99

[illegible]

ALASKA RAIL ROAD CORPORATION
Subcommittee
Contact Information Sheet

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Anchorage, AK 99501

email = Mercer Rept.

Mark Lindley the FRC
Chief Council

- 1 The legis shall ~~cause~~ ^{parallel regarding the ARR to issue} an RFP to be ~~submitted~~ for the sale of ^{all} the ARR -
- 2 RR shall pay costs of RFP.
- 3 The RFP shall be advertised for 60 days.
- 4 ~~Mandatory criteria for accepting proposal~~
~~would go in the bill~~ shall be...
- 4 The RR shall make all financial and operating data available to ~~the~~ potential proposers
- 5 Evaluation team shall consist of
Decision shall be ratified by legis -

Describe what is for sale:

Equipment, rolling stock, ROW, track and appurtenances
necessary for ops of the RR, land, utilities
railway ops ROW

- properties must be used for RR.

(If existing cond for on ROW at time of transfer must
be dedicated to transport & utility purposes or risk
to revert

ARR shall implement a vegetation control program including use of herbicides

These lands shall be offered for sale to landholders at ~~FAV~~ not more than FAV.

Offer for sale all land that is not essential to RR ops.

Why privatize

- We can't tell if we're optimizing the potential of the ARR because market forces aren't at work
~~at present~~

Legislative Research Report 99.082

March 25, 1999

Alaska Railroad Appropriations

Legislative Research Services
Division of Legal and Research Services
Legislative Affairs Agency
Alaska State Legislature

Prepared by Mary E. Miller, Legislative Analyst



Legislative Research Services
130 Seward Street, Room 218
Juneau, AK 99801
907-465-3991
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www.legis.state.ak.us/research/home.htm

ALASKA RAILROAD APPROPRIATIONS

You requested information about legislative appropriations for the purchase and operation of the Alaska Railroad. As far as we can determine, Alaska lawmakers appropriated at least \$42 million to purchase and operate the Alaska Railroad.

- ◆ On May 18, 1984, Governor Bill Sheffield signed SB 370 (ch 54 SLA 84) authorizing the purchase of the Alaska Railroad from the federal government at a cost of approximately \$22.3 million from the general fund. On January 5, 1985, ownership of the Alaska Railroad transferred from the federal government to the state of Alaska.
- ◆ At the time of transfer, lawmakers allocated an additional \$10.9 million to the railroad corporation to purchase equipment and pay operating costs until additional revenues were generated to cover these expenses (ch 171 SLA 84).¹
- ◆ The Department of Commerce and Economic Development 1988 summary report on the Alaska Railroad indicates that the state paid another million dollars to the railroad at the time of purchase. However, we have been unable to locate any other documentation describing the purpose or transfer of these funds.
- ◆ In 1990, the Alaska legislature appropriated \$9 million from the Railbelt Energy fund to the Alaska Railroad to purchase railcars to transport coal from the Wishbone Hill coal mine (sec 145 ch 208 SLA 90). The development has not occurred and the railroad actively invests these funds in an interest-bearing account. The current amount in the Wishbone Hill account is approximately \$14.6 million.²
- ◆ In 1990, the Alaska Department of Natural Resources (DNR) transferred ownership of twenty grain cars to the Alaska Railroad. Through an agreement between the DNR and the Alaska Railroad, the railroad sold eighteen of the grain cars, generating \$598,500 in gross revenues. After deducting expenses for the cost of selling the rail cars and other agreed upon deductions such as back due rental payments, the remaining funds were designated for "mutually agreeable" projects between the railroad and the DNR. To date, funds have paid for projects such as a public access trail alongside the railroad tracks in the Mat-Su Valley and Mt. McKinley areas, and an improved crossing at Standard Creek. As of December 31, 1998, the account balance, including interest, was \$238,488. Approximately \$100,000

¹ "The Alaska Railroad Update, 1988," Alaska Department of Commerce and Economic Development, Division of Business Development, February 1988, p. 5.

² Ernie Piper, director of public affairs at the Alaska Railroad Corporation, indicated these funds currently earn approximately \$15,000 per week. Mr. Piper is not aware of any current plan for development of the Wishbone coal mine. Idemitsu Kosan, the Japanese company originally interested in developing the Wishbone Hill coal mine has sold their interest to Usibelli Coal company. For additional information, Mr. Piper may be reached at (907) 265-2410.

of these funds have been earmarked for a pedestrian underpass near
Talkeetna in the summer of 1999.³

We have not been able to identify any other appropriations by the state to the railroad. A
bibliography of materials regarding the Alaska Railroad is included as Attachment A.

I hope you find this information useful. Please do not hesitate to contact us if you have questions
or need additional information.

³ For more information, Jim Blasingame, vice president of corporate affairs for the Alaska Railroad Corporation, may
be reached at (907) 265-2680.

Attachment A

Bibliography of Alaska Railroad Libraries

THE ALASKA RAILROAD UPDATE

1988

A report to the Legislature
regarding the status of railroad privatization
and potential for use of the railroad as a tool for economic development;
including a bibliography of publications pertaining to the railroad (1914—1987).

State of Alaska
Department of Commerce and Economic Development
Division of Business Development
P.O. Box D
Juneau, Alaska 99811

February 1988

J. Anthony Smith, Commissioner
W.G. Paulick, Development Specialist

SECTION IV

BIBLIOGRAPHY OF ALASKA RAILROAD LIBRARIES Major Works

This bibliography includes 172 works relating to the Alaska Railroad Corporation, Transfer to the State, and use of the Railroad as an Economic Development Tool. Listed in order of publishing or release date, these works represent the contents of the following libraries:

- (1) Alaska Department of Commerce and Economic Development
- (2) Alaska Department of Transportation and Public Facilities
- (3) Alaska Legislative Library

Additional works are included from the library of the Alaska Railroad Corporation (4), however, the majority of materials from that library are presently stored in boxes in various inaccessible locations, including Seattle. By the end of the decade materials in libraries (1), (2) and (4) will be consolidated at the ARRC headquarters in Anchorage and will include all materials from 1914 to present. The legislative library will receive a copy of the listing of the ARRC library upon completion.

Finally, library (5) represents those works available through the Alaska State library system (Juneau branches only).

The following annotated listings conclude with the library location, indicated in parentheses.

1914 - 1975

The Alaska Railroad Time Tables; Shorey Book Store, Seattle, WA;
facsimile of original, 1 sheet: map 28 x 22 cm 7/22. (5)

Submission of the State of Alaska re: Adjudication of Lands of the Alaska Railroad, Multivolume set from 1949 to current listings: material reports, copies of ARRC stock cards, complaints and resolution correspondence, inventory information, geographical plan and profile data, native claims on dispute lands. Set is not complete, however offers good background data. (2)

Alaska's New Railway, Alaska Railroad, 1961. (5)

History of the Army's Assistance & Operation of the Alaska Railroad During World War II; 1 pg, 2/63. (1, 4)

Winter Operating Conditions on the Alaska Railroad, Alaska Railroad Traffic Division; 6 pg., 2/63. (1,4)

Construction and Maintenance Problems Encountered on the Alaska Railroad, A. Anderson; 12 pg., 2/64. (1,4)

Railroad Engineering Under Sub-Arctic Conditions, A. Anderson; 9 pg., 2/64. (1, 4)

The Alaska Railroad: in Pictures, B. L. Prince; two-volume pictorial history from 1914-1964. (4, 5)

The Alaska Railroad, E. M. Fitch; History from 1914-1967, (4, 5)

Report & Recommendations for Engineering Service Requirements: Transportation Corridor - Nenana/Dunbar Area to Kobuk River Valley, Tryck, Nyman and Hayes, 3/68. (4)

Surface Transportation for Northern Alaska, North Commission; Baseline Information, 5/68. (4)

Alaska Railroad Bridges, Modjeski & Masters; complete listing with specifications, 12/68. (2, 4)

The Canadian NW Transportation Study, Vol. III, Stechiskin, Pritchard; a consideration of transportation factors, 10/69. (3, 4)

Report of the North Commission, done under the administration of Governor Hickel; How to realize the promise and potential of Northern Alaska, 6/70. (1, 4, 5)

Effects of the Earthquake of March 27, 1964 on the Alaska Railroad, D. S. McCulloch; 1970. (5)

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Transportation Economies of Coal Resources of Northern Slope Coal Fields, Alaska, University of Alaska; M.I.R.L. report No. 31, 5/73. (4).

Optimum Transportation Systems to Serve the Mineral Industry North of the Yukon Basin in Alaska, University of Alaska; M.I.R.L. report No. 29, 9/73. (4)

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Yukon Railway Study, Canadian Government; A study of railroad extension alternatives, 12/75. (1, 2, 3, 4)

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Railroad Consolidation and Relocation in Urban Areas; A report of the Secretary of the United States Department of Transportation to the Congress, 3/76. (2)

An Experiment in Freight Modal Choice, final report by the United States Department of Transportation; Delineates the rail-truck interface, 5/76. (2)

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1977

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Anchorage Metropolitan Area Transportation Studies, 1977-1997 Long Range Element, Municipality of Anchorage, 1977. (4)

A Preliminary Study, Alaska Department of Commerce and Economic Development; Alaska-Canada Transcontinental Rail Connection to Contiguous U.S., 1.77. (1, 4)

Final Standards, Classifications & Designations of Lines of Class I Railroads in the U.S., Secretary, U.S. Department of Transportation; 2-volumes, 1/77. (2)

The Through Rail Route for Alaska, deWolf; A Systematic Feasibility Approach, 3/77. (3)

Effects of Railroad Abandonment on Small Business, U. S. Small Business Administration, 4/77. (2)

Short-line Railroads as an Investment, U. S. Small Business Administration, 5/77. (2)

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The Alaska Rail Connection, Canalog Logistics; A review & assessment of the need for and desirability of a rail connection between the Yukon and Alaska, 9/77. (3)

Restructuring the Railroads, Federal Railroad Commission report FRA-OPPD-80-6; Cost savings for branch line abandonments, 12/77. (2)

1978

A Technical Assessment of the White Pass & Yukon's Marine, Rail and Highway Operations, Yukon Government; '78. (1, 2)

Commission Study 32, Engleman, Truck, Kreitner, Dooley; Transportation and development of Alaska's Natural Resources, for Federal-State Land-Use Planning Commission, 3/78. (1, 2)

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Impact of the Closure of the WP&YRR on the Yukon Economy, '79-83, Government of the Yukon; 9/78. (1, 2)

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A Prospectus for Change in the Freight Railroad Industry, Secretary of the U. S. Department of Transportation; a preliminary report, 10/78. (2)

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#917: Rail Freight ('84)

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Future Frontiers for the Alaska Railroad, Rep. L. E. "Red" Swanson; re: Transcontinental Link, 11/79. (1, 2, 3)

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Review of Rail Transportation Research Needs, National Academy of Sciences; Special Report 188, undated. (1, 2)

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Report to the Congress, U. S. Comptroller General; Federal controls over the Alaska Railroad should end, 1/82. (4)

State Organizational Issues Involved in the Proposed Transfer of the Alaska Railroad from the U.S. to the State of Alaska; Draft, 1/82. (1)

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Six-Year Transportation Improvement Program: FY 83-88, Alaska Department of Transportation and Public Facilities; 3/82. (2)

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State Transportation Policy Plan, Alaska Department of Transportation and Public Facilities; Identifies major considerations for responding to the goal of providing Alaskans with transportation services, 11/82. (1, 2, 4)

1983

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Appraisal: Alaska Railroad Real Estate to be Transferred Under the Alaska Railroad Transfer Act of 1982, Jackson-Cross Appraisal Co.; Property description, valuation data, property improvement and lease data, vol. I=Introduction and Anchorage, Part 1, vol. II=Anchorage, Part 2, vol. III=Fairbanks and Seward, vol. IV=Whittier, Valdez and Other, 1982-83. (I= (vol. IV only), 2, 4)

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Primer for Short Line Feasibility, American Association of State & Local Highway Officials; 9/83. (2)

Survey of State Involvement and Unique Approaches to the Funding of State Railroad Programs, American Association of State & Local Highway Officials; 9/83. (2)

Senate Transportation Committee Analysis of SB10, Senate Transportation Committee; includes important backup documents, 9/83. (3)

Valuation of the Alaska Railroad, U. S. Railroad Association; in two volumes, an evaluation of fixed facilities and equipment of the Alaska Railroad, 9/83. (1, 2, 3, 4, 5)

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Master Plan, Port of Anchorage, Tippetts-Abbett-McCarthy-Stratton; Port of Anchorage marketing and development plan, 11/83. (1, (excerpts only), 4)

1984

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Rails Across the Tundra, S. Cohen; a historical album of the Alaska railroad, 1984. (5)

Minutes and Testimony of the Railroad Symposium, Senate Transportation Committee; includes position of TOTE Corp., ICC information, Alaska Trucking Association position, Sheffield Administration policy statement and testimony by the Resource Development Council and Sea-Land Services Corp., 1/84. (3)

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1986

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Legislative Research Services

***Alaska State Legislature
Legislative Affairs Agency
Division of Legal and Research Services***

***130 Seward Street, Suite 218
Juneau, AK 99801
Phone: 907-465-3991
Fax: 907-463-3351***

July 20, 1999

Memorandum

TO:

FROM: Mary E. Miller
Legislative Analyst

RE: **Alaska Railroad Corporation Information**
(Research Report 99.082 Supplemental)

You requested information about the initial legislative appropriation for the purchase of the Alaska Railroad and subsequent appropriations thereafter. You also requested any other information about Alaska's purchase of the Alaska Railroad from the federal government.

In the course of my research on the subject, the following previous legislative research report was identified and may be of interest to you.

"Legislative History of Alaska Railroad Ownership," Research Report #89-100065 (also referred to as 90.000061)

I will continue to research the questions pertaining to legislative appropriations and will send additional information, as it becomes available.

LEGISLATIVE RESEARCH REPORT

OCTOBER 19, 1999



REPORT NUMBER 00.008

POTENTIAL STATE TAX LIABILITY OF THE ALASKA RAILROAD

PREPARED FOR REPRESENTATIVE JOHN COWDERY

PREPARED BY KATHLEEN L. WAKEFIELD, LEGISLATIVE ANALYST

You asked us to estimate what the state tax liability of the Alaska Railroad would have been for the last five years had the corporation been subject to state taxes. As you know, Alaska Statute 42.40.010 exempts the Alaska Railroad Corporation "from all taxes and special assessments of the state or a political subdivision of the state." Without such an exemption, according to officials with the Alaska Department of Revenue, the corporation would be required to pay the state corporate income tax and the motor fuel tax. We estimate that the corporation would have paid approximately four million dollars in taxes over the last five years (1994-1998): over three million dollars in state corporate income tax, and about \$600,000 in state motor fuel tax. (The corporation is also exempt from federal income tax).¹

The following table provides estimated tax liability for the corporate income tax for 1994, 1995, 1996, 1997, and 1998, based on the corporation's "net income" as reported on the balance sheets in the annual reports for those years. The corporate tax rate for businesses earning taxable income of over \$90,000 per year is 9.4 percent.² These figures do not take into account any deductions that the corporation may be eligible to claim (for example, depreciation of buildings and equipment).

¹ "Alaska Railroad Corporation 1998 Annual Report," p. 18.

² Personal communication with Mark Graber, Income & Excise Audit, Alaska Department of Revenue, October 13, 1999.

**Estimated Corporate Income Tax Liability for the Alaska Railroad,
1994-1998 (In thousands)**

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>Five Year Total</u>
Net Income ¹	(\$3,210.0)	\$7,871.0	\$8,009.0	\$10,590.0	\$9,936.0	\$33,196.0
Potential Tax Liability ²	\$0.0	\$739.9	\$752.8	\$995.5	\$934.0	\$3,422.2

¹ "Net Income" is taken from ARC annual report balance sheets for these years.

² "Potential Tax Liability" is based on the Alaska corporate income tax rate of 9.4% for corporations with taxable income of over \$90,000 per year. In 1994, the corporation experienced a net loss, so no tax would have been assessed.

According to the Corporate Communications office, the railroad purchases approximately six million gallons of motor fuel per year for locomotives, and corporate vehicles and equipment.³ A net motor fuel tax rate of two cents per gallon would have applied to most of the fuel purchased by the railroad had it been subject to state taxes, since the bulk of the fuel is used for the locomotives.⁴ At that rate, the railroad would have paid at least \$120,000 per year in state motor fuel tax—a total of about \$600,000 over the past five years (1994-1998).

I hope you find this information useful. Please do not hesitate to contact us if you have questions or need additional information.

³ Personal communication with Scott Banks, Corporate Communications, Alaska Railroad Corporation, October 15, 1999.

⁴ According to the Department of Revenue, the state motor fuel tax is eight cents per gallon, which is included in the purchase price of the fuel. But users are entitled to a refund of six cents per gallon for fuel used in vehicles that are not licensed for highway use (off-road vehicles, locomotives, etc.).

Alaska State Legislature

Legislative Research Agency



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May 4, 1992

MEMORANDUM

TO: Senator Drue Pearce
FROM: Paul Engelman *PE*
Legislative Analyst
RE: Property Tax Exemptions
Research Request 92.166

You asked us to review the effect of property tax exemptions enjoyed by the electric cooperatives and the Alaska Railroad Corporation¹. This memorandum discusses the effect of these exemptions on the boroughs and businesses (electric cooperatives and railroad). A section is included to discuss the assumptions used for making the tax estimates.

The Effects on Boroughs

Removing the property tax exemptions for the electric cooperatives and the Alaska Railroad would add \$875 million to the rolls of taxable property of local governments and increase annual tax revenue by approximately \$13 million.² The impact of the property tax exemption on the boroughs is shown in Table 1.² The borough most affected is the Kenai Peninsula Borough. The additional yearly revenue to the borough if the tax exemptions were removed is estimated at over \$5 million, or 26 percent of the 1991 property tax collected by the borough. The large number of power-producing facilities located within the Kenai borough is the reason for the large impact.

The Matanuska-Susitna and Fairbanks North Star Boroughs and the Municipality of Anchorage would gain between \$2 and \$3 million each if the tax exemptions were repealed. The electric utilities account for most of the hypothetical revenue gain for the Matanuska-Susitna and Fairbanks boroughs, with lesser amounts from taxes on the Alaska Railroad. For the Municipality of Anchorage,

¹ Alaska Statutes 42.40.910 and 10.25.540.

²The table lists the boroughs which are primarily affected. However, the North Slope Borough would also gain some revenue from cessation of the exemption. The amount is likely to be small, since the only communities affected would be members of the Alaska Village Electric Cooperative which has facilities in some of the villages within the boundaries of the North Slope Borough.

the sources are more evenly split between the railroad and Chugach Electric. As a percent of the 1991 property taxes collected by the boroughs, the smallest effect would be in Anchorage (1.8 percent) with larger effects in the Matanuska-Susitna Borough (11.4 percent) and Fairbanks North Star Borough (9.8 percent).

The impact on the Kodiak Borough would be relatively small (under \$273,520), however as a percent of the property tax currently collected the potential revenue amounts to 10.8 percent. This is the third highest impact in terms of percentage of the 1991 property tax.

The Effect on Electric Cooperatives and the Railroad

As shown in Table 2, if the property tax exemptions are repealed Chugach Electric Association and the Alaska Railroad would be most affected by the changes. In both cases the operating income (a measure of profitability) is reduced from about 7 percent of corporate revenue to less than 3 percent of corporate revenue. However, all of the business studied would be impacted by the property tax, and it is likely that they would attempt to raise rates in order to bring the net operating income back to the levels experienced before the tax was implemented.

The Alaska Public Utilities Commission must approve all rate increases by the electric cooperatives. The railroad indicated it would pass along property taxes to local governments. A spokesperson said before the legislature that "If the railroad is to continue as the eighth largest employer in the state and unsubsidized by the state, then it cannot pay taxes without charging FMV [full market value] for its services to government entities".³ The services referred to are the lease of Railroad land to local governments. Thus, the railroad might attempt to recoup tax payments by increasing the fees it charges for the land and buildings leased to the local governments at less than the market rate.

Limitations and Assumptions of this Analysis

The estimates in Tables 1 and 2 are built around several assumptions which are discussed below.

Property Value

For the electric cooperatives we used the depreciated asset value of the plant as an estimate of the appraised value of all property owned. This approach

³Testimony before the Community and Regional Affairs Committee on personal and real property taxes in HB 294 on May 2, 1989.

will miss some property that would be taxable; however this amount should be small. The value of land could be understated. However, the cooperatives are limited in the amount of land they can hold that is not used for either the production and distribution of power and administrative functions. We estimate that these omissions may account for between 1 and 3 percent of the total property value. An area of possibly greater concern is whether depreciated capital is an accurate reflection of the actual market value of the property. Municipal assessors advise us that there is no other basis short of actual appraisal on which to value the property. Therefore, depreciated asset value is the only potential figure to use for this analysis.

Several of the electric cooperatives are located in more than one taxing jurisdiction. In the case of the Chugach Electric Association, it is assumed that the current geographic distribution of plant has not changed significantly since 1987, the last year we were able to obtain information on location and value for their many facilities. For the Golden Valley Electric Cooperative, it is assumed that all but 15 percent (the approximate value of the Healy power plant) of the depreciated value of the plant was located in the Fairbanks North Star Borough.

For an estimate of the taxable property of the Alaska Railroad, we updated an estimate made by the assessors from Anchorage and the Kenai Peninsulas. The estimate by the assessors of \$148,450,800 was determined using the following sources and assumptions⁴:

"The land values were computed using information from each jurisdiction."

"Equipment and rolling stock values were derived using acquisition costs and depreciating 50 percent."

"Railbed value was derived by using an estimated depreciated value of \$150,000 per mile (including R.O.W.) for 525 miles."

The estimate was then increased to reflect 1991 property values using information from Steve VanSant. The estimate used is \$170,775,000. This number was allocated to the boroughs based on the estimated miles of rail, amount of land, and the number of maintenance and administrative facilities located within each borough.

Mr. VanSant informs us that land in these situations is usually not valued at the regular market rate because the land consists of a narrow corridor, designed for single purpose use and often there is no access to it except through the corridor. After discussions with other appraisers, however, it is

⁴ Information provided by Steve VanSant, assessor for the Municipality of Anchorage from notes of a meeting with the Alaska Railroad Commission May 3, 1989.

Senator Pearce
May 4, 1992
Page 4

apparent that valuing the land is a potentially contentious issue. One of the appraisers suggested using a uniform appraisal (in which a single appraiser would value the whole railroad) to avoid possible legal problems associated with widely disparate appraisals over similar sections of the line.

Millage Rates⁵

The millage rates within each borough vary from service area to service area. It was impossible to identify the amount of property within each of the service areas. We devised a borough wide millage average that was heavily weighted for commercial service areas, based on the assumption that the utilities will locate as much as possible in the commercial areas to avoid zoning conflicts and for public relations purposes. In some cases, the millage rate from a single service area was utilized. The average millage rates applied to determine the amount of taxes are shown in Table 1.

We hope this information is useful to you. If you have any questions or would like additional information, please contact this agency.

Attachments

⁵Millage rates are taken from *Alaska Taxable 1991*, Department of Community and Regional Affairs.

Table 1

**Revenue Impact on Boroughs of Removing Property
Tax Exemptions for Cooperative Electric Utilities and
The Alaska Railroad**

<u>Taxing Jurisdiction</u>	<u>Effective Tax Rate (Mills)</u>	<u>Estimated Property Value (000's)</u>	<u>Estimated Increased Property Tax</u>	<u>1991 Property Tax</u>	<u>Increased Property Tax as a % of 1991 tax</u>
Kenai Borough	12.80	\$377,772	\$5,091,742	\$19,602,466	26.0%
Mat-Su Borough	17.28	\$139,950	\$2,418,335	\$21,245,223	11.4%
Anchorage Municipality	15.89	\$179,276	\$2,847,803	\$161,023,083	1.8%
North Star Borough	15.90	\$156,696	\$2,491,460	\$25,302,780	9.8%
Kodiak Island Borough	6.50	\$42,080	\$273,520	\$2,536,771	10.8%
Total*		\$895,774	\$13,122,860	\$229,710,323	5.7%

*Totals may not add due to rounding

Source: Alaska Taxable 1991
Annual Reports of the Utilities
Information provided by the Anchorage Assessors Office.

Prepared by the Legislative Research Agency, May, 1992 (92.186)

Table 2

**Revenue Impact on Cooperative Electric Utilities and the
Alaska Railroad of Removing Property Tax Exemptions**

	Annual Revenue	Operating Income Before tax	Operating Income as a Percent of Revenue	Estimated Property Tax	Operating Income After Property Tax	After Tax Operating Income as a Percent Revenue
Chugach Electric Association	\$107,005,082	\$7,483,937	7.0%	\$5,297,982	\$2,185,955	2.0%
Golden Valley Electric Association	\$47,575,563	\$4,921,458	10.3%	\$1,788,751	\$3,132,707	6.6%
Homer Electric Association	\$32,558,312	\$2,727,594	8.4%	\$1,349,620	\$1,377,974	4.2%
Matanuska Electric Association	\$40,246,445	\$4,861,478	12.1%	\$1,711,083	\$3,150,395	7.8%
Kodiak Electric Association	\$16,037,039	\$1,685,511	10.5%	\$273,520	\$1,411,991	8.8%
Alaska Railroad Corporation	\$64,028,000	\$4,442,000	6.9%	\$2,701,905	\$1,740,095	2.7%

Source: Annual Financial Reports of the Utilities

Prepared by the Legislative Research Agency, May, 1992 (92.166)

MISC. INFO

MEMORANDUM

**TO: Senator
Alaska State Senate**

**FROM: Becky S. Penrose
Researcher**

DATE: August 16, 1989

**SUBJECT: Legislative History of Alaska Railroad Ownership;
Research Request #89-100065 LRA 90.000061**

You phoned on August 7, 1989 requesting the Senate Advisory Council to provide Alaska Railroad legislation, and specifically the legislation which changed the ownership from the Federal Government to the State of Alaska. You also requested a response to the following questions:

What bills were introduced and their status?
Who were the sponsors and co-sponsors of the legislation?
Who were the members of the committee that was formed to support the sale of the railroad to the private sector (both Legislature & public)?

The Anchorage Chamber of Commerce Transportation Committee was formed in 1981 to support the sale. The following were members of the committee:

Frank Turpin
Jan Faiks
Dick Lyon

Elaine Atwood
Al Fleetwood

Jim Hurley
Al Parrish

The following is a complete list of bills regarding the Alaska Railroad. It includes the sponsors, co-sponsors, bill title and the actions taken on them:

Senator
August 17, 1989
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HOUSE JOINT RESOLUTION NO. 18

December 4, 1983

HOUSE JOINT RESOLUTION NO. 18 by Lindauer: Relating to the provision of right-of-way corridors for the Alaska Railroad and oil and gas pipelines. was read the first time and referred to the Resources, Transportation and Finance Committees.

Senator
August 17, 1989
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HOUSE JOINT RESOLUTION NO. 49

May 27, 1983

**HOUSE JOINT RESOLUTION NO. 49 by Uehling, Ward, Syzmanski and Pestinger:
Relating to travel by senior citizens on the Alaska Railroad. was read the
first time and referred to the Transportation Committee.**

Senator
August 17, 1989
Page 4

HOUSE JOINT RESOLUTION NO. 72

March 16, 1984

HOUSE JOINT RESOLUTION NO. 72 by the Transportation Committee: Proposing an amendment to the Constitution of the State of Alaska relating to the Alaska Railroad. was read the first time and referred to the Transportation and Judiciary Committees.

March 20, 1984

Representative Cato moved and asked unanimous consent that the 5-day rule (Rule 23 of the Uniform Rules) be waived so that the Transportation Committee can hold hearings on HOUSE JOINT RESOLUTION NO. 72 (amendment to the Constitution of the State of Alaska relating to the Alaska Railroad) on March 21, 1984. Representative Clocksin objected and withdrew his objection. There being no further objection, Rule 23 was waived.

March 21, 1984

The Transportation Committee has had HOUSE JOINT RESOLUTION NO. 72 (proposing an amendment to the Constitution of the State of Alaska relating to the Alaska Railroad) under consideration and reports it back as follows: Cato (Chairman), Abood, Herrmann, Davis, Flood and M. W. Miller recommend do pass; McBride and Szymanski have no recommendation. HJR 72 was referred to the Judiciary Committee.

April 25, 1984

The Judiciary Committee has had HOUSE JOINT RESOLUTION NO. 72 (proposing an amendment to the Constitution of the State of Alaska relating to the Alaska Railroad) under consideration and reports it back as follows: Barnes, Liska and Hayes recommend do pass; Bussell (Chairman) and Clocksin have no recommendation; Malone recommends do not pass. HJR 72 was referred to the Rules Committee for placement on the calendar.

May 3, 1984

HOUSE JOINT RESOLUTION NO. 72 (proposing an amendment to the Constitution of the State of Alaska relating to the Alaska Railroad) was read the second time with the Transportation Committee report (page 2991 of the journal) and the Judiciary Committee report (page 3454 of the journal). Amendment No. 1 by Bettisworth:

HOUSE JOINT RESOLUTION NO. 72 (cont.)

Page 2, line 2: After "law." insert "This section is repealed 10 years after its effective date or on the date the Alaska Railroad is transferred by the state, whichever comes first."

Representative Bettisworth moved and asked unanimous consent that Amendment No. 1 be adopted. Representative Malone objected and withdrew his objection. There being no further objection, Amendment No. 1 was adopted. Representative Barnes moved and asked unanimous consent that HJR 72am be considered engrossed, advanced to third reading and placed on final passage. There being no objection, it was so ordered. HJR 72am was read the third time.

The question being: "Shall HJR 72am pass the House?" The roll was taken with the following result:

HJR 72am		
Yeas:	22	Abood, Adams, Barnes, Bettisworth, Bussell, Cato, Cowdery, Fritz, Fuller, Furnace, Hayes, Hurlbert, Lindauer, Liska, Martin, Pestinger, Ringstad, Shultz, Szymanski, Tischer, Uehling, Ward
Nays:	17	Clocks in, Davis, Duncan, Flood, Goll, Grussendorf, Herrmann, Koponen, Lacher, Larson, Malone, Miller, M.M., Phillips, Sund, Vaska, Wendte, Zharoff
Excused:	0	
Absent:	1	Miller, M.W.

And so, lacking the necessary 27 votes, HJR 72am failed to pass the House. Representative Barnes gave notice of reconsideration of her vote on HJR 72am(failed H).

May 4, 1984

The reconsideration of HOUSE JOINT RESOLUTION NO. 72 amended (failed House) (proposing an amendment to the Constitution of the State of Alaska relating to the Alaska Railroad) was not taken up. HJR 72am(failed H) was referred to the Chief Clerk for permanent filing.

Senator
August 17, 1989
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SENATE JOINT RESOLUTION NO. 43

February 27, 1984

SENATE JOINT RESOLUTION NO. 43 by the Transportation Committee, Proposing an amendment to the Constitution of the State of Alaska relating to the Alaska Railroad, was read the first time and referred to the Transportation Committee and the Judiciary Committee.

March 2, 1984

The Transportation Committee considered SENATE JOINT RESOLUTION NO. 43 (amendment to the Constitution of the State of Alaska relating to the Alaska Railroad) and recommended it be replaced with CS FOR SENATE JOINT RESOLUTION NO. 43 (TRSP) with a majority do pass. The report was signed by Senator Moss, Chairman and concurred in by Senators Gilman and Faiks. SENATE JOINT RESOLUTION NO. 43 was referred to the Judiciary Committee.

March 8 1984

The Judiciary Committee considered SENATE JOINT RESOLUTION NO. 43 (proposing an amendment to the Constitution of the State of Alaska relating to the Alaska Railroad) and a majority of the committee recommended that the Transportation Committee Substitute do pass with the following amendment:

Page 2, line 2: after "law" insert "who shall be subject to confirmation by a majority of the members of each house of the legislature in joint session" The report was signed by Senator Ray, Chairman and concurred in by Senators Pettyjohn and Eliason. Senators Ziegler and Josephson signed "no recommendation". SENATE JOINT RESOLUTION NO. 43 was referred to the Rules Committee.

March 15, 1984

The Rules Committee considered SENATE JOINT RESOLUTION NO. 43 (proposing an amendment to the Constitution of the State of Alaska relating to the Alaska Railroad) and a majority of the committee recommended calendar March 15 and the Transportation Committee Substitute be adopted. The report was signed by Senator Faiks, Chairman and concurred in by Senators Bennett and Ray. Senator Ferguson signed "leave the Constitution alone". SENATE JOINT RESOLUTION NO. 43 appears on the calendar. Senator Ray moved and asked unanimous consent that SENATE JOINT RESOLUTION NO. 43 (amendment to the Constitution of the State of Alaska relating to the Alaska Railroad) be returned to the Rules Committee. Without objection, it was so ordered.

**Senator
August 17, 1989
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SENATE BILL NO. 10

November 8, 1983

SENATE BILL NO. 10 by Senator Kerttula, entitled: "An Act relating to the Alaska Railroad; and providing for an effective date." was read the first time and referred to the Transportation Committee and the Finance Committee.

Senator
August 17, 1989
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SENATE BILL NO. 99

January 31, 1983

SENATE BILL NO. 99 by Senator Kerttula by request, entitled: "An Act making special appropriation to the Office of the Governor for operational expenses of the Alaska Railroad Transfer Advisory Commission; and providing for an effective date." was read the first time and referred to the Finance Committee.

April 26, 1983

The Finance Committee considered SENATE BILL NO. 99 (special appropriation to the Office of the Governor for operational expenses of the Alaska Railroad Transfer Advisory Commission) and recommended it be replaced with CS FOR SENATE BILL NO. 99 (FIN), entitled: "An Act making a supplemental appropriation to the Office of the Governor, division of elections; and providing for an effective date." and do pass. The report was signed by Senator Sackett, Co-Chairman and concurred in by Senators Josephson, Mulcahy, Faiks, Vic Fischer, Ferguson and Bennett. SENATE BILL NO. 99 was referred to the Rules Committee.

April 28, 1983

The Rules Committee considered SENATE BILL NO. 99 (special appropriation to the Office of the Governor for operational expenses of the Alaska Railroad Transfer Advisory Commission) and a majority of the committee recommended it be placed on the April 28 calendar and the Finance Committee Substitute be adopted. The report was signed by Senator Faiks, Chairman and concurred in by Senators Ferguson, Kelly and Ray. SENATE BILL NO. 99 appears on today's calendar.

SENATE BILL NO. 99 (special appropriation to the Office of the Governor for operational expenses of the Alaska Railroad Transfer Advisory Commission) was read the second time. Senator Sackett moved and asked unanimous consent for the adoption of the Finance Committee Substitute offered on page 809. Without objection, <CS FOR SENATE BILL NO. 99 (FIN)> (supplemental appropriation to the Office of the Governor, division of elections) was adopted. CS FOR SENATE BILL NO. 99 (FIN) was read the second time. Senator Ray moved and asked unanimous consent that CS FOR SENATE BILL NO. 99 (FIN), with the title change, be considered engrossed, advanced to third reading and placed on final passage. Without objection, it was so ordered. CS FOR SENATE BILL NO. 99 (FIN) was read the third time.

Senator
August 17, 1989
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SENATE BILL NO. 99 (cont.)

The question being: "Shall CS FOR SENATE BILL NO. 99 (FIN)(supplemental appropriation to the Office of the Governor, division of elections) pass the Senate?" The roll was taken with the following result:

CSSB 99 (FIN)

Yeas: 20

Bennett, Eliason, Fahrenkamp, Faiks, Ferguson, Fischer Paul, Fischer Vic, Gilman, Halford, Josephson, Kelly, Kerttula, Moss, Mulcahy, Pettyjohn, Ray, Rodey, Sackett, Sturgulewski, Ziegler

Nays: 0

And so, CS FOR SENATE BILL NO. 99 (FIN) passed the Senate. Senator Ray moved and asked unanimous consent that the roll call on the passage of CS FOR SENATE BILL NO. 99 (FIN) be considered the roll call on the effective date clause. Without objection, it was so ordered. CS FOR SENATE BILL NO. 99 (FIN) was engrossed, signed by the President and Secretary and transmitted to the House for consideration.

April 29, 1983

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 99 (Finance) by the Finance Committee, entitled: "An Act making a supplemental appropriation to the Office of the Governor, division of elections; and providing for an effective date." was read the first time and referred to the Finance Committee.

May 3, 1983

The Finance Committee has had COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 99 (Finance) (supplemental appropriation to the Office of the Governor, division of elections; effective date) under consideration and reports it back as follows: Bettisworth (Vice-Chairman), Pestinger, Flood, Hurlbert, Ward, Zharoff, Duncan, Grussendorf, Lindauer and Martin recommend do pass. CSSB 99(Fin) was referred to the Rules Committee for placement on the calendar.

May 4, 1983

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 99 (Finance) (supplemental appropriation to the Office of the Governor, division of elections; effective date) was read the second time with the Finance Committee report (page 1160 of the journal). Representative Barnes moved and asked unanimous consent that CSSB 99(Fin) be considered engrossed, advanced to third reading and placed on final passage. There being no objection, it was so ordered. CSSB 99(Fin) was read the third time.

SENATE BILL NO. 99 (cont.)

The question being: "Shall CSSB 99 (FIN) pass the House?" The roll was taken with the following result:

CSSB 99 (FIN) 3RD

Yeas: 38 Abood, Adams, Barnes, Bettisworth, Bussell, Cato, Clocksin, Cowdery, Davis, Duncan, Flood, Fritz, Fuller, Furnace, Goll, Grussendorf, Hayes, Herrmann, Hurlbert, Koponen, Lacher, Larson, Lindauer, Liska, Malone, Martin, McBride, Miller, M.M., Miller, M.W., Phillips, Ringstad, Shultz, Szymanski, Tischer, Uehling, Vaska, Ward, Zharoff

Nays: 0

Excused: 2

Absent: 0

Pestinger, Wendte

And so, CSSB 99 (FIN) passed the House. Representative Barnes moved and asked unanimous consent that the roll call on the passage of the bill be considered the roll call on the effective date clause. There being no objection, it was so ordered.

May 4, 1983

CSSB 99 (FIN) was signed by the Speaker and the Chief Clerk and returned to the Senate.

May 5, 1983

Message dated May 4 was read, stating the House passed: CS FOR SENATE BILL NO. 99 (FIN) (supplemental appropriation to the Office of the Governor, division of elections; efd) CS FOR SENATE BILL NO. 99 (FIN) was referred to the Secretary for enrollment. <CS FOR SENATE BILL NO. 99 (FIN)> (supplemental appropriation to the Office of the Governor, division of elections) was enrolled, signed by the President and Secretary, Speaker and Chief Clerk, and the engrossed and enrolled copies transmitted to the Office of the Governor at 11:15 a.m., May 5, 1983. Message dated May 9 was read, stating the Governor signed the following bill and transmitted the engrossed and enrolled copies to the Lieutenant Governor's Office for permanent filing: -CS FOR SENATE BILL NO. 99 (FIN) An Act making a supplemental appropriation to the Office of the Governor, division of elections; and providing for an Effective date Chapter 16, SLA 1983

**Senator
August 17, 1989
Page 11**

SENATE BILL NO. 99 (cont.)

May 9, 1983

A message dated May 9, 1983, was read stating the Governor has signed the following bill and is transmitting the engrossed and enrolled copies to the Lieutenant Governor's office for permanent filing: COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 99 (Finance) (making a supplemental appropriation to the Office of the Governor, division of elections; effective date). Chapter 16, SLA 1983

SENATE BILL NO. 303

April 29, 1985

SENATE BILL NO. 303 by Senator Coghill, entitled: "An Act removing the limitation on the power of the Alaska Railroad to apply for a right-of-way or exercise eminent domain." was read the first time and referred to the Transportation Committee.

May 28, 1985

The Transportation Committee considered SENATE BILL NO. 303 (removing a limitation on the power of the Alaska Railroad to apply for a right-of-way or exercise eminent domain) and a majority of the committee recommended do pass. The report was signed by Senator Coghill, Chairman and concurred in by Senators Josephson, Paul Fischer and Abood. SENATE BILL NO. 303 was referred to the Rules Committee.

May 4, 1985

The Rules Committee considered SENATE BILL NO. 303 (removing a limitation on the power of the Alaska Railroad to apply for a right-of-way or exercise eminent domain) and a majority of the committee recommended calendar May 4. The report was signed by Senator Kelly, Chairman and concurred in by Senators Coghill, Bennett and Faiks. SENATE BILL NO. 303 appears on the calendar. SENATE BILL NO. 303 (removing a limitation on the power of the Alaska Railroad to apply for a right-of-way or exercise eminent domain) was read the second time. Senator Ferguson offered Amendment No. 1:

Page 1, line 11: Add new Section 2: AS 42.40.370(a)(2) and (a)(3) are repealed Senator Ferguson moved Amendment No. 1. Senator Coghill objected.

The question being: "Shall Amendment No. 1 be adopted?" The roll was taken with the following result:

SB 303	AM 1	
Yeas:	10	Bennett, Fahrenkamp, Faiks, Ferguson, Halford, Kerttula, Ray, Sackett, Zharoff, Ziegler
Nays:	8	Abood, Coghill, Eliason, Fischer Paul, Josephson, Kelly, Rodey, Sturgulewski
Excused:	1	Fischer Vic
Absent:	1	DeVries

SENATE BILL NO. 303 (cont.)

And so, Amendment No. 1 was adopted. Senator Halford moved and asked unanimous consent that <SENATE> <BILL NO. 303 am> be considered engrossed, advanced to third reading and placed on final passage. Without objection, it was so ordered. SENATE BILL NO. 303 am was read the third time.

The question being: "Shall SENATE BILL NO. 303 am (removing a limitation on the power of the Alaska Railroad to apply for a right-of-way or exercise eminent domain) pass the Senate?" The roll was taken with the following result:

SB 303 AM 3RD

Yeas: 15	Abood, Bennett, Coghill, Eliason, Fahrenkamp, Faiks, Ferguson, Fischer Paul, Halford, Kelly, Kerttula, Ray, Sackett, Zharoff, Ziegler
Nays: 3	Josephson, Rodey, Sturgulewski
Excused: 1	Fischer Vic
Absent: 1	DeVries

And so, SENATE BILL NO. 303 am passed the Senate. Senator Josephson gave notice of reconsideration on SENATE BILL NO. 303 am.

May 6, 1985

Senator Ferguson requested that the reconsideration on <SENATE> <BILL NO. 303 am> (removing a limitation on the power of the Alaska Railroad to apply for a right-of-way or exercise eminent domain) be taken up.

The question to be reconsidered is: "Shall SENATE BILL NO. 303 (removing a limitation on the power of the Alaska Railroad to apply for a right-of-way or exercise eminent domain) pass the Senate?" The roll was taken with the following result:

SB 303 3RD

Yeas: 19	Abood, Bennett, Coghill, DeVries, Eliason, Fahrenkamp, Faiks, Ferguson, Fischer Paul, Fischer Vic, Halford, Josephson, Kelly, Kerttula, Ray, Sackett, Sturgulewski, Zharoff, Ziegler
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Nays: 1	Rodey
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And so, SENATE BILL NO. 303 passed the Senate on reconsideration and was referred to the Secretary for engrossment. SENATE BILL NO. 303 was engrossed, signed by the President and Secretary and transmitted to the House for consideration.

Senator
August 17, 1989
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SENATE BILL NO. 303 (cont.)

May 7, 1985

SENATE BILL NO. 303 by Coghill, entitled: "An Act removing a limitation on the power of the Alaska Railroad to apply for a right-of-way or exercise eminent domain." was read the first time and referred to the Transportation and Judiciary Committees. SENATE BILL NO. 312 by Senator Kerttula, entitled: "An Act relating to free passenger service for seniors on the Alaska Railroad." was read the first time and referred to the Labor and Commerce Committee and the Finance Committee.

January 3, 1986

Senator Coghill, Chairman moved and asked unanimous consent that SENATE BILL NO. 312 (free passenger service for seniors on the Alaska Railroad) have an added referral to the Transportation Committee. Without objection, the President referred the bill to the Transportation Committee. SENATE BILL NO. 312 was referred to the Labor and Commerce Committee, the Transportation Committee and the Finance Committee.

Senator
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SENATE BILL 352

January 13, 1984

SENATE BILL NO. 352 by Senators Kerttula, Faiks and Halford, entitled: "An Act establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; and providing for an effective date." was read the first time and referred to the Transportation Committee and the Finance Committee.

January 16, 1984

Senator Moss added as a co-sponsor on SENATE BILL NO. 352 (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad). Senator Gilman moved and asked unanimous consent that he be added as a co-sponsor on SENATE BILL NO. 352. Without objection, it was so ordered.

March 20, 1984

The Transportation Committee considered SENATE BILL NO. 352 (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; efd) and recommended it be replaced with CS FOR SENATE BILL NO. 352 (TRSP), entitled: "An Act establishing the Alaska Railroad Corporation to operate the Alaska Railroad with a board of nine directors responsible for management of the corporation; requiring the board to appoint a chief executive officer to manage the daily affairs and operations of the corporation; authorizing the board to adopt rules to carry out its functions; authorizing the corporation to issue bonds and notes; authorizing the corporation to own and manage all property acquired by the corporation or transferred to the state under 45 U.S.C. 1201 - 1214 (Alaska Railroad Transfer Act of 1982); authorizing the corporation to exercise eminent domain; exempting the corporation from AS 19, AS 23.40, AS 30.15, AS 35, AS 37.05, AS 37.07, AS 37.10.010 - 37.10.- 060, 37.10.085, AS 37.20, AS 37.25, AS 38, AS 39, and AS 44.62.040 - 44.62.320; and providing for an effective date." and do pass. The report was signed by Senator Moss, Chairman and concurred in by Senators Fahrenkamp, Gilman, Kerttula and Faiks. SENATE BILL NO. 352 was referred to the Finance Committee.

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SENATE BILL 370

January 24, 1984

SENATE BILL NO. 370 by the Rules Committee by Request of the Governor, entitled: "An Act authorizing the acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer terms; and providing for an effective date." was read the first time and referred to the Transportation Committee and the Finance Committee. Fiscal note appears in Senate Supplement No. 45. Governor's transmittal letter follows:

Dear Senator Kerttula:
Dear Representative Hayes:

January 24, 1984
January 25, 1984

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that will authorize the state to acquire the Alaska Railroad. The bill is required so that the certification process mandated by the Alaska Railroad Transfer Act (ARTA; P.L. 97-468) can be effected. Once this certification process is completed, acquisition of the railroad can occur as soon as practicable.

The bill essentially says that the state agrees to meet the transfer conditions set out in the Transfer Act. A more detailed analysis of the bill follows: Section 1 says that the state agrees to the transfer conditions set out in the Alaska Railroad Transfer Act. Specifically, these points of agreement are as follows:

- 1) The state agrees to acquire all the rail property of the railroad.
- 2) The state agrees to operate the railroad as a rail carrier in intrastate and interstate commerce.
- 3) The state agrees to assume all rights, liabilities, and obligations of the railroad that exist on the date of transfer.
- 4) The state agrees to protect the employment interests of the railroad employees as required by sec. 604 (d) (3) (A) (i)--vii) and sec. 607 of ARTA.
- 5) The state agrees to protect the employment interests of the officers of the railroad as required by sec. 604(d) (3) (E) of ARTA.
- 6) The state agrees to allow the Secretary of Transportation access to employees and records of the Alaska Railroad.
- 7) The state agrees to compensate the United States at the appraisal value that was determined by the United States Railway Association.

Section 2 authorizes the governor to enter into the various transfer agreements that relate to the points listed above and that will be required in order to secure certification of compliance with the Transfer Act and thus to secure the transfer of the railroad.

Section 3 defines certain terms used in the bill.

Section 4 provides for an immediate effective date.

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SENATE BILL 370

I urge your favorable action on this bill as soon as possible so that the transfer of the ownership of the Alaska Railroad to the state can become a reality.

Sincerely,
Bill Sheffield
Governor

February 8, 1984

The Transportation Committee considered SENATE BILL NO. 370 (authorizing the acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer terms) and recommended it be replaced with CS FOR SENATE BILL NO. 370 (TRSP) with a majority do pass. The report was signed by Senator Moss, Chairman and concurred in by Senators Gilman, Kerttula and Faiks. SENATE BILL NO. 370 was referred to the Finance Committee.

March 1, 1984

The Finance Committee considered SENATE BILL NO. 370 (authorizing the acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer terms) and recommended it be replaced with CS FOR SENATE BILL NO. 370 (FIN), entitled: "An Act relating to the Alaska Railroad; authorizing the acquisition of the Alaska Railroad; and providing for an effective date." with a majority do pass. Senator Bennett, Co-Chairman and Senator Faiks signed "no recommendation". Senators Ferguson, Vic Fischer, Josephson and Mulcahy signed "do pass". SENATE BILL NO. 370 was referred to the Rules Committee.

March 15, 1984

The Rules Committee considered SENATE BILL NO. 370 (authorizing the acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer of terms) and recommended it be replaced with CS FOR SENATE BILL NO. 370 (RLS), entitled: "An Act relating to the Alaska Railroad; authorizing the acquisition of the Alaska Railroad; and providing for an effective date." and calendar March 15. The report was signed by Senator Faiks, Chairman and concurred in by Senators Bennett, Ray, Kelly and Ferguson.

SENATE BILL 370 (cont.)

LETTER OF INTENT

3/8/84

CSSB 370 (RLS)

BY THE RULES COMMITTEE

It is the intent of the Legislature that the Department of Transportation and Public Facilities shall hold a public hearing in each of the communities effected along the proposed right of way corridor established under 16 U.S.C. 410hh (4)(b)-(e) known as the Western (Kobuk River) unit of the Gates of the Arctic National Park, before proceeding with the proposed railroad into the Ambler Mining District. SENATE BILL NO. 370 appears on the calendar. SENATE BILL NO. 370 (authorizing the acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer terms; efd) was read the second time. Senator Moss moved and asked unanimous consent for the adoption of the Transportation Committee Substitute offered on page 1981. Without objection, <CS FOR SENATE BILL NO. 370> <(TRSP)> was adopted. CS FOR SENATE BILL NO. 370 (TRSP) was read the second time. Senator Ray called the Senate. Senator Ray removed the call. Senator Faiks offered the following Amendment No. 1:

Page 1, line 16: insert after 1203(a) "as described in the report of July 14, 1983 as amended, submitted to Congress and the legislature under 45 U.S.C. 1204(a)"

Page 2, line 10: After "state" insert "of the rail properties of the Alaska Railroad as described in the report of July 14, 1983, as amended, submitted to Congress and the legislature under 45 U.S.C. 1204(a)" Senator Faiks moved and asked unanimous consent that Amendment No. 1 be adopted. Without objection, Amendment No. 1 was adopted. Senator Moss moved and asked unanimous consent that the following Letter of Intent be adopted:

"LETTER OF INTENT

CSSB 370 (TRSP) AM

It is the intent of the Legislature that the Department of Transportation and Public Facilities shall hold a public hearing in each of the communities affected along the proposed right-of-way corridor established under 16 U.S.C. 410hh (4)(b)-(e) known as the Western (Kobuk River) unit of the Gates of the Arctic National Park, before proceeding with any proposed railroad into the Ambler Mining District." Without objection, the Senate Letter of Intent was adopted. Senator Ray moved and asked unanimous consent that <CS FOR> <SENATE BILL NO. 370 (TRSP) am> be considered engrossed, advanced to third reading and placed on final passage. Without objection, it was so ordered. CS FOR SENATE BILL NO. 370 (TRSP) am was read the third time.

The question being: "Shall CS FOR SENATE BILL NO. 370 (TRSP) am (authorizing the acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer terms; efd) pass the Senate?" The roll was taken with the following result:

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SENATE BILL 370 (cont.)

CSSB 370 (TRSP) AM 3RD

Yeas: 19 Bennett, Eliason, Fahrenkamp, Faiks, Fischer Paul, Fischer
Vic, Gilman, Halford, Josephson, Kelly, Korttula, Moss,
Mulcahy, Pettyjohn, Ray, Rodey, Sackett, Sturgulewski,
Ziegler

Nays: 0

Absent: 1 Ferguson

And so, CS FOR SENATE BILL NO. 370 (TRSP) am passed the Senate with a Senate Letter of Intent. Senator Ray moved and asked unanimous consent that the roll call on the passage of the bill be considered the roll call on the effective date clause. Without objection, it was so ordered. CS FOR SENATE BILL NO. 370 (TRSP) am was engrossed, signed by the President and Secretary and transmitted to the House for consideration.

March 16, 1984

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 370 (Transportation) amended, by the Transportation Committee, entitled: "An Act authorizing the acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer terms; and providing for an effective date." was read the first time and referred to the Transportation and Finance Committees.

March 20, 1984

The Transportation Committee has had COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 370 (Transportation) amended (authorizing the acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer terms; and providing for an effective date) under consideration and reports it back as follows: Cato (Chairman), Szymanski, Abood, Herrmann, Flood, Battisworth, M. W. Miller and Davis recommend do pass. The report further states, "Do not pass Senate Letter of Intent". CSSB 370(Trsp)am was referred to the Finance Committee.

April 18, 1984

The Finance Committee has had COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 370 (Transportation) amended (authorizing the acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer terms; effective

SENATE BILL 370 (cont.)

date) under consideration and reports it back as follows: Bettisworth and Lindauer recommend do pass; Adams (Chairman), Martin, Grussendorf, Duncan, Hurlbert, Ward and Fritz have no recommendation. CSSB 370(Trsp)am was referred to the Rules Committee for placement on the calendar.

April 24, 1984

The Rules Committee has had COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 370 (Transportation) amended (authorizing the acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer terms; effective date) under consideration and reports it back as follows: Fuller Chairman, Hayes, Phillips and Liska recommend do pass; Tischer has no recommendation. The committee recommends adoption of the Senate Letter of Intent. CSSB 370(Trsp)am was returned to the Rules Committee for placement on the calendar.

May 3, 1984

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 370 (Transportation) amended (authorizing the acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer terms; effective date) was read the second time with the Transportation Committee report (page 2978 of the journal), the Finance Committee report (page 3397 of the journal) and the Rules Committee report (page 3436 of the journal). Amendment No. 1 by Clocksin:

Page 2, lines 16 - 18: Delete subparagraph (b)

Representative Clocksin moved and asked unanimous consent that Amendment No. 1 be adopted. Representative Barnes objected. Representative Fuller placed a call of the House on CSSB 370(Trsp)am. The Speaker stated that the call had been satisfied.

The question being: "Shall Amendment No. 1 be adopted?" The roll was taken with the following result:

CSSB 370 (TRSP) AM AM1

Yeas:	19	Clocksin, Davis, Duncan, Flood, Fuller, Goll, Grussendorf, Herrmann, Koponen, Lacher, Larson, Malone, Phillips, Sund, Szymanski, Vaska, Wendte, Zharoff
Nays:	21	Abood, Adams, Barnes, Bettisworth, Bussell, Cato, Cowdery, Fritz, Furnace, Hayes, Hurlbert, Lindauer, Liska, Martin, Miller, M.W., Pestinger, Ringstad, Shultz, Tischer, Uehling, Ward
Excused:	0	
Absent:	0	

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SENATE BILL 370 (cont.)

And so, Amendment No. 1 was not adopted. Representative Barnes moved and asked unanimous consent that CSSB 370 (TRSP) am be considered engrossed, advanced to third reading and placed on final passage. There being no objection, it was so ordered. CSSB 370 (TRSP) am was read the third time.

The question being: "Shall CSSB 370 (TRSP) am pass the House?" The roll was taken with the following result:

CSSB 370 (TRSP) AM

Yeas:	25	Bettisworth, Cato, Clocksin, Davis, Duncan, Flood, Fuller, Goll, Grussendorf, Herrmann, Koponen, Lacher, Larson, Lindauer, Malone, Martin, Miller, M.M., Miller, M.W., Phillips, Ringstad, Shultz, Sund, Szymanski, Uehling
Nays:	15	Abood, Adams, Barnes, Bussell, Cowdery, Fritz, Furnace, Hayes, Hurlbert, Liska, Tischer, Vaska, Ward, Wendte, Zharoff

Excused: 0

Absent: 0

Fritz changed from "yea" to "nay". And so, CSSB 370(Trsp)am passed the House. Representative Barnes moved the effective date clause.

The question being: "Shall the effective date clause be adopted?" The roll was taken with the following result:

CSSB 370 (TRSP) AM EFD

Yeas:	33	Bettisworth, Cato, Clocksin, Davis, Duncan, Flood, Fritz, Fuller, Furnace, Goll, Grussendorf, Herrmann, Hurlbert, Koponen, Lacher, Larson, Lindauer, Liska, Malone, Martin, Miller, M.M., Miller, M.W., Pestinger, Phillips, Ringstad, Shultz, Sund, Szymanski, Uehling, Vaska, Ward, Wendte, Zharoff
Nays:	7	Abood, Adams, Barnes, Bussell, Cowdery, Hayes, Tischer

Excused: 0

Absent: 0

And so, the effective date clause was adopted. Representative Clocksin gave notice of reconsideration of his vote on CSSB 370 (TRSP) am. Representative Clocksin withdrew the notice of reconsideration of his vote on CSSB 370 (TRSP) am. Representative Barnes gave notice of reconsideration of her vote on CSSB 370 (TRSP) am.

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SENATE BILL 370 (cont.)

May 4, 1984

The reconsideration of COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 370 (Transportation) amended (authorizing the acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer terms; effective date) was not taken up. CSSB 370 (TRSP) am was signed by the Speaker and the Chief Clerk and returned to the Senate.

May 7, 1984

Message of May 4 was read, stating the House passed: -CS FOR SENATE BILL NO. 370 (TRSP) am (authorizing the acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer terms; efd). CS FOR SENATE BILL NO. 370 (TRSP) am was referred to the Secretary for enrollment.

May 8, 1984

<CS FOR SENATE BILL NO. 370 (TRSP) am> (authorizing the acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer terms; efd) was enrolled, signed by the President and Secretary, Speaker and Chief Clerk and the engrossed and enrolled copies transmitted to the Office of the Governor at 5:22 p.m., May 7, 1984.

May 19, 1984

A message dated May 18, 1984, was read stating the Governor has signed the following bill and is transmitting the engrossed and enrolled copies to the Lieutenant Governor's Office for permanent filing: COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 370 (Transportation) amended (An Act authorizing the acquisition of the Alaska Railroad; authorizing the Governor to negotiate the transfer terms; and providing for an effective date.) Chapter 54, SLA 1984

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HOUSE BILL NO. 129

January 26, 1983

HOUSE BILL NO. 129 by Lindauer, entitled: "An Act making a special appropriation to the Department of Transportation and Public Facilities for acquisition of railroad and pipeline rights-of-way and construction of rail lines to extend service of the Alaska Railroad; and providing for an effective date." was read the first time and referred to the Resources, Transportation and Finance Committees.

March 16, 1983

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 129 by Lindauer, entitled: "An Act making a special appropriation to the Department of Transportation and Public Facilities for acquisition of railroad rights-of-way and construction of rail lines to extend service of the Alaska Railroad; and providing for an effective date." was read the first time and referred to the Resources, Transportation and Finance Committees.

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HOUSE BILL 346

April 1, 1985

HOUSE BILL NO. 346 by Sund, Szymanski and Taylor, entitled: "An Act relating to the Alaska Railroad Corporation." was read the first time and referred to the State Affairs, Labor & Commerce and Finance Committees.

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HOUSE BILL 512

January 13, 1984

HOUSE BILL NO. 512 by Hayes, Ringstad, Shultz, Abood, Fritz, Furnace, Cato, Fuller, Uehling, Bettisworth and Tischer, entitled: "An Act establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; and providing for an effective date." was read the first time and referred to the Transportation and Finance Committees.

March 23, 1984

The Transportation Committee has had HOUSE BILL NO. 512 (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; effective date) under consideration, recommends it be replaced with COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 512 (Transportation) (same title) and reports it back as follows: Cato (Chairman), Abood, Herrmann, Bettisworth, M.W. Miller and Flood recommend do pass; McBride and Davis have no recommendation. A fiscal note was attached. HB 512 was referred to the Finance Committee. The fiscal note appears in House Journal Supplement No. 113.

May 2, 1984

The Finance Committee has had HOUSE BILL NO. 512 (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; effective date) under consideration, recommends it be replaced with COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 512 (Finance)(same title) and reports it back as follows: Fritz and Bettisworth recommend do pass; Adams (Chairman), Grussendorf, Hurlbert, Ward, Martin, Duncan and Lindauer have no recommendation; Zharoff signed do not pass; Furnace signed "Bad Bill". A new fiscal note was attached. HB 512 was referred to the Rules Committee for placement on the calendar. The new fiscal note appears in House Journal Supplement No. 138.

May 3, 1984

Representative Barnes moved and asked unanimous consent that HOUSE BILL NO. 512 (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; effective date) and pending amendments be returned to the Rules Committee. Representative Clocksin objected and withdrew his objection. There being no further objection, HB 512 was taken from the calendar and returned to the Rules Committee.

HOUSE BILL 512 (cont.)

May 6, 1984

HOUSE BILL NO. 512 (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; effective date) was read the second time with the Transportation Committee report (page 3033 of the Journal) and the Finance Committee report (page 3612 of the Journal). Representative Barnes moved and asked unanimous consent that COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 512 (Finance)(same title) be adopted in lieu of the original bill. There being no objection, it was so ordered. Amendment No. 1 by Bettisworth:

Page 48, line 9: After "state," insert "unless a successor private corporation has been formed under sec. 9 of this Act,"

Page 49, line 29: After "approved" insert "or a successor private corporation has been formed under sec. 9 of this Act"

Page 50, after line 17, insert the following new bill sections:

*** Sec. 8. ALASKA RAILROAD PURCHASE FUND.**

(a) The Department of Revenue shall establish a trust fund to be known as the Alaska Railroad purchase fund. Each permanent fund dividend designated for payment to the Alaska Railroad purchase fund under sec. 12 of this Act shall be deposited in the trust fund for the credit of the individual for whom the dividend was paid. Interest earned from the dividend shall also be credited to the individual.

(b) At any time before the board of directors of the Alaska Railroad Corporation forms a successor private corporation under sec. 9 of this Act, an individual may elect to withdraw a dividend deposited in the Alaska Railroad purchase fund together with interest earned on it by applying to the Department of Revenue in writing.

*** Sec. 9. FORMATION OF SUCCESSOR CORPORATION.**

(a) When the Department of Revenue determines that the Alaska Railroad purchase fund contains \$75,000,000, it shall notify the board of directors of the Alaska Railroad Corporation. The board shall determine the net book value of the corporation and direct the department to transfer that amount from the Alaska Railroad purchase fund into the general fund in payment for the Alaska Railroad Corporation. The balance of the fund shall be transferred to the corporation by the department. For purposes of this subsection "net book value" means the amount paid by the state to the federal government for the Alaska Railroad, plus the amount of state money and value of state property transferred to the Alaska Railroad Corporation after the date of transfer of the railroad to the state, minus the amount of operating losses suffered or plus the amount of operating gains realized by the corporation from the date of transfer of the railroad to the date of the most recent audit conducted under AS 42.40.270.

HOUSE BILL 512 (cont.)

(b) Within 120 days after all money is transferred from the Alaska Railroad purchase fund, the board of directors of the Alaska Railroad Corporation shall reincorporate the corporation under AS 10.05. The board shall enter into an agreement with the state on behalf of the successor private corporation not to convert, for 10 years after the date of transfer of the railroad to the state, all or part of the real property transferred to the state under 45 U.S.C. 1201 - 1214 (Alaska Railroad Transfer Act of 1982), except that portion of property that lies within the Denali National Park and Preserve, to a use that would prevent the railroad from continuing to operate. Upon entering into this agreement, the state shall designate the private successor corporation as the entity to own, operate, and manage the Alaska Railroad and all assets and liabilities of the Alaska Railroad Corporation shall be transferred to the successor private corporation.

(c) Violation of the agreement entered into under (b) of this section shall result in the reversion to the state of all assets transferred by the state to the private successor corporation.

*** Sec. 10. ISSUANCE OF STOCK.**

The board of directors shall issue stock in the successor private corporation formed under sec. 9 of this Act to each individual who elected under sec. 12 of this Act to deposit a permanent fund dividend into the Alaska Railroad purchase fund. Stock issued under this section shall represent the entire value of the corporation, and the amount of stock issued to each individual shall be based upon the amount credited to that individual in the Alaska Railroad purchase fund.

*** Sec. 11. STOCKHOLDERS' MEETING.**

(a) At the time of issuing stock under sec. 13 of this Act, the board of directors shall notify each stockholder of the time and place of the first stockholders' meeting. The meeting shall be held within 90 days after the stock is issued.

(b) At the stockholders' meeting the board of directors shall resign and the stockholders shall elect nine individuals to serve as the new board of directors of the successor private corporation.

*** Sec. 12. PERMANENT FUND DIVIDENDS.**

Beginning in 1984 and until the board of directors of the Alaska Railroad Corporation forms a successor private corporation under sec. 9 of this Act, the permanent fund dividend application form shall be prepared to allow an applicant to indicate whether the dividend payment should be paid to the applicant or to the Alaska Railroad purchase fund. The permanent fund application deadline for 1984 shall be extended to August 31, 1984. The Department of Revenue shall pay the dividend as directed on the form. If an applicant does not indicate a preference for the payment of the permanent fund

HOUSE BILL 512 (cont.)

dividend on the application form, the dividend shall be paid to the applicant. If the Alaska Railroad is sold under sec. 6 of this Act, each permanent fund dividend together with interest earned on it shall be paid to the applicant who directed that the dividend be paid to the Alaska Railroad purchase fund.

* Sec. 13. AS 42.40 is repealed."

Renumber following sections accordingly.

Page 50, line 21: Delete "4 - 7" and insert "4 - 12"

Page 50, after line 22, insert the following new bill section:

"* Sec. 16. Section 13 of this Act takes effect on the date the Alaska Railroad Corporation is reincorporated under sec. 9 of this Act."

Representative Bettisworth moved and asked unanimous consent that Amendment No. 1 be adopted. Representative M.M. Miller objected. Representative Bettisworth moved and asked unanimous consent that he be allowed to withdraw Amendment No. 1. There being no objection, it was so ordered. Amendment No. 2 by Uehling and Cowdery:

Page 50, after line 17, insert the following new bill section:

"* Sec. 8. Until July 1, 1987, railroad freight traffic within the Municipality of Anchorage shall proceed at rates of speed not exceeding rates approved by the assembly after receiving advice from the Municipal Geotechnical Advisory Committee."

Renumber following sections accordingly.

Page 50, line 21: Delete "4 - 7" and insert "4 - 8"

Representative Uehling moved and asked unanimous consent that Amendment No. 2 be adopted. Representative Barnes objected.

The question being: "Shall Amendment No. 2 be adopted?" The roll was taken with the following result:

CSHB 512 (FIN) AM2

Yeas:	12	Clocksion, Cowdery, Duncan, Malone, Martin, Miller, M.M., Sund, Szymanski, Tischer, Uehling, Ward, Wendte
Nays:	26	Abood, Adams, Barnes, Bettisworth, Bussell, Cato, Davis, Flood, Fritz, Fuller, Furnace, Grussendorf, Hayes, Herrmann, Hurlbert, Koponen, Larson, Lindauer, Liska, Miller, M.W., Pestinger, Phillips, Ringstad, Shultz, Vaska, Zharoff
Excused:	2	Goll, Lacher
Absent:	0	

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HOUSE BILL 512 (cont.)

And so, Amendment No. 2 was not adopted. Representative Barnes moved and asked unanimous consent that CSHB 512(Fin) be considered engrossed, advanced to third reading and placed on final passage. Representative M.M. Miller objected.

The question being: "Shall CSHB 512(Fin) be advanced from second to third reading and placed on final passage?" The roll was taken with the following result:

CSHB 512 (FIN) MOTION

Yeas:	26	Abood, Adams, Barnes, Bettisworth, Bussell, Cato, Cowdery, Fritz, Fuller, Furnace, Grussendorf, Hayes, Herrmann, Hurlbert, Lindauer, Liska, Martin, Miller, M.W., Pestinger, Phillips, Ringstad, Shultz, Szymanski, Tischler, Uehling, Ward
Nays:	12	Clocksion, Davis, Duncan, Flood, Koponen, Larson, Malone, Miller, M.M., Sund, Vaska, Wendte, Zharoff
Excused:	2	Goll, Lacher
Absent:	0	

And so, lacking the necessary 30 votes, CSHB 512 (FIN) failed to advance, and will appear in third reading on tomorrow's calendar.

May 7, 1984

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 512 (Finance) (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; effective date), which had failed to advance (page 3706 of the journal), was read the third time. Representative Duncan moved and asked unanimous consent that CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment. Representative Barnes objected. Amendment No. 3 by Duncan:

Page 4, line 11: Delete "two" Insert "one"

Page 4, line 17: Add a new paragraph to read: "(6) one member shall be a public member with no direct or indirect financial interest in a transportation industry, except as a consumer of transportation services."

The question being: "Shall CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment?" The roll was taken with the following result:

HOUSE BILL 512 (cont.)

CSHB 512 (FIN) RET 2D AM3

Yeas: 16 Clocksin, Davis, Duncan, Flood, Goll, Koponen, Lacher,
Larson, Lindauer, Malone, Miller, M.M., Sund, Szymanski,
Vaska, Wendte, Zharoff
Nays: 23 Abood, Adams, Barnes, Bettisworth, Bussell, Cato, Cowdery,
Fritz, Fuller, Furnace, Grussendorf, Hayes, Herrmann, Liska,
Martin, Miller, M.W., Pestinger, Phillips, Ringstad, Shultz,
Tischer, Uehling, Ward
Excused: 0
Absent: 1 Hurlbert

And so the motion failed. Representative Duncan moved and asked unanimous consent that CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment. Representative Barnes objected. Amendment No. 4 by Duncan:

Page 3, line 17: Delete "Department of Commerce and Economic Development"
Insert "Department of Transportation and Public Facilities"

The question being: "Shall CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment?" The roll was taken with the following result:

CSHB 512 (FIN) RET 2D AM4

Yeas: 16 Clocksin, Davis, Duncan, Flood, Fritz, Goll, Koponen, Lacher,
Larson, Malone, Miller, M.M., Sund, Szymanski, Vaska, Wendte,
Zharoff
Nays: 23 Abood, Barnes, Bettisworth, Bussell, Cato, Cowdery, Fuller,
Furnace, Grussendorf, Hayes, Herrmann, Hurlbert, Lindauer,
Liska, Martin, Miller, M.W., Pestinger, Phillips, Ringstad,
Shultz, Tischer, Uehling, Ward
Excused: 0
Absent: 1 Adams
Fritz changed from "nay" to "yea".

And so, the motion failed. Representative Duncan moved and asked unanimous consent that CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment. Representative Barnes objected. Amendment No. 5 by Duncan:

Page 3, line 14: After "CORPORATION." add "(a)"

HOUSE BILL 512 (cont.)

Page 3, line 21: Add a new subsection to read: "(b) The corporation shall provide railroad transportation services. It may not provide other transportation services unless the other services are in direct support of the railroad transportation services. The corporation may not engage in business activities that are not directly related to railroad transportation, except that the corporation may lease or otherwise authorize the use of corporation property for other purposes."

The question being: "Shall CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment?" The roll was taken with the following result:

CSHB 512 (FIN) RET 2D AM5

Yeas:	16	Clocks in, Davis, Duncan, Flood, Goll, Koponen, Lacher, Larson, Malone, Miller, M.M., Phillips, Sund, Szymanski, Vaska, Wendte, Zharoff
Nays:	23	Abood, Barnes, Bettisworth, Bussell, Cato, Cowdery, Fritz, Fuller, Furnace, Grussendorf, Hayes, Herrmann, Hurlbert, Lindauer, Liska, Martin, Miller, M.W., Pestinger, Ringstad, Shultz, Tischer, Uehling, Ward
Excused:	0	
Absent:	1	Adams

And so, the motion failed. Representative Duncan moved and asked unanimous consent that CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment. Representative Barnes objected. Amendment No. 6 by Duncan:

Page 19, line 17: Add a new paragraph to read: "(4) expand, reduce, or diversify services provided by the railroad upon the date of transfer or as provided under this chapter that the board determines would represent a significant and permanent change in the level and nature of services provided."

The question being: "Shall CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment?" The roll was taken with the following result:

CSHB 512 (FIN) RET 2D AM6

Yeas:	15	Clocks in, Davis, Duncan, Flood, Goll, Grussendorf, Koponen, Lacher, Larson, Malone, Miller, M.M., Sund, Szymanski, Wendte, Zharoff
Nays:	23	Abood, Barnes, Bettisworth, Bussell, Cato, Cowdery, Fritz, Fuller, Furnace, Hayes, Herrmann, Hurlbert, Lindauer, Liska, Martin, Miller, M.W., Pestinger, Phillips, Ringstad, Shultz, Tischer, Uehling, Ward

HOUSE BILL 512 (cont.)

Excused: 0
Absent: 2 Adams, Vaska

And so, the motion failed. Representative Lindauer moved and asked unanimous consent that CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment. Representative Barnes objected. Amendment No. 7 by Lindauer:

Page 18, line 23: Remove the semicolon after "greater" and add: ", except that the railroad may acquire right-of-way and obtain permits for any geographic area;"

The question being: "Shall CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment?" The roll was taken with the following result:

CSHB 512 (FIN) RET 2D AM7

Yeas: 8 Davis, Flood, Koponen, Larson, Lindauer, Phillips, Sund, Szymanski
Nays: 32 Abood, Adams, Barnes, Bettisworth, Bussell, Cato, Clocksin, Cowdery, Duncan, Fritz, Fuller, Furnace, Goll, Grussendorf, Hayes, Herrmann, Hurlbert, Lacher, Liska, Malone, Martin, Miller, M.M., Miller, M.W., Pestinger, Ringstad, Shultz, Tischer, Uehling, Vaska, Ward, Wendte, Zharoff

Excused: 0
Absent: 0

And so, the motion failed. Representative Lindauer moved and asked unanimous consent that CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment. Representative Barnes objected. Amendment No. 8 by Lindauer:

Page 4, line 22: After "member." add the following sentence: "Board members appointed before December 31, 1986, shall be interim appointees serving at the pleasure of the governor."

The question being: "Shall CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment?" The roll was taken with the following result:

CSHB 512 (FIN) RET 2D AM8

Yeas: 14 Clocksin, Davis, Duncar, Flood, Goll, Koponen, Larson, Lindauer, Malone, Phillips, Sund, Szymanski, Vaska, Wendte

HOUSE BILL 512 (cont.)

Nays: 26 Abood, Adams, Barnes, Bettisworth, Bussell, Cato, Cowdery, Fritz, Fuller, Furnace, Grussendorf, Hayes, Herrmann, Hurlbert, Lacher, Liska, Martin, Miller, M.M., Miller, M.W., Pestinger, Ringstad, Shultz, Tischer, Uehling, Ward, Zharoff

Excused: 0
Absent: 0

And so, the motion failed. Representative Clocksin moved and asked unanimous consent that CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment. Representative Barnes objected. Amendment No. 9 by Clocksin:

Page 19, line 17: Add a new paragraph to read: "(4) reduce or eliminate passenger service if the reduction or elimination represents a significant and permanent change in the level or nature of the service provided."

The question being: "Shall CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment?" The roll was taken with the following result:

CSHB 512 (FIN) RET 2D AM9

Yeas: 18 Clocksin, Davis, Duncan, Flood, Goll, Koponen, Lacher, Larson, Lindauer, Malone, Miller, M.M., Shultz, Sund, Szymanski, Uehling, Vaska, Wendte, Zharoff

Nays: 22 Abood, Adams, Barnes, Bettisworth, Bussell, Cato, Cowdery, Fritz, Fuller, Furnace, Grussendorf, Hayes, Herrmann, Hurlbert, Liska, Martin, Miller, M.W., Pestinger, Phillips, Ringstad, Tischer, Ward

Excused: 0
Absent: 0

And so, the motion failed. Representative Davis moved and asked unanimous consent that CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment. Representative Abood objected. Amendment No. 10 by Davis:

Page 6, line 24: Delete lines 24 through 26. Insert: "(7) ensure that the accounting procedures of the corporation meeting generally accepted accounting principles consistent with industry standards for comparable railroads; "Conforming amendment:

Page 18, lines 6 - 7: Delete last sentence of subsection (a)

The question being: "Shall CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment?" The roll was taken with the following result:

HOUSE BILL 512 (cont.)

CSHB 512 (FIN) RET 2 AM10

Yeas: 15 Clocksin, Davis, Duncan, Flood, Goll, Koponen, Lacher,
Larson, Malone, Miller, M.M., Phillips, Sund, Vaska, Wendte,
Zharoff
Nays: 24 Abood, Adams, Barnes, Bettisworth, Bussell, Cato, Cowdery,
Fritz, Fuller, Furnace, Grussendorf, Hayes, Herrmann,
Hurlbert, Lindauer, Liska, Martin, Miller, M.W., Pestinger,
Ringstad, Shultz, Tischer, Uehling, Ward
Excused: 0
Absent: 1 Szymanski

And so, the motion failed. Representative Davis moved and asked unanimous consent that CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment. Representative Abood objected. Amendment No. 11 by Davis:

Page 2, line 21: Delete "for expansion"

Page 6, line 17: Delete "for expansion"

The question being: Shall CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment?" The roll was taken with the following result:

CSHB 512 (FIN) RET 2 AM11

Yeas: 12 Davis, Duncan, Flood, Koponen, Lacher, Larson, Malone,
Miller, M.M., Phillips, Sund, Vaska, Zharoff
Nays: 23 Abood, Adams, Barnes, Bettisworth, ***Brussell, Cato,
Cowdery, Fritz, Fuller, Furnace, Grussendorf, Hayes,
Herrmann, Hurlbert, Lindauer, Liska, Martin, Miller, M.W.,
Pestinger, Ringstad, Shultz, Tischer, Uehling
Excused: 0
Absent: 5 Clocksin, Goll, Szymanski, Ward, Wendte

And so, the motion failed. Representative Duncan moved and asked unanimous consent that CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment. Representative Barnes objected. The Speaker placed a call of the House on CSHB 512 (FIN). The call was satisfied. Amendment No. 12 by Duncan:

Page 46, line 29 through page 47, line 7: Delete Section 3 in its entirety

Page 50, lines 18 - 20: Delete Section 8 in its entirety

Page 50, line 21: Delete "Sections 1, 2, and 4 - 7 of" Renumber all sections accordingly.

HOUSE BILL 512 (cont.)

The question being: "Shall CSHB 512 (FIN) be returned to second reading for the purpose of specific amendment?" The roll was taken with the following result:

CSHB 512 (FIN) RET 2 AM12

Yeas:	17	Clocks in, Davis, Duncan, Flood, Goll, Grussendorf, Koponen, Lacher, Larson, Malone, Miller, M.M., Phillips, Sund, Szymanski, Vaska, Wendte, Zharoff
Nays:	23	Abood, Adams, Barnes, Bettisworth, Bussell, Cato, Cowdery, Fritz, Fuller, Furnace, Hayes, Herrmann, Hurlbert, Lindauer, Liska, Martin, Miller, M.W., Pestinger, Ringstad, Shultz, Tischer, Uehling, Ward
Excused:	0	
Absent:	0	

And so, the motion failed.

The question being: "Shall CSHB 512 (FIN) pass the House?" The roll was taken with the following result:

CSHB 512 (FIN)

Yeas:	34	Abood, Barnes, Bettisworth, Bussell, Cato, Clocksin, Cowdery, Davis, Duncan, Flood, Fritz, Fuller, Furnace, Grussendorf, Hayes, Herrmann, Hurlbert, Koponen, Lacher, Larson, Lindauer, Liska, Martin, Miller, M.M., Miller, M.W., Pestinger, Phillips, Ringstad, Shultz, Sund, Szymanski, Tischer, Uehling, Ward
Nays:	6	Adams, Goll, Malone, Vaska, Wendte, Zharoff
Excused:	0	
Absent:	0	

And so, CSHB 512 (FIN) passed the House. Representative Barnes moved and asked unanimous consent that the roll call on the passage of the bill be considered the roll call on the effective date clause. There being no objection, it was so ordered. CSHB 512 (FIN) was referred to the Chief Clerk for engrossment. CSHB 512 (FIN) was engrossed, signed by the Speaker and the Chief Clerk and transmitted to the Senate for consideration.

May 8, 1984

<CS FOR HOUSE BILL NO. 512 (FIN)> by the Finance Committee, entitled: "An Act establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; and providing for an effective date." was read the first time and referred to the Transportation Committee (to a time certain, Friday, May 11) and the Finance Committee.

HOUSE BILL 512 (cont.)

May 11, 1984

The Transportation Committee considered <CS FOR HOUSE BILL NO.> <512 (FIN)> (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; efd) and recommended it be replaced with SENATE CS FOR CS FOR HOUSE BILL NO. 512 (TRSP) with a majority do pass. The report was signed by Senator Moss, Chairman and concurred in by Senators Kerttula, Faiks and Fahrenkamp. Senator Gilman signed "no recommendation until constitutional amendment is decided on". CS FOR HOUSE BILL NO. 512 (FIN) was referred to the Finance Committee.

May 23, 1984

The Finance Committee considered <CS FOR HOUSE BILL NO. 512> <(FIN)> (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; efd) and recommended it be replaced with SENATE CS FOR CS FOR HOUSE BILL NO. 512 (FIN) with a majority do pass. The report was signed by Senator Bennett, Co-Chairman and concurred in by Senators Faiks, Ferguson and Sackett. Senators Josephson, Mulcahy and Vic Fischer signed "no recommendation". See Finance Committee

LETTER OF INTENT

It is the policy of the State that the Alaska Railroad should be operated in a business-like manner so as to foster the development of a strong and financially sound system of interstate commerce. Accordingly, although the railroad may use public resources or the benefits of its public status to extend its lines or to provide passenger service, it should not use direct subsidies to compete unfairly with privately-owned carriers.

Two fiscal notes from Senate Finance dated May 23 appear in Supplement No. 89. CS FOR HOUSE BILL NO. 512 (FIN) was referred to the Rules Committee.

May 28, 1984

<CS FOR HOUSE BILL NO. 512 (FIN)> (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; efd) will automatically appear on the May 29 calendar.

May 29, 1984

Senator Ray moved and asked unanimous consent that <CS FOR HOUSE> <BILL NO. 512 (FIN)> (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; efd) be held one legislative day. Without objection, it was so ordered and the bill will appear on the May 30 calendar.

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HOUSE BILL 512 (cont.)

May 30, 1984

<CS FOR HOUSE BILL NO. 512 (FIN)> (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; et.) which was held from May 29 was read the second time. Senator Faiks moved and asked unanimous consent for the adoption of the Finance Senate Committee Substitute offered on page 3221. Without objection, <SENATE CS FOR CS FOR HOUSE> <BILL NO. 512 (FIN)> was adopted. SENATE CS FOR CS FOR HOUSE BILL NO. 512 (FIN) was read the second time. Senator Vic Fischer offered Amendment No. 1:

Page 3, line 22: After "commissioners" add "and the member appointed under (2) of this section"

Page 3, line 28: Delete subsection (2) and add new subsection (2) to read: "(2) one member shall be an employee who is a member of a bargaining unit representing employees of the corporation." Senator Vic Fischer moved for the adoption of Amendment No. 1. Senator Halford objected. Senator Vic Fischer moved and asked unanimous consent to withdraw Amendment No. 1. Without objection, Amendment No. 1 was withdrawn. Senators Halford and Vic Fischer offered Amendment No. 2:

Page 3, line 22: After "commissioners" add "and the member appointed under (5) of this section"

Page 4, line 6: Delete "two" and insert "one"

Page 4, line 8: Add new subsection (5) to read: "(5) One member shall be an employee who is a member of a bargaining unit representing employees of the corporation."

Senator Halford moved and asked unanimous consent for the adoption of Amendment No. 2. Senator Ray objected, then withdrew his objection. Senator Ferguson objected. Senator Josephson placed a call on the Senate. President Kerttula stated the call was satisfied.

The question being: "Shall Amendment No. 2 be adopted?" The roll was taken with the following result:

SCS CSHB 512 FIN AM 2

Yeas:	19	Bennett, Eliason, Fahrenkamp, Faiks, Fischer Paul, Fischer Vic, Gilman, Halford, Josephson, Kelly, Kerttula, Moss, Mulcahy, Pettyjohn, Ray, Rodey, Sackett, Sturgulewski, Ziegler
Nays:	1	Ferguson

HOUSE BILL 512 (cont.)

And so, Amendment No. 2 was adopted. The Transportation Committee offered Amendment No. 3:

Page 7, line 28: After "maintain" insert "existing"

Page 8, line 1: Delete "and"

Page 8, line 7: Delete "after" and insert "subject to"

Page 14, lines 3-7: Delete subsection (8) and insert new subsection (8) to read: "(8) hold, maintain, use, operate, improve, lease, exchange, donate, convey, alienate, encumber, or otherwise grant a security interest in, or authorize use or dispose of, land or personal property, subject to other provisions of this chapter;"

Page 17, line 24: Delete from "each" through end of sentence; after "whether" insert "appropriations received for a service that is not self sustaining where calculated in accordance with United States Interstate Commerce Commission standards for determining rail service subsidies."

Page 18, line 26: Delete "services" and insert "service"; delete "continuation"

Page 21, line 9: After "easements" insert "in"

Page 24, line 6: Delete "railroad" and insert "rail"

Page 24, line 23: Delete "railroad" and insert "the"

Page 46, line 27: After "by it" insert "or"

Page 50, line 3: Delete "with" and insert "within"

Senator Moss moved for the adoption of Amendment No. 3 with the following technical amendment:

Page 17, line 24: Change "where" to "were"

The question being: "Shall Amendment No. 3 be adopted?" The roll was taken with the following result:

SCS CSHB 512 FIN AM S AM 3

Yeas: 20 Bennett, Eliason, Fahrenkamp, Faiks, Ferguson, Fischer Paul,
Fischer Vic, Gilman, Halford, Josephson, Kelly, Kerttula,
Moss, Mulcahy, Pettyjohn, Ray, Roday, Sackett, Sturgulewski,
Ziegler

Nays: 0

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HOUSE BILL 512 (cont.)

And so, Amendment No. 3 was adopted. Senator Kerttula offered Amendment No. 4:

Page 47, delete lines 6-29

Page 48, delete lines 1-20

Page 50, delete lines 6-9

Page 50, line 10: Delete "Sections 1, 2 and 8-10 of this Act take" and insert "This Act takes"

Renumber sections accordingly. Senator Halford moved and asked unanimous consent for the adoption of Amendment No. 4. Without objection, Amendment No. 4 was adopted. Senator Halford offered Amendment No. 5:

Page 8, line 7: Delete "." and insert ";" and add new paragraph (15) to read: "(15) exercising the power of eminent domain."

Page 23, line 14: Insert new Sec. 42.40.385 to read: "Sec. 42.40.385. EMINENT DOMAIN. (a) The corporation may exercise the power of eminent domain under AS 09.55.240 - 09.55.460 to acquire land for railroad purposes consistent with this chapter. Notwithstanding AS 09.55.250, the corporation may acquire a fee simple title whenever, in the judgment of the board, ownership of a fee simple title is necessary to carry out the purposes of this chapter.

(b) The corporation may file a declaration of taking in the manner provided for the state under AS 09.55.420.

(c) The power of eminent domain conferred under this section includes the power to obtain clay, gravel, sand, timber, rock or other material for the operation of the railroad, the land necessary to obtain the material, and access to the land and material.

(d) The exercise of the power of eminent domain requires the prior approval of the governor."

Senator Halford moved and asked unanimous consent for the adoption of Amendment No. 5. Senator Josephson objected for the purpose of amending Amendment No. 5. Senator Josephson offered amendment to Amendment No. 5:

Sec. 42.40.385: Insert "transportation" before "purposes". Senator Josephson moved and asked unanimous consent that the amendment to Amendment No. 5 be adopted. Without objection, the amendment to Amendment No. 5 was adopted. There being no further objection, Amendment No. 5 as amended was adopted. Senator Josephson offered Amendment No. 6:

Page 3, line 11: Delete "Commerce and Economic Development" and insert "Transportation and Public Facilities"

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Senator Josephson moved Amendment No. 6. Senators Moss and Faiks objected.

The question being: "Shall Amendment No. 6 be adopted?" The roll was taken with the following result:

SCS CSHB 512 FIN AM S AM 6

Yeas: 8 Ferguson, Fischer Vic, Josephson, Kerttula, Mulcahy, Ray,
Rodey, Ziegler

Nays: 12 Bennett, Eliason, Fahrenkamp, Faiks, Fischer Paul, Gilman,
Halford, Kelly, Moss, Pettyjohn, Sackett, Sturgulewski

Kerttula changed his vote from nay to yea

And so, Amendment No. 6 failed. Senators Josephson and Rodey offered Amendment No. 7:

Page 1, line 22: Add a new subsection to read: "(E) ensure that the Alaska Railroad does not use direct appropriations to fund a particular freight operation if it can be demonstrated that the appropriation has placed privately owned and operated carriers in an unfair competitive position. Nothing herein shall affect the provisions of AS 42.40.220(b)." Senator Josephson moved Amendment No. 7:

The question being: "Shall Amendment No. 7 be adopted?" The roll was taken with the following result:

SCS CSHB 512 FIN AM S AM 7

Yeas: 20 Bennett, Eliason, Fahrenkamp, Faiks, Ferguson, Fischer Paul,
Fischer Vic, Gilman, Halford, Josephson, Kelly, Kerttula,
Moss, Mulcahy, Pettyjohn, Ray, Rodey, Sackett, Sturgulewski,
Ziegler

Nays: 0

And so, Amendment No. 7 was adopted. Senator Rodey offered Amendment No. 8:

Page 44, line 11: Insert a new subsection (c) to read: "(c) The corporation is subject to AS 45.50.562 - 45.50.596."

Senator Rodey moved Amendment No. 8. Senator Faiks objected.

The question being: "Shall Amendment No. 8 be adopted?" The roll was taken with the following result:

SCSCSHB 512 FIN AM S AM 8

Yeas: 3 Josephson, Ray, Rodey

Nays: 13 Bennett, Eliason, Fahrenkamp, Faiks, Fischer Paul, Fischer
Vic, Halford, Kerttula, Moss, Mulcahy, Pettyjohn, Sackett,
Sturgulewski

Absent: 4 Ferguson, Gilman, Kelly, Ziegler

HOUSE BILL 512 (cont.)

And so, Amendment No. 8 failed. Senator Vic Fischer offered Amendment No. 9:

Page 24, lines 5-26: Delete Sec. 42.40.420 and replace with: Sec. 42.40.420. PUBLIC USE OF RAILROAD LAND. Upon request of a municipality or the state, the corporation may authorize use of railroad land for public purposes. Subject to AS 42.40.350(b), the corporation shall authorize a walkway or a trail if the board first finds in writing that the proposed walkway or trail will not create a safety hazard and will not unreasonably interfere with continued or expanded operations in the utility corridor. Before authorizing a use under this section, the board shall require the municipality or state to execute an agreement in a form approved by the board to:

(1) agree to restrictions, limitations, and conditions on the proposed use required by the corporation and reasonably calculated to reduce the risk of a safety hazard or interference with authorized uses in the utility corridor; (2) hold the corporation harmless from and indemnify the corporation for liability and claims arising from any use authorized under this section including: (A) defending the corporation in a cause of action brought against the corporation as a result of the use; and (B) indemnifying the corporation for the amount of a judgment, including prejudgment and postjudgment interest, rendered against the corporation, and for all costs and attorney's fees incurred by the corporation in settling or defending the claim (3) stop the use upon request of the corporation if the use interferes with expansion or replacement of railroad facilities, creates a safety hazard, or interferes with railroad operations.

Senator Vic Fischer moved and asked unanimous consent for the adoption of Amendment No. 9. Senator Moss objected, then withdrew his objection. There being no further objection, Amendment No. 9 was adopted. Senator Kelly offered Amendment No. 10:

Page 48, line 29: Delete "Ship Creek" and insert "Birchwood"

Senator Kelly moved for the adoption of Amendment No. 10. Senator Rodey asked unanimous consent. Without objection, Amendment No. 10 was adopted. Senator Ray moved and asked unanimous consent that <SENATE CS> <FOR CS FOR HOUSE BILL NO. 512 (FIN) am S> be considered engrossed, advanced to third reading and placed on final passage. Without objection, it was so ordered. SENATE CS FOR CS FOR HOUSE BILL NO. 512 (FIN) am S was read the third time. Senator Ray moved and asked unanimous consent for the adoption of the Finance Senate Committee Letter of Intent offered on page 3221. Without objection, the Senate Letter of Intent was adopted.

The question being: "Shall SENATE CS FOR CS FOR HOUSE BILL NO. 512 (FIN) am S (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; efd) pass the Senate?" The roll was taken with the following result:

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HOUSE BILL 512 (cont.)

SCSCSHB 512 FIN AM S 3RD

Yeas: 20 Bennett, Eliason, Fahrenkamp, Faiks, Ferguson, Fischer Paul,
Fischer Vic, Gilman, Halford, Josephson, Kelly, Kerttula,
Moss, Mulcahy, Pettyjohn, Ray, Roday, Sackett, Sturgulewski,
Ziegler

Nays: 0

And so, SENATE CS FOR CS FOR HOUSE BILL NO. 512 (FIN) am S passed the Senate with a Senate Letter of Intent.

Senator Ray moved and asked unanimous consent that the roll call on the passage of the bill be considered the roll call on the effective date clause. Without objection, it was so ordered. Senator Ferguson gave notice of reconsideration on SENATE CS FOR CS FOR HOUSE BILL NO. 512 (FIN) am S.

May 31, 1984

Senator Ferguson requested that the reconsideration on <SENATE> <CS FOR CS FOR HOUSE BILL NO. 512 (FIN) am S> (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; efd) be taken up.

HOUSE BILLS IN THIRD READING

SENATE CS FOR CS FOR HOUSE BILL NO. 512 (FIN) am S was before the Senate on reconsideration. Senator Ray moved that SENATE CS FOR CS FOR HOUSE BILL NO. 512 (FIN) am S be held one legislative day. Senator Ferguson objected.

June 1, 1984

<SENATE CS FOR CS FOR HOUSE BILL NO. 512 (FIN) am S> (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; efd) which was held from May 31 was before the Senate on reconsideration. Senator Halford moved and asked unanimous consent that SENATE CS FOR CS FOR HOUSE BILL NO. 512 (FIN) am S be held one legislative day. Without objection, it was so ordered and the bill will appear on the June 2 calendar in third reading.

June 2, 1984

<SENATE CS FOR CS FOR HOUSE BILL NO. 512 (FIN) am S> (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; efd) which was held from June 1 was before the Senate on reconsideration.

HOUSE BILL 512 (cont.)

The question to be reconsidered is: "Shall SENATE CS FOR CS FOR HOUSE BILL NO. 512 (FIN) am S (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; efd) pass the Senate?" The roll was taken with the following result:

SCSCSHB 512 FIN AM S RECON

Yeas: 18 Eliason, Fahrenkamp, Faiks, Ferguson, Fischer Paul, Fischer Vic, Gilman, Halford, Josephson, Kerttula, Moss, Mulcahy, Pettyjohn, Ray, Rodey, Sackett, Sturgulewski, Ziegler

Nays: 0

Excused: 1 Kelly

Absent: 1 Bennett

And so, SENATE CS FOR CS FOR HOUSE BILL NO. 512 (FIN) am S passed the Senate on reconsideration with a Senate Letter of Intent. Senator Ray moved and asked unanimous consent that the roll call on the passage of the bill be considered the roll call on the effective date clause. Without objection, it was so ordered. SENATE CS FOR CS FOR HOUSE BILL NO. 512 (FIN) am S was engrossed, signed by the President and Secretary and returned to the House for consideration.

June 8, 1984

Message of June 8 was read, stating the House concurred in the Senate amendments to CS FOR HOUSE BILL NO. 512 (FIN), thus passing: SENATE CS FOR CS FOR HOUSE BILL <NO. 512 (FIN) am S> (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; efd) with a Legislative Letter of Intent. A message dated June 4, 1984, was read stating the Senate has passed COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 512 (Finance) (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; effective date) with the following amendment:

SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 512 (Finance) amended Senate (same title) with a Senate Letter of Intent (page 3221 of the Senate Journal) and so, SCS CS HB 512 (FIN) am S is transmitted for consideration. This will be taken up at a later time under Unfinished Business. -COMMUNICATIONS

Representative Barnes moved that the House concur in the Senate amendment to CS HB 512 (FIN), thus adopting SCS CS HB 512 (FIN) am S (page 4280), and recommended that the members vote yes.

The question being: "Shall the House concur in the Senate amendment to CS HB 512 (FIN)?" The roll was taken with the following result:

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HOUSE BILL 512 (cont.)

SCS CSHB 512 (FIN) AMS CONCUR

Yeas:	32	Abood, Barnes, Battisworth, Cato, Clocksin, Cowdery, Davis, Duncan, Flood, Fritz, Fuller, Furnace, Goll, Grussendorf, Hayes, Herrmann, Koponen, Lacher, Larson, Lindauer, Liska, Miller, M.M., Miller, M.W., Postinger, Phillips, Ringstad, Shultz, Szymanski, Tischer, Vaska, Ward, Zharoff
Nays:	1	Malone
Excused:	0	
Absent:	7	Adams, Bussell, Hurlbert, Martin, Sund, Uehling, Wendte

And so, the House concurred in the Senate amendment to CSHB 512(Fin), thus adopting: SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 512 (Finance) amended Senate (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; effective date)

Representative Barnes moved and asked unanimous consent that the roll call on the passage of the bill be considered the roll call on the effective date clause. There being no objection, it was so ordered. Representative Barnes moved and asked unanimous consent that the Senate Letter of Intent (page 3221 of the Senate Journal) be adopted. Representative Duncan objected and withdrew his objection. There being no further objection, it was so ordered. The Chief Clerk was instructed to so notify the Senate.

July 24, 1984

Message dated and received July 5, stating the Governor has signed the following bill and transmitted the engrossed and enrolled copies to the Lieutenant Governor's Office for permanent filing: <SENATE CS FOR CS FOR HOUSE BILL NO. 512(Fin) am S> An Act establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; and providing for an effective date. Chapter 153, SLA 1984

July 15, 1984

SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 512 (Finance) amended Senate (establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; effective date) was transmitted to the Office of the Governor at 11:50 a.m., June 12, 1984.

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HOUSE BILL 512 (cont.)

July 18, 1984

A message dated July 5, 1984, was received stating the Governor has signed the following bill and is transmitting the engrossed and enrolled copies to the Lieutenant Governor's Office for permanent filing: **SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 512 (Finance) amended Senate (An Act establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; and providing for an effective date.) Chapter 153, SLA 1984**

HOUSE BILL NO. 543

January 27, 1984

HOUSE BILL NO. 543 by the Rules Committee by request of the Governor, entitled: "An Act authorizing the acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer terms; and providing for an effective date." was read the first time and referred to the Transportation and Finance Committees. The Governor's transmittal letter, dated January 26, 1984, appears below:

"Dear Representative Hayes:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that will authorize the state to acquire the Alaska Railroad. The bill is required so that the certification process mandated by the Alaska Railroad Transfer Act (ARTA; P.L. 97-468) can be effected. Once this certification process is completed, acquisition of the railroad can occur as soon as practicable. The bill essentially says that the state agrees to meet the transfer conditions set out in the Transfer Act. A more detailed analysis of the bill follows: Section 1 says that the state agrees to the transfer conditions set out in the Alaska Railroad Transfer Act. Specifically, these points of agreement are as follows:

- 1) The state agrees to acquire all the rail property of the railroad.
- 2) The state agrees to operate the railroad as a rail carrier in intrastate and interstate commerce.
- 3) The state agrees to assume all rights, liabilities, and obligations of the railroad that exist on the date of transfer.
- 4) The state agrees to protect the employment interests of the railroad employees as required by sec. 604(d)(3)(A)(i) -- (vii) and sec. 607 of ARTA.
- 5) The state agrees to protect the employment interests of the officers of the railroad as required by sec. 604(d)(3)(E) of ARTA.
- 6) The state agrees to allow the Secretary of Transportation access to employees and records of the Alaska Railroad.
- 7) The state agrees to compensate the United States at the appraisal value that was determined by the United States Railway Association. Section 2 authorizes the governor to enter into the various transfer agreements that relate to the points listed above and that will be required in order to secure certification of compliance with the Transfer Act and thus to secure the transfer of the railroad. Section 3 defines certain terms used in the bill. Section 4 provides for an immediate effective date. I urge your favorable action on this bill as soon as possible so that the transfer of the ownership of the Alaska Railroad to the state can become a reality.

Sincerely,
/s/ Bill Sheffield
Bill Sheffield
Governor"

Senator
August 17, 1989
Page 47

HOUSE BILL NO. 543 (cont.)

January 30, 1984

The fiscal note that accompanied HOUSE BILL NO. 543 (authorizing acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer terms; effective date) appears in House Journal Supplement No. 87.

February 15, 1984

The Transportation Committee has had HOUSE BILL NO. 543 (authorizing acquisition of the Alaska Railroad; authorizing the governor to negotiate the transfer terms; effective date) under consideration, recommends it be replaced with COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 543 (Transportation)(same title) and reports it back as follows: Cato (Chairman), Bettisworth, Flood, McBride, Herrman, Abood, Davis and M.W. Miller recommend do pass; Representative Szymanski recommends do pass "Woo-Woo". HB 543 was referred to the Finance Committee.

Senator
August 17, 1989
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HOUSE BILL NO. 612

February 17, 1986

HOUSE BILL NO. 612 by Davis, entitled: "An Act relating to leases of land by the Alaska Railroad Corporation." was read the first time and referred to the Labor & Commerce, Transportation and Finance Committees.



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 463-3991

March 18, 1986

MEMORANDUM

TO: Representative Terry Martin

ATTN: Jeff Logan

FROM: Mary Jennings *mg*
Legislative Analyst

RE: Potential Property Tax Liability of the Alaska Railroad
Research Request 86-117

You requested information regarding the potential property tax liability of the Alaska Railroad Corporation (ARC). Specifically, you asked how much additional revenue municipalities would collect from the railroad and how this would effect ARC profit. Table 1 shows that the ARC would pay nearly \$400,000 annually in property taxes. Payment of taxes would have reduced the corporations's 1985 profit by 5.5 percent.

Property Value

As part of the work for transfer of the railroad from federal to State ownership, the Jackson-Cross Appraisal Company produced valuations for railroad land and improvements in 1983. According to Mike Worley, Alaska State Assessor, the methodology used by municipal assessors would probably differ, but for the purpose of a rough calculation, the Jackson-Cross appraisal could be used for property tax estimates. He also suggested increasing the 1983 figures by about 20 percent so they would reflect current value.

Mill Rate. The mill rate differs in each service area within a municipality. Because ARC property has not been valued by service area, I contacted municipal assessors for an estimated mill rate that could be used for assessing ACR property within their municipality.¹ These figures appear in Column 3 of Table 1.

¹Municipality is used throughout the text to refer to cities, boroughs and municipalities.

Table 1
Potential 1985 Tax Liability of the Alaska Railroad Corporation

Real Property						Estimated		
Municipality/ Borough	Property Value	Mill Rate	Potential Tax	Tax Paid By Lessee	Remaining Tax	Personal Property Tax	Total Property Tax	Additional Tax Payable
Anchorage	\$58,919,167	6.00	\$323,515	\$28,800	\$294,715	\$7,021	\$330,536	\$301,736
Fairbanks North Star	8,218,204	10.10	82,953	48,000	34,953	0	82,953	34,953
Kodiak Peninsula	2,000,827	6.75	13,506	9,000	4,506	5,266	18,772	9,772
Whittier	1,306,851	5.00	6,532	0	6,532	130	7,062	7,062
Valdez	438,541	11.57	5,074	0	5,074	0	5,074	5,074
Mat-Su	3,000,000	6.50	19,500	0	19,500	13,213	34,713	34,713
Nenana	90,000	11.00	990	0	990	143	1,133	1,133
Total	\$69,648,090		\$452,470	\$85,800	\$366,670	\$27,773	\$480,243	\$394,443

Prepared by the House Research Agency. March 1985.

Representative Martin
March 18, 1986
Page Three

Leased Land. Of the property owned by the ARC, some of it is leased to private entities who must pay property taxes. In Whittier, Valdez, and Nenana, only lessee improvements are taxed. In the Mat-Su Borough, the single tract of leased ARC land is tax exempt. In Anchorage, Fairbanks, and the Kenai Peninsula Borough property tax is paid on a percentage of the value of land. Although the exact amount of property tax paid by lessees of ARC land was not available, each assessor was able to calculate what he thought was a fair estimate. The estimates appear in Column 5 of Table 1.

Personal Property. Alaska Railroad Corporation holds approximately \$5.5 million worth of personal property, which is comprised of business inventory and equipment. To determine the amount of tax liability for each municipality, I apportioned the value for assessment according to the percentage of main line track within a municipality. This method is used in several other states (Colorado statutes are attached). Although the amount of main line track within each municipality has not been surveyed, I was able to develop estimates with assistance from the engineering department of the ARC. Table 2 is the percentage of main line track within each municipality.²

Table 2

ARC Mainline Track Distribution

<u>Municipality/ Borough</u>	<u>Mainline Track</u>	<u>Percentage</u>
Anchorage	90	21
Fairbanks North Star*	90	21
Kenai Peninsula	60	14
Mat-Su	180	43
Whittier	2	.6
Nenana	1	.4
<u>Valdez</u>	<u>0</u>	<u>-</u>
Total	423	100%

*Does not assess a personal property tax.

²Approximately 80 miles of mainline track is outside taxing municipalities.

Representative Martin
March 18, 1986
Page Four

Property Tax Liability

Table 1 presents the 1985 potential property tax liability of the ARC by municipality. The table shows that the ARC had a potential real property tax liability of \$452,470. Of that amount, \$85,800 was paid by lessees, leaving \$366,670 in real property tax liability. Personal property tax totals \$27,773. Total property tax is \$480,243. The table indicates that the potential property tax liability is \$394,443 after deducting taxes paid by lessees. Anchorage would have collected approximately 75 percent of that amount.

Profit

Table 3 depicts the effect that a real and a personal property tax would have had on ARC's 1985 profit. The total estimated property tax liability is 5.5 percent of the corporation's profit.

Table 3

Property Tax Effect on ARC's 1985 Profit

Profit (before tax)	7,100,000
Real Property Tax	452,470
Tax Paid by Lessees	<85,800>
Personal Property Tax	<u>27,773</u>
Total Tax	394,443
Profit (less tax)	<u>6,705,557</u>

I hope you find this information useful. If you have any questions, please contact our office.

MJ

Attachment

or otherwise, of personal property or other taxes which become a lien against tax-deferred property.

Source: L. 78, p. 476, § 1.

39-3.5-116. Deed or contract clauses preventing application for deferral prohibited - clauses void.

Repealed, L. 79, p. 1414, § 11, effective January 1, 1980.

39-3.5-117. Report. No later than May 1, 1980, and each May 1 thereafter, the state treasurer shall submit to the general assembly a report concerning tax deferral for the elderly as set forth in this article. Such report shall include data concerning the number of taxpayers establishing claims for deferral, the amount of taxes deferred in each county, and such other data as the state treasurer may deem useful.

Source: L. 78, p. 477, § 1; L. 79, p. 1414, § 9.

Valuation and Taxation

ARTICLE 4

Valuation and Assessment of Public Utilities

39-4-101.	Definitions.	39-4-107.	Statement of valuation to counties.
39-4-102.	Valuation of public utilities.	39-4-108.	Complaint — hearing — decision.
39-4-103.	Schedules of property — confidential records.	39-4-109.	Judicial review.
39-4-104.	Inspection of records of utility.	39-4-110.	Certification and assessment of pollution control property.
39-4-105.	Production of records.		
39-4-106.	Valuation of utilities — apportionment.		

39-4-101. Definitions. As used in this article, unless the context otherwise requires:

(1) "Aircraft" means any contrivance now known or hereafter invented, used, or designed for navigation or flight through the air and designed to carry at least one person.

(2) "Airline company" means any operator who engages in the carriage by aircraft of persons or property as a common carrier for compensation or hire, or the carriage of mail, or any aircraft operator who operates regularly between two or more points and publishes a flight schedule. "Airline company" shall not include operators whose aircraft are all certified for a gross takeoff weight of twelve thousand five hundred pounds or less and who do not engage in scheduled or mail carriage service.

(2.5) "Public utility" means, for property tax years 1982 through 1986, every sole proprietorship, firm, partnership, association, company, or corporation, and the trustees or receivers thereof, whether elected or appointed, which does business in this state as an airline company, electric company,

rural electric company, telephone company, telegraph company, gas company, gas pipeline carrier company, domestic water company selling at retail, pipeline company, or coal slurry pipeline. This subsection (2.5) is repealed, effective December 31, 1986.

(3) "Public utility" means, for property tax years commencing on or after January 1, 1987, every sole proprietorship, firm, partnership, association, company, or corporation, and the trustees or receivers thereof, whether elected or appointed, which does business in this state as a railroad company, airline company, electric company, rural electric company, telephone company, telegraph company, gas company, gas pipeline carrier company, domestic water company selling at retail, pipeline company, coal slurry pipeline, or private car line company.

Source: R & RE, L. 64, p. 688, § 1; C.R.S. 1963, § 137-4-1; L. 76, pp. 768, 759, § § 1, 16; L. 81, pp. 1847, 1854, § § 1, 3, 4; L. 82, § 41.

Editor's note: Section 46 of chapter 171, Session Laws of Colorado 1982, provides that the act amending subsection (2.5) applies to property tax years commencing on or after January 1, 1982.

Applied in State Personnel Bd. v. District Court, ___ Colo. ___, 637 P.2d 333 (1981).

39-4-102. Valuation of public utilities. (1) The administrator shall determine the actual value of the operating property and plant of each public utility as a unit, giving consideration to the following factors and assigning such weight to each of such factors as in his judgment will secure a just value of such public utility as a unit:

(a) The tangible property comprising its plant, whether the same is situated within this state or both within and without this state, exclusive of any tangible property situated without this state which is not directly connected with the business in which such public utility is engaged within this state;

(b) Its intangibles, such as special privileges, franchises, contract rights and obligations, and rights-of-way;

(c) Its gross and net operating revenues during a reasonable period of time not to exceed the most recent five-year period, capitalized at indicative rates;

(d) The average market value of its outstanding securities during the preceding calendar year, if such market value is determinable.

(2) If, in the judgment of the administrator, the books and records of any public utility accurately reflect its tangible property, its intangibles, and its earnings within this state during the most recent five-year period, the administrator may determine from such books and records the actual value of its property and plant within this state and need not determine the entire value of its property and plant both within and without this state.

(3) (a) For property tax years 1982 through 1986, there shall be applied to the actual value of each public utility an equalization factor to adjust the actual value for the current year of assessment as determined by the administrator pursuant to subsections (1) and (2) of this section to the public utility's level of value in 1981.

(b) For property tax years commencing on or after January 1, 1987, there shall be applied to the actual value of each public utility an equalization factor to adjust the actual value for the current year of assessment as determined

by the administrator pursuant to subsections (1) and (2) of this section to the public utility's level of value in the year which is specified in section 39-1-104 (9) and (10) and which is used to determine the actual value of properties which are subject to said subsections.

(c) Appraisal procedures, instructions, and factors utilized by the administrator in carrying out the provisions of this section shall be subject to legislative review, the same as rules and regulations, pursuant to section 24-4-103 (8) (d), C.R.S. 1973.

(d) The administrator shall certify to the public utility any difference in valuation resulting from the application of this section. Said certification shall be part of the evidence presented in determining rate structures by any applicable rate-setting body.

Source: R & RE, L. 64, p. 688, § 1; C.R.S. 1963, § 137-4-2; L. 67, p. 948, § 12; L. 70, p. 382, § 15; L. 81, p. 1847, § 2.

Am. Jur.2d, Sec 71 Am. Jur.2d, State and
Local Taxation, § 439, 441, 442.

C.J.S. See 84 C.J.S., Taxation, § 444.

39-4-103. Schedules of property - confidential records. (1) (a) No later than April 15 of each year, each public utility doing business in this state shall file with the administrator, on a form provided by the administrator, a statement, signed by an officer of such public utility under the penalties of perjury in the second degree, containing such information concerning itself and all of its property, wherever situated, as the administrator may reasonably require for the purpose of determining the actual value of such public utility in this state and for apportioning the valuation for assessment of such public utility among the several counties of this state.

(b) Such statement shall include a specific identification of each and every item of property owned, leased, or used which is not included in the rendition of the operating property and plant and the county in which each item is located.

(2) All such statements filed with the administrator shall be considered private documents and shall be available only to the administrator and the employees of the division of property taxation and to assessors.

Source: R & RE, L. 64, p. 689, § 1; C.R.S. 1963, § 137-4-3; L. 70, p. 382, § 16; L. 72, p. 569, § 50; L. 76, p. 759, § 17.

Crima reference: For perjury in the second degree and the penalty therefor, see § 18-6-503 and 18-1-106

39-4-104. Inspection of records of utility. The division of property taxation, through the administrator, and its employees, shall have the right at any time, upon demand, to inspect the books, accounts, and records of any public utility doing business in this state for the purpose of verifying the information contained in its filed statement and to examine under oath any officer, employee, or agent of such public utility. Any person making such demand upon a public utility on behalf of the administrator shall produce and exhibit his authority to make such inspection or examination.

Source: R & RE, L. 64, p. 689, § 1; C.R.S. 1963, § 137-4-4; L. 70, p. 382, § 17.

39-4-105. Production of records. By order or subpoena, the administrator may require the production of any books, accounts, or records of any public utility doing business in this state, or verified copies of the same, for examination, and any public utility failing or refusing to comply with any such order or subpoena shall forfeit and pay to the state the sum of one hundred dollars for each day it so fails or refuses.

Source: R & RE, L. 64, p. 690, § 1; C.R.S. 1963, § 137-4-5; L. 70, p. 383, § 18.

39-4-106. Valuation of utilities - apportionment. (1) Repealed, L. 81, p. 1855, § 7, effective January 1, 1982.

(2) In the specific case of a telegraph company, the administrator shall:

(a) Determine, as of the last day of December of each year, the actual value of such company as a unit, or of its property and plant within this state, in the manner provided in section 39-4-102;

(b) Allocate to this state, if the actual value of such company is determined as a unit, that proportion of such actual value as in his judgment accurately represents the value of the property and plant of such company within this state, utilizing commonly recognized methods of allocation as in his judgment are just and equitable;

(c) Compute the valuation for assessment of such company in this state as provided in section 39-1-104;

(d) Apportion the valuation for assessment of such company in this state among the several counties of this state in such proportion as in his judgment will fairly represent the valuation for assessment within each such county, utilizing commonly recognized methods of apportioning as in his judgment are just and equitable.

(3) In the specific case of a telephone company, the administrator shall:

(a) Determine, as of the last day of December of each year, the actual value of such company as a unit, or of its property and plant within this state, in the manner provided in section 39-4-102;

(b) Allocate to this state, if the actual value of such company is determined as a unit, that proportion of such actual value as in his judgment accurately represents the value of the property and plant of such company within this state, utilizing commonly recognized methods of allocation as in his judgment are just and equitable;

(c) Compute the valuation for assessment of such company in this state as provided in section 39-1-104;

(d) Apportion the valuation for assessment of such company in this state among the several counties of this state in such proportion as in his judgment will fairly represent the valuation for assessment within each such county, utilizing commonly recognized methods of apportioning as in his judgment are just and equitable.

(4) Repealed, L. 81, p. 1855, § 7, effective January 1, 1982.

(5) In the specific case of a pipeline company engaged in the transportation of gas, oil, or petroleum products or coal slurry or other coal products in pipelines through or in this state, the administrator shall:

(a) Determine, as of the last day of December of each year, the actual value of the property of such company within this state, either in the manner provided in section 39-4-102 or, with respect to its pipelines, on a diameter

vitalization and Regulatory Reform Act" in 1976. Such act provides, in part, that it is an unreasonable burden upon and an unreasonable discrimination against interstate commerce for certain property, as defined by the act and the interstate commerce commission, within the railway system to be assessed "at a value that has a higher ratio to the true market value" of such property "than the ratio that the assessed value of other commercial and industrial property" has to the true market value of the other commercial and industrial property" (49 U.S.C.A. Sec. 11503 (b)). The general assembly recognizes the legitimacy of the end sought to be accomplished through the federal act and the need for the state to participate in accomplishing such end.

(2) The general assembly finds and declares that it is necessary, reasonable, rational, and in the public interest to minimize the loss in revenue which will result when such property is assessed in accordance with the federal act. In order to minimize revenue loss, the general assembly finds that it is necessary, due to section 3 of article X of the state constitution, and that is reasonable and rational, due to the peculiar nature of rail transportation property as compared with property of public utilities, to provide that a separate class consisting of certain railway property, as provided in this article, be created for the purpose of general property taxation.

Source: L. 81, p. 1849, § 1.

39-4.1-102. Definitions. As used in this article, unless the context otherwise requires:

(1) "Rail transportation company" means any sole proprietorship, firm, partnership, association, company, or corporation, and the trustees or receivers thereof whether elected or appointed, which does business in this state as a railroad company, and "rail transportation company" includes, unless otherwise specifically provided, a private car line company, a railroad express company, and a sleeping car company.

(2) "Rail transportation property" means all property and other assets, irrespective of ownership, which comprise the entire operating unit devoted to rail transportation service.

Source: L. 81, p. 1850, § 1:

39-4.1-103. Valuation of rail transportation property. (1) Rail transportation property shall be a separate class of property for the purpose of general ad valorem property taxation. The actual value and valuation for assessment of rail transportation property shall be computed and apportioned as provided in this section.

(2) The assessment ratio to be applied to rail transportation property in each year shall be the assessment ratio which existed for other commercial and industrial real property in this state in the previous year. Such assessment ratio shall be determined by a sales assessment ratio study which sets forth the ratio that the valuation for assessment of all commercial and industrial real property in this state has to the true market value thereof. Such sales assessment ratio study shall be conducted by rail transportation companies.

(3) In the specific case of a railroad company which is not a private car line company, a railroad express company, or a sleeping car company, the administrator shall:

(a) Determine, as of December 31 of each year, the actual value of the rail transportation property of such company in the manner provided in section 39-4-102;

(b) Ascertain the total mileage of all railroad track of such company, wherever situated;

(c) Ascertain the total mileage of all railroad track of such company situated within this state and in the several counties thereof;

(d) Ascertain the total mileage of all railroad main track of such company situated within this state and in the several counties thereof;

(e) Allocate to this state that proportion of such actual value that the total mileage of all railroad track of such company situated within this state bears to the total mileage of all railroad track of such company, wherever situated;

(f) Compute the valuation for assessment of such company in this state by multiplying its allocated value, as determined pursuant to paragraph (e) of this subsection (3), by the assessment ratio, as determined for that year pursuant to subsection (2) of this section;

(g) [REDACTED]

(4) In the specific case of cars owned by a private car line company, a railroad express company, or a sleeping car company, the administrator shall:

(a) Ascertain the total railroad track miles made by all such cars within this state and in the several counties thereof during the preceding calendar year;

(b) Determine the actual value of all such cars, using commonly recognized methods of valuation;

(c) Compute the valuation for assessment of all such cars by multiplying their actual value, as determined pursuant to paragraph (b) of this subsection (4), by the assessment ratio determined for that year pursuant to subsection (2) of this section;

(d) Apportion the valuation for assessment of all such cars among the several counties of this state in such proportion as in his judgment will fairly represent the valuation for assessment within each such county.

Source: L. 81, p. 1850, § 1.

39-4.1-104. Schedules of property - confidential records. (1) (a) No later than April 15 of each year, each rail transportation company doing business in this state shall file with the administrator, on a form provided by the administrator, a statement, signed by an officer of such company under the penalty of perjury in the second degree, containing such information concerning itself and all of its property, wherever situated, as the administrator may reasonably require for the purpose of determining the actual value of the rail transportation property of such company in this state and for apportioning the valuation for assessment thereof among the several counties of this state.

(b) Such statement shall include a specific identification of each and every item of property owned, leased, or used which is not included in the rendition of the rail transportation property and the county in which each item is located.

Alaska Railroad Corporation

**Financial Statements
October 1999**



Proprietary Information - Not for Public Disclosure

ALASKA RAILROAD CORPORATION
FINANCIAL SUMMARY
October 31, 1999

October Highlights:

Actual Net Income for October	\$	179,733
Latest Estimate Net Loss for October	\$	(732,384)
Budgeted Net Income for October	\$	767,489
Monthly Latest Estimate Variance	\$	912,117
Monthly Budget Variance	\$	(587,756)

Actual YTD Net Income	\$	11,214,899
Latest Estimate YTD Net Income	\$	10,706,122
Budgeted YTD Net Income	\$	10,301,792
YTD Latest Estimate Variance	\$	508,777
YTD Budget Variance	\$	913,107

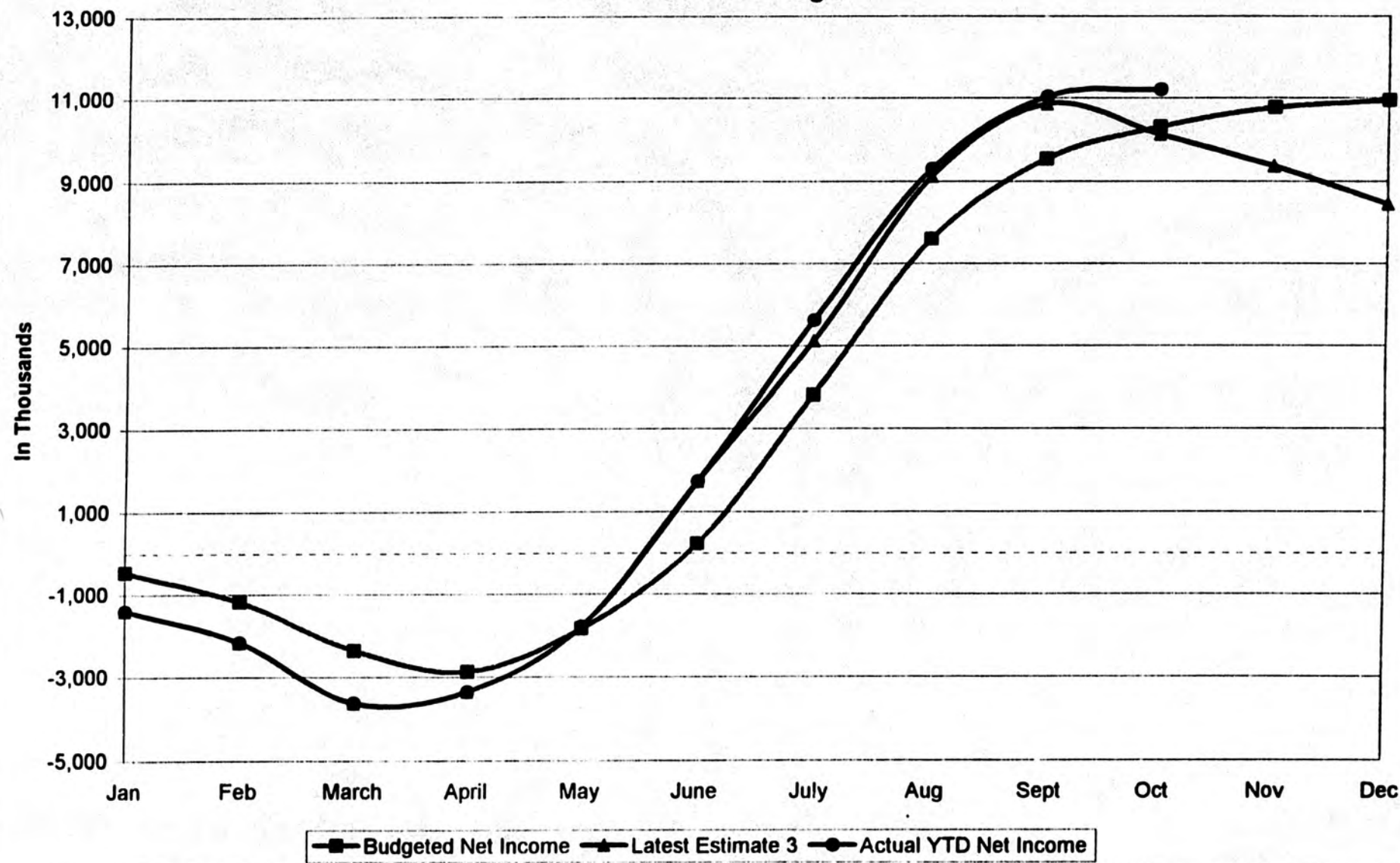
Revenue and Expenses:

During the ten months ended October 31, 1999 the ARRC earned \$78.6 million in revenue which is \$3.6 million less than was budgeted. This unfavorable variance is attributable to lower than anticipated freight revenue, specifically export coal and interline service. Total expenses of \$67.4 million were \$4.5 million less than was budgeted. Operating revenue totaled \$70.7 million while operating expenses were \$64.6 million. This equates to an operating ratio of .91. Through October 31, 1998 ARRC's operating ratio was .91.

Assets, Liabilities and Equity:

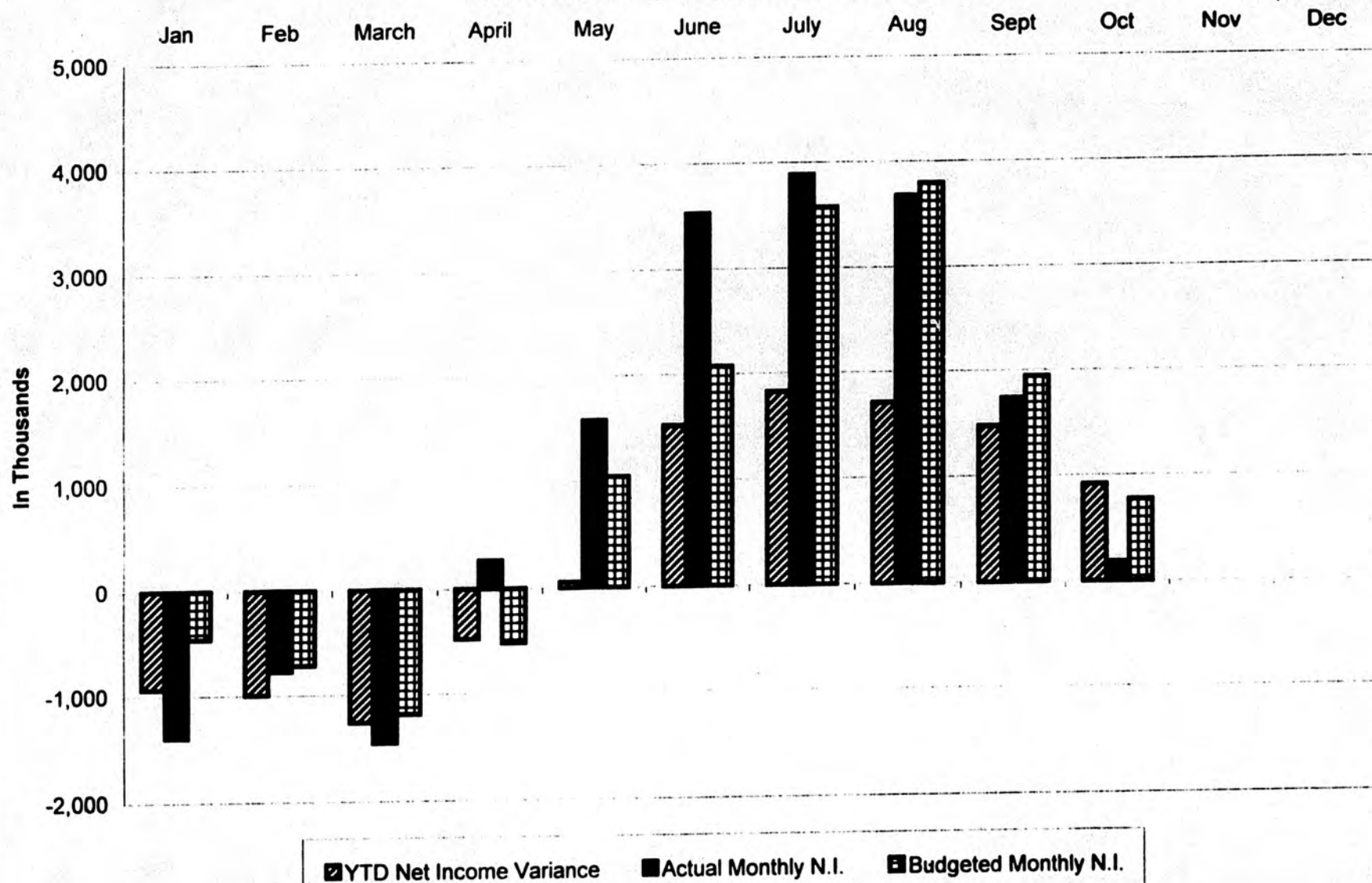
Total assets at the end of October were \$226 million. ARRC currently has \$23.6 million in net working capital and a current ratio of 2.52:1. As of October 31, 1998 net working capital and current ratio was \$17.3 million and 2.34:1, respectively. In September ARRC obtained \$20 million of financing to purchase ten SD70MAC locomotives. Accordingly, long-term debt increased since the beginning of the year. Equity of \$105.4 million reflects a \$10.9 million increase from the balance at October 31, 1998.

Year to Date Net Income 1999 Actual vs Budget



Net Income Analysis

1999 Actual vs Budget thru October



11/04/1999 10:44:21

Income Statement for the Month Ended OCT 1999

FRMISXMTL

	OCT, 1999	YEAR TO DATE	OCT, PRIOR YR	YTD, PRIOR YR
Operating Revenue:				
Freight	5,900,265	55,673,602	5,815,180	55,496,388
Freight Related	31,758	424,950	43,205	367,650
Passenger	89,574	14,414,561	85,353	12,777,837
Other	(9,221)	187,622	23,116	239,886
	-----	-----	-----	-----
	6,012,376	70,700,735	5,966,854	68,881,761
Transportation Services				
Transportation	1,750,876	16,761,281	1,453,716	15,133,071
Passenger Services	213,049	4,136,149	188,792	3,606,280
VP & Staff	138,636	821,667	80,411	872,159
Freight Services	1,116,890	11,658,515	1,340,917	12,811,627
	-----	-----	-----	-----
	3,219,451	33,377,612	3,063,836	32,423,137
Operations				
Mechanical	796,509	8,016,718	985,069	8,411,604
Engineering	1,332,409	14,775,946	1,398,866	13,686,484
Operations Admin	53,223	558,785	68,380	666,698
	-----	-----	-----	-----
	2,182,141	23,351,449	2,452,315	22,764,786
General & Administrative				
Finance	198,914	2,129,121	223,062	2,203,535
Information Systems	193,919	1,771,294	184,838	1,854,372
Corporate Overhead	732	97,698	23,227	130,013
Exec & Board of Directors	80,869	1,208,858	93,396	1,260,036
Legal	103,075	1,650,246	147,799	1,563,107
Project Planning	67,519	203,632	(9,229)	47,540
Health, Safety & Environment	70,661	859,954	53,618	630,994
	-----	-----	-----	-----
	715,689	7,920,803	716,711	7,689,597
	-----	-----	-----	-----
Total Operating Expense	6,117,281	64,649,864	6,232,862	62,877,520
	-----	-----	-----	-----
Net Income from Operations	(104,905)	6,050,871	(266,008)	6,004,241
Other Income (Expense)				
Real Estate - Permits/Leases	582,251	5,792,738	563,588	5,392,434
Real Estate - Dock	22,910	1,362,781	25,826	1,422,353
Real Estate Expense	(394,536)	(2,407,143)	(200,825)	(2,790,370)
	-----	-----	-----	-----
	210,625	4,748,376	388,589	4,024,417
Interest Income	179,124	747,552	62,313	472,222
Interest Expense	(105,111)	(331,900)	(17,495)	(53,666)
	-----	-----	-----	-----
	74,013	415,652	44,818	418,556
	-----	-----	-----	-----
Other Inc (Exp), Net	284,638	5,164,028	433,407	4,442,973
	-----	-----	-----	-----
Net Income (Loss)	179,733	11,214,899	167,399	10,447,214
	=====	=====	=====	=====

Statement of Cash Flow
For the Ten Months Ended October 1999
(In Thousands)

	Month of October 1999	Year To Date
Operating Activities		
Net Income	\$ 180	11,215
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	834	6,785
Gain on Disposal of Assets		
Decrease (Increase) in Accounts Receivable	225	578
Decrease (Increase) in Inventory and Supplies	217	(2,357)
Decrease (Increase) in Other Assets	1,677	(29,886)
Increase (Decrease) in Accounts Payable & Payroll	315	1,566
Increase (Decrease) in Deferred Revenues	949	25,387
Increase (Decrease) in Postretirement Benefits	130	244
Increase (Decrease) in Other Liabilities	17	(162)
Net Cash Provided by Operating Activities	<u>4,544</u>	<u>13,370</u>
Investing Activities		
(Purchase) Disposal of Property and Equipment	(887)	(4,079)
(Increase) Decrease in Construction in Progress	(835)	(23,958)
Net Cash Provided (Used) in Investing Activities	<u>(1,722)</u>	<u>(28,037)</u>
Financing Activities		
Proceeds from Short-Term Debt		20,000
Payments on Short-Term Debt		
Proceeds from Long-Term Debt	-	(916)
Payments on Long-Term Debt	(89)	19,084
Net Cash Provided (Used) by Financing Activities	<u>(89)</u>	
 Increase (Decrease) in Cash & Cash Equivalents	 2,733	 4,417
 Cash at Beginning of Period	 6,890	 5,206
 Cash at Period End	 <u>\$ 9,623</u>	 <u>9,623</u>

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Year to Date Income Statement for the Month Ended OCT 1999

FREYCOMPBC

	Actual	Budget	+/-	Latest Estimate	+/-	Prior Year Actual	+/-
Operating Revenue:							
Freight	55,673,602	59,586,773	3,913,171-	56,880,559	1,206,957-	55,496,388	177,214
Freight Related	424,950	239,638	185,312	345,607	79,343	367,650	57,300
Passenger	14,414,561	14,815,570	401,009-	14,566,570	152,009-	12,777,837	1,636,724
Other	187,622	66,401	121,221	90,085	97,537	239,886	52,264-
	70,700,735	74,708,382	4,007,647-	71,882,821	1,182,086-	68,881,761	1,818,974
Transportation Services							
Transportation	16,761,281	17,045,059	283,778-	16,789,079	27,798-	15,133,071	1,628,210
Passenger Services	4,136,149	3,544,791	591,358	3,630,800	505,349	3,606,280	529,869
VP & Staff	821,667	982,628	160,961-	798,921	22,746	872,159	50,492-
Freight Services	11,658,515	12,307,343	648,828-	11,661,767	3,252-	12,811,627	1,153,112-
	33,377,612	33,879,821	502,209-	32,880,567	497,045	32,423,137	954,475
Operations							
Mechanical	8,016,718	9,476,154	1,459,436-	8,555,871	539,153-	8,411,604	394,886-
Engineering	14,775,946	16,417,747	1,641,801-	15,993,057	1,217,111-	13,686,484	1,089,462
Operations Staff	558,785	634,264	75,479-	614,447	55,662-	666,698	107,913-
	23,351,449	26,528,165	3,176,716-	25,163,375	1,811,926-	22,764,786	586,663
General & Administrative							
Finance	2,129,121	2,108,143	20,978	2,109,151	19,970	2,203,535	74,414-
Information Systems	1,771,294	1,926,221	154,927-	1,746,383	24,911	1,854,372	83,078-
Corporate Overhead	97,698	824,114	726,416-	296,131	198,433-	130,013	32,315-
Exec & Board of Directors	1,208,858	1,281,838	72,980-	1,227,437	18,579-	1,260,036	51,178-
Legal	1,650,246	1,500,194	150,052	1,609,705	40,541	1,563,107	87,139
Project Planning	203,632	145,448	58,184	191,530	12,102	47,540	156,092
Health, Safety & Environment	859,954	732,569	127,385	809,714	50,240	630,994	228,960
	7,920,803	8,518,527	597,724-	7,990,051	69,248-	7,689,597	231,206
Total Operating Expense	64,649,864	68,926,513	4,276,649-	66,033,993	1,384,129-	62,877,520	1,772,344
Net Income from Operations	6,050,871	5,781,869	269,002	5,848,828	202,043	6,004,241	46,630
Other Income (Expense)							
Real Estate - Permits/Leases	5,792,738	5,770,166	22,572	5,788,584	4,154	5,392,434	400,304
Real Estate - Dock	1,362,781	1,303,500	59,281	1,309,557	53,224	1,422,353	59,572-
Real Estate Expense	2,407,143-	2,833,296-	426,153	2,572,201-	165,058	2,790,370-	383,227
	4,748,376	4,240,370	508,006	4,525,940	222,436	4,024,417	723,959
Interest Income	747,552	448,441	299,111	504,809	242,743	472,222	275,330
Interest Expense	331,900-	168,888-	163,012-	173,455-	158,445-	53,666-	278,234-
	415,652	279,553	136,099	331,354	84,298	418,556	2,904-
Other Inc (Exp), Net	5,164,028	4,519,923	644,105	4,857,294	306,734	4,442,973	721,055
Net Income (Loss)	11,214,899	10,301,792	913,107	10,706,122	508,777	10,447,214	767,685

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Projected Income Statement for the Period Ended DEC 1999

FRYBEC

	Latest Forecast	Latest Quarterly Estimate	+/-	Budget	+/-	Prior Year Actual	+/-
Operating Revenue:							
Freight	66,107,657	67,314,614	1,206,957-	72,446,485	6,338,828-	64,446,642	1,661,015
Freight Related	477,050	397,707	79,343	271,338	205,712	540,408	63,358-
Passenger	14,495,453	14,647,462	152,009-	14,916,378	420,925-	13,490,767	1,004,686
Other	199,622	102,085	97,537	78,401	121,221	295,920	96,298-
	81,279,782	82,461,868	1,182,086-	87,712,602	6,432,820-	78,773,737	2,506,045
Transportation Services							
Transportation	19,487,270	19,515,069	27,799-	19,950,542	463,272-	17,165,881	2,321,389
Passenger Services	4,567,494	4,062,534	504,960	3,969,857	597,637	4,157,244	410,250
VP & Staff	1,026,803	1,004,057	22,746	1,188,390	161,587-	1,051,732	24,929-
Freight Services	14,138,018	14,141,269	3,251-	14,900,876	762,858-	14,892,969	754,951-
	39,219,585	38,722,929	496,656	40,009,665	790,080-	37,267,826	1,951,759
Operations							
Mechanical	9,782,475	10,321,628	539,153-	11,227,445	1,444,970-	9,917,864	135,389-
Engineering	17,945,630	19,162,741	1,217,111-	19,539,391	1,593,761-	16,790,551	1,155,079
Operations Staff	682,521	738,183	55,662-	755,409	72,888-	794,261	111,740-
	28,410,626	30,222,552	1,811,926-	31,522,245	3,111,619-	27,502,676	907,950
General & Administrative							
Finance	2,536,052	2,516,082	19,970	2,510,161	25,891	2,634,158	98,106-
Information Systems	2,113,229	2,088,319	24,910	2,295,841	182,612-	2,433,979	320,750-
Corporate Overhead	393,000	591,433	198,433-	1,119,416	726,416-	551,715-	944,715
Exec & Board of Directors	1,411,220	1,429,799	18,579-	1,489,471	78,251-	1,536,309	125,089-
Legal	1,961,426	1,920,886	40,540	1,800,756	160,670	2,078,706	117,280-
Project Planning	242,381	230,279	12,102	166,477	75,904	55,457	186,924
Health, Safety & Environ.	1,018,906	968,667	50,239	886,346	132,560	793,969	224,937
	9,676,214	9,745,465	69,251-	10,268,468	592,254-	8,980,863	695,351
Total Operating Expense	77,306,425	78,690,946	1,384,521-	81,800,378	4,493,953-	73,751,365	3,555,060
Net Inc from Operations	3,973,357	3,770,922	202,435	5,912,224	1,938,867-	5,022,372	1,049,015-
Other Income (Expense)							
Real Estate - Permits/Leas	6,940,472	6,936,318	4,154	6,917,900	22,572	6,466,606	473,866
Real Estate - Dock	1,390,331	1,337,107	53,224	1,314,000	76,331	1,495,571	105,240-
Real Estate Expense	3,178,760-	3,343,818-	165,058	3,475,016-	296,256	3,560,113-	381,353
	5,152,043	4,929,607	222,436	4,756,884	395,159	4,402,064	749,979
Interest Income	837,552	594,809	242,743	538,441	299,111	602,186	235,366
Interest Expense	432,496-	274,051-	158,445-	269,484-	163,012-	90,736-	341,740-
	405,056	320,758	84,298	268,957	136,099	511,450	106,394-
Other Inc (Exp), Net	5,557,099	5,250,365	306,734	5,025,841	531,258	4,913,514	643,585
Net Income (Loss)	9,530,456	9,021,287	509,169	10,938,065	1,407,609-	9,935,886	405,430-

BALANCE SHEET as of October 1999

	10/31/99	10/31/98
Assets		
Cash	\$ 9,623,385	\$ 4,812,667
Accounts Receivable	10,413,768	12,468,268
Board Designated Assets	14,486,577	9,005,379
Materials and Supplies	4,427,273	3,738,588
Other Current Assets	198,506	92,146
Total Current Assets	39,149,509	30,117,048
Road & Roadway Structures	99,665,042	84,302,120
Inventory-Road Materials	3,985,284	2,103,580
Equipment	50,867,585	46,374,262
Accumulated Depreciation	(66,081,553)	(58,262,197)
	88,436,358	74,517,765
Construction in Progress	32,460,331	23,221,515
Land	13,850,000	13,850,000
Total Road & Equipment	134,746,689	111,589,280
Other Assets	51,807,546	26,794,837
Total Assets	\$ 225,703,744	\$ 168,501,165
Liabilities & Equity		
A/P - Interline	\$ 2,559,142	\$ 1,904,966
A/P - Trade	1,662,996	948,147
Payroll Payable	7,087,516	6,963,018
Unearned Revenue	1,411,835	1,452,253
Current Portion, LT Debt	1,854,233	1,206,665
Other Current Liabilities	938,437	381,920
Total Current Liabilities	15,514,159	12,856,969
Long-Term Debt	22,394,069	4,248,974
Deferred Revenue, FRA Grant	34,706,592	23,022,479
Deferred Revenue, AMTRAK	24,496,678	11,963,997
Deferred Revenue, Wishbone Hill	15,120,164	14,297,645
Deferred Revenue, FEMA	239,460	-
Post Retirement Medical Benefit	7,790,388	7,565,921
Total Liabilities	120,261,510	73,955,985
Equity		
Investment - State of Alaska	34,173,555	34,173,555
Retained Earnings	71,268,679	60,371,625
Total Equity	105,442,234	94,545,180
Total Liabilities & Equity	\$ 225,703,744	\$ 168,501,165

NOTES TO FINANCIAL STATEMENTS

NOTE 1--ORGANIZATION AND OPERATIONS

Congress authorized construction of the Alaska Railroad (Railroad) in 1914 and operations began in 1923. The federal government operated the Railroad until its sale to the State of Alaska in January 1985. The sale of the Railroad to the State of Alaska was authorized under the Alaska Railroad Transfer Act of 1982 (ARTA), which was signed into law on January 14, 1983. The Alaska Railroad Corporation (ARRC) is a public corporation created by the State of Alaska legislature to own and operate the Railroad and manage the Railroad's rail, industrial, port, and other properties. The ARRC commenced operations on January 6, 1985.

The ARRC operates 525 route miles, providing both freight and passenger services. The ARRC serves the cities of Anchorage and Fairbanks as well as the ports of Whittier, Seward, and Anchorage; Denali National Park; and military installations. Vessel and rail barge connections are provided from Seattle, Washington and Prince Rupert, British Columbia.

NOTE 2--SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The Railroad is subject to the jurisdiction of the Surface Transportation Board. Accordingly, the Railroad has prepared the accompanying financial statements in accordance with the STB rules and regulations (US CFR title 49), which do not differ from GAAP as issued by the FASB.

Materials and Supplies Inventories: Materials and supplies inventories are carried at the lower of cost (average cost) or market. Road materials and supplies include rail, ties, ballast, and other track materials. Because these items will generally be capitalized when placed into service, they are included in transportation properties.

Property and Equipment: Property and equipment are stated at cost. Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the related assets. Preacquisition depreciable property was depreciated on a straight-line basis over its estimated original remaining life of five years. Monthly and cumulative depreciation expense for 1999 is \$834,000 and \$6,785,000, respectively.

Income Taxes: As a public corporation, the ARRC is exempt from Federal and State income taxes.

NOTE 3--COMMITMENTS AND CONTINGENCIES

The ARRC has entered into an agreement with another entity for rail barge services between Washington and Alaska and related administrative responsibilities. The agreement expires in February 2001. Minimum payments are required, which are reflected in the financial statements.

The ARRC is a defendant in legal proceedings related to the conduct of its business. Provision has been made in the financial statements for possible losses from litigation. In the opinion of management, the outcome of the litigation will not have a material effect on the financial position of the ARRC.

NOTE 4--LONG-TERM DEBT & LEASES

Long-term debt consists of the following (in thousands) at October 31, 1999:

Note payable, secured by equipment, due in monthly payments of \$74,173 including interest at 4.28%, matures 09/03	\$ 3,204
Note payable, secured by equipment, due in monthly payments of \$30,603 including interest at 4.28%, matures 10/03	\$ 1,045
*Note payable, secured by equipment, due in monthly payments of \$163,936 including interest at 5.38%, matures 9/14	<u>\$ 20,000</u>
	\$ 24,249
Less Current Portion	<u>\$ (1,854)</u>
	<u>\$ 22,395</u>

Long-term debt maturities are as follows (in thousands):

1999	\$ 180
2000	\$ 2,018
2001	\$ 2,088
2002	\$ 2,043
Thereafter	<u>\$ 17,920</u>
	<u>\$ 24,249</u>

*Principal and interest payments begin on 1/1/00. In 1999 there are three interest payments totaling \$248,078.