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ACTION PAPER

1984

**The New
Alaska
Railroad**

THE NEW ALASKA RAILROAD

A Commonwealth North Report

First printing....January 1984

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Anchorage, AK 99501

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**THE NEW
ALASKA
RAILROAD**

AN ACTION PAPER
BY THE
COMMONWEALTH NORTH
RAILROAD COMMITTEE

January 1984

CONCLUSIONS AND RECOMMENDATIONS

- i. The state should buy the Alaska Railroad.
 - it is vital to our economy;
 - the Alaska Railroad Transfer Act provides prenegotiated arrangements on contract rights, liabilities, land rights, and benefits that may not be achievable again;
 - the Alaska Railroad has the capability of being financially self-sufficient.
2. The railroad can be self-sufficient if it is allowed to be fully competitive; is organized as an independent corporation; and the cost of transferring the railroad is funded by the state rather than the railroad.
3. The potential for "making it on its own" is critical to the mission and future of the new Alaska Railroad.
4. A streamlined public purpose goal of self-sufficiency provides a clear measurement of success and makes it known that the railroad is to be run like a business.
5. The faster the railroad shows itself capable of self-sufficiency, the sooner it will be attractive to a private buyer.
6. Even though state-owned, the railroad should be operated like a private business and be allowed to compete in the marketplace without artificial restraints.
7. Adequate safeguards exist within the Interstate Commerce Commission (ICC) and federal antitrust laws to protect competing private carriers from predatory railroad pricing of unfair advantage.
8. The legislature should refuse special interests that propose to limit the railroad's scope of operations; such limits to competition would act to the detriment of the people of Alaska.

9. The organization of the new railroad must meet the requirements of federal transfer legislation and support the railroad's potential to be self-sustaining.
10. A public corporation provides the best opportunity for success of the new Alaska Railroad, allowing both semi-autonomous management and adequate control by the state.
11. If the state funds the equivalent of the first five years' transfer liabilities in advance -- \$37.7 million -- the railroad will not require further appropriations and can pay remaining transfer liabilities from internally generated funds.
12. The legislature should appropriate \$37.7 million to the Alaska Railroad Corporation for the purpose of meeting transfer-related liabilities and \$22.3 million to the federal government for the purchase of the Alaska Railroad.
13. Transfer-related funding should be made to the Alaska Railroad Corporation immediately upon acceptance of the railroad to give the Corporation a clean start.

SHOULD THE STATE BUY THE ALASKA RAILROAD?

For almost six years Alaskans have been debating the pros and cons of taking over the Alaska Railroad from the federal government. In the beginning of the move to transfer the railroad, the question was simply whether Alaska would accept the railroad -- no price tag attached.

The final question, which the state must decide during the first seven months of 1984, is whether Alaska will accept the price and conditions mandated in the Alaska Railroad Transfer Act of 1982.

The Price: \$22.3 million

Interestingly, public debate over whether or not to accept the purchase price of the railroad has focused on the same two concerns expressed when no purchase price was involved:

- First, will the railroad be a continuing, long-term drain on the state?

- Second, is it appropriate or even possible for the state government to operate a commercial enterprise like the Alaska Railroad?

The particular issues related to the transfer price are:

- Is the valuation fair?

- How much more, over and above the purchase price, will the transfer cost the state?

All of these concerns are debated against a background of conjecture as to what would happen if the state does not accept the railroad.

Commonwealth North first focused on the importance of the railroad transfer when draft legislation was introduced in 1981. We issued an interim report in January 1982 suggesting provisions that should be part of any transfer legislation passed by Congress.

In 1983, it became apparent to the Commonwealth North Board of Directors that further investigation of the railroad issues was required. Besides the immediate question of whether the transfer proposal was fair, the corollary questions of how the railroad should be operated under state control, and to what purpose, became increasingly important.

This report summarizes the conclusions reached after six months of independent work by the Commonwealth North Railroad Committee.

The committee examined the purchase of the Alaska Railroad on an "as is/where is" basis. While many Alaskans believe the only reason to accept the railroad is for purposes of extension, we concluded that today's railroad, with its capabilities and limitations, is what is being offered, and it is today's railroad that must meet the test of purchase.

**The committee
examined the Alaska
Railroad on an "as
is/where is" basis.**

**YES! THE STATE
SHOULD BUY
THE RAILROAD**

**The Alaska Railroad
is vital to Alaska's economy.**

The railroad is central to the state's extremely limited land transportation system. It fosters movement of bulk freight that would otherwise be impossible to move long distance; offers an important transportation alternative and balance to the competitive pricing structure in Alaska; and offers the only economical method of moving mineral resources to markets.

The purchase price is reasonable. *

The committee was intensely involved in monitoring the valuation process. Overall, we are satisfied that the state's interests were accounted for and that there is no "hidden" information.

There was particular concern that the state have a true picture of the physical condition of the railroad. There is a spread between the United States Railway Association (USRA) assessment of condition and the state's engineering experts. Because this area is so critical, we used the state's higher forecasted costs in our analysis.

* See Appendix for breakdown of the transfer package.

The Railroad Transfer Act provides prenegotiated arrangements on contract rights, liabilities, and land rights that may not be achievable again.

These include statutory protection of the railroad's rights-of-way; tax exempt status, which permits tax-free industrial revenue bond use for capital improvements; exemption from certain federal railway employee-related laws; and a guarantee that the survey of lands to be conveyed to the state will be finished within a five-year time period.

The Alaska Railroad has the capability of being financially self-sufficient.

This conclusion is based on published and proprietary financial reports of USRA, the state transfer team, and the railroad. In analyzing future revenue projections, the committee learned it could not rely entirely upon historical perspective.

Since 1980, there have been three critical changes that can make the difference between the railroad's past subsidized performance and the capability for self-sustaining future performance:

- Deregulation of the railroad industry nationwide positions the Alaska Railroad to benefit in the more competitive and less regulated marketplace that is evolving.

- Projected market changes in Alaska, particularly in products like coal, gravel, and pipe which are especially suited to railroad transportation.

- Opportunity for tighter management performance and cost control as a result of the change from federal ownership to state ownership.

THE NEW ALASKA RAILROAD

The most unexpected and encouraging conclusion reached by the committee is that the railroad has the potential of being financially self-sufficient from the time of purchase, and of operating without continuing appropriations from the state.

This will only happen, however, if the legislature is willing to meet three conditions necessary for a self-supporting railroad:

- The railroad must be allowed to be fully competitive.
- It must be organized as an independent corporation.
- The cost of transferring the railroad to the state must be recognized and funded by the state rather than the railroad.

**FULLY
COMPETITIVE**

**INDEPENDENT
CORPORATION**

**TRANSFER
COST FUNDED**

This potential for "making it on its own" is critical to the mission and future of the new Alaska Railroad.

As to the mission, if the legislature agrees that the railroad has the potential to provide efficient, competitively priced freight and passenger service on a self-sustaining basis, they should direct it to do so.

Too many public corporations in Alaska and elsewhere have weakly worded policy goals in their enabling legislation that satisfy special interests but do not provide any means of measuring their success; or they have conflicting goals that are impossible to meet.

The concept of a streamlined public purpose goal of self-sufficiency provides a clear measurement of success and makes it known that the railroad is to be run like a business.

Under a legislative mandate to operate in a self-sufficient manner, all decisions related to such potentially political issues as level and purpose of capital expenditures, employee wage agreements, and level of debt are the direct function of revenue and the ability to pay.

Under a legislative requirement to operate in a self-sufficient manner, all special interests are on notice that if the railroad is required to undertake a service that is not economically viable, the state will have to fund that service.

As to the future, the committee believes that the faster the Alaska Railroad shows itself capable of self-sufficiency, the sooner it will be attractive to a private buyer. If the railroad is never attractive as a successful business enterprise, the state may own it forever.

If properly structured, the railroad promises to be financially self-sufficient.

A successful railroad will become attractive to private industry.



**FULLY
COMPETITIVE**

THE RAILROAD MUST BE FULLY COMPETITIVE

Railroads are capital intensive and as such, require large volumes of shipments to meet the cost of maintaining track, roadbed, and equipment. Market share and competition are the economic underpinning of any railroad.

Even though state owned, the railroad should be operated like a private business and be allowed to compete in the marketplace without artificial constraints.

Adequate safeguards exist within the Interstate Commerce Commission (ICC) and federal antitrust laws to protect competing private carriers from predatory railroad pricing or unfair advantage.

The legislature should refuse special interests that propose to limit the railroad's scope of operations; such limits to competition would act to the detriment of the people of Alaska.

Pricing and service decisions should be vested with the railroad: questions of private vs. public ownership in rate decision making must be left to experts who deal with these issues on a nationwide basis - the ICC and the courts.

The Staggers Act, passed in 1980 to allow railroads nationwide to become more competitive, requires the same rate-making methods, accounting requirements, and market dominance tests for publicly owned railroads as it does for privately owned railroads. The Act clearly requires all railroads to fix rates that cover at least 100 percent of

variable costs and to define maximum rate levels indicating a carrier is not exercising market dominance.

The Alaska Railroad has been partially subject to the ICC since 1963 and has been fully subject since July, 1983, as it will continue to be after the transfer. In addition, the transfer legislation makes the railroad subject to federal antitrust laws.


Finally, the committee concluded that it is doubtful that a lasting or meaningful compromise between competing carriers and the Alaska Railroad could be fashioned.

The railroad both competes with and cooperates with truck and water carriers; it would be impossible to determine where the railroad should offer special pricing without influencing the competitive advantage of one private carrier over another.

A competitive marketing philosophy has already resulted in the announcement of new private carriers serving Alaska in cooperation with the railroad.

Continued competition will encourage innovative marketing and use of technology to move goods at lower prices. The shipper and the Alaskan consumer will benefit and the revenues generated will strengthen the Alaska Railroad.

**The legislature should
refuse special
interests that try to
limit operations.**



THE RAILROAD MUST BE AN INDEPENDENT CORPORATION

In examining the form of organization to operate the railroad, the committee was guided by two basic criteria:

1. That the organizational format meet the requirements and restrictions of the federal transfer legislation.

2. That the format support the railroad's potential to be self-sustaining.

The intent is to recommend a format that will isolate railroad management from unreasonable political pressure to provide services that are neither economic nor in the state's best interest, and at the same time protect the public interest.

The dilemma is historic for publicly funded corporations: how to hold such corporations accountable while providing freedom to manage.

Four basic organizational formats were examined: a mixed private/public organization; a separate railroad department; a line agency of a state department; and an independent public corporation/public authority.*

The committee concludes that a public corporation provides the best opportunity for success for the new Alaska Railroad. It provides for

* The terms public corporation and public authority are used interchangeably.

semi-autonomous management; allows for adequate control by the state; and clearly falls within the transfer legislation's offer of tax exempt status "to a public corporation, authority, or other agency of the state."

The mixed private/public ownership format was attractive because it allows for the easiest transition to wholly private ownership. Such organization could be either a private corporation formed under Alaska Statute AS 10.05, or a limited partnership.

The mixed private/public format was ultimately rejected because of numerous disadvantages, including the probability that the railroad would be unable to finance capital expenditures with tax-exempt bonds.

It was determined that the disadvantages of line agency status to the railroad--particularly the lack of management flexibility--were so obvious that the railroad would never be self-supporting under this format.

Consideration was also given to the concept of a separate, independent department. Article III, Section 22 of the Alaska Constitution provides for the formulation of up to 20 departments in the executive branch of government.

As there are 17 departments at present, it is possible to place the railroad in its own department, under the direction of a commissioner appointed by the governor and subject to confirmation by the legislature.

This form of organization was rejected principally on the basis that it offers few, if any, advantages over an independent corporation established pursuant to the Constitution.

Management must be isolated from undue political pressure.

A public corporation provides the best opportunity for the success of the railroad.

RECOMMENDATIONS FOR THE ALASKA RAILROAD CORPORATION

1. The corporation should have full control over the surface and subsurface railroad lands.

The purchase of the Alaska Railroad is often referred to as "a real estate deal" because of the value of land included in the transfer package.

Some private leaseholders and municipal governments with railroad-owned waterfronts or city centers would like to see the land transferred to themselves. The corporation, as a matter of policy, should not sell revenue-producing property because it is in the interest of the entire state that the railroad hold these properties for its own needs.

2. The corporation and its union employees should cooperate in modernizing existing labor agreements during the two-year transitional period mandated in the federal transfer legislation.

Particular attention should be given to any archaic work rules that inhibit efficiency. The goal should be to increase productivity rather than diminish compensation to employees.

Efficient utilization of railroad employees is essential for a self-sufficient operation.

3. The corporation should not be mandated to propose or conduct feasibility studies for cross-country track extensions or sale of the railroad.

Major rail extensions and sale issues are not operating issues. The mission of the railroad corporation should be closely focused on matters that affect economics and service to shippers and passengers on existing routes. Fea-

sibility studies are expensive, require extensive staff time, and could drain the limited funds of the railroad.

Extensions and sale proposals have broad policy implications that can best be considered by the executive and legislative branches of state government or private entities.

4. Passenger operations should be modified to take advantage of revenue opportunities and re-evaluate uneconomic services; a system should be devised to accurately identify passenger service costs.

Just as land leasing by the railroad is projected to be profitable, passenger service will likely remain a loss operation if all related expenses and capital costs are considered. To control these costs, however, it is important to account for them accurately.

Reliable cost information is crucial in considering service levels, pricing issues, and capital expenditure decisions.

5. The Board of Directors of the Alaska Railroad Corporation should consist of five to seven voting members representing the interest of the entire public; no board member should be appointed to represent a special interest.

Directors should be chosen for their professional judgment rather than their representations of special interests or home town. Similarly, non-voting membership is inappropriate.

Board members should be limited to two five-year terms of service and with staggered terms to mix continuity of experience with new ideas.

COST OF TRANSFER MUST BE FUNDED BY THE STATE

The USRA valuation report on the Alaska Railroad describes the railroad's operations as "modest when compared with railroads in the lower 48 where it would be classified as a medium-sized 'short-line' carrier with below average freight traffic density."

Historically, operations of the railroad have ranged from modestly profitable years to periods of substantial losses.

While optimistic for improved performance of the new Alaska Railroad, the committee concludes that the minimal cash margins forecast for the first five years will be insufficient to meet the purchase or transfer-related costs on top of operating and capital expenditures.

Marginal railroads fail historically because of a combination of acquisition cost, rehabilitation cost, and debt service.

The Alaska Railroad comes to the state debt free; however, there are four substantial transfer-related liabilities (in addition to the purchase price) connected with acquisition and rehabilitation that have been identified by the USRA and state transfer teams.

These liabilities primarily result from the manner the federal government operated the railroad and were partially recognized in the appraisal process as deductions from the overall value of the railroad.

1. Under state ownership the railroad will be subject to Occupational Safety and Health Act (OSHA) standards

and from Alaska fire and building-related codes. Substantial funds are needed to correct deficiencies now existing.

2. Maintenance-of-way and capital expenditure needs result from facilities which have been allowed to deteriorate but are necessary for the ongoing use of the system. For example, the condition of cross ties, rail, and structures in certain areas has been allowed to slip behind prudent replacement schedules, according to some independent experts.

3. At the time of transfer there will be a number of legal, administrative and consulting costs to start-up under state control. This is part of the railroad purchase cost and should be funded as such.

4. The final category of start-up costs is adequate working capital to cover cash timing requirements of the railroad corporation.

Until very recently, the transfer liabilities included an extremely high employee retirement figure, generally referred to as the "unfunded pension liability." While this liability was considered in the valuation process, the committee strongly believed that the state should not have to pay for this federal problem. Fortunately, the federal Office of Personnel Management has rendered an opinion relieving the state of responsibility for the unfunded pension cost.

Resolution of this issue was critical to our recommendation to purchase the railroad.

USRA and the state transfer team "worst case" calculations for these four categories of liabilities alone may total \$64.8 million over the next ten years. This amount is in addition to the \$22.3 million purchase price payable to the federal treasury.

If the start-up liabilities were funded annually, the railroad would not

**Resolution of the
pension liability issue
was critical to
purchase.**

show positive cash flow until 1990, according to these projections.

However, the committee's analysis shows that if the state funds the equivalent of the first five years' liabilities in advance -- \$37.7 million -- the railroad can be self-sufficient from the transfer date onward and not require further appropriations. (See Appendix.)

The cash required for funding the purchase and five years' transfer costs is as follows (\$ million):

Code and OSHA compliance	\$16.0
Deferred maintenance	15.3
Working capital	4.7
Start-up expense	<u>1.7</u>
Cash required by railroad corporation	\$37.7
Purchase price payable to federal treasury	<u>22.3</u>
Funding required for transfer	<u>\$60.0</u>

The legislature should appropriate \$37.7 million to the railroad corporation for transfer-related costs.

If the state pays all of these costs at transfer, the railroad projections show the capacity to fund the remaining \$27.0 million of liabilities from internally generated funds.

While \$37.7 million is a substantial cost, it ultimately cannot be avoided. The expenditure would represent approximately 1.1 percent of the proposed \$3.5 billion FY 85 state budget that would be in effect during the railroad transfer period. In consideration of the benefits derived, we believe this choice of funding would be well justified.

It is recommended that the legislature appropriate \$37.7 million dollars to the Alaska Railroad Corporation for the purpose of meeting transfer-related liabilities and \$22.3 million to the federal government.

Transfer-related funding should be made to the Alaska Railroad Corporation this legislative session to give the Corporation a clean start. By separating expenses generated as a result of transfer, the railroad management's success or failure in meeting a goal of self-sufficiency can be clearly measured.

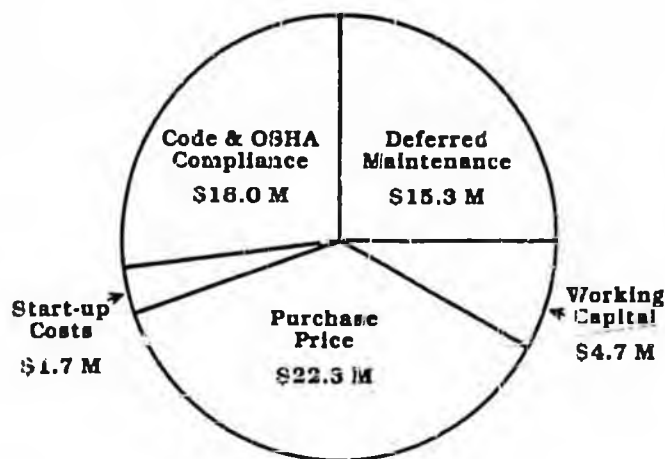
In determining whether a goal of financial self-sufficiency was possible, the committee found that the more conventional financial statement approach in analyzing profit and loss analysis fails in two respects when examining the railroad's financial statements.

Government accounting at the railroad allowed capitalizing certain track maintenance programs that otherwise would have been charged against profits currently. Therefore, in viewing historical performance of the railroad, it is more useful to calculate cash flow including capital expenditure programs, to measure the degree of self-sufficiency over time.

Capital expenditures historically and prospectively exceed depreciation charges, further supporting cash flow as the relevant measure in this analysis.

If the transfer-related liabilities are funded, the railroad will have four sources of revenue: the start-up monies from the legislature; operations; real estate; and borrowing capabilities.

While our cash flow analysis does not rely on debt, the transfer legislation provides for the tax-exempt status of the railroad and the ability to issue tax-exempt debt. However, to the extent possible, this source should only be



**The Alaska Railroad
Transfer-Related Costs:
\$60 million**

**The success of the
railroad may parallel
the fortunes of
Alaska.**

used for funding investments in equipment or facilities that will generate new revenues or reduce operating costs.

It is emphasized that the starting point in all of these analyses is revenue projections by current management. As noted in the discussion related to competition, revenues are all-important for economic success. High fixed costs will not drop significantly with reduced traffic. If major sustained shipments fail to materialize as expected, periods of negative cash flow could result. Management believes its base projections to be realistic, and, perhaps, conservative.

The Commonwealth North Railroad Committee is encouraged by the railroad's potential to be of even greater benefit to the State of Alaska. In many respects, the success of the railroad may parallel the future of Alaska's overall economy.

THE FUTURE OF THE ALASKA RAILROAD

The optimistic conclusion that the Alaska Railroad can be self-supporting on its existing system still must meet the test of fact.

But, for the first time in the Alaska Railroad's history, it will be Alaskans writing the legislation and making the decisions that will determine the railroad's future.

What about that future?

Two major policy questions concern extension of the track system and transfer of the railroad to private ownership.

The railroad has always held the potential of reaching out far beyond the "railbelt" of Alaska. Even after 60 years of operation the railroad system remains short of its original charge to be a frontier development tool.

The problems will remain the same under state ownership: rail extension is expensive; feasibility studies of major route expansions by both public and private interests have not yet been positive.

But, if the problems remain the same, the decision makers will be different and so will the criteria of public need and public good.

Issues of project funding and operating cost coverage can be looked at on an ability-to-pay basis from a state perspective, and while economic returns must be real, they may not need to be so immediate.

Major track extension of the Alaska Railroad may be in the far future, but under state ownership, Alaskans will decide how far.

We will also have control over the question of whether or not it is in the public interest to sell the railroad to a private buyer.

This issue should be carefully explored. However, until a favorable operating record can be demonstrated, it is unlikely that a responsible private buyer would offer to purchase the railroad, unless it were to gain control of its valuable landholdings.

These questions do not need to be solved immediately.

The challenge right now is to set up a successful Alaska Railroad Corporation and build on the future from there.

APPENDIX

THE TRANSFER PACKAGE

THE PURCHASE PRICE OF \$22.3 MILLION BUYS THE STATE OF ALASKA THE FEDERAL ALASKA RAILROAD SYSTEM:

- 520 miles of single main and branch line track between Seward and Fairbanks--via Anchorage, Wasilla, Healy, and Nenana;
- 64 miles of branch track linking Fairbanks to Eielson Air Force Base, Healy to Suntrana, Macanuska Junction to Palmer, Portage to Seward, and an International Airport spur;
- 62 locomotives, 1653 freight cars, 46 passenger cars, and over 200 pieces of maintenance and emergency equipment;
- railroad yards, offices, maintenance buildings, storage, in Anchorage, Seward, Whittier, Healy, Nenana, and Fairbanks;
- 38,000 acres of land: 12,000 of right-of-way; 1,000 acres leased (for approximately \$3 million annual rental income); 11,000 used as actual or future gravel sources; 7,000 acres for terminal and yard areas;
- 539 employees: 455 full time permanent, 84 temporary, 51 special categories.

THE ALASKA RAILROAD TRANSFER ACT (ARTA):

- requires the state to agree to operate the railroad as a rail carrier in intrastate and interstate commerce;
- requires the state to protect retirement benefits and to negotiate employment arrangements during the first two years of ownership;
- places the state-owned railroad under full and formal regulation by the Interstate Commerce Commission and federal anti-trust laws;
- requires that all revenues generated by the state-owned railroad are to be maintained and managed by the railroad for railroad-related purposes;
- qualifies the railroad "as a public corporation, authority, or other agency of the state" for tax exempt status.
- guarantees that the state will receive nothing less than an exclusive-use easement on railroad rights-of-way for transportation, communication, and utility purposes in all areas (except Denali National Park where the easement is for rail purposes only).

APPENDIX

ALASKA RAILROAD

PRO FORMA CASH FLOW ADJUSTMENTS

(1983 \$000)

	(1) FY 84	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
Adjusted Transfer Team Cash ("Worst Case")	(19267)	(11315)	(8830)	(5366)	(3048)	(66)	82	341	245	248
Pensions (2)	<u>3165</u>	<u>3044</u>	<u>2939</u>	<u>2830</u>	<u>2740</u>	<u>2651</u>	<u>2558</u>	<u>2468</u>	<u>2374</u>	<u>2285</u>
Cash Adjusted for Pension Issue	<u>(16102)</u>	<u>(8271)</u>	<u>(5891)</u>	<u>(2536)</u>	<u>(368)</u>	<u>2585</u>	<u>2640</u>	<u>2809</u>	<u>2619</u>	<u>2533</u>
State Adjustment Reversals:										
CODE/OSHA Compliance	1200	1200	1200	1200	1200(3)					
MOW/Capital Needs	2500	2500	2500	1500	1500					
USRA Adjustment Reversals:										
One-Time Startup	1750									
Working Capital	4377	95	168	57	49					
OSHA	500	500	500	500	500					
CODE	1500	1500	1500	1500	1500					
Maintenance-of-Way	1220	810	850	870	1010					
Total Adjustments Requiring Funding	<u>13047</u>	<u>6605</u>	<u>6718</u>	<u>5627</u>	<u>5759(4)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
C/N Adjusted Cash	<u>(3055)</u>	<u>(1666)</u>	<u>827</u>	<u>3091</u>	<u>5451</u>	<u>2585</u>	<u>2640</u>	<u>2809</u>	<u>2619</u>	<u>2533</u>

Notes: (1) USRA and State used FY 84 as full-year transfer period. It is likely that transfer will occur in FY 85 and all adjustments should be moved one year forward.

(2) Pension adjustments for 10 years is due to funding requirement change. Includes USRA and State adjustments.

(3) Commonwealth North proposes adjustments only to fund first five years' costs of transfer.

(4) Total up-front funding proposed by Commonwealth North totals \$37,758,000.

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Executive Director

A REPORT BY



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DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

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OFFICE OF THE COMMISSIONER

ALASKA RAILROAD TRANSFER TEAM

April 12, 1984

The Honorable Al Adams
Chairman, House Finance Committee
Alaska State House
Pouch V
Juneau, Alaska 99811

Dear Representative Adams:

This letter is in response to several questions raised by your staff regarding the fiscal note for the CS for HB 512, an Act establishing the Alaska Railroad Corporation. In an attempt to offer more specificity for our estimates, enclosed is a package of information which should provide the requested justification.

The complexity of the transfer project and the need to plan for unknown contingencies given the unresolved legislative process make it difficult to present a full and detailed fiscal analysis. This is further complicated by the lack of a complete and accurate data base from which to project fiscal activity.

Although considerable independent analysis has been given to the available data in the preparation of this fiscal note, it has also been necessary to rely on historical railroad data and current railroad projections to complete our submittal. Once established under state ownership, it should be easier to provide more detailed documentation to support future funding requests.

The following is a brief discussion in response to all of the major points which I understand are of concern to your committee. It has been structured to give most of the requested information in the actual letter, with the various attachments serving as back-up for further review.

° Railroad Labor Relations Agency

I understand there is some concern over why a separate railroad labor relations agency has been proposed in the committee substitute. It was offered in response to concerns raised by both the House and Senate Transportation Committees, who wished to keep railroad employees as separate from normal state systems as possible. Further, it was thought that having a separate labor relations agency would allow the appointment of people with some special expertise in this area.

The alternative would be to require the State's existing Labor Relations Agency to assume the additional responsibility for the Alaska Railroad Corporation. The \$35,000 cost estimate for FY 85 should not change significantly under this approach, since new expenses will be incurred under either arrangement.

The breakdown of this estimate is \$7,000 for travel and per diem charges by board members, with the remaining \$28,000 for contractual assistance by labor relations attorneys and specialists to resolve specific issues as they arise. This estimate is based on the actual experience of our existing Labor Relations Agency, and reflects performing activity for about nine months of the fiscal year, with work beginning as the corporation gears up for acceptance of the railroad.

° Operating Expenditures

I understand another issue for your committee is the desire to see more justification for the various estimates within the operating expenditure categories. Attachment A presents by month and object category additional information in this regard, including a detailed breakdown of railroad expenditures by individual departments.

These costs represent the overall expenses associated with operating the railroad during the pro-rated period of FY 85, and do not represent the level of general fund assistance needed to cover the anticipated shortfall. It is also important to note that no effort has been made on the fiscal note to allocate the projected shortfall as either capital or operating assistance, since such a distinction would be totally arbitrary.

Board of Directors: Expenditures for the Board of Directors have been assessed in the 100 and 200 level categories. A total of \$160,000 has been budgeted for board members' compensation and travel expenses during FY 85. The estimate of \$120,000 for compensation has been calculated on an assumption of 40 days of meetings and work activity by the board during FY 85. This estimate is in response to legislative intent expressed in the House Transportation Committee that a "working board" is envisioned during at least the first year of activity.

The \$40,000 in funds for travel has been estimated on an assumption of approximately \$500 per trip for air fare, per diem and expenses x four board members, which also assumes that two of the public members and the union representative will be from Anchorage. It is assumed there would be approximately 20 separate occasions for meetings or related activity requiring travel by board members during FY 85.

Personal Services: Except for the compensation to board members and some additional temporary and part-time assistance related to start-up activities, all expenditures projected for wages and fringe benefits during the December-to-June period of FY 85

represent maintaining current work force levels. Attachment A provides a complete breakdown for this area by month and by individual railroad department. All personal services for the Alaska Railroad Transfer Team are depicted under the contractual category since these funds will be passed by RSA to DOT&PF.

Travel: In addition to the \$40,000 in funds set aside for travel by board members, another \$100,000 expenditure is projected for expenditure by the Alaska Railroad during FY 85. Attachment A shows the monthly breakdown by each operating department. These estimates are based primarily on historical data from the railroad, along with some anticipated increase resulting from of the transfer. All travel expenditures for the Transfer Team are depicted as part of the single request under the contractual category.

Please note that the total of \$140,000 in funds under this category represents a decrease from the original \$300,000 requested in the fiscal note attached by the House Transportation Committee to the CS for HB 512. In reviewing the back-up, I discovered that the Transfer Team's travel estimate was inadvertently added to those for the railroad and the board. As a result, Attachment B is a revised fiscal note which shows the correct breakdown for this category. The net effect of this change is a reduction of \$160,000 to the overall shortfall for FY 85.

Contracts: Approximately \$2.5 million of this estimate is allocated to cover normal railroad needs during the pro-rated period in FY 85. These estimates are based on actual railroad experience and cover such items as the provision of data processing services, rolling stock per diem charges, specialized power and rolling stock maintenance, and general utility payments.

Please note that the total of \$6.0 million for contracts as depicted on the revised fiscal note includes a re-allocation of \$1.2 million from the supply category on the first submittal. In reviewing the back-up to this material, I discovered some service-related contracts which would be more appropriate for allocation under the contractual category. Accordingly, the supply category in the revised fiscal note has been reduced an equal amount.

Another \$1.2 million of this category represents part of the total \$2 million in estimated costs to the corporation for one-time, start-up expenditures for a range of services such as inventorying and remarking of all personal property, printing of new stationery and payment warrants, revising purchasing and leasing systems, and the initiation of a new accounting system. The remaining items under this category have already been explained in prior submittals or will be further detailed below as part of the expanded discussion on the Transfer Team's activity.

Supplies: This category covers all normal supply acquisitions for the railroad during this period which are treated as expenses to the business. The major items included under this category are fuel acquisition, small tools and lubricants used for maintenance of equipment, all paper materials used for railroad administration, and a miscellaneous inventory of such items as ties, rail and switches used in the maintenance of the track and roadbed. This allocation is based on historical railroad data for FY 83 and FY 84.

Equipment: This category covers all normal equipment acquisitions for this period that are not treated as capital investments by the railroad. The majority of these expenditures are in the mechanical and engineering departments. Major items covered by this category include replacement of miscellaneous mechanical shop equipment and maintenance-of-way equipment as described in Section IV of Appendix G to the Alaska Railroad Transfer Report; hy-rail vehicles; and replacement of microwave communication parts. This breakdown of cost is also based on historical railroad data.

Grants & Claims: This consists of expenses for workmen's compensation, along with overall risk management needs (i.e., tort actions; loss and damage claims; etc.). Attachment C is a recent analysis of these needs prepared by the Department of Administration's Division of Risk Management.

° Alaska Railroad Transfer Team

Several additional questions have been raised about the responsibility and needs of the Transfer Team during FY 85. If the State elects to purchase the Alaska Railroad this legislative session, the Transfer Team will have the primary responsibility to ensure an orderly transition from federal to state ownership, including directing and coordinating all related state activity. In addition, the Transfer Team will have the task to assist in the establishment of the new public corporation to own and operate the railroad, including technical assistance to the new board as it assumes its duties. This will mean a large amount of work, particularly in the first six to nine months of FY 85.

It is important to reiterate that the Transfer Team is an interim organization to coordinate state activities and to oversee the transition from federal ownership. Its duties should be largely completed by the end of FY 85. Any additional fiscal impact to state agencies as a result of acquiring the railroad can be budgeted for as part of normal budgeting activity starting in FY 86. This approach to budgeting for FY 84 and FY 85 has given the Legislature the opportunity to review all transfer-related costs in one specific budget request, instead of having all of the individual agencies separately budget for these impacts.

All of the positions in the various agencies to perform this work are specifically for this project, and are being funded solely with these monies. Most of these positions are already in existence during FY 84, and will merely continue during FY 85 until the completion of the project.

DOT&PF: A specific question has been raised about the size of the projected travel budget for DOT&PF and several of the other agencies. While I agree there is a large travel budget for this project, actual activity during the end of FY 83 and throughout FY 84 substantiates these estimates.

This project has required a large amount of constant travel by staff because of the statutory time limits set by the federal transfer legislation. In addition, this has been further exacerbated by the inherent conflict associated with managing this project from Juneau given the policy implications of the issue and the location of the needed information at the railroad headquarters in Anchorage. Finally, there has been an ongoing need for a limited amount of travel back to Washington, D.C., Seattle, and Fairbanks. If the State elects to purchase the railroad, we anticipate this kind of activity to continue, particularly from July to December, in order to facilitate a quick and orderly transfer.

The travel component in this area covers the Transfer Team staff and all other DOT&PF officials from Juneau, Anchorage, or Fairbanks for travel directly related to the railroad transfer. There have already been several occasions when staff from other divisions (e.g., the facilities planning section) has assisted on specific work tasks for this project.

Based on a review of the initial estimate in relation to our actual expenditures during FY 83 and 84, I have adjusted our funding request in this area down to \$46,000. This is based on an assumption of 40 trips during FY 85 between Anchorage and Juneau at approximately a total cost of \$700 per trip for air fare, per diem and expenses; five trips between Juneau and Washington, D.C. at a cost of \$1,600 per trip; eight trips between Juneau/Anchorage and Seattle at a \$800 per trip; and eight trips between Juneau/ Anchorage and Fairbanks or other points along the line at \$450 per trip.

An additional concern has been raised about the \$35,000 projected for printing and miscellaneous professional services. \$30,000 of this amount is projected for expenditure under an existing professional services contract with the Woodside Consulting Group to refine a capital improvement planning effort for ongoing use by the railroad and for use during preparation of the FY 86 budgets. This contract will also allow us to maintain a readily available railroad management expertise to assist with the establishment of the corporation. The remaining funds will be needed to print copies of the transfer documents for official state use.

° Department of Natural Resources

Most of these funds will be used to continue existing work by the Division of Technical Services for the preparation of conveyance documents and related title review work. There are currently two full-time positions engaged in this activity, with a third technical assistant scheduled to be added if the State proceeds with the transfer. A fourth non-permanent position would also be created in the Division of Land and Water Management to assist with transfer-related impacts. Attachment D presents a more detailed explanation for these estimates.

In re-checking DNR's original request, it was determined that the following changes can be made to the breakdown provided in Attachment B to the original fiscal note:

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Personal Services	4 positions - DNR	\$148.0
Travel	4 positions - DNR	13.6
Contractual	Appraisals/Printing	6.5
Supplies	Miscellaneous	3.0
	Commodities	
Total		\$170.1

This change reduces the DNR request to the level minimally needed to perform the necessary title and conveyance document work, to coordinate and oversee the cadastral survey work, and to ensure accomplishment of the tasks by the Division of Land and Water Management as explained in their attached memo.

In addition to these DNR impacts as part of the Transfer Team, an additional \$35,000 funding request has been added to this note under the contractual line item in response to the anticipated impact from implementing Sec. 42.40.370 of the CS for HB 512. This section authorizes the Alaska Railroad Corporation to obtain state land from DNR through an expedited review and decision-making process. DNR is of the opinion that this section gives the corporation priority standing and will impact their ability to perform their other duties. Accordingly, these funds are for non-permanent staff assistance and some travel during FY 85 to respond to all such corporation requests. Fiscal impact during FY 86 is expected to be greater once the corporation has been organized and begins to explore expansion proposals.

Please note that the net effect of this revised budget for DNR, when combined with the reduced travel estimate for DOT&PF, is a reduction of \$100,000 in funds being requested for the Transfer Team during FY 85. An appropriate adjustment has been made to both Attachment A and the revised fiscal note to reflect this change.

° Department of Labor

Attachment E provides a detailed breakout and explanation of the funding request of \$213,500 for the Department of Labor to perform an extensive survey of the railroad's physical facilities in relation to federal and state occupational safety and health laws, regulations and standards. This funding will allow the Department of Labor to properly perform their statutory responsibilities on a one-time basis in relation to the Alaska Railroad.

° Department of Administration

Most activity in this area will consist of continuing work efforts initiated during FY 84. Particular attention must be paid to the analysis of the five collective bargaining agreements, which will be made available for use by the corporation in the process of renegotiating these agreements as required by the federal transfer law. Attachment F contains additional explanation and back-up with respect to the funding request for the Department of Administration. Please note that in addition to the \$257,400 highlighted in the Transfer Team's attachment, another \$80,000 in funds is being requested to hire a knowledgeable railroad labor relations attorney and to perform support work needed in relation to the preservation of railroad archives.

It is important to reiterate that this request does not fund permanent increases in the department's operations or staffing. The two non-permanent staff assistants will perform support work in a range of areas such as risk management, data processing, telecommunications, and EEO issues. The projected travel budget includes supporting these efforts, and any other department travel needs related to this project.

In terms of the contractual component, \$45,000 has been set aside for the ongoing actuarial analysis by Mercer, Inc.; \$50,000 for the labor relations attorney; \$60,000 to perform DOA liaison work and staff assistance for the pre-transfer audit; and the remaining \$30,000 to assure the State receives copies of all personnel records, and to assure an orderly cataloguing and storage of archival records at the railroad, at Sand Point, Washington, and at Washington, D.C.

° Department of Law

The Department of Law component to assist the Transfer Team is based entirely on actual experience during the last year and half of work. There will be a sizeable need for this legal assistance assuming state acceptance of the transfer, particularly during the first six months of FY 85. Considerable work is anticipated to represent the State in the adjudication process of 3(e) (ANCSA) claims against railroad property by native village corporations. Additional legal assistance will be needed for the preparation of the transfer documents relating

to land conveyances and personal property, preparation of personnel-related legal documents in concert with the U.S. Office of Personnel Management, timely responses to third parties concerns which may arise as a result of the transfer, and representation of the State vis-à-vis the Interstate Commerce Commission (ICC) to obtain certification and to initiate filings for rate-making purposes. An additional legal expense to be encountered relates to the actual establishment of the corporation and all of the legal work necessary to assist that effort.

The outside special counsel used in this project will be directly involved in all of the above functions. These efforts are coordinated with staff within the department, who also participate in performing this work. It should be noted that FY 85 costs in this area is less than for prior years, which is due to a projected downswing for this type of activity following actual transfer in late 1984.

° ICC Rate Valuation/Capital Plan Activity

The funding in this area will be used to initiate planning work necessary to file the appropriate valuation studies before the ICC for purposes of rate-making justification. In addition, the railroad needs to continue an ongoing capital planning effort to better assist the corporation in making investment decisions, and provide additional support for the ICC filings. An overall amount in excess of \$1 million will probably be needed to properly complete such a full-scale valuation.

Included in this effort is the need to completely disassemble the current accounting system, restructure all cost center allocations accordingly, and appraise the value of the railroad as a going concern. Since condition and capital needs play a key part in this kind of assessment, it is important to coordinate the work to the maximum extent possible. The consulting assistance will consist of financial and operational railroad experts familiar with similar types of railroads and Class II ICC rate-making procedures.

Although the federal transfer legislation gives the State a two year hiatus before these filings must be made, it is important to initiate these efforts as soon as possible given the uncertain status of the current accounting system and the overall complexity of the actual project. The Transfer Team will use these funds to initiate the effort and then transfer responsibility for completion of the work task to the corporation.

° Summary

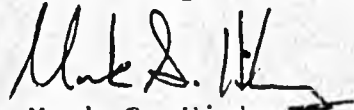
I would like to reiterate that the shortfall figure of \$15.54 million has not been allocated between capital and operating needs. While to make such a distinction would be quite arbitrary,

April 12, 1984

it is possible to identify the following items as the major reasons for the shortfall: the replacement of the working capital fund; the OSHA and building code rehabilitation needs; the one-time, start-up expenditures; and funding for Transfer Team activities. This covers most of the projected shortfall and does represent those expenditures directly attributable to the transfer project.

I apologize for the length of this submittal, but I wanted to address as many of the specific concerns as possible. I trust this information satisfies your request and helps give some perspective to the complexity of this project. If you have any more questions, please give me a call at 465-3900.

Sincerely,



Mark S. Hickey
State Railroad Coordinator

cc: Ray Gillespie, Director of Legislative Relations,
Office of the Governor
Ben Harding, Special Staff Assistant,
Office of the Governor
R. J. Knapp, Commissioner,
Department of Transportation & Public Facilities
House Finance Committee Members
Alaska Railroad Transfer Team Members

TESTIMONY

BEFORE

THE ALASKA HOUSE AND SENATE TRANSPORTATION COMMITTEES

JANUARY 26, 1984

JUNEAU, ALASKA

H. L. SCHUYLER

SEA-LAND SERVICE, INC.

I AM HAROLD L. SCHUYLER, DIRECTOR OF PUBLIC AFFAIRS FOR SEA-LAND SERVICE, INC.'S ALASKA DIVISION.

WE, AT SEA-LAND, DO NOT OPPOSE THE TAKEOVER OF THE ALASKA RAILROAD BY THE STATE OF ALASKA FROM THE FEDERAL GOVERNMENT. THE RAILROAD IS NECESSARY FOR THE FUTURE GROWTH OF ALASKA RESOURCE DEVELOPMENT AREAS AND COMMUNITIES. COAL, MINERALS, AND FARMING PRODUCTS MUST HAVE AVENUES TO TIDEWATER PORTS IN ORDER TO BE EXPORTED TO WORLD MARKETS. THE MARKET FOR ALASKA'S MINERALS, WOOD PRODUCTS, AND GRAINS WILL BE FOREIGN, AND THE MOST ECONOMICAL METHOD TO MOVE BULK CARGOES TO TIDEWATER IS BY RAIL.

WE HAVE ANALYZED IN GREAT DETAIL SENATE BILL NO. 352 AND HOUSE BILL NO. 512 AND APPLAUD THEIR IMAGINATIVE AND FAR-REACHING PURPOSE; HOWEVER, WE, AT SEA-LAND, ARE CONCERNED ABOUT THE ADMINISTRATION, OPERATION, POLICIES, AND RULES AND REGULATIONS UNDER WHICH THE ALASKA RAILROAD AUTHORITY WILL BE OPERATING IN CARRYING OUT ITS MISSION.

AS PRESENTLY DRAFTED, THE LEGISLATION PROVIDES US THE FOLLOWING CONCERNS:

1. A STATE OWNED ENTITY WHICH IS EXEMPT FROM ALL FEDERAL, STATE, AND LOCAL TAXES HAS A GREAT ADVANTAGE OVER OTHER COMPETITIVE MODES OF TRANSPORTATION THAT ARE PAYING TAXES TO THE FEDERAL, STATE, AND LOCAL COMMUNITIES.
2. THE OPPORTUNITY FOR THE PROPOSED RAILROAD AUTHORITY TO SELL BONDS OR BOND ANTICIPATION NOTES AS TAX EXEMPT SECURITIES GIVES THE AUTHORITY ANOTHER DEFINITE EDGE IN OBTAINING CAPITAL FOR IMPROVEMENTS AS COMPARED TO PRIVATE TRANSPORTATION THAT MUST COMPETE FOR MONEY IN THE OPEN MARKET, PAYING CONSIDERABLY HIGHER INTEREST RATES THAN DOES THE STATE GOVERNMENT.

3. THE RAILROAD AUTHORITY IS VESTED WITH THE ABILITY TO ACQUIRE AND OPERATE OTHER MODES OF TRANSPORTATION SERVICE CONNECTING TO THE RAILROAD'S RAIL SERVICE IN DIRECT COMPETITION WITH PRIVATE TRANSPORTATION. THIS ALLOWS THE RAILROAD TO BUY TRUCK LINES, WATER CARRIERS, AND AIRLINES. THIS PART OF THE BILL IS PARTICULARLY WORRISOME AS THE ALASKA RAILROAD AUTHORITY COULD VERY WELL BECOME A STATE TRANSPORTATION SYSTEM WITH NO COMPETITION AS THE PRIVATE SECTOR WOULD NOT BE ABLE TO FINANCIALLY COMPETE WITH THE AUTHORITY. THERE IS ALSO THE FACT THAT THE STATE WOULD LOSE A CONSIDERABLE AMOUNT OF TAX BASE IF AND WHEN PRIVATE SECTOR TRANSPORTATION COMPANIES ARE FORCED OUT OF BUSINESS.

4. THE LEGISLATION LIBERALLY DISCUSSES RATE MAKING, AND RATE POLICY. THE ESTABLISHMENT OF RATES FOR ALASKA RAILROAD AUTHORITY'S REVENUES WILL EFFECT THE PRIVATE CARRIERS OF OTHER MODES OF TRANSPORTATION. WE ARE CERTAINLY NOT SUGGESTING THAT THE LEGISLATURE DICTATE THE AUTHORITY'S RATE POLICIES, HOWEVER, WE FEEL THAT ALL RATES PRESCRIBED BY THE AUTHORITY MUST BE AT A LEVEL SUFFICIENT TO RECOVER THE FULL COST OF PROVIDING THE PARTICULAR TRANSPORTATION CONCERNED, TAKING INTO FULL ACCOUNT THE LEVEL OF SUBSIDY AND THE COST OF BORROWED CAPITAL. SEA-LAND WOULD URGE SPECIFIC LEGISLATIVE AMENDMENTS WHICH WOULD PROHIBIT A STATE-OWNED RAILROAD FROM CHARGING RATES WHICH ARE BELOW THOSE CHARGED BY PRIVATELY-OWNED CARRIERS, FOR FREIGHT ON WHICH BOTH CARRIERS COMPETE, WHERE THE RATES DO NOT RECOVER THE FULL COST OF THE SERVICE OFFERED (TO INCLUDE ANY DIRECT OR INDIRECT SUBSIDY).

5. WE FEEL THE LEGISLATION NEEDS AN ANTITRUST PROVISION. THE LEGISLATION NEEDS TO BE AMENDED TO PLACE THE STATE-OWNED RAILROAD UNDER STATE ANTITRUST

LAWS. ALL OF THE PRIVATELY-OWNED WATER CARRIERS AND MOTOR CARRIERS ARE SUBJECT TO THE FEDERAL AND STATE ANTITRUST LAWS, AND WHILE THIS BODY CANNOT PLACE THE RAILROAD UNDER FEDERAL ANTITRUST LAWS, STILL IT IS OUR BELIEF THAT THE RAILROAD SHOULD BE SUBJECTED TO THE SAME LAWS AS ARE THE PRIVATE CARRIERS. IN SHORT, WE SHOULD ALL PLAY BY THE SAME RULES.

6. I AM SURE THIS COMMITTEE IS AWARE THAT THE STAGGERS RAIL ACT OF 1980 HAS VIRTUALLY DEREGULATED INTERSTATE RAIL SERVICE. AS A PRACTICAL MATTER, THE ALASKA RAILROAD AND ALL OTHER MAJOR RAIL LINES ARE TOTALLY UNREGULATED. WHILE DEREGULATION MAY BE GOOD IN THEORY, THE TRADE BETWEEN ALASKA AND THE LOWER 48 IS IN ESSENCE A MICROCOSM: ALL TRANSPORTATION MODES COMPETE DIRECTLY WITH EACH OTHER FOR THE SAME BASIC CONSUMABLES. WE READILY ACKNOWLEDGE THAT LARGE PORTIONS OF THE ALASKA RAILROAD'S FREIGHT ARE BULK COMMODITIES; STILL, ALL OF THE COMPETING MODES ARE REGULATED WHILE THE RAILROAD IS NOT, THUS GIVING THE RAILROAD A DISTINCT COMPETITIVE EDGE WHICH CAN BE SUBJECT TO ABUSE.

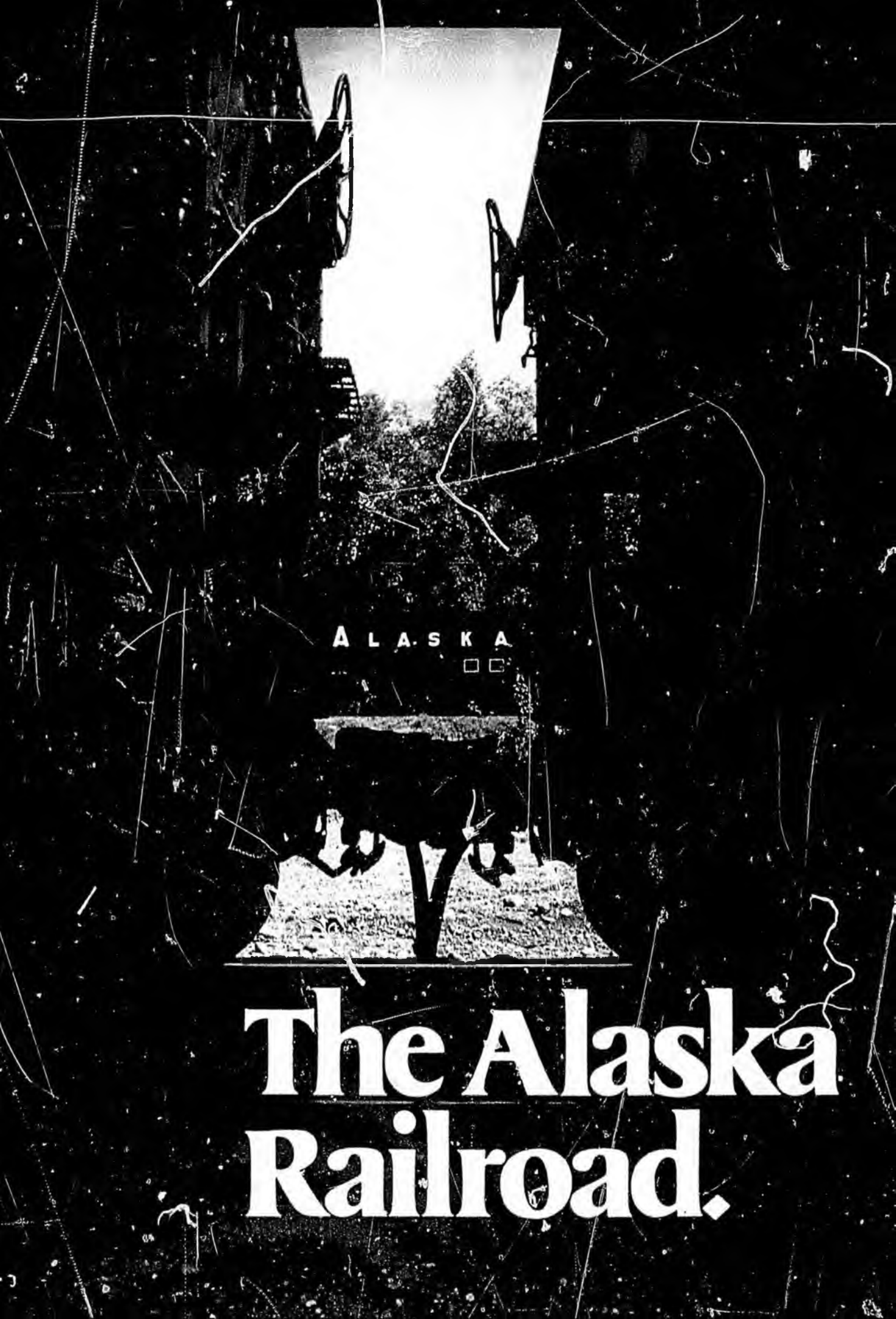
7. THE BILL PROVIDES FOR THE ESTABLISHMENT OF CONTRACT RATES BY THE RAILROAD. THE STAGGERS ACT ALLOWS CONTRACT RATES BUT THAT LAW CONTEMPLATED THE RAILROADS ENTERING INTO CONTRACTS WITH MAJOR SHIPPERS WHOSE CARGO THEY HAD HISTORICALLY HANDLED FOR THE BENEFIT OF BOTH. THAT CONTRACT ABILITY WAS NOT ENVISIONED TO BE USED AS A COMPETITIVE TOOL, AS IT HAS BEEN UTILIZED BY THE ALASKA RAILROAD. SEA-LINE HAS CHALLENGED THESE PRACTICES, BOTH BEFORE THE INTERSTATE COMMERCE COMMISSION AND IN THE COURTS, TO NO AVAIL BECAUSE THE RAILROAD IS UNREGULATED AND IMMUNE FROM SUIT WHILE OWNED BY THE FEDERAL GOVERNMENT. WE CANNOT LEGALLY ESTABLISH CONTRACT RATES AND, THEREFORE, CANNOT EFFECTIVELY COMPETE WITH SUCH RATES. WE URGE THIS BODY TO CRITICALLY SCRUTINIZE THAT PORTION OF THE BILL AND DELETE SUCH PROVISIONS FROM THE LEGISLATION.

8. ARTICLES 4 AND 5 OF THE LEGISLATION PROVIDE FOR THE AUTHORITY TO EXERCISE THE STATE'S POWER OF EMINENT DOMAIN/CONDEMNATION. SEA-LAND DOES NOT CHALLENGE THE STATE'S ABILITY IN THIS AREA, BUT WE STRONGLY FEEL THIS RIGHT SHOULD NOT BE LOGGED WITHIN THE AUTHORITY BUT SHOULD BE RESERVED TO THE STATE TO PRECLUDE ANY COMPETITIVE USE OR ABUSE. IT IS A SIMPLE MATTER FOR THE RAILROAD AUTHORITY TO APPROACH THE STATE TO OBTAIN THE ABILITY TO ACQUIRE THE NECESSARY RIGHTS OF WAY.

9. SEA-LAND NOTES THAT THE AUTHORITY CAN DETERMINE WHAT INFORMATION IT KEEPS CONFIDENTIAL. WE URGE THAT THIS ABILITY IS SUBJECT TO POSSIBLE ABUSE. AT A MINIMUM, ALL RATES, RULES, PRACTICES, DIVISIONS OF REVENUE, CONTRACTS, IF ANY, AND COST DATA MUST BE OPEN TO PUBLIC INSPECTION.

WE, AT SEA-LAND, ARE NOT HERE MERELY TO TELL YOU WHAT IS WRONG WITH THIS PROPOSED LEGISLATION. WE WISH TO BE CONSTRUCTIVE AND ASSIST IN REACHING THE BEST POSSIBLE COMPROMISE WHICH WILL WORK TO THE BENEFIT OF THE STATE, ITS CITIZENS, AND THE TRANSPORTATION CARRIERS SERVING ALASKA, AS WELL AS TO SEE A VIABLE RAILROAD PAYING ITS WAY IN THE STATE OF ALASKA AND GROWING WITH THE RESOURCE DEVELOPMENT.

WE CERTAINLY WOULD LIKE TO THANK THESE COMMITTEES FOR ALLOWING SEA-LAND SERVICE, INC. TO TESTIFY AND EXPLAIN OUR VIEWS. IT IS CERTAINLY NOT OUR INTENT TO HINDER THE RAILROAD'S OPERATION OR ITS DEVELOPMENT AND EXPANSION. THE RAILROAD IS A NECESSARY INGREDIENT FOR THE FUTURE OF THIS STATE. ALL WE ARE ASKING FOR IS FAIR COMPETITION FOR ALL MODES OF TRANSPORTATION IN THE ALASKA MARKET PLACE.



A L A S K A



The Alaska Railroad.

In 1914, when railroads spanned the major continents of the world and man was taking to the air with increasing enthusiasm, Alaska was still raw wilderness, mostly untouched by civilization. The cities that did exist were remote and isolated, particularly in the area called Interior Alaska. There was no land link between these frontier outposts and the rest of the world; and their marine supply networks were only useable on a seasonal basis. Yet there was much that needed to be shipped in—and great wealth had to be shipped out. So, in 1914—after two private railroad companies had failed to penetrate Alaska's Interior—Congress authorized the government to take over the 70 miles of track already laid, and to construct the remaining 400 miles of railroad needed to reach Fairbanks.



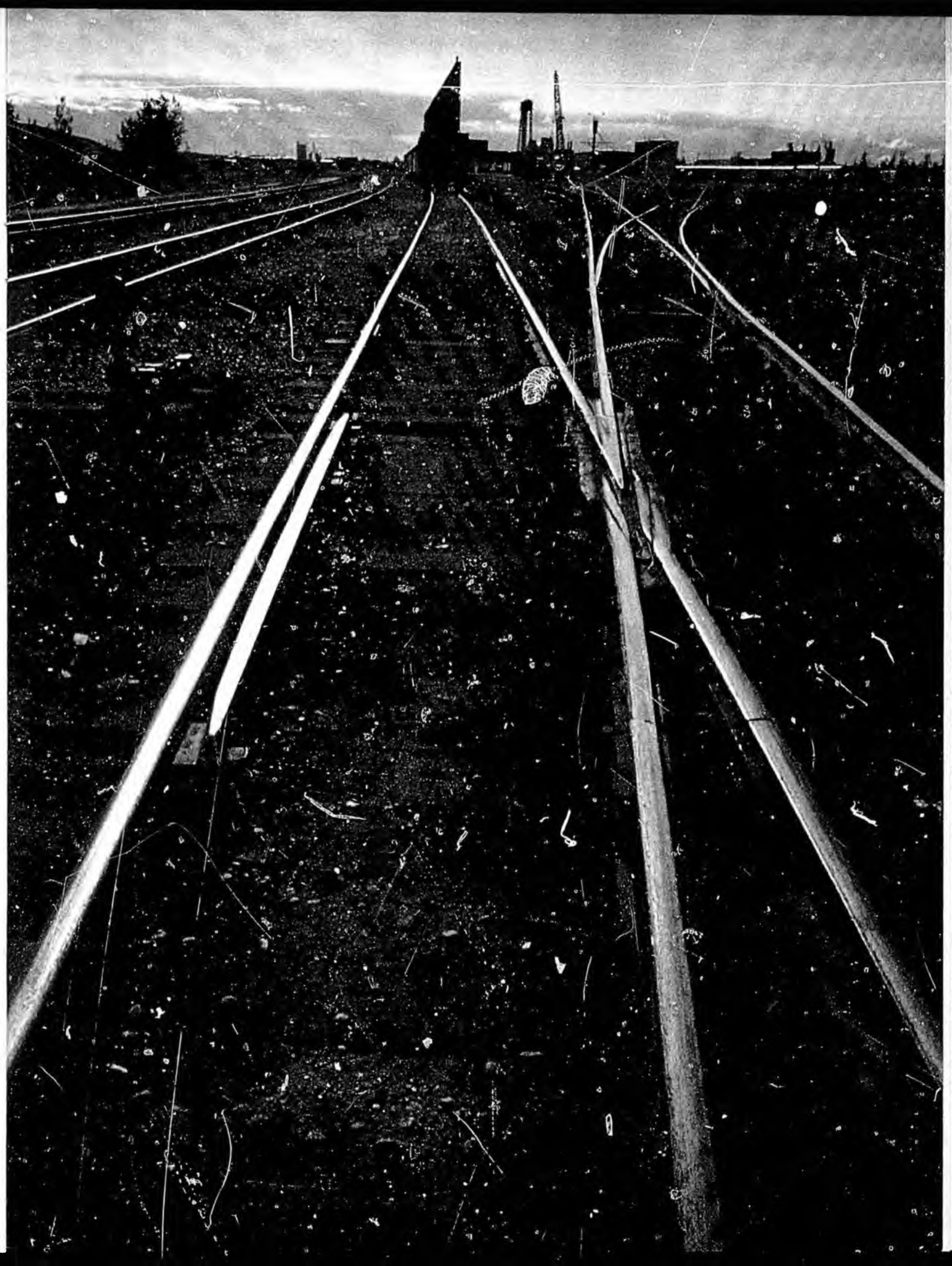
The Alaska Railroad.

Shipping freight to and from Alaska is a lot less complicated than many shippers think. While it's true that Alaska has no direct land railroad link with the lower 48, Alaska does have something equally effective. And that's The Alaska Railroad.

Interlining with the major railroad, truck, air, and marine transport networks of the continental United States and Canada—and, through them, with the carriers of the world—and utilizing rail barge transport from Seattle and Prince Rupert, The Alaska Railroad is one of the most efficient, economical ways possible to get your goods to or from Alaska.

We offer a comprehensive range of facilities, services, and special equipment to help transport your shipments, as you'll discover in reading this brochure.

The Alaska Railroad system. It's unique. It's timely. And it saves you money.



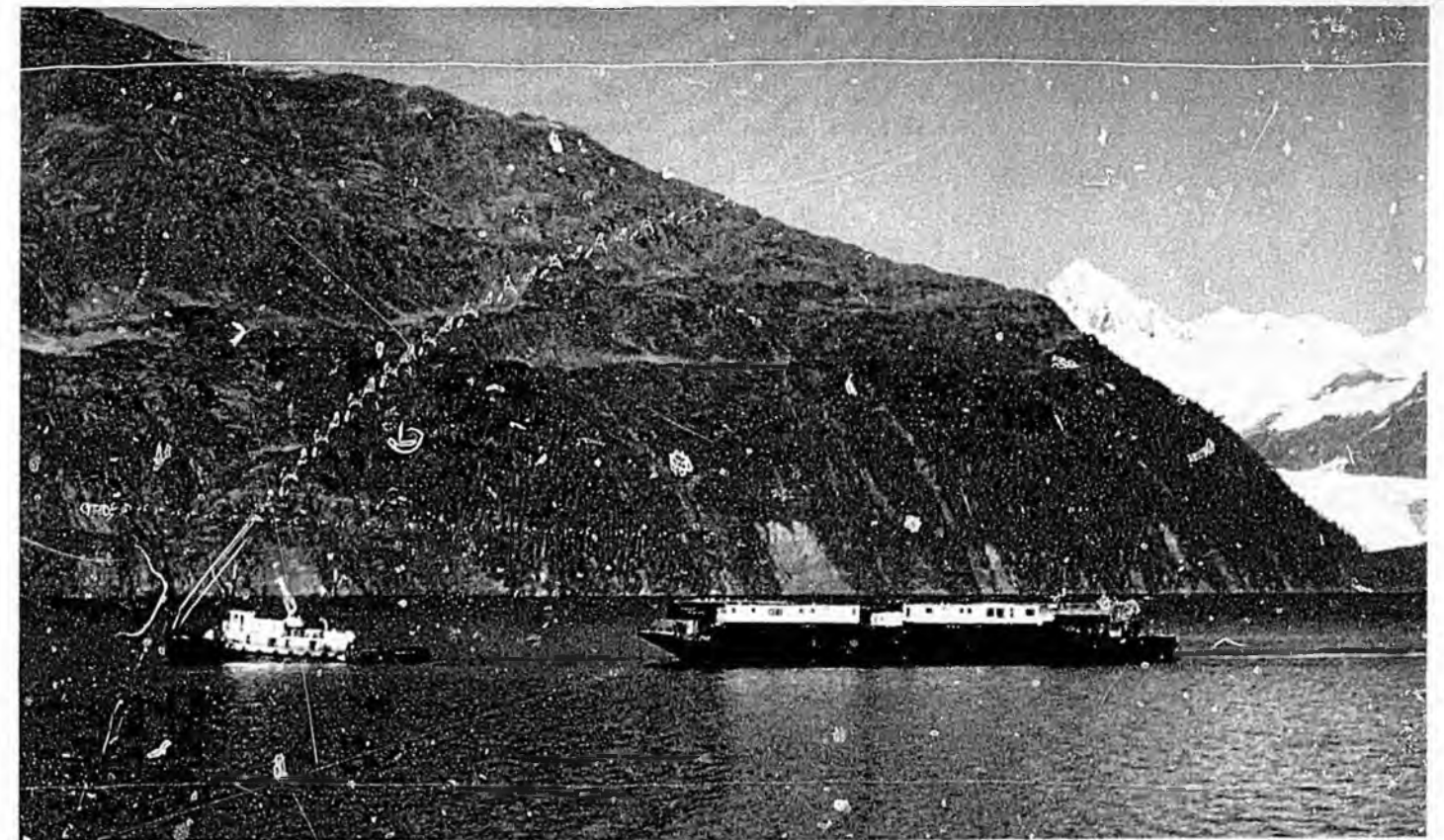
When You're Shipping To Alaska, We'll Do All The Work.

It wasn't a job to be lightly undertaken. Mountain ranges, canyons, glaciers, thick forest, subzero temperatures—these obstacles, and many others, faced the railroad planners and builders every mile of the way. There were some who said it could never be done; but there were others determined to try. Construction took eight years, cost \$52 million, and demanded some of the most innovative railroad engineering in history.

The Alaska Railroad offers direct interchange connections with the North American railroad network. And that works to your advantage. No matter what you're shipping—furniture from North Carolina, pipe from Pueblo, building materials from the Pacific Northwest, or drilling pipe and machinery from Texas—your goods will arrive at their Alaskan destination quickly, securely, and with a minimum of effort on your part.

When you specify The Alaska Railroad as your designated Alaskan carrier, your cargo is routed via the continental railroad network to Seattle (1300 miles from Alaska destination ports) or Prince Rupert, British Columbia (870 miles.) There it is transferred to the rail barges of the Hydro-Train and Aqua Train services for the sea voyage to Alaska. Rail cars are transferred to trains at Whittier, on Southcentral Alaska's Prince William Sound.

Bulk or break-bulk cargoes are off-loaded in the Kenai Peninsula port of Seward, where extensive break-bulk and bulk freight facilities are available. Both of these ice-free ports serve as year-round marine terminals for The Alaska Railroad.



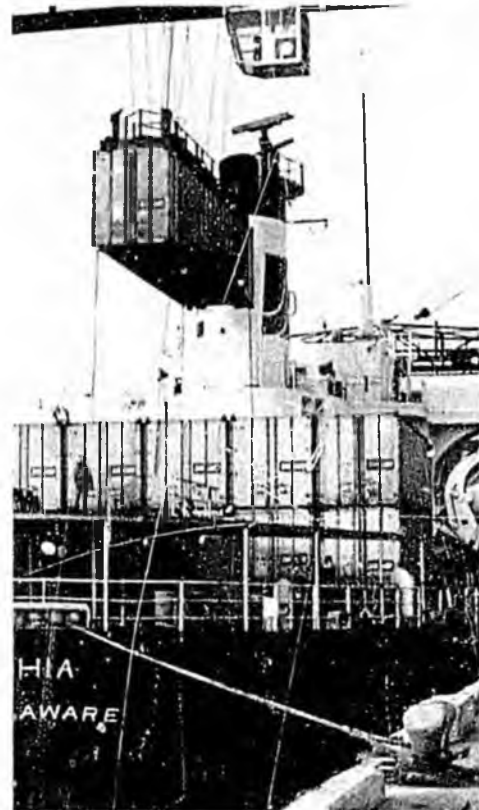
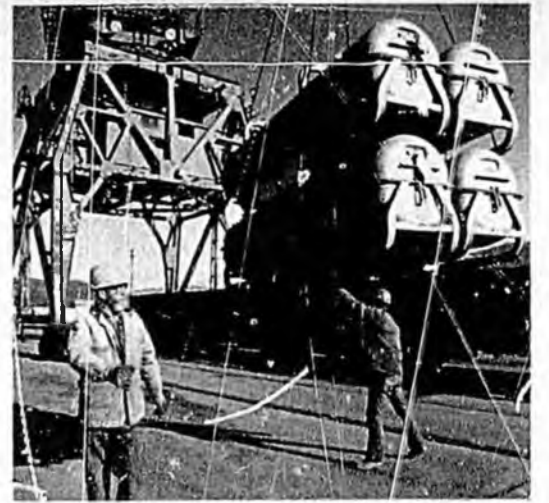
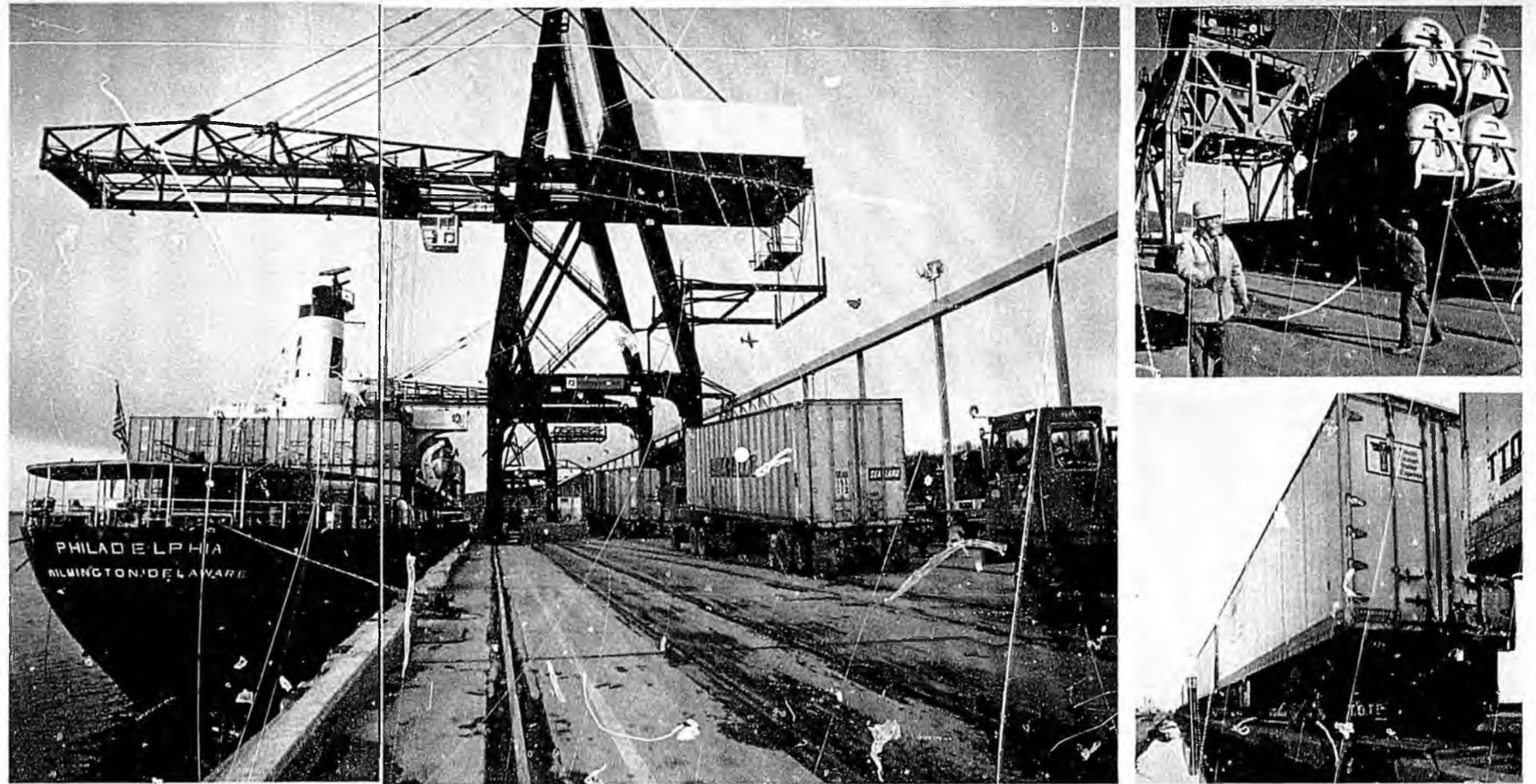


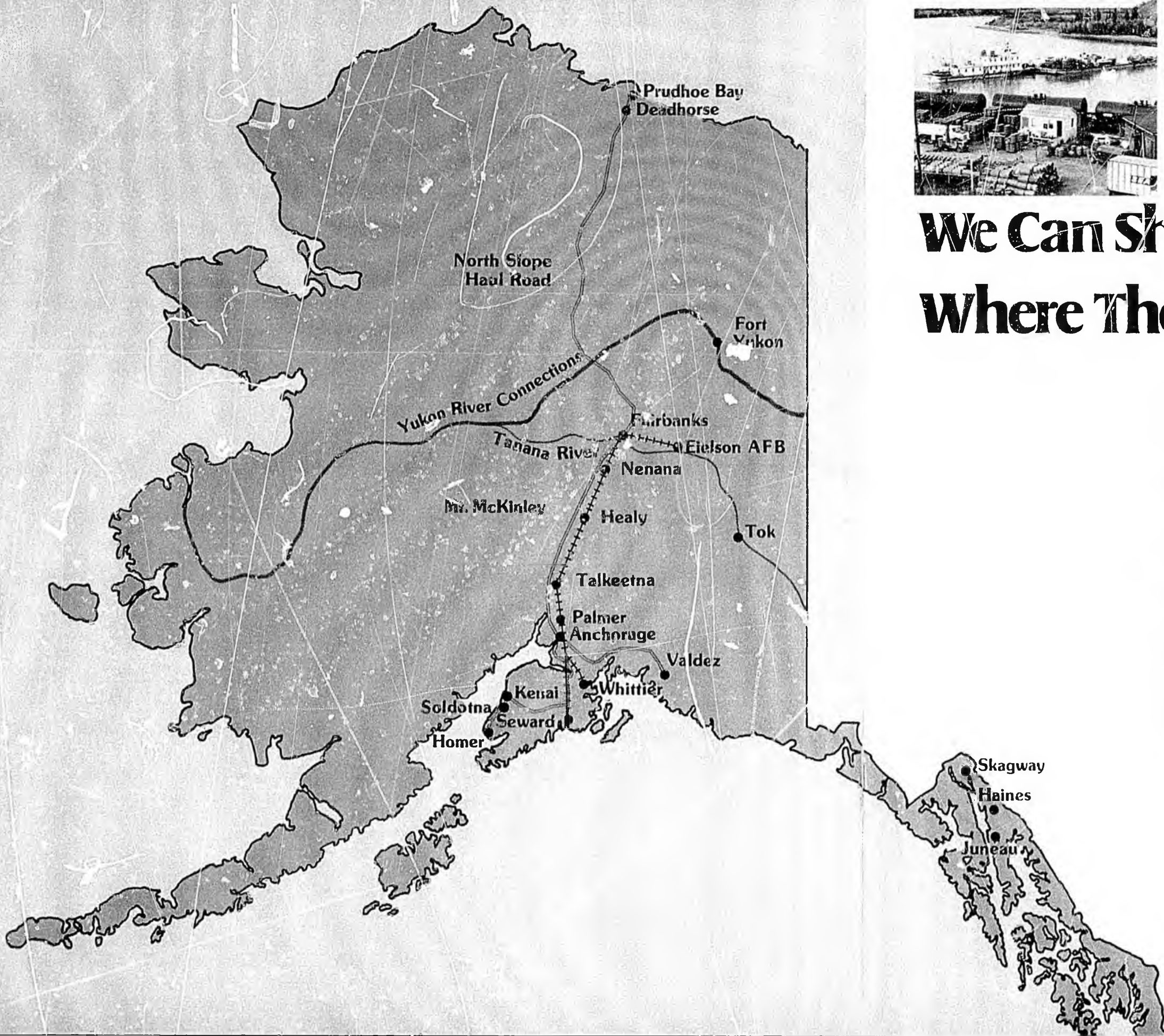
In 1923, President Harding traveled to Nenana, a small town in Alaska's interior. At the north end of the 700-foot single-span steel bridge across the Tanana River, the President drove a golden spike to signify the completion of The Alaska Railroad.



If you're shipping goods from Seattle to Fairbanks or beyond—in trailers on Tatem Ocean Express, or in containers on Sea/Land—it costs less to "piggyback" those goods on The Alaska Railroad than it does to move them by highway transportation.

This far-reaching network works smoothly and effectively to bring those building materials, or that machinery, to Alaska in good time—and in good shape. We also have the potential to ship petrochemical products world-wide. In fact, we can ship almost anything, almost anywhere. And all you have to do to set the wheels in motion is be sure that The Alaska Railroad is specified on your bill of lading as your Alaskan carrier.

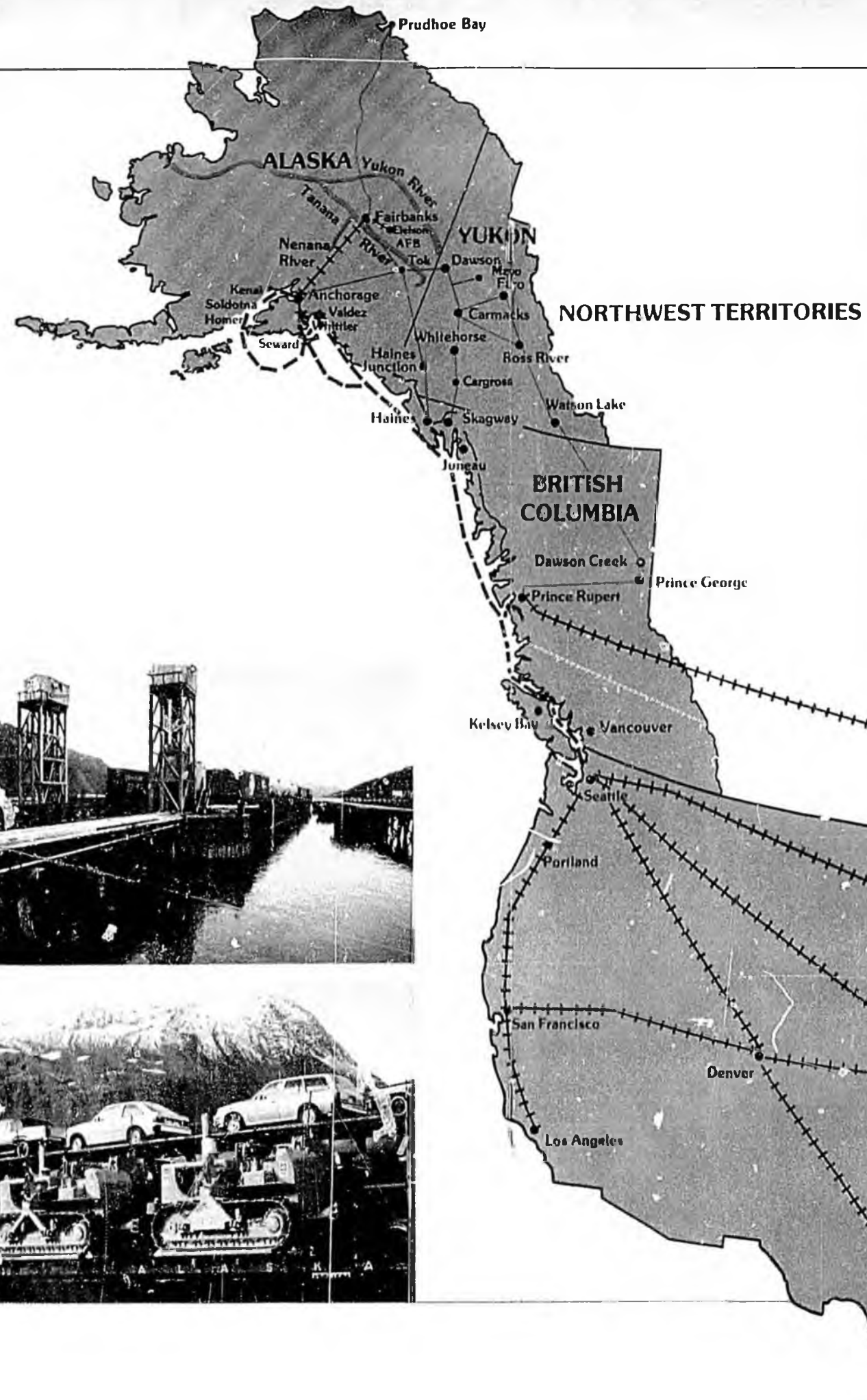




We Can Ship Your Freight Where The Rails Don't Run.

The area known as Interior Alaska covers thousands of square miles, much of it primitive wilderness; and its towns and settlements are often isolated by distance and terrain. But, although The Alaska Railroad itself goes no farther than Fairbanks, we utilize a combination of transportation modes—including motor carriers, river boats, and aircraft—to carry freight to the remote corners of the state.

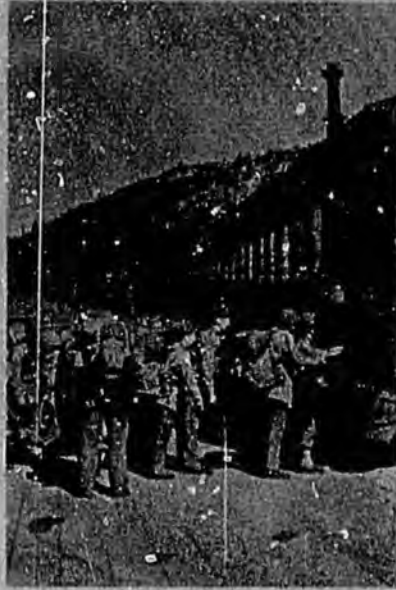
Freight can be transferred at Nenana to river barges, which provide through routes and rate service in cooperation with The Alaska Railroad. This river freight service extends along the Tanana and Yukon Rivers to Fort Yukon, and even to Marshall, just 150 miles from the Bering Sea. So when you've got cargo destined for the bush, remember that The Alaska Railroad can take it there.



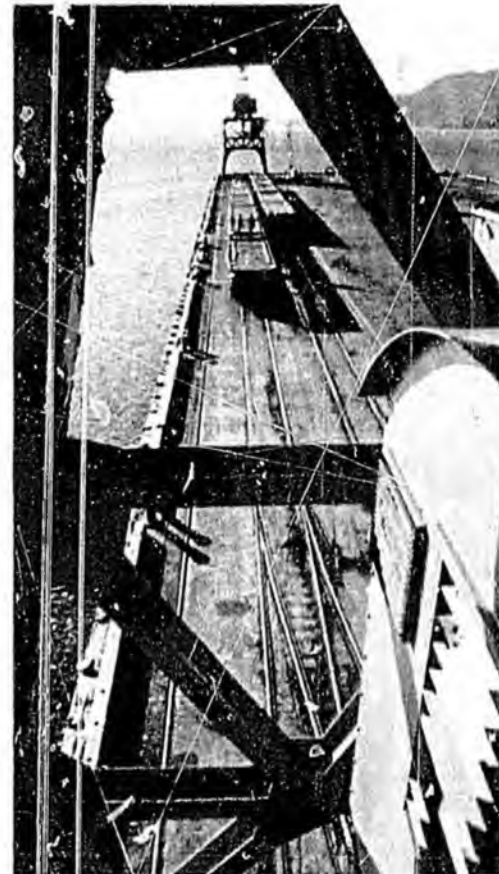
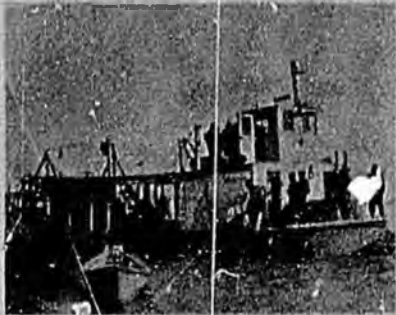
- Yukon River Connections
- - - - - Truck Connections to Prudhoe Bay Oilfields
- · - · - · Vessel and Rail Barge Connections from Lower 48 and Canadian Ports
- + + + + + Rail Connections from Lower 48

Domestic And Foreign Markets

As Alaska grew, so did its railroad. Shipping goods to remote points became easier, less costly, and more effective. During World War II, the Railroad served as a vital supply link for the armed forces operating in Alaska.

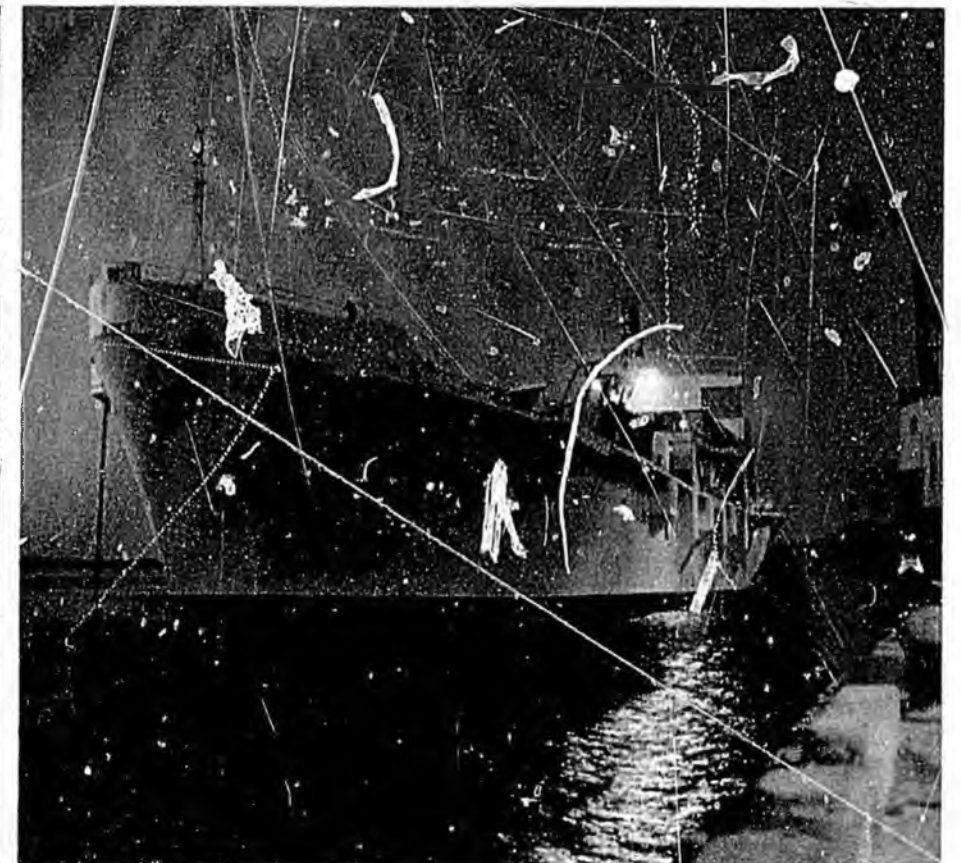
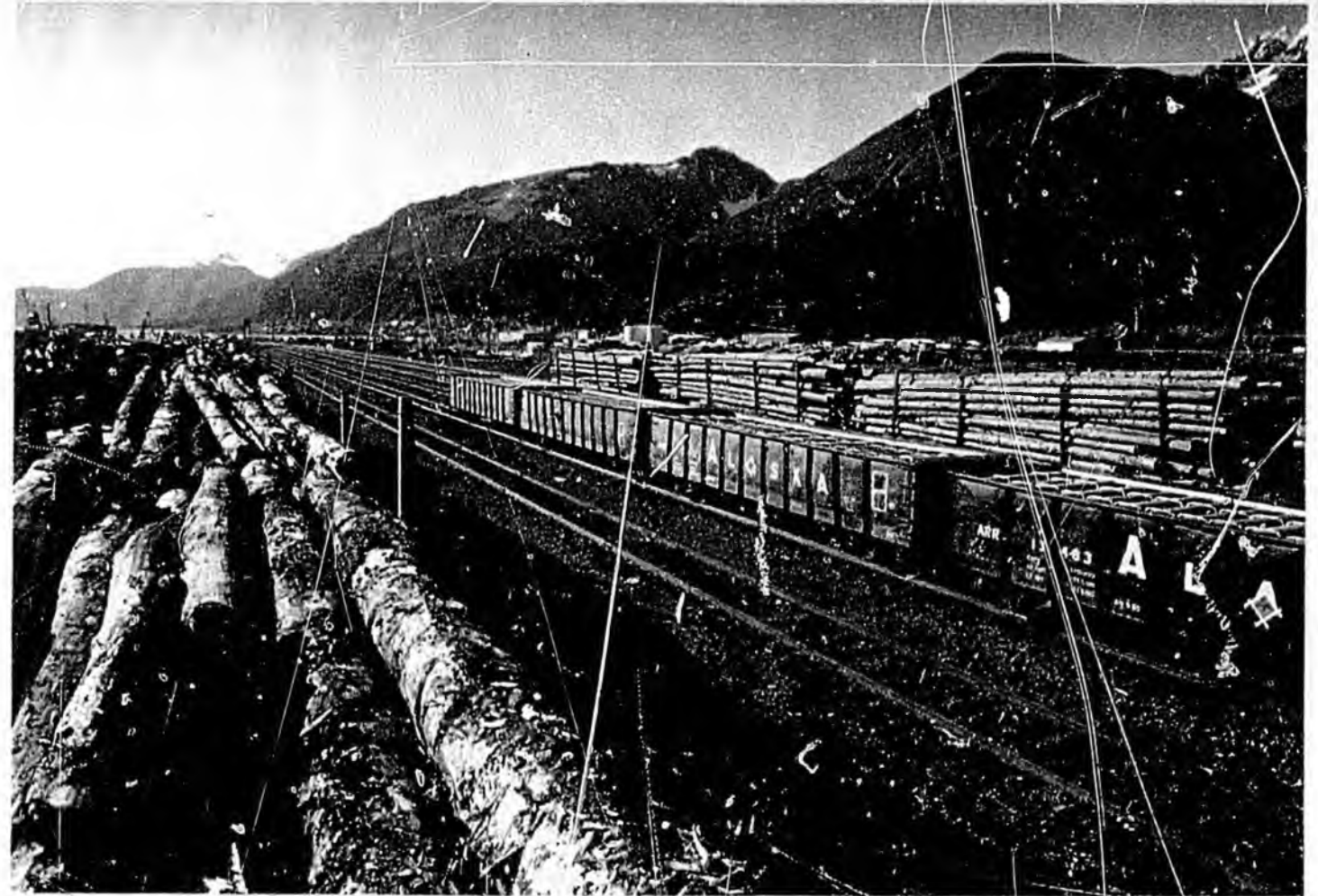


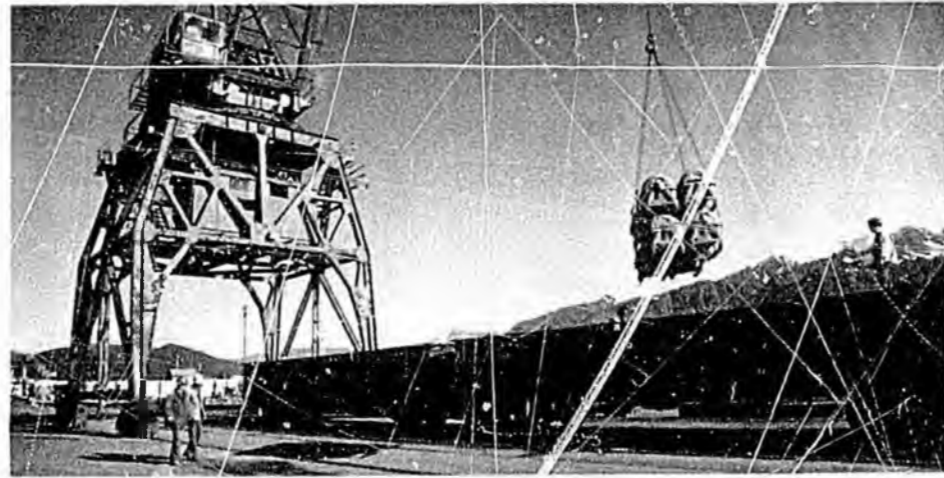
In May of 1962, the Railroad passed another milestone. Canadian National Railways initiated rail barge service from Prince Rupert, B.C., and, for the first time, the cars of other lines were rolling on Alaska Railroad tracks. Alaska Hydrotrain service from Seattle quickly followed; and today, freight from all over the continent—and the world—comes to Alaskans via The Alaska Railroad.



Over the past few years, we've begun to extend the reach of The Alaska Railroad to markets around the world. One key element of our system is our office in Seattle. Many shipping connections, both foreign and domestic, can be made through this office. For instance, if a broker in England requests that a shipment of canned Alaska salmon be delivered in Liverpool, arrangements can be made through the Seattle office. Shippers can ask for, and receive, almost any shipping arrangements they please—and they can call The Alaska Railroad in Seattle from anywhere in the United States, or the world.

Today, we're shipping logs, wood chips, and scrap metal to Korea, Japan, and Taiwan; and have the capability to transport coal, grain, and other materials to any destination in the world. We've developed and maintained a position in foreign markets, and see them as an integral part of our future shipping network. And of course we're more than familiar with major domestic destinations. In addition, we have the flexibility to develop and expand facilities as required.





Special Equipment To Keep Freight Moving.

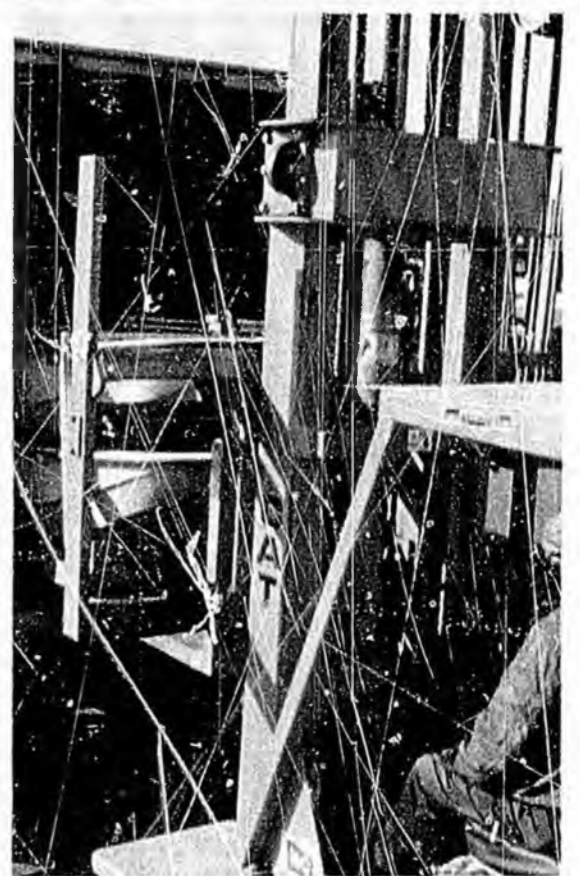
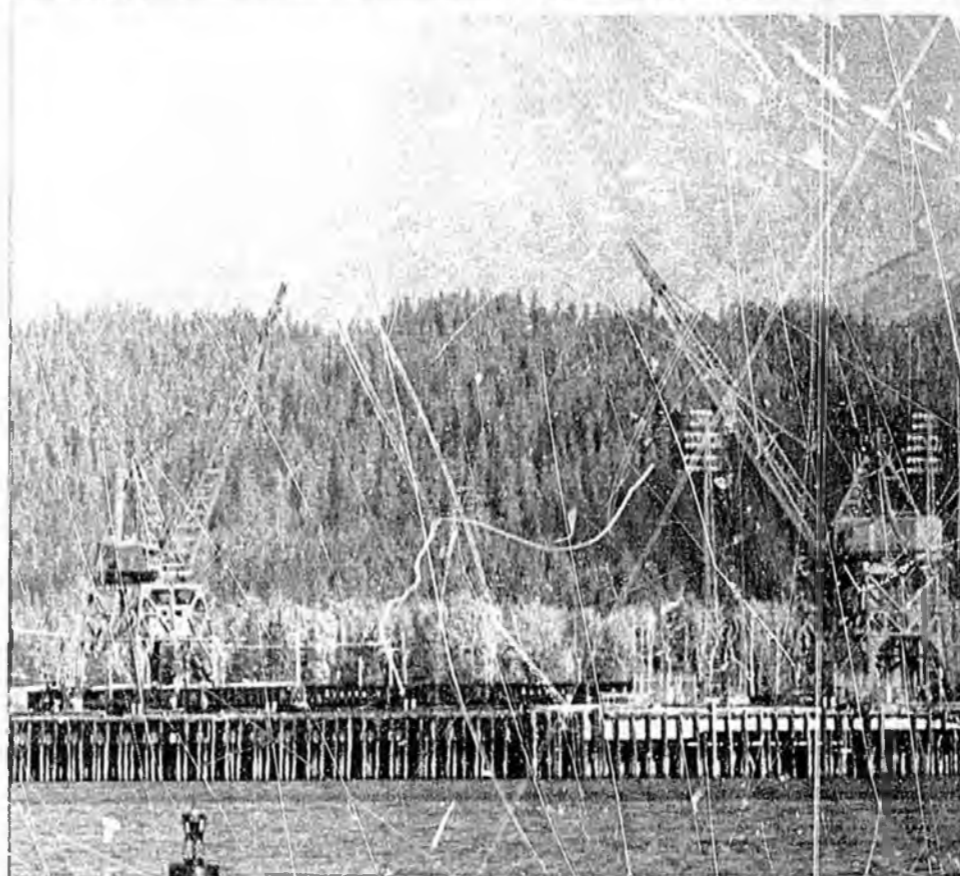
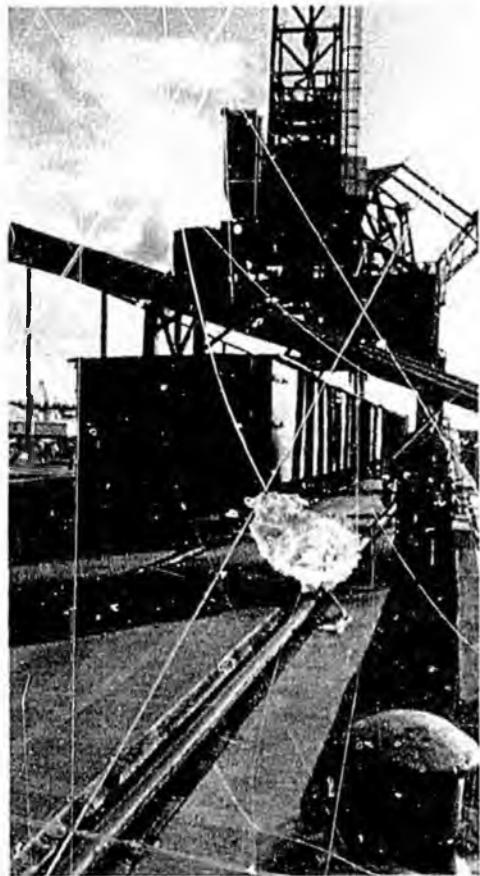
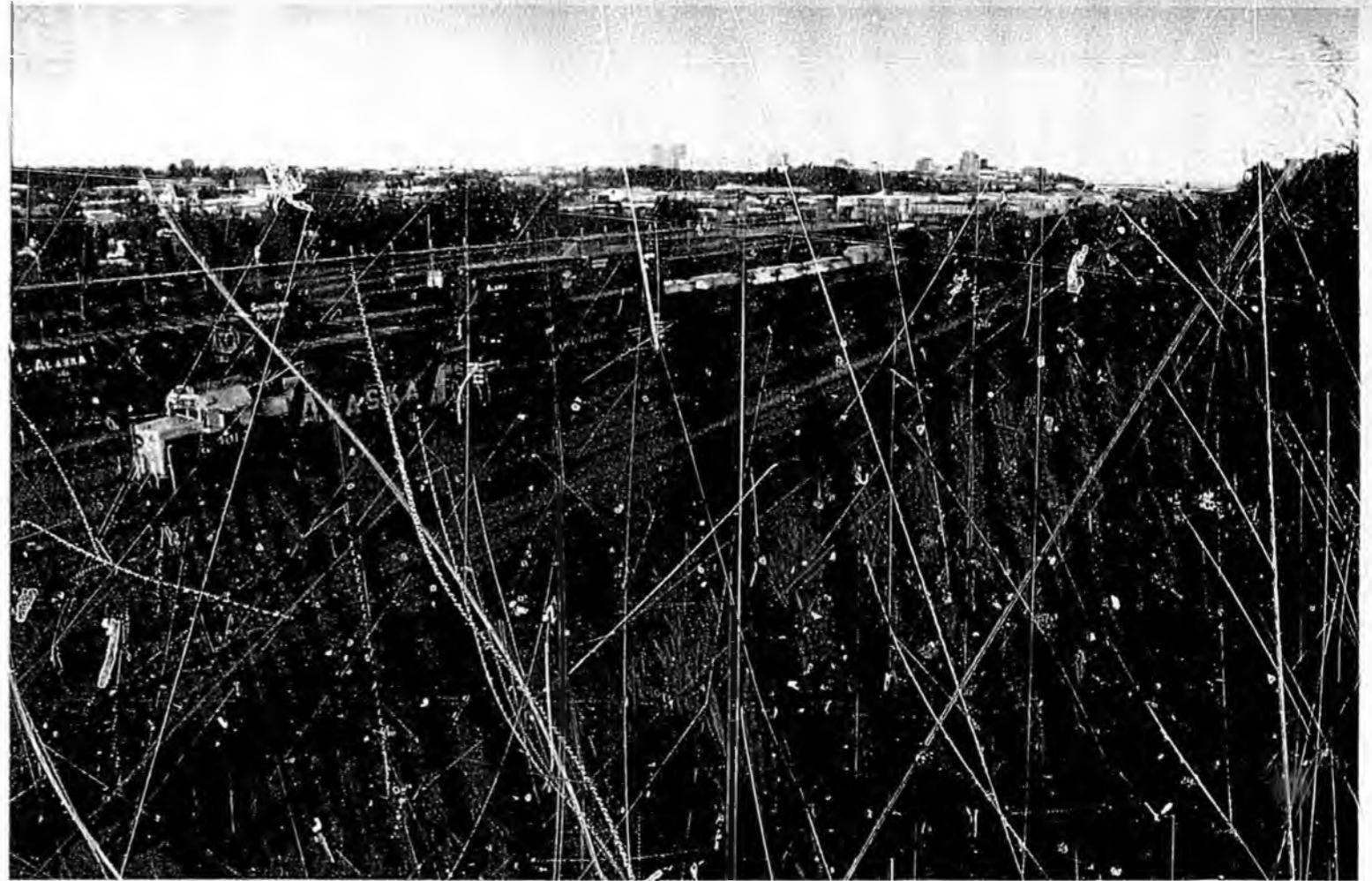
SEWARD FACILITIES

When you've got bulk freight to be shipped, we can handle it. Our freight bulk facilities in Seward include ample storage area, as well as crane facilities of up to 75 tons. Other cranes, as well as fork lifts and additional equipment, are available through The Alaska Railroad stevedoring contractor.

The Seward dock itself, owned by The Alaska Railroad, can accommodate ships up to 650 feet in length, with drafts of up to 35 feet. Storage accommodations available at the Seward terminal include over 23,000 square feet of covered area and 112,000 square feet of paved outside storage space, served by rail spur.

ANCHORAGE AND FAIRBANKS TERMINALS

Fast, efficient handling of freight is all in the day's work at The Alaska Railroad's Anchorage and Fairbanks terminal yards. Each is equipped with ample support equipment; including crawler and wheeled cranes, fork lifts, trucks, trailers, and tandem- and single-trailer chassis. Our transfer facilities in Fairbanks are capable of lifting 75 tons; those in Anchorage can lift 100 tons.

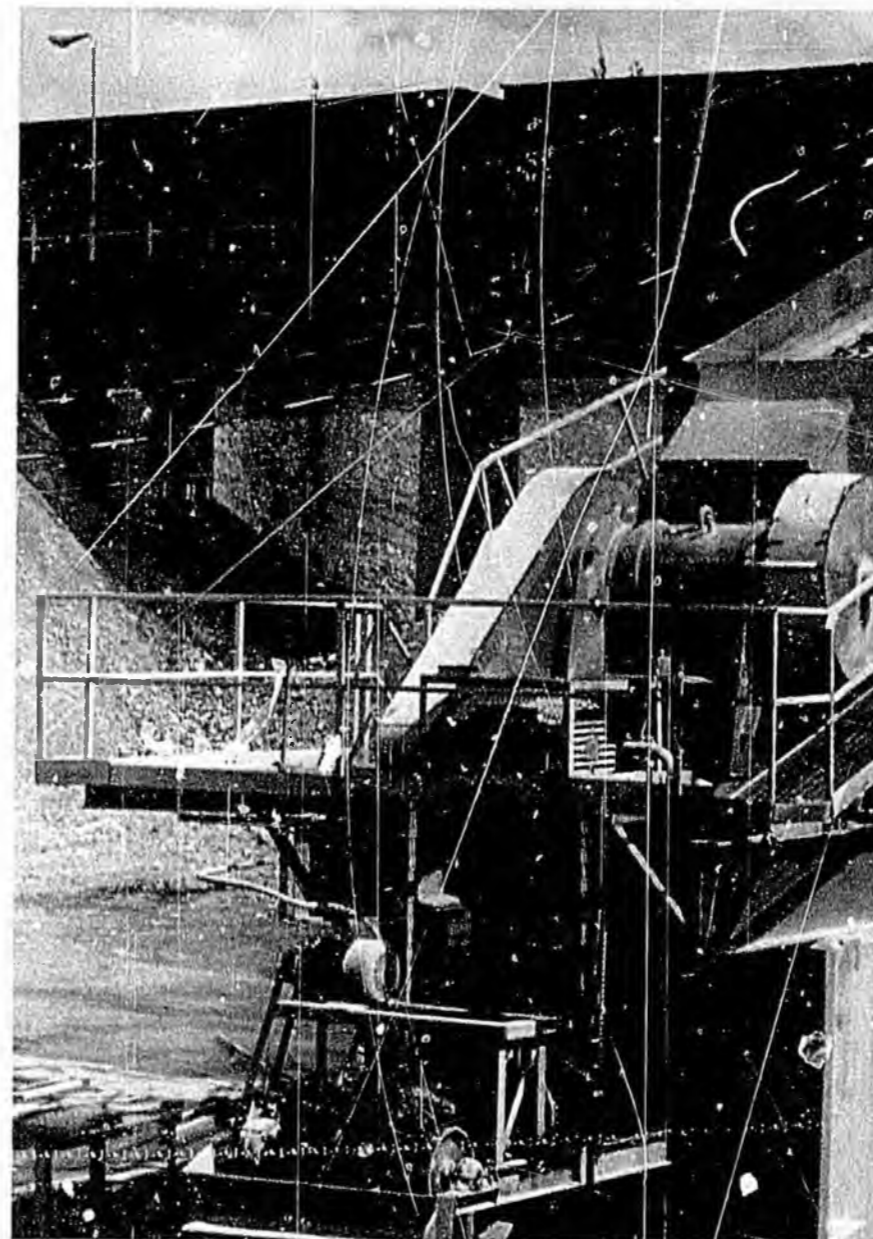
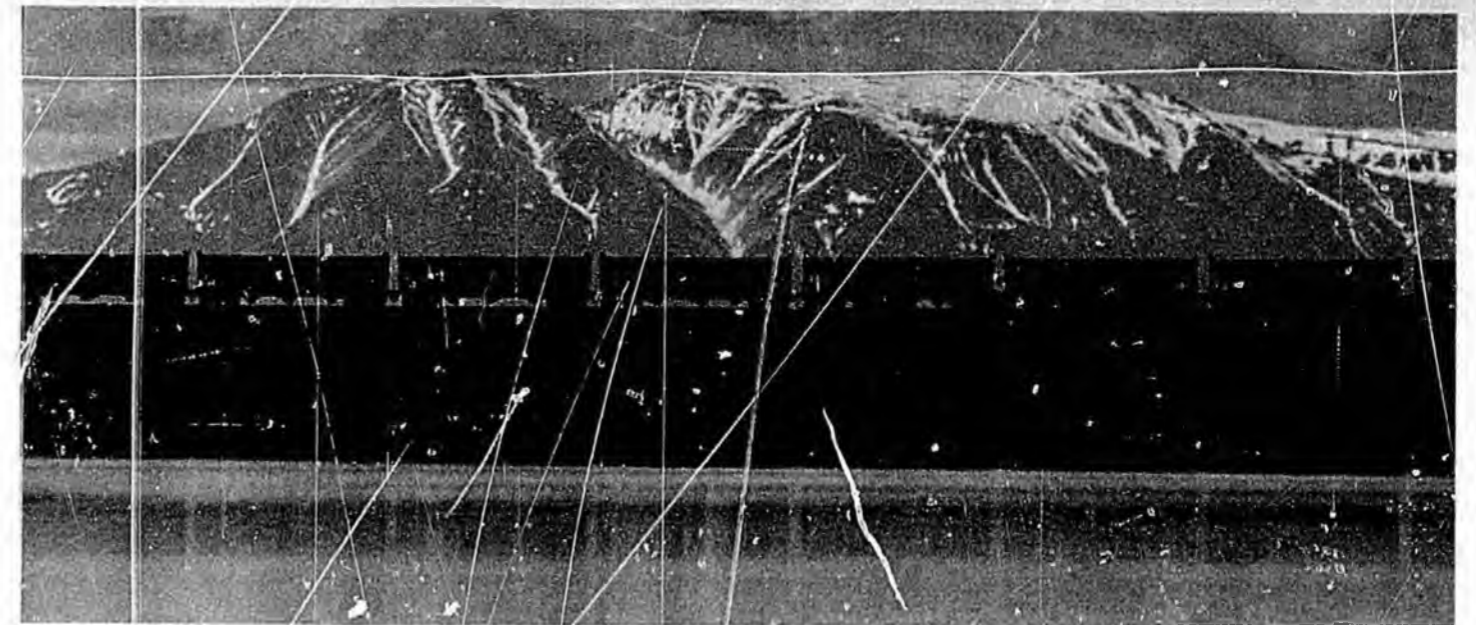
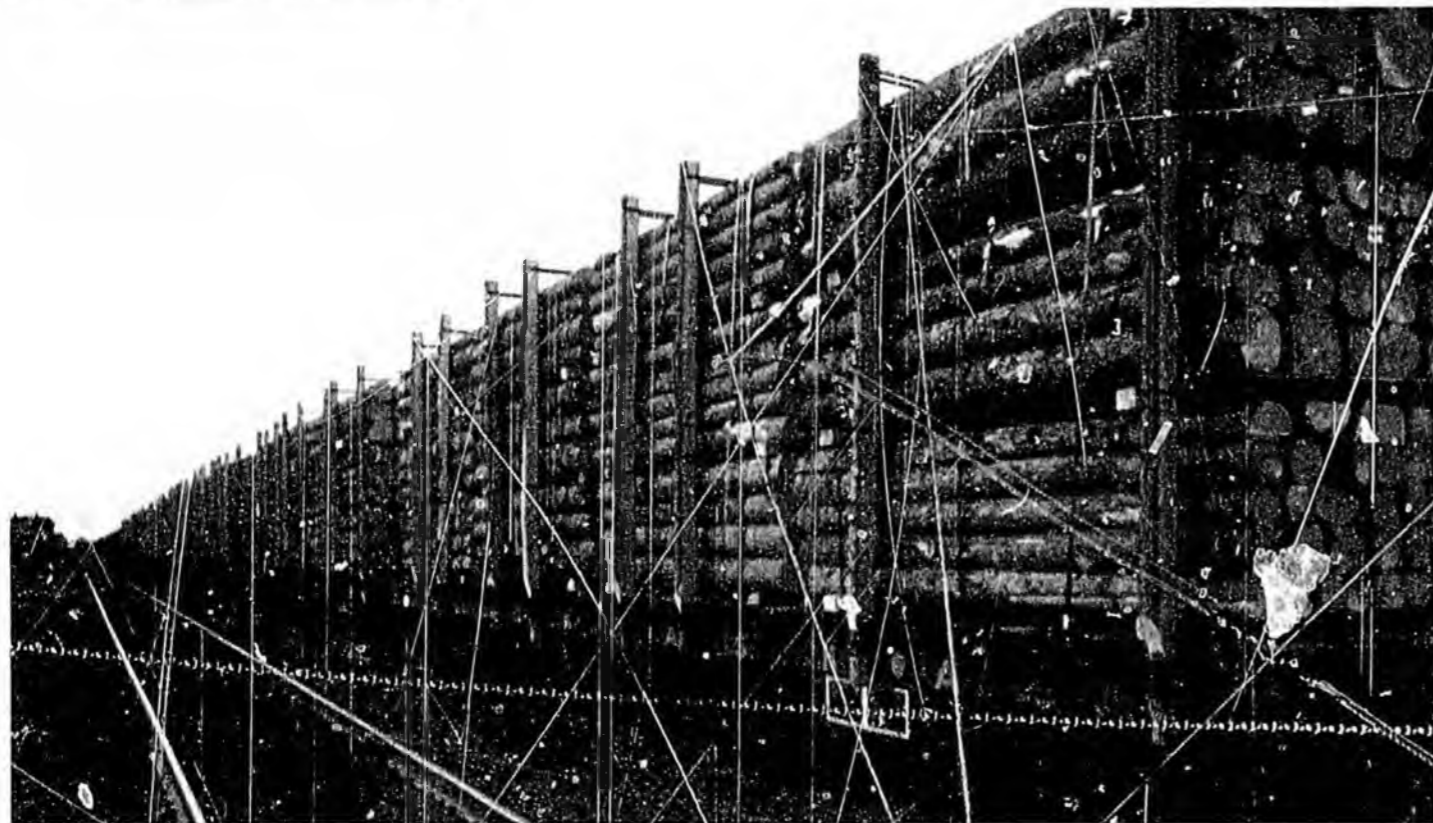


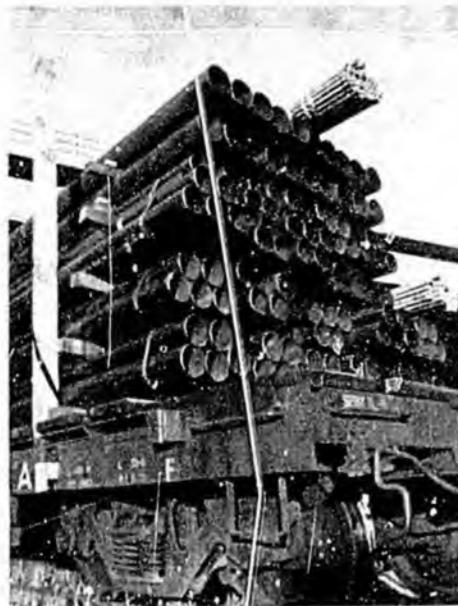


Unit Train Economy On The Alaska Railroad.

The Alaska Railroad also operates unit train service—single-commodity transport within Alaska. Unit trains devoted to the transportation of such bulk items as coal and gravel have become very popular with Alaskan shippers, and it's easy to see why.

When dealing with shipments as massive as 70 or 80 carloads of coal, or their equivalent, it makes sense to utilize simple, efficient rail transport. The Alaska Railroad can handle unit train shipments smoothly—saving time, trouble, and money for all the individual shippers, handlers, and consignees involved.

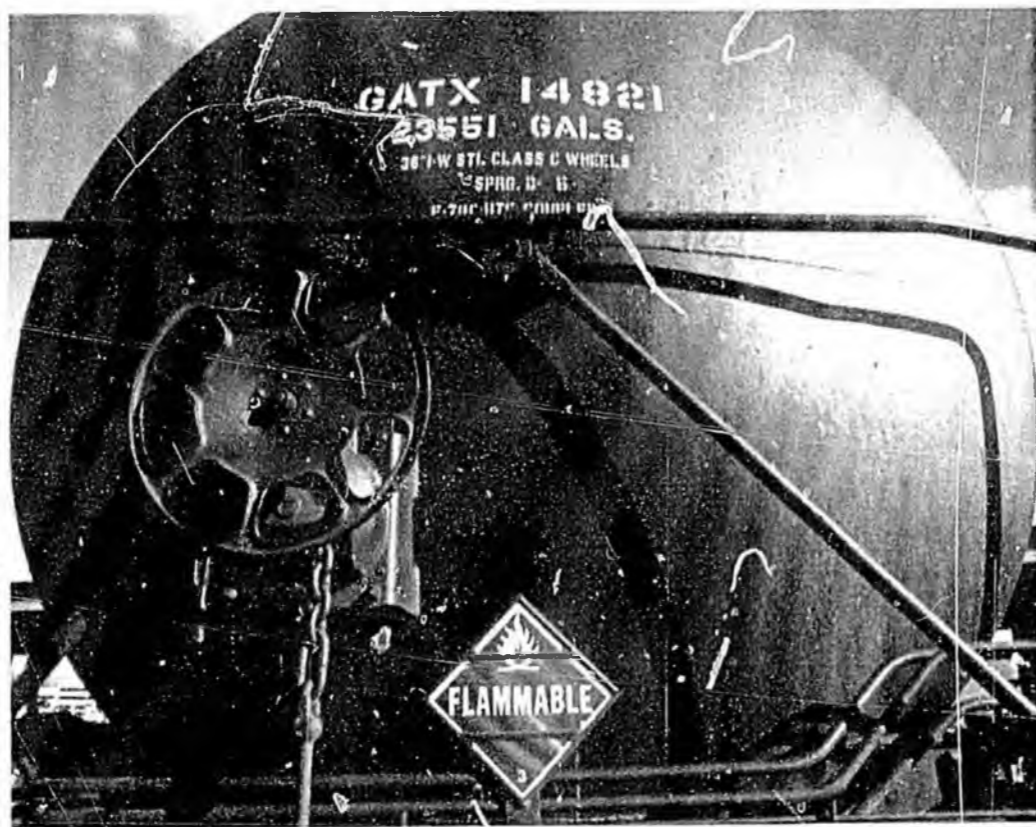




Specialized Shipping Needs Precision Handling.

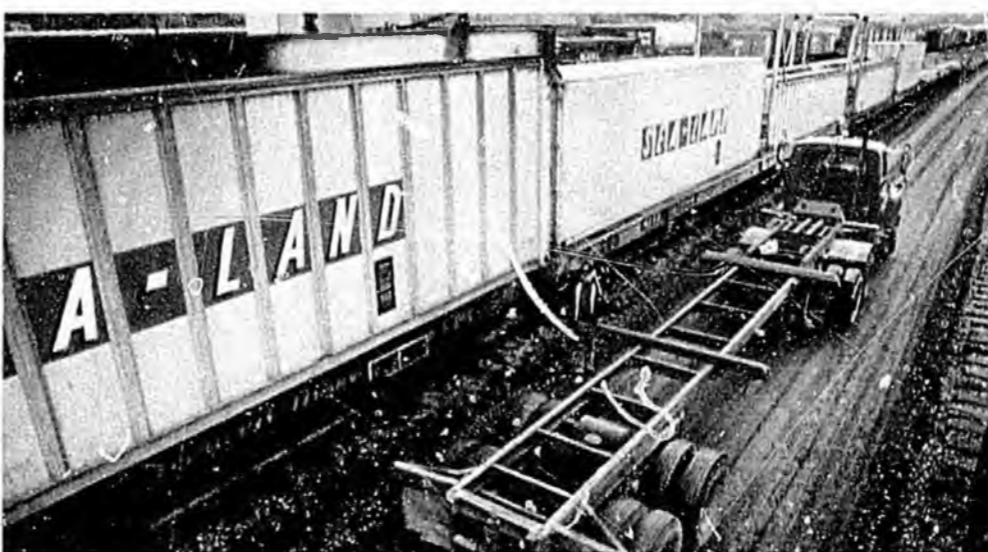
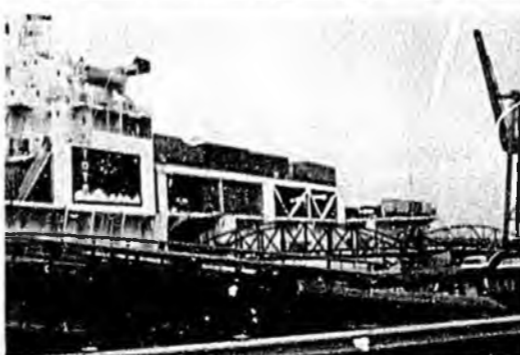
Much of the pipe used in construction of the Trans Alaska Pipeline was shipped north via The Alaska Railroad. To ensure the safe, undamaged arrival of the lengths of pipe, special equipment and handling techniques were developed and used.

The care displayed in this project is part of the standard procedure we follow for all clients of The Alaska Railroad.



Piggyback

The Alaska Railroad has all the facilities necessary to handle the shipment of both wheeled and unwheeled containers. When containerized goods arrive in Alaska by ship or barge, we can transfer the original containers to flatcars and expedite their shipment into the interior.

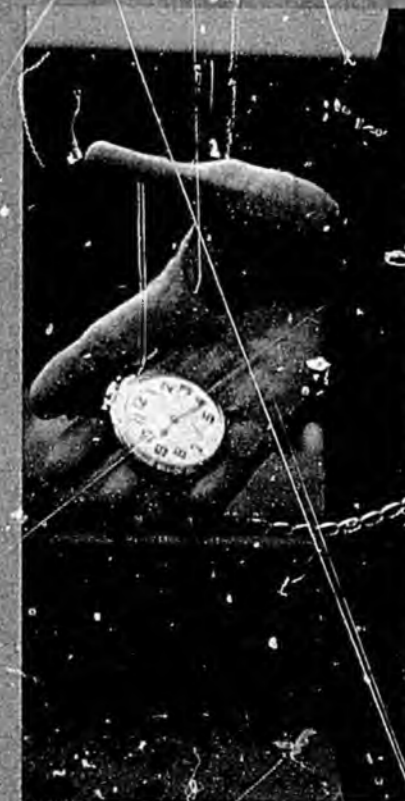


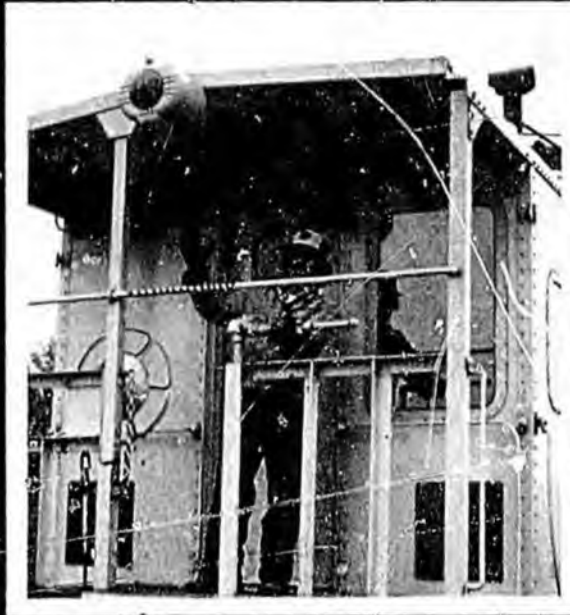
Climb Aboard.

When President Harding drove the final spike that completed The Alaska Railroad, it signified the beginning of a new era in Alaskan transportation.

Today, The Alaska Railroad is part of a vital shipping network linking the remotest points of Alaska with the rest of the state—and all of Alaska with the world.

Whether you're exporting logs to the Far East, importing fine wines from Europe, shipping bulk freight to Marshall, or just looking for a unique way to get close to the northern wilderness—you can do it all on The Alaska Railroad. So give us a call, and climb aboard.





FOR MORE INFORMATION ON FREIGHT AND PASSENGER SERVICE, CONTACT

THE ALASKA RAILROAD
TRAFFIC DEPARTMENT FB
ROOM 3150 FEDERAL BLDG
915 SECOND AVE
SEATTLE, WA 98174
(206) 442-5416

OR

THE ALASKA RAILROAD
TRAFFIC DEPARTMENT FB
POUCH 7 2411
ANCHORAGE, AK 99510
(907) 265-2490

Alaska State Legislature



Speaker of the House of Representatives

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-3720

FEBRUARY 21, 1984

FOR IMMEDIATE RELEASE
CONTACT: REP. JOE HAYES
465-3720
REP. BETTE CATO
465-4858

HOUSE TRANSPORTATION COMMITTEE TO HOLD RAILROAD HEARINGS IN ANCHORAGE AND FAIRBANKS

JUNEAU - The House Transportation Committee will hold public hearings on House Bill 512 - a bill which would create an Alaska Railroad Corporation once the railroad is purchased by the State of Alaska - in Anchorage on Thursday, February 23 and in Fairbanks on Saturday, February 25.

The hearing in Anchorage will begin at 1:30 p.m. at the Legislative Information office at 1024 W. Sixth Avenue. The Fairbanks hearing will begin at 10 a.m. at the Borough Assembly Chambers.

The bill was introduced in the House by Speaker Joe Hayes. A similar bill was introduced in the Senate by President Jay Kerttula.

(MORE)

Hayes, R-Anchorage, said input from Anchorage and Fairbanks will be essential for creating an operating entity by which to effectively manage the railroad.

"This bill is one of the final steps necessary to acquire the railroad from the federal government," Hayes said. "By establishing an entity to operate and manage it, it's my hope that the railroad can eventually be transferred to private enterprise. This bill sets up interim management until that becomes possible."

Hayes said HB 512 includes many of the issues addressed by the Alaska Railroad Transfer Advisory Commission, a public member group that presented recommendations to the legislature last years. The measure also embodies many of the concepts included in previous bills relating to the operation of the Alaska Railroad.

Committee members scheduled to attend the hearings are Rep. Bette Cato (D-Valdez), Rep. Mike W. Miller (R-North Pole), Rep. Mitch Abood (R-Anchorage), Rep. Adelheid Herrmann (D-Naknek), Rep. Jack McBride (D-Ketchikan), Rep. Mike Davis (D-Fairbanks), Rep. Bob Bettisworth (R-Fairbanks), Rep. Mike Szymanski (D-Anchorage), and Rep. Joe Flood (D-Anchorage).

Rep. Milo Fritz (R-Anchor Point) and committee staff members will also attend the hearings.

On Friday, February 24, the committee and staff will travel from Anchorage to Fairbanks on the railroad with Frank Jones, the general manager of the railroad.

(MORE)

"I would hope that the people of Anchorage and Fairbanks take this opportunity to voice their opinion on this bill," Cato said. "This is certainly one of the most important issues facing the Legislature this year and the Legislature will definitely take some action before adjourning. But before we act, we need to know how the people of Anchorage and Fairbanks feel about how the railroad should be operated and managed in future years.

"The railroad will play a vital role in the development of Alaska's resources and will also serve an important transportation service to the entire state for decades to come."

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THE ALASKA RAILROAD - A STATUS REPORT
GIVEN AT THE ASCC ANNUAL CONVENTION
IN SITKA, ALASKA, OCTOBER 1, 1983

BY JIM HARLE

GOOD MORNING:

I AM VERY PLEASED TO HAVE THIS OPPORTUNITY TO SPEAK TO MY FELLOW MEMBERS OF THE ALASKA STATE CHAMBER OF COMMERCE AND GUESTS. THIS MORNING I WOULD LIKE TO SHARE WITH YOU MY PERSONAL VIEWS ON AN ISSUE WHICH I BELIEVE WILL PLAY AN CONTINUING IMPORTANT ROLE IN THE DEVELOPMENT OF OUR GREAT STATE. THIS ISSUE IS THE TRANSFER AND OPERATION OF THE ALASKA RAILROAD.

THERE ARE THREE KEY CURRENT ELEMENTS INTERTWINED IN THIS ALASKA RAILROAD ISSUE WHICH I WOULD LIKE TO HIGHLIGHT FOR YOU TODAY. THESE ELEMENTS ARE AS FOLLOWS:

1. THE ALASKA RAILROAD TRANSFER ACT OF 1982
2. THE USRA RAILROAD CLOSING REPORT
3. THE STATE PURCHASE AND OPERATION OF THE ALASKA RAILROAD

THE ALASKA RAILROAD ACT OF 1982 IS THE FEDERAL LEGISLATION WHICH CREATES THE PROVISIONS OF THE TRANSFER OF THE RAILROAD FROM THE FEDERAL GOVERNMENT TO THE STATE OF ALASKA. THE KEY PROVISION OF THIS ACT, OF COURSE, IS THAT A FAIR MARKET VALUE IS TO BE ESTABLISHED FOR THE SALE OF THE RAILROAD NO LATER THAN OCTOBER 14, 1983. THIS VALUE IS TO BE DETERMINED BY THE U.S. RAILWAY ASSOCIATION, THE ARBITRATER SELECTED BY THE FEDERAL GOVERNMENT.

THE OTHER KEY PROVISION OF THE ACT IS THE PREPARATION OF THE CLOSING REPORT OR INVENTORY OF ALL ASSETS, PHYSICAL PLANT AND OBLIGATIONS OF THE RAILROAD. THIS CLOSING REPORT, WHICH WAS ISSUED ON JULY 14 OF THIS YEAR, WILL BE DISCUSSED IN MORE DETAIL A LITTLE LATER IN MY TALK.

AFTER ISSUANCE OF THE CLOSING REPORT, THE SECRETARY OF TRANSPORTATION HAS 12 MONTHS OR UNTIL JULY 14, 1984 TO CERTIFY ALASKA'S AGREEMENT TO ALL CONDITIONS REQUIRED IN THE ACT. FIVE OF THE CONDITIONS OF THE ACT THAT ARE REQUIRED ARE HIGHLIGHTED AS FOLLOWS:

1. THE STATE MUST OPERATE THE RAILROAD AS A RAIL CARRIER UNDER ICC RULES.
2. THE STATE WILL PROVIDE FOR A TWO YEAR EMPLOYEE PROTECTION PROGRAM INCLUDING HEALTH AND LIFE INSURANCE AND REEMPLOYMENT RIGHTS.
3. PROVIDE FOR A ONE YEAR MANAGEMENT PROTECTION PROGRAM.
4. CONTINUE ALL COLLECTIVE BARGAINING AGREEMENTS FOR TWO YEARS.
5. PAY THE APPRAISED VALUE ESTABLISHED BY U.S.R.A.

SHOULD THE STATE NOT SATISFY THE CONDITIONS OF THE ACT, THE SECRETARY IS AUTHORIZED TO OTHERWISE DISPOSE OF THE RAILROAD IF SHE SO CHOOSES, GIVING PRIORITY TO A PURCHASER WHO WILL OPERATE THE RAILROAD.

IT IS INTERESTING TO THIS SPEAKER THAT THE FEDERAL LAW PROVIDES FOR LITTLE GUIDANCE SHOULD THE STATE LEGISLATURE DECIDE THAT THE VALUATION PRICE OF THE RAILROAD IS TOO LARGE. IN MY OPINION THIS IS AN ALL TOO REALISTIC POSSIBILITY.

SEVERAL STATE LEGISLATORS HAVE ALREADY BEEN HEARD TO SAY THAT "ANY PRICE FOR THE RAILROAD IS TOO HIGH". HOWEVER, I CAN JUST IMAGINE WHAT OUR FRIENDLY FEDERAL SENATOR FROM OHIO WILL SAY.

I WOULD PROPOSE THAT THE VALUATION OF \$22.3 MILLION ANNOUNCED ON SEPTEMBER 21 BY U.S.R.A. IS AN EXTREMELY ATTRACTIVE PRICE WHICH SHOULD BE ACCEPTED BY GOVERNOR SHEFFIELD AND THE STATE LEGISLATURE.

THE SECOND ELEMENT, OF THIS RAILROAD ISSUE, IS THE CLOSING REPORT PREPARED BY THE U.S.R.A. AND JOINTLY SIGNED BY SECRETARY ELIZABETH DOLE AND GOVERNOR SHEFFIELD ON JULY 14, 1983. THE CLOSING REPORT IS ACTUALLY AN INVENTORY OF RAILROAD PROPERTY, ROLLING STOCK, AND LIABILITIES. TWO OF THE MOST OUTSTANDING ASSETS OF THE RAILROAD ARE ITS 700 EXPERIENCED EMPLOYEES AND ITS 41,000 ACRES OF LAND. THE 700 EMPLOYEES ARE MADE UP OF OVER 500 PERMANENT POSITIONS AND APPROXIMATELY 200 SEASONAL PERSONNEL WHO RECEIVED OVER \$29 MILLION IN PAYROLL OUT OF TOTAL REVENUES OF \$59 MILLION (49%). OR TO PUT THIS IN SIMPLER TERMS, THIS PAYROLL IS 49% OF REVENUE. THESE WAGES AND SALARIES ACTIVELY PARTICIPATE IN THE ALASKAN ECONOMY.

THE RAILROAD LANDS COMPRISE 41,000 ACRES OF LAND DISTRIBUTED THROUGHOUT THE RAILBELT AREA. THIS ACREAGE IS COMPRISED OF:

12,000 ACRES OF RIGHT-OF-WAY WHICH IS GENERALLY 200' WIDE.

29,000 ACRES OF MARINE AND RAIL TERMINALS, GRAVEL RESOURCES, INDUSTRIAL LEASES, MATERIAL AND ROCK RESERVES, ADMINISTRATION AREAS AND LAND FOR FUTURE DEVELOPMENT AND FACILITY EXPANSION.

1,000 ACRES ARE UNDER LEASE TO BUSINESS PROVIDING \$3 MILLION EACH YEAR IN REVENUES.

11,000 ACRES ARE ACTIVE GRAVEL AND ROCK QUARRIES.

10,000 ACRES DESIGNATED FOR FUTURE USE AND WATER SHED.

4,000 ACRES OR ABOUT 10% ARE SUBJECT TO CLAIMS BY NATIVE VILLAGES

THE LARGEST CLAIM UNDER THESE 4,000 ACRES IS AN 1,800 ACRE TRACT AT EAGLE RIVER.

THERE ARE THREE PRINCIPAL LIABILITIES OF THE RAILROAD:

FIRST, THE LONG TERM EMPLOYEE PENSION LIABILITIES WHICH ARE ESTIMATED AT \$142 MILLION DOLLARS. THIS IS THE PRESENT VALUE OF THE TOTAL COSTS TO THE STATE-OWNED RAILROAD TO PAY BOTH THE PAST UNFUNDED RETIREMENT LIABILITIES AND TO PAY FUTURE RETIREMENT OBLIGATIONS. THIS LIABILITY WOULD EXIST EVEN IF THE RAILROAD WERE NOT TRANSFERRED TO THE STATE.

A SECOND PRINCIPAL LIABILITY IS THE AGE OF THE RAILROAD'S ROLLING STOCK. THE AVERAGE AGE OF THE FREIGHT CAR FLEET IS 30 YEARS AND THIS FLEET NUMBERS APPROXIMATELY 1,650 UNITS. THE LOCOMOTIVES, WHICH NUMBER 62 UNITS HAVE AN AVERAGE LIFE OF 14 YEARS, 15 OF THOSE LOCOMOTIVES ARE 3,000 HP UNITS BUILT BY GENERAL MOTORS BETWEEN 1975 AND 1978. ON THE OTHER HAND, LAST YEAR, 5 REBUILT UNITS WERE PURCHASED AND 4 NEW GENERAL MOTORS SUPER SERIES LOCOMOTIVES WERE TO ARRIVE BY THE END OF SEPTEMBER. THESE NEW ACQUISITIONS ARE COMPARABLE TO THE MOST MODERN EQUIPMENT ON ANY RAILROAD.

THE THIRD AND LAST PRINCIPAL LIABILITY IS THE AGE AND CONDITION OF THE RAILROAD'S BUILDINGS. MORE THAN 90% OF THE BUILDINGS ARE LOCATED AT ANCHORAGE, FAIRBANKS, WHITTIER, SEWARD AND HEALY. THESE STRUCTURES ARE USED FOR MAINTENANCE AND REPAIR OF EQUIPMENT; ADMINISTRATION; WAREHOUSING; SECTION HOUSES AND LIVING QUARTERS; TRANSIT SHEDS; AND TERMINAL FACILITIES. THESE FACILITIES ARE FROM 20 TO 25 YEARS OLD. AS YOU MIGHT IMAGINE, THE ALASKA RAILROAD, AS A FEDERAL AGENCY, HAS NOT BEEN SUBJECTED TO THE SAME HEALTH, SAFETY AND LOCAL BUILDING CODES THAT MIGHT APPLY TO NON-FEDERAL BUSINESS. TO BRING THESE

FACILITIES UP TO OSHA STANDARDS WOULD COST APPROXIMATELY \$9.4 MILLION AND IT IS ESTIMATED TO BRING THESE STRUCTURES UP TO LOCAL BUILDING CODES MAY COST AS HIGH AS \$50 MILLION DOLLARS.

IN A BUSINESS CASH FLOW SENSE, IT IS SOMEWHAT SATISFYING TO REALIZE THAT EACH OF THESE LIABILITIES IS A LONG TERM OBLIGATION. FOR INSTANCE, THERE IS NO IMMEDIATE NEED TO COMPLETELY REPLACE ALL RAIL FREIGHT UNITS, NOR WOULD IT BE PRUDENT TO INVEST \$50 MILLION INTO UPGRADING THE EXISTING RAILROAD BUILDINGS. A WELL PLANNED CAPITAL IMPROVEMENT PROGRAM OVER A 10 TO 15 YEAR TERM SHOULD SATISFY ALL DEFICIENCIES.

THE PENSION OBLIGATION OF \$142 MILLION IS A VERY LONG TERM OBLIGATION, BUT TO PUT THIS LIABILITY INTO PERSPECTIVE LET ME POINT OUT THAT IN 1982 THE ALASKA RAILROAD EMPLOYEES CONTRIBUTED \$1-1/2 MILLION AS THEIR 7% CONTRIBUTION WHICH WAS MATCHED BY THEIR EMPLOYER CONTRIBUTING AN EQUAL 7% OF 1-1/2 MILLION DOLLARS. AS A POINT OF REFERENCE, EMPLOYEES OF THE STATE OF ALASKA CURRENTLY CONTRIBUTE 5% OF THEIR SALARIES TO RETIREMENT WHILE THE STATE TAXPAYERS CONTRIBUTE ANOTHER 12% TO THE STATE EMPLOYEE PENSION ACCOUNT.

MY ESTIMATE FOR THE ANNUAL CAPITAL REQUIRED TO SATISFY THESE THREE PRINCIPAL LIABILITIES SHOULD NOT EXCEED \$18 MILLION.

LET ME GIVE YOU MY SNAPSHOT VIEW OF THE OVERWHELMING PLUSES OF THE ALASKA RAILROAD: THE RAILROAD IS A 520 MILE STANDARD GAUGE RAILROAD THAT OPERATES FROM TWO ICE FREE PORTS ON THE SOUTH, TO EIELSON AIR FORCE BASE ON THE EAST TO NENANA, WITH ITS ACCESS TO THE TANANA AND YUKON RIVERS ON THE WEST.

THE RAILROAD SERVICED 175,000 PASSENGERS IN 1983 AND EXPECTS TO SERVICE OVER 200,000 IN 1984. WHAT THE RAILROAD DOES BEST IS HAUL LARGE BULK QUANTITIES SUCH AS COAL, GRAVEL, HEAVY FREIGHT AND PIGGYBACKS. IN 1983 THE RAILROAD WILL HAVE HAULED 4 1/2 MILLION TONS OF GRAVEL, 650,000 TONS OF COAL AND HANDLED OVER 12,000 CARLOADS OF INTERLINE FREIGHT. THE BIGGEST PLUS IN FREIGHT HANDLING WILL BE ADDED NEXT YEAR WITH A 15 YEAR COAL HAULING CONTRACT WITH SUN-EEL. THIS CONTRACT WILL CALL FOR SHIPMENT OF 800,000 TONS OF COAL FROM HEALY TO SEWARD ADDING MORE THAN \$10 MILLION OF REVENUE ANNUALLY AS WELL AS 40 TO 50 EMPLOYEES TO THE RAILROAD PAYROLL. THE WORLD CLASS COAL PORT AT SEWARD WILL BE ABLE TO HANDLE 4 MILLION TONS EACH YEAR FROM A LOCATION WHICH IS 1,100 MILES CLOSER THAN VANCOUVER, B.C. AND 1,850 MILES CLOSER THAN LONG BEACH TO FAR EAST MARKETS. I WOULD EXPECT THAT OTHER FOREIGN PURCHASERS WILL BE WATCHING THE SUCCESS OF THIS ENTERPRISE CLOSELY.

FOR THOSE PESSIMISTS WHO NEED FURTHER ENTICEMENT TO REALIZE A BARGAIN, THE RAILROAD OWNS 600 ACRES OF LAND BETWEEN GOVERNMENT HILL AND FIRST AVENUE IN ANCHORAGE, CONSERVATIVELY ESTIMATED TO BE WORTH 1 1/2 TO 2 MILLION DOLLARS PER ACRE. IN FAIRBANKS THE RAILROAD OWNS 300 ACRES OF SIMILARLY LOCATED LAND VALUED AT 1 MILLION DOLLARS PER ACRE.

THIS MARKETABLE LAND WOULD BE WORTH IN EXCESS OF 1.5 BILLION DOLLARS AFTER THE 5 YEAR WAITING PERIOD WHICH IS REQUIRED BY THE FEDERAL TRANSFER ACT. AND AS MY LAST OFFER TO THOSE INDIVIDUALS WHO BELIEVE WE PAY TOO MUCH ALREADY TO THE FEDERAL GOVERNMENT; I SUBMIT THESE ARGUMENTS:

1. THE FEDERAL TRANSFER ACT LANGUAGE ALLOWS FOR THE SALE OF TAX FREE BONDS TO FINANCE THE RAILROAD, AND,
2. THE RAILROAD HAS ABSOLUTELY NO DEBT.

BEFORE I CLOSE, I WANT TO TELL YOU WHAT NEEDS TO BE ADDRESSED AFTER THE TRANSFER OF THE RAILROAD TO THE STATE. THE TREATMENT OF THIS ACTION WILL HAVE A MUCH MORE COST IMPACT THAN THE SALE OF THE RAILROAD. THE CRITICAL ACTION TO BE DETERMINED IN THE NEXT SESSION OF THE LEGISLATURE WILL BE HOW THE RAILROAD IS OPERATED AND WHO WILL MANAGE THE OPERATIONS.

THE ALASKA STATE CHAMBER OF COMMERCE IS ON RECORD IN BOTH PUBLIC TESTIMONY AND AT HEARINGS BEFORE VARIOUS LEGISLATIVE BODIES FOR THE CREATION OF AN ALASKAN RAILROAD AUTHORITY MADE UP OF 7 PUBLIC MEMBERS WHO WOULD DEVELOP THE POLICY UNDER WHICH THE RAILROAD WOULD OPERATE.

IT HAS BEEN PROPOSED THAT THIS RAILROAD AUTHORITY WOULD CONTRACT THE DAY-TO-DAY OPERATIONS OF RAILROAD, TO A PRIVATE OPERATOR WHO WOULD MANAGE THE RAILROAD ON A PROFIT INCENTIVE BASIS. YOUR CHAMBER HAS FURTHER PROPOSED THAT THE EXPANSION ACTIVITIES FOR RAILROAD GROWTH, BE RETAINED BY THE STATE DEPARTMENT OF TRANSPORTATION WHO WOULD BE RESPONSIBLE FOR THE PLANNING, DESIGN, CONSTRUCTION OF ALL NEW ROUTES. ONCE THESE ROUTES WERE COMPLETED THEY WOULD BE TURNED OVER TO THE CONTRACT OPERATOR FOR PUBLIC USE. WE FEEL THIS PROPOSAL IS MOST RESPONSIBLE TO THE PUBLIC GOOD AND WILL PREVENT BUREAUCRATIC STAGNATION AND PREVENT AN IMMEDIATE LARGE GROWTH OF STATE EMPLOYEES ON THE STATE'S BUDGET.

I BELIEVE IT IS VERY AUSPICIOUS THAT WE GATHERED HERE IN SITKA, TO DISCUSS THE PENDING TRANSFER AND SALE OF THE ALASKA RAILROAD. SITKA WAS THE CAPITAL AT THE TIME OF THE SALE OF ALASKA TO THE UNITED STATES FOR A PURCHASE PRICE OF \$7.2 MILLION. SO FOR THOSE OF YOU WHO SEE THE FUTURE OF OUR GREAT STATE AS WILLIAM SEWARD ONCE DARED, I URGE YOU TO SPEAK YOUR OPINION AND LET YOUR VOICE BE HEARD IN SUPPORT OF YOUR STATE CHAMBER'S PROPOSAL ON THE TRANSFER AND OPERATION OF THE ALASKA RAILROAD.

THANK YOU.

Railroad Floor Action Due

The Alaska Railroad legislation may come before the state House this week, but little resolution of differences between the state administration and the House leadership are in sight. Differences involve difficult constitutional issues and feelings run strong on both sides. Compromise will probably have to come as a result of counting votes on the House floor, or later as differences between the House and Senate are hammered out.

In many respects differences focus on the constitutional amendment granting confirmation rights to the Legislature, now restricted to heads of departments and certain boards and commissions. However, HJR-72 goes a step farther and insulates the governor from any say in the selection of a chief executive officer. Constitutional amendments require a two-thirds vote in each body of the legislature, making passage of such issues difficult unless there is substantial consensus. However, the House leadership has a certain advantage tactically with the threat of possible inaction on the railroad issue. The issue is presently a House vs. Administration issue, but could become a House vs. Senate issue also.

Illegal Use Telecommunications

The Senate has passed SB-504 prohibiting the unauthorized use of telecommunications. The bill would make theft of cable, subscription or pay television a crime of criminal mischief in the third degree, with the exception of interception of signals from a satellite by a home earth station or other device. Criminal mischief in the third degree is a class A misdemeanor punishable by up to one year in jail and a fine of up to \$1,000.

Revision "Marital" Rape

The Senate Judiciary Committee is considering legislation concerning spousal defense of sexual assault. SB-528 would make marital rape a Class A felony punishable by a mandatory eight year jail sentence. The Committee is leaning towards reducing the penalty for a first time offense to a Class A misdemeanor, although chances of passage of any such legislation look dim this year.

Recriminalization Of "Pot"

HB-698, recriminalizing the use of marijuana passed out of House Judiciary last week and was given a further referral to House Finance.

Transfer report sent to Congress

Governor Bill Sheffield and U.S. Transportation Secretary Elizabeth Dole delivered to Congress and the Alaska Legislature on July 19 a report on the proposed transfer of the federally owned Alaska

Railroad to the state.
Sheffield said delivery of the transfer report is an important step forward in the decision process regarding possible transfer of the railroad. Main purpose of the report, which satisfies a key statutory provision of the transfer legislation passed last December by Congress, is to provide in-depth information about the assets and liabilities of the railroad and other transfer matters on which a decision can be based.

and all leases, permits, and contractual obligations, and a detailing of the valuation procedures. "More refined information will be provided in the months ahead, especially pertaining to certain employee protection obligations, OSHA consideration and state and local building code violations, and a method

of amendment is provided for as more exact information becomes available.

"My administration is committed to assuring that all of this information, in detail, is fully known by the start of the next legislative session when we, the people of Alaska, begin in-depth deliberations about this very important issue," Sheffield said.

"Many hundreds of hours of hard work by both state and federal personnel have made this a thorough and very useful document," Sheffield

concluded as he thanked all of those involved in compiling it.

Seward Phoenix Log
Thursday, July 28, 1983

Fish spilled in accidents

Two semi trucks loaded with frozen fish went into the ditch July 24 in separate incidents, according to State Troopers. Both accidents were costly but neither caused serious injury.

At 7:40 a.m. a semi hauling frozen fish for Tachick Freight of Soldotna turned over at Mile 52, Sterling Highway with an estimated \$75,000 loss. Driver Paul Miller, 22, of Anchorage, swerved to avoid a passing vehicle that nearly caused a head-on collision, but his truck overturned. he was not hurt.

At 5:12 the same evening a truck hauling 40,000 pounds of frozen fish to Anchorage overturned near Mile 50, Seward Highway, dumping part of its load. Operator David Berkelo, 22, of Anchorage, and passenger Gregory Hutson received minor injuries. Damage was estimated at \$60,000.

Troopers noted that seat belts were not worn in either accident.

"Delivery of the transfer report in no way represents a commitment by the State of Alaska to proceed with acceptance of the transfer," Sheffield said.

"The next step will be an assessment by the United States Railway Association of the fair market value of the Alaska Railroad. These two reports will serve as the basis for deciding whether to proceed with the transfer.

"This report," Sheffield said, "provides detailed descriptions of the rail properties, assets, and liabilities of the Alaska Railroad that would be transferred to the State. Highlights of the report include specific employee protection obligations, parcel-by-parcel identification of all railroad land holdings, comprehensive lists involving personal property

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ALASKA RAILROAD
Operating Expenses*
FY 85 (in \$000)

ATTACHMENT A

Supporting Data for State of Alaska
1984 Legislative Session Fiscal Note (HB 352)

	Alaska Railroad								Board of Dir.	Other Expenditures			
	Dec.	Jan.	Feb.	March	April	May	June	Total		ARR Trans. Team	Est. Corp.	Other	Total
<u>Personal Services</u>													
Wages	2,400	2,640	2,640	2,800	2,910	3,035	3,160	19,585					
Fringe	540	590	590	625	650	675	700	4,370					
Sub Total								<u>23,955</u>	<u>120</u>		<u>275</u>		<u>24,350</u>
<u>Travel</u>													
	12	12	12	16	16	16	16	<u>100</u>	<u>40</u>				<u>140</u>
<u>Contracts</u>													
	370	370	360	350	350	350	350	<u>2,500</u>		<u>1,650</u>	<u>1,200</u>	<u>550</u>	<u>5,900</u>
<u>Supplies</u>													
	340	350	330	480	555	700	720	<u>3,475</u>			<u>525</u>		<u>4,000</u>
<u>Equipment</u>													
	100	148	140	180	200	212	220	<u>1,200</u>					<u>1,200</u>
<u>Grants & Claims</u>													
	200	200	200	200	200	250	250	<u>1,500</u>					<u>1,500</u>
<u>Total</u>													
	<u>3,962</u>	<u>4,310</u>	<u>4,272</u>	<u>4,651</u>	<u>4,881</u>	<u>5,238</u>	<u>5,416</u>	<u>32,730</u>	<u>160</u>	<u>1,650</u>	<u>2,000</u>	<u>550</u>	<u>37,090</u>

*Minor Discrepancies due to rounding

(1)

04/10/84

ALASKA RAILROAD
Operating Expenses*
Analysis by Department
FY 85

Supporting Data for State of Alaska
1984 Legislative Session Fiscal Note (HB 352)

	December	January	February	March	April	May	June	Total
<u>General Manager & Staff</u>								
<u>Personal Services</u>								
Wages	72	92	92	98	101	106	110	671
Fringe	16	21	21	22	22	23	24	149
Travel	2	2	2	3	3	3	3	18
Contracts	2	2	2	2	2	1	1	12
Supplies	9	9	8	11	12	15	16	80
Equipment	0	0	0	0	0	0	0	0
Grants & Claims	0	0	0	0	0	0	0	0
Total	101	126	125	136	140	148	154	930
<u>Transportation</u>								
<u>Personal Services</u>								
Wages	985	1,080	1,080	1,148	1,190	1,241	1,290	8,014
Fringe	222	243	243	257	267	277	286	1,795
Travel	2	2	2	2	2	2	2	14
Contracts	166	165	166	166	164	165	165	1,157
Supplies	140	143	133	202	236	300	310	1,464
Equipment	5	13	10	15	20	20	20	103
Grants & Claims	0	0	0	0	0	0	0	0
Total	1,520	1,646	1,634	1,790	1,879	2,005	2,073	12,547
<u>Motive Power & Equipment</u>								
<u>Personal Services</u>								
Wages	505	557	557	588	609	634	661	4,111
Fringe	114	124	124	131	137	141	146	917
Travel	1	1	1	2	2	2	2	11
Contracts	49	48	47	47	47	47	47	332
Supplies	76	77	73	107	124	157	162	776
Equipment	60	80	75	100	105	110	110	640
Grants & Claims	0	0	0	0	0	0	0	0
Total	805	887	877	975	1,024	1,091	1,128	6,787

*Minor Discrepancies due to rounding

(Continued)

	December	January	February	March	April	May	June	Total
Engineering								
Personal Services								
Wages	480	539	539	558	580	604	629	3,929
Fringe	108	118	118	125	130	134	140	873
Travel	1	1	1	2	2	2	2	11
Contracts	18	19	15	12	12	12	12	100
Supplies	70	74	69	100	115	143	147	718
Equipment	30	50	50	60	65	67	75	397
Grants & Claims	0	0	0	0	0	0	0	0
Total	707	801	792	857	904	962	1,005	6,028
Administration								
Personal Services								
Wages	289	304	304	332	347	362	377	2,315
Fringe	65	67	67	74	78	80	84	515
Travel	2	2	2	3	3	3	3	18
Contracts	111	113	107	101	104	104	104	744
Supplies	9	9	8	10	11	14	15	76
Equipment	0	0	0	0	0	0	0	0
Grants & Claims	0	0	0	0	0	0	0	0
Total	476	495	488	520	543	563	583	3,668
Marketing & Sales								
Personal Services								
Wages	48	48	48	53	58	58	62	375
Fringe	11	11	11	12	13	13	14	85
Travel	4	4	4	4	4	4	4	28
Contracts	6	5	5	4	4	4	4	32
Supplies	3	3	3	4	4	5	6	28
Equipment	0	0	0	0	0	0	0	0
Grants & Claims	0	0	0	0	0	0	0	0
Total	72	71	71	77	83	84	90	548
Overheads								
Personal Services								
Wages	21	21	21	24	25	30	32	174
Fringe	5	5	5	5	5	7	7	39
Travel	0	0	0	0	0	0	0	0
Contracts	18	18	18	18	17	17	17	123
Supplies	35	37	35	46	51	65	67	336
Equipment	5	5	5	5	10	15	15	60
Grants & Claims	200	200	200	200	200	250	250	1,500
Total	284	286	284	298	308	384	388	2,232

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Attachment B

Revision Date: 4/11/84

REQUEST

Bill/Resolution No.: CS for HB 512
Title: Alaska Railroad Corporation
Act of 1984

Sponsor: Hayes, et. al.
Requestor: Representative Cato
Date of Request: 3/22/84

FISCAL DETAIL

Agency Affected: _____
Program Category Affected: _____

BRU, Program or Subprogram(s) Affected:
Alaska Railroad

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES		24,350				
200 TRAVEL		140				
300 CONTRACTUAL		5,900				
400 SUPPLIES		4,000				
500 EQUIPMENT		1,200				
600 LAND & STRUCTURES		-0-				
700 GRANTS, CLAIMS		1,500				
800 MISCELLANEOUS		-0-				
TOTAL OPERATING	-0-	37,090	57,800	58,050	57,350	57,950
CAPITAL	-0-	15,800	20,450	20,450	20,450	20,450
REVENUE	-0-	37,350	67,200	70,200	73,300	76,350

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	15,540	11,050	8,300	4,500	2,050
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER	-0-	37,350	67,200	70,200	73,300	76,350
TOTAL	-0-	52,890	78,250	78,500	77,800	78,400

POSITIONS:

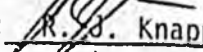
FULL-TIME	-0-	478	478			
PART-TIME	-0-	38	38			
TEMPORARY	-0-	64/300	64/300			

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

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

ANALYSIS: Attach a separate page for analysis

Prepared By: ^{MSH} Mark S. Hickey, State Railroad Coord. Phone: 465-3900
Division: Alaska Railroad Transfer Team Date: 4/11/84

Approved by Commissioner:  R. J. Knapp Date: 4/11/84
Agency: Department of Transportation & Public Facilities

Distribution (by Agency preparing fiscal note):

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

12/1/83

COMPREHENSIVE RISK MANAGEMENT PROGRAM

ALASKA RAILROAD

State of Alaska

Department of Administration

Division of Risk Management

November 23, 1983

I. Preface

This proposed Comprehensive Risk Management Program has been structured to provide the Alaska Railroad (ARR) with the broadest most comprehensive program at the lowest possible cost projections, on the basis of various assumptions.

The program design utilizes broadly written insurance protection in conjunction with acceptable levels of self-insured retentions. The concept is based upon spread of risk, real and personal and business interruption values and probable maximum loss studies. It includes aggressive marketing efforts in order to achieve the lowest premium cost projections.

These lower premium cost projections are achieved by using insurance markets and brokers presently protecting and handling other State risks. This approach maximizes economy of scale producing lower pricing than had separate risks been presented to different underwriters or different brokers.

It should also be noted that because of time constraints we have not had sufficient time to conduct detailed risk management exposure analyses and, therefore, had to make numerous assumptions. These assumptions have resulted in cost of risk allocations, which are projections, based on the limited information available to us at the time of this study.

However, given additional time, we could more accurately project the cost of risk.

II. Description by coverage lines of Cost of Risk Analysis including insurance limits of liability, self-insured retentions and premiums.

A. Casualty Insurance

The casualty insurance includes:

- Comprehensive General Liability
- Automobile Liability
- Workers' Compensation/Employer's Liability
- Errors and Omissions Liability Insurances
- Railroad Protective Liability

The policy providing this insurance is a manuscripted warranty policy containing broad liability protection excess a self-insured retention.

Limits

The limit of liability is \$200,000,000 each occurrence.

Self-Insured Retention (SIR)

The SIR is \$300,000 per occurrence. This is for claims brought against the Alaska Railroad.