

ALASKA LEGISLATURE COMMITTEE FILES 2003-2004 00/2

3117 HT AK RAILROAD/PROPOSAL/CORRES. - FISCAL NOTE/CSHB 352

operated successfully as a prudent state investment. For this reason, we believe it important to consider that the appointed board members will have a vastly different responsibility than most other state boards, commissions and advisory groups.

The board of directors for the railroad will direct a megacorporation which will be dependent upon the expertise of the directors for profit and growth. The talents and expertise of the board members will be utilized for profit and their obligations are similar to those of directors of corporations in the private sector. For these reasons, we believe their selection and remuneration should be similar. While SB 10 provides better criteria for board membership selection, neither bill addresses the question of remuneration adequately. We suggest that perhaps remuneration should be similar to that of a legislator. This could ensure the incentive necessary for full commitment by the board members.

- * Neither bill ensures that Interior Alaska (or any other area) is represented on the board. This is of utmost importance to the position of the Chamber of Commerce. We are not prepared to endorse any legislation unless we are assured that Interior Alaska has proper representation on the board of directors.
- * It is our interpretation that HB 512 (SB 352), as they are now written, would not allow railroad expansion into other modes of transportation other than contractual arrangements. We concur with this wording as long as the railroad remains in controlling state ownership.
- * The most significant difference between SB 10 and HB 512 (SB 352) lies in state overview of railroad operations. This is an extremely sensitive issue. SB 10 provides a close overview by the administration and the legislature; while HB 512 reflects almost no overview. This lack of overview extends to other state assets made available to the railroad. It appears that the authors of SB 512 tried to incorporate mechanisms to insure prompt and economically sensitive attention from other state agencies based upon frustrations experienced in the past when dealing with these agencies. While we are sympathetic to these frustrations, we do not believe it wise to attempt to cure ills of other state agencies through the "Department of Railroads." They should be addressed in a more direct manner. In our opinion departments within the state should not have their primary responsibility compromised by overriding authority from another department.

State land and funds used for railroad operation demand some overview, yet the railroad should not be subject to constant review and approval by the administration and/or legislature. We offer the following suggestions to deal with this sensitive issue:

1. A distinction be made between railroad operation and railroad expansion. Railroad operation would be defined as operating the railroad as received from the federal government, the initial operating budget as set by the legislature and future subsidies as requested by the governor and/or provided by the legislature. The board of directors would have complete authority over railroad operation. Subsequent subsidies would have automatic state overview since they would be at the discretion of the legislature. Land ownership, as received from the federal government, should be transferred to the railroad corporation in fee simple (both surface and subsurface rights). Bonding for the railroad operation (new equipment, upgrading track, etc.) would be limited to railroad revenue bonds and would not obligate any other state asset. Since these bonds would reflect only the railroad's financial strength, the board of directors should have complete authority to obtain such bonding.
2. Expansion or certain railroad services (such as passenger service) may be desirable for reasons other than profit motive, and the state may wish to provide services or extensions to guide and promote the state's development. State land, funding and/or bonding based upon other state assets will be necessary. A board with a profit mandate would be reluctant to embrace these measures if they would adversely affect the profitability of the railroad, and the state government should share in this responsibility and authority. Therefore, it is suggested that action requiring state assets (land, funding or bonding) receive close overview. State land used for railroad purposes should be surface rights only (excluding gravel and possibly coal extraction). Future rights-of-way should be by permit within a state-owned transportation corridor established for all modes and utilities.

The above described concept provides for complete board authority and responsibility for current railroad operation and profitability and limits liability to railroad assets. State overview would be assured when assets other than the railroad's were pledged and when expansion or services were deemed in the state's best overall interest even though adversely affecting the railroad's economy.

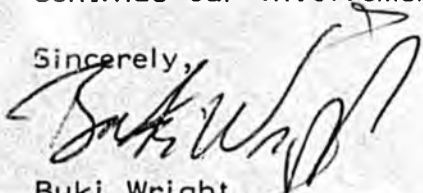
- * Neither bill adequately addresses private ownership. One method which might be considered is that the railroad corporation create stock and schedule its sale to private investors at market value. Such a schedule must reflect the state's best interest and as a minimum include 51 percent ownership for ten years and perhaps longer to meet the federal criteria for continued operation. A sunset requirement for a percentage of state ownership might be

February 24, 1984

the best vehicle to use. If the legislature did not extend the minimum percent of state ownership at the end of any time increment, then an increased share of ownership would be made available to private investors.

We appreciate the opportunity to provide our thoughts and wish to continue our involvement in developing this legislation.

Sincerely,



Buki Wright
President

CITY OF SEWARD
POSITION PAPER ON STATE ACQUISITION AND MANAGEMENT
OF THE ALASKA RAILROAD

As the community from which the Alaska Railroad had its beginning, Seward has been closely tied to the railroad for its lifeblood, for all of its 90 year history. The acquisition and management of the railroad by the State of Alaska is of vital concern to the citizens of this community.

The present Alaska Railroad operation, despite some physical plant problems, is basically a sound operation. Clearly there is a need for plant improvements and it needs the ability to extend rail to the resource rich areas of our state. Any new proposal for management must seek to maintain those parts of the railroad that are operating effectively, and to cure, when possible, the liabilities of the present system. The City of Seward is concerned that without this analysis, the railroad could become less of a rail service. We should improve its physical plant, allow it to function under professional management. If this becomes the case, the City of Seward would fully support the railroad transfer even if a price has to be paid. We would not, however, support such a transfer if the rail system is not improved, and acquiring the Railroad requires a cash outlay by the State.

MANAGEMENT:

As an integral part of the State's long term economic development policy, the Alaska Railroad must be managed in such a way as to minimize the influences of political cycles resulting from our election process. It must be operated with the fiscal strength necessary to overcome the short term changes in government, inflation rates, commodity prices and operating cost.

It is our desire that any Authority created to manage the Alaska Railroad be as professional, efficient and aggressive as possible. We feel that the Authority should operate as similar as possible to private enterprise and if possible, should have the option of contracting for the operation of the railroad with a private company.

To achieve these goals, the Railroad Authority should not be a Department of the State government, but a separate entity. The Board should represent professionals in the business and service areas allied to railroad operations. The Board should be appointed by the governor, and serve terms of six years. The board members should delegate a significant percentage of the management of the railroad to the railroad's chief executive. The chief executive must be the best person available and possess railroad operating experience, and be compensated accordingly.

The Railroad Authority should have the ability to bond or otherwise obtain funds for upgrading and expansion. The railroad will initially require an investment underwritten by the State.

It is important that the revenues generated by the Alaska Railroad do not become part of the General Fund of the State of Alaska, but be put back into the Railroad's General Fund for operation of the railroad. Equally important is the need for all of the assets, including land to be in the control of the Railroad Authority, not under the Department of Natural Resources. As part of the

transfer agreement, the Federal Government must allow the State clear title to all Alaska Railroad lands. The Alaska Railroad Authority should also possess the right of eminent domain.

DEVELOPMENT OF ALASKA RESOURCES:

Because of Alaska's size of land area, small population centers, and frontier transportation infrastructure, Alaskans are particularly dependent upon the Alaska Railroad for the growth and development of interior resources.

The City of Seward feels the railroad should be expanded and utilized as the primary tool in developing the resources within the State of Alaska. Careful expansion of the railroad will improve the overall business climate in Alaska. We feel it is a legitimate use of State funds for the State to use its railroad to assist in opening up the undeveloped areas of the state.

PORTS:

Most Alaskan ports are operated by local governments. Recognizing that, it is probable that with transfer of the railroad and its associated ports, the State will find itself competing with local ports. Every effort should be made, if possible to transfer railroad port operations to willing local governments.

IN SUMMARY, we stress that:

The Alaska Railroad be used to promote development and that the transfer and enabling legislation promote that philosophy.

In conjunction with railroad expansion, the impact of a long lead time necessary for railroad extension be recognized and shortened where possible.

Any State acquisition of the railroad be predicated upon the State's commitment to provide funding to upgrade the capital and rolling stock facilities of the existing system.

If the State acquires the Alaska Railroad, it should explore the option of contracting the railroad's operation to a qualified private contractor rather than running it as a State enterprise.

If a State Constitution change is necessary to accomplish the creation of an independent authority, we would support legislation to place the issue on the ballot.

FEB 27 1984

City of Soldotna

BOX 409

PHONE 262-9107

SOLDOTNA, ALASKA 99669



CITY OF OPPORTUNITY

February 21, 1984

The Honorable Bette M. Cato
Chairman
House Transportation Committee
State of Alaska
Pouch V
Juneau, Alaska 99811

Dear Representative Cato:

As a follow-up to the public hearing held by the Transportation Committee on Saturday, February 18, 1984 at the Borough Building, Soldotna, Alaska, please enter the following comments concerning House Bill No. 512, "An Act establishing the Alaska Railroad Corporation to manage and operate the Alaska Railroad; and providing for an effective date".

I, personally, am in favor of the transfer of the Alaska Railroad from the Federal Government to the State of Alaska for 23 million dollars. The plan to establish the Alaska Railroad Corporation to manage and operate the railroad is a good one, and similar plans have been used successfully many times.

The assets of the railroad in the Anchorage area alone far outweigh the purchase price.

Were the State of Alaska to consider continued economic activity and growth in minerals and agriculture, respectively, the acquisition of the railroad becomes a critical and essential first move. The mining and exportation of coal, and the production and transportation of barley may determine the economic health of at least three large regions of Alaska. One has to visualize the movement of gravel from areas of abundance to urban sections to appreciate the ability of a railroad to move freight cheaply and safely.

The acquisition of the railroad presents problems as well as benefits. The problems are not beyond resolution.

Mr. Tatsuya Ishikara, Managing Director, Market Survey, Japan Railway Technical Service Association, Tokyo, gave a fine report on the benefits of a railroad system at the International Conference on Alaska's Resources that was sponsored by the Resource Development Council for Alaska, Inc. and the State of Alaska. The conference was held February 15 -16, 1984.

This is not a burning issue on the west side of the Kenai Peninsula, but one feels that with not too much effort, a great amount of support for the railroad purchase could be located.

Sincerely,

Justin G. Maile

Justin G. Maile
Mayor

A M E N D M E N T

Offered in the HOUSE

By *Miller*

TO: HB 512

Page 16, after line 10, insert a new section to read:

"Sec. 42.40.460. MUNICIPAL RIGHT-OF-WAYS. Upon request of a municipality the corporation shall grant to the municipality a right-of-way in a railroad utility corridor or in land owned by the corporation to be used for a pedestrian walkway or trail. Before granting a right-of-way under this section the board may require the municipality to agree to hold the corporation harmless for any use made of the right-of-way and to execute the agreement in a form approved by the board."

AK. RAILROAD

FISCAL
NOTE

CSHB 512

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

POUCH Z
JUNEAU, ALASKA 99811
PHONE: (907) 465-3900OFFICE OF THE COMMISSIONER
Alaska Railroad Transfer Team

March 23, 1984

The Honorable Bette Cato
Chairman, House Transportation Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Representative Cato:

Enclosed per your request is a fiscal note on the committee substitute for HB 512, an Act establishing the Alaska Railroad Corporation. Also enclosed is a detailed analysis with supporting documentation to explain its contents.

The estimates in this fiscal note are based on the results of the Alaska Railroad Transfer Team's Alaska Railroad Acquisition Assessment, released in December 1983. Although our "worst case" scenario has been used for these calculations, current indicators regarding uncertainty over potential traffic increases suggest this analysis for FY 85 is a more realistic forecast for determining actual fiscal impact.

Based on a request from the Senate Transportation Committee, the Transfer Team is re-assessing these estimates to develop a "best case" alternative for legislative consideration. This analysis will factor in the full impact of increased revenues from the export coal movement, SeaWay Express' entry into Seward, and additional special trains to meet the summer cruise ships at Whittier. This information will be provided to your committee as soon as it becomes available.

All estimates are presented in constant 1985 dollars and have been inflated from our original 1983 constant dollar estimates using an annual 6% inflation factor. The "general fund" line under the "funding component" is the projected annual shortfall to the State resulting from acquisition of the railroad. In FY 85, an overall appropriation of \$15.8 million will be needed to cover the expected shortfall.

The figures in this note are basically the same as those presented to the Senate Transportation Committee for the CS for SB 352. Another \$50,000 per year has been added to this note in response to the higher compensation levels for board members in Sec. 42.40.050, and the additional notice requirements in Sec. 42.40.090.

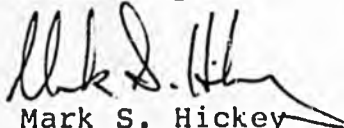
The FY 85 estimate is based on an assumption that actual transfer will occur somewhere between November and January of that fiscal year. Accordingly, most of the figures (e.g., revenues) are merely prorated for a seven month fiscal year ending in July 1985.

In addition, there are certain one-time, start-up expenditures directly attributable to the actual railroad transfer which causes the sizeable shortfall during FY 85. Included in this area are such items as \$4.9 million for replacement of the railroad's working capital fund, \$4.5 million for initiation of compliance with OSHA requirements and state and local building codes, and \$2 million for specific transition expenses to be incurred by the new corporation in taking over the railroad.

Another \$1.75 million of the 300 level contractual category is for the Alaska Railroad Transfer Team to perform its duties during FY 85. These funds are to support several one-time transition activities, most of which are already underway in this fiscal year. All other FY 85 fiscal impact to state agencies as result of enacting this legislation has also been included in this submittal.

I trust this information helps to explain the highlights of the enclosed fiscal note. If you would like any additional assistance, please do not hesitate to contact me at 465-3900.

Sincerely,



Mark S. Hickey
State Railroad Coordinator

Enclosure

cc: Ray Gillespie, Legislative Liaison,
Office of the Governor
Ben Harding, Special Staff Assistant,
Office of the Governor
R. J. Knapp, Commissioner,
Department of Transportation &
Public Facilities
House Transportation Committee Members

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No. CSHB 512 (Trsp)
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		300				
300 CONTRACTUAL		4,800				
400 SUPPLIES		5,200				
500 EQUIPMENT		1,200				
600 LAND & STRUCTURES		-0-				
700 GRANTS, CLAIMS		1,500				
800 MISCELLANEOUS		-0-				
TOTAL OPERATING	-0-	37,350	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-	15,800	13,050	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-	53,150	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 FI. 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: Mark S. Hickey, State Railroad Coord. Phone: 465-3900
Division: Alaska Railroad Transfer Team Date: 3/22/84

Approved by Commissioner: R. Knapp Date: 3/22/84
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

STATE OF ALASKA 1984 LEGISLATIVE SESSION

FISCAL NOTE

Bill/Resolution No.: HB 512

Title: Alaska Railroad Corporation Act of 1984

BILL ANALYSIS

Overview:

This fiscal note is based upon the results of the Alaska Railroad Team's Alaska Railroad Acquisition Assessment, released in December 1983. That document provides a comprehensive analysis of the major issues concerning acquisition of the Alaska Railroad (ARR). It includes a thorough assessment of the financial exposure to the State from ensuring continued rail operations in accordance with the requirements of the Alaska Railroad Transfer Act of 1982 (ARTA).

The estimates presented in this fiscal note are derived from the "worst case" scenario of future railroad activity. Current indicators such as the continued uncertainty over the export coal contracts suggest use of this analysis as the most realistic forecast for determining actual fiscal impact. Please note that the acquisition cost of \$22.3 million for railroad purchase has been addressed in a separate fiscal note attached to the acquisition legislation.

While the data and forecasts used in both the Acquisition Assessment and this fiscal note reflect the input and work of the railroad and the United States Railway Association (USRA), the final estimates are based on independent analysis and downward adjustment by the Transfer Team. Our work includes such factors as removal of uncertain revenue increases, increased costs for compliance with state and local building codes, and additional adjustments for necessary capital rehabilitation.

This bill analysis is limited to providing explanations of the fiscal impact resulting from the proposed legislation. It should be noted that there exist policy conflicts between provisions of this legislation and the Sheffield Administration's Policy Statement of January 26, 1984.

Assumptions:

The FY 85 figures are based upon an assumption that actual railroad transfer will occur somewhere between November and January of that fiscal year. As a result, most of the estimates are merely prorated for a partial fiscal year ending in July 1985. However, there are certain one-time, start-up expenditures directly attributable to the actual railroad transfer which cause the sizeable shortfall during what is only a partial fiscal year.

Although a breakout of specific operating expenditures has been provided for FY 85 in order to provide the railroad operating entity a functioning program during its first year of operations, an actual budget structure has not been included to avoid prejudicing the new operating entity's prerogatives to formulate its own budget structure and subsequent submissions. Please note that the FY 85 submittal also contains the request for all funds needed by the Transfer Team and other state agencies to perform the duties resulting from passage of this legislation and acquisition of the railroad.

Although the current legislation places the Alaska Railroad within the Department of Commerce and Economic Development for purposes of the constitution, other sections of this bill anticipate removing it if a proposed constitutional amendment passes next November. Accordingly, this note does not address a specific "agency affected" to avoid a future conflict in this area.

Since the constitutional amendment cannot become effective until November if it passes, this note is predicated on an assumption that all funds for the corporation will be passed through by the respective line agency under which the corporation is located. Funds for all other state agencies will be passed on to the Transfer Team for further processing as appropriate.

Administrative costs incurred by the line agency under which the corporation is located should be minimal and will be covered as part of the corporation's overhead. Please note that all fiscal impact to state agencies resulting from this legislation have been coordinated by the Transfer Team and are reflected in this note.

All estimates are presented in constant 1985 dollars. An annual inflation factor of 6% has been used to convert the original 1983 constant dollar estimates in the Acquisition Assessment.

Operating Expenditures:

This estimate includes both general operating expenses and new expenditures resulting from the railroad transfer (i.e., additional costs due to potential loss of railroad gravel reserves under third-party claims). Included in the former category are costs for maintenance-of-way, maintenance of power and equipment, transportation services, communications, administration and overhead, marketing and real estate management. The latter category includes increased legal and overhead expenses, additional insurance and risk management contributions, fiscal impact to the Transfer Team and other state agencies because of railroad acquisition, and one-time, start-up costs for items such as the printing of new letterhead and the marking of personal property.

Although revenue is projected to increase during FY 87-89, costs during that period are not significantly larger than the first two years of operations due to the sizeable, one-time transfer related expenses immediately following transfer. These estimates are based on historical data provided by current railroad personnel and reflect anticipated operating expenditures needed to comply with the terms of ARTA.

Attachment A provides more details on the FY 85 submittal by object of expenditure. Some \$4 million of this estimate is to cover immediate expenditures resulting from actual transfer of the railroad. This includes the following:

- (1) \$1.750 million for the Alaska Railroad Transfer Team to perform its duties as outlined in Attachment B;
- (2) \$2 million for specific one-time, start-up costs to be incurred by the new entity for items such as the marking and inventorying of personal property, the printing of new stationery and payment warrants, additional legal costs, and certain corporation expenditures for the new Board of Directors;
- (3) \$200,000 in funds to conduct a final pre-transfer audit to establish the accuracy of balance sheets and the identification of accounting problem areas; and
- (4) \$80,000 in additional fiscal impact to the Department of Administration to ensure preservation of railroad archival records and additional labor relations work not budgeted for in the Transfer Team's FY 85 budget memo.

Another component of the FY 85 submittal includes \$270,000 in funds in direct response to the following requirements of the legislation:

- (1) \$200,000 to initiate the Special Report required in Section 9 on the feasibility of attracting private sector involvement in the railroad's operations;
- (2) \$35,000 to the Department of Natural Resources to respond to any state land request by the corporation under Section 42.40.360; and
- (3) \$35,000 to fund costs for the new railroad employees labor relations agency as provided in Section 42.40.780.

The remaining estimates in this area reflect the normal operating expenses by category for the part of FY 85 involving state operation of the railroad. These specific estimates have been prepared with the close cooperation of railroad administration and budgeting personnel. All expenditures for per diem and compensation of the Board of Directors have been included in the general estimates for the 100 and 200 categories.

Capital Expenditures:

The capital component of this fiscal note represents a combination of increased capital costs resulting from transfer and prorated expenditures for ongoing railroad operations. The analysis contained in Chapters 4 and 5 of the Acquisition Assessment serve as the basis for both of these estimates.

In addition, the results from the State's independent engineering condition assessment have been used to project an increased level of expenditure minimally acceptable to begin reversing deterioration of the railroad's physical plant, including the initiation of a systematic plan for replacing aged rolling stock. It is important to understand that engineering condition alone cannot be the basis for a projected level of sustained capital expenditure, but must be tempered by national trade-offs between long-term plant condition and available revenues.

The capital estimate of \$15.8 million includes a one-time expenditure of \$4.9 million to replace the railroad's working capital fund. ARTA establishes a process where little, if any, money will be transferred from the ARR's Revolving Fund because of pre-transfer federal claims and contingent liabilities that must be paid by the fund. As a result, an amount equal to about one month's worth of operating expenses (which is similar

to working capital requirements for other railroads) is needed to fund and maintain adequate working capital for the railroad after transfer.

Another capital expenditure resulting from railroad transfer is the initiation of compliance with Occupational Safety and Health Act (OSHA) requirements and state and local building codes. Approximately \$4.5 million per year has been set aside during the forecasted period to move toward compliance in these areas. Chapter 5.3 of the Acquisition Assessment provides more details regarding this requirement.

The remaining \$6.4 million of this estimate covers general railroad capital needs, prorated for the period of state ownership during FY 85. An additional \$7.85 million is projected for expenditure by the railroad for this program. Attachment C provides additional information regarding the capital improvement program to be performed during FY 85.

It should also be noted that based on a recent audit review of the ARR's financial statements, about \$4 million per year of capital expenditures could just as easily be categorized as operating costs (primarily maintenance-of-way expenditures) if generally accepted accounting principles are applied to the railroad. However, no adjustments have been made with our estimates to avoid creating greater confusion by conflicting with existing railroad procedures prior to a general system overhaul by the corporation upon transfer.

Revenue:

This estimate on a prorated basis represents projected FY 85 revenues from its freight, passenger and real property rental activities. The FY 85 revenue figure is based on a projected commodity mix fairly similar to the last two years of railroad operations. Attachment D contains some additional information from the ARR's 1983 Draft Annual Report regarding FY 82 and FY 83 operations.

These projections are based on information from the railroad and USRA, which were then adjusted downward by the Transfer Team to remove 50% of the net cash from anticipated revenue increases in export coal, interline and pipe traffic. If either of these movements were in fact to materialize in a significant way, it could sizeably reduce the need for general fund assistance during FY 87-89. Likewise, any major downswing from our projections would probably result in the need for even larger general fund assistance during those years.

Funding Source:

The "Other Funds" appearing on the fiscal note are railroad revenues.

Positions:

ARTA basically mandates a two-year period of full protection of current salaries and benefits for all employees who choose to transfer. What happens following that period becomes a matter for contractual negotiation between management and employees.

The figures presented in this part of the fiscal note are the actual number of employees in each category as of March 1, 1984. No estimate can be made of the actual number of those choosing to transfer, although it is anticipated that most employees will do so. In the case of temporary employees, the first number on this line is the actual number today, while the second estimate reflects the average number of temporary hires used in the summer for major maintenance work.

Summary:

The estimates provided in the attached fiscal note are primarily based on the Transfer Team's assessment of the likely fiscal impacts from state acquisition of the Alaska Railroad. It is important to reiterate that the acquisition cost of \$22.3 million has been addressed in a separate fiscal note attached to the acquisition legislation.

It is our view that the corporation's overall organization as currently envisioned in the proposed legislation will not have any appreciable impact immediately on the railroad's general financial condition. Beyond the increased cost for modifying the existing administrative and management systems during the first two or three years following state takeover, it is difficult to predict whether the proposed organizational arrangements in this legislation will generate cost efficiencies not enjoyed during federal ownership.

The philosophy in the current legislation is, to the extent possible, to foster a self-sustaining business orientation for railroad operations. This is consistent with the Transfer Team's analysis of the types of steps necessary to achieve a break-even position at some point during the first decade of state operations.

There is no specific mandate in this legislation for new extensions or any more services than those currently in existence. This should allow the railroad adequate time to reorganize and streamline its existing operations. In addition, although several specified planning responsibilities have been added to the railroad's duties, the long-term savings from performing these kinds of systematic assessments should more than compensate for any short-term costs resulting from performance of these efforts.

Attachment E is a ten year summary (FY 73-82) of the railroad financial operations during federal ownership. It should be noted that an additional \$66.2 million dollars in congressional appropriations was provided during this period to cover passenger expenses and certain capital needs.

ATTACHMENT A

Operating Budget - FY85

In Thousands (000) of Dollars

This operating budget is prorated for FY 85 except for the impacts to state agencies depicted in the 300 level. All amounts shown are in 1985 dollars. These estimates represent the total prorated FY 85 operating budget for the railroad following state acquisition. Projected revenues from the railroad's operations will serve as the main source of funds for these expenditures, with limited assistance from general fund appropriations.

<u>Category</u>	<u>Amount</u>	<u>Explanation</u>
100 Personal Services	\$24,350.0	This funding level is based upon current work force of 478 permanent full-time, 38 part-time and 64 temporary positions. Of this amount salary comprises \$19,980 and benefits comprise \$4,370. Also included in this estimate are the Board of Directors' compensation expenses.
200 Travel	300.0	This funding level is the estimate of travel funding needs, including the Board of Directors' travel expenses.
300 Contractual	4,800.0	This funding level includes coverage of the following areas: continuation of Transfer Team activities for FY 85 - \$1,750.0 (see Attachment B); Transfer Financial Audit - \$200.0; \$200.0 for initiation of the Special Report required in Section 9 of the bill; Department of Administration - \$80.0 for archives preservation and labor relations coordination; costs for the labor relations agency under Article 8 of the bill - \$35.0; Department of Natural Resources - \$35.0 for land designation activities under Article 5 of the bill. The remainder of these funds are for the railroad's general contractual needs resulting from capital improvement, operations and financial planning activities.

400 Supplies	5,200.0	This funding level is required for the day-to-day operations of the railroad, supporting all facets of operations from administration to maintenance of way.
500 Equipment	1,200.0	This item is the complement of the supply item also supporting day-to-day railroad operations.
700 Grants & Claims	1,500.0	This item provides for funds for the railroad's risk management expenses, payment of damage claims, workmen's compensation expenses and other money claims against the railroad. No grants are anticipated.
TOTAL:	<u>37,350.0</u>	

ALASKA RAILROAD TRANSFER PROJECT

FY 85 PROJECT BUDGET

The goal of the Alaska Railroad Transfer Team is to provide an orderly and informed decision-making process for possible transfer of the Alaska Railroad from federal ownership, thus ensuring continuation of essential rail services in Alaska. If a decision is reached to pursue state take-over of the railroad, then it is also the goal of the Alaska Railroad Transfer Team to organize and oversee a systematic transition from federal ownership.

This document discusses the major work components of the FY 85 budget submittal. The need to pursue some of these efforts is entirely contingent on a decision to acquire, while other work efforts are separate from that decision. Attachment A provides the FY 85 budget submittal as introduced by the Governor. Attachment B is the project budget for FY 84 and provides considerable detail regarding several work tasks, many of which are ongoing in 1985.

The following breakdown is structured on a component or agency basis, versus reiterating specific details regarding ongoing work tasks. As a result, some of this explanation should be read in conjunction with Attachment B in order to fully understand all of the scheduled work efforts.

Work Component #1 - Alaska Railroad Transfer Team Staff

As indicated in Attachment A, funding is needed to support four positions in the Office of the Commissioner, Department of Transportation and Public Facilities. These positions are as follows: a State Railroad Coordinator (Special Assistant II); a Planner IV; a Planner III; and a Correspondence Secretary III. These four individuals comprise the Transfer Team Staff with direct responsibility for performance and coordination of all team activities. This group reports directly to the Commissioner of DOT&PF in the performance of their duties. The following breakdown represents expenditures directly related to this area by object of expenditure.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Personal Services	4 Positions - DOT&PF	\$195,100
Travel	4 Positions - DOT&PF	66,000
Contractual	Printing/limited Professional Services	35,000
Supplies	Miscellaneous	<u>8,000</u>
	Total	\$304,100

Work Component #2 - Department of Natural Resources Assistance

An existing Reimbursable Services Agreement with the Department of Natural Resources will be continued during FY 85. Work efforts covered by this assistance include ongoing support activity by the Division of Technical Services for conveyance documents and related title review work. Additional support by DNR will be provided for coordination with the Bureau of Land Management's cadastral survey work and assistance from the Division of Land and Water Management to implement the railroad transfer. The following breakdown by object of expenditure presents the needed funding for these services.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Personal Services	4 Positions - DNR	\$191,900
Travel	4 Positions - DNR	20,000
Contractual	Miscellaneous Professional Services	30,000
Supplies	Miscellaneous	8,100
	Total	\$250,000

Work Component #3 - Department of Labor Assistance

Specific assistance is still needed by 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. Although this was scheduled for performance during FY 84, insufficient funding required postponement of this work effort until FY 85. Scheduled funds during FY 84 for this effort were diverted to cover additional labor relations work by the Department of Administration and the use of an Engineer-in-Training position to assist with the engineering condition assessment. The following breakdown provides an estimate for this activity by object of expenditure.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Personal Services	2 Full-time - DOL 2 part-time	\$142,700
Travel	2 Full-time - DOL	7,300
Training	2 Full-time	5,200
Contractual	Miscellaneous Professional Services	39,800
Supplies	Miscellaneous	6,500
Equipment	Health Sampling Equipment/ Memory Typewriter	12,000
	Total	\$213,500

Work Component #4 - Department of Administration Assistance

Activity in the area will consist of continuing work efforts initiated during FY 84 explained under task #6 of Attachment B. Particular attention must be paid to the analysis of the five collective bargaining agreements, which will support the full scale initiation of the two-year renegotiation process in conjunction with the new entity established to operate the railroad. Another important work effort will be to conduct an orderly transition from federal to state ownership for all personnel matters and ensure that all of the specified requirements from the federal transfer legislation are properly met by the new organization established to operate the railroad. Other efforts include assistance with insurance and risk management needs. The following breakdown by object of expenditure presents the necessary funding for this area.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Personal Services	1 Full-time Position	\$105,000
	2 Part-time Positions	45,000
Travel	1 Full-time, 2 Part-time	105,000
Contractual	Liaison Assistance/	105,000
	Miscellaneous	
	Professional Services	
Supplies	Miscellaneous	<u>2,400</u>
	Total	\$257,400

Work Component #5 - Department of Law Assistance

Assistance from the Department of Law is needed for several tasks to be performed by existing AG staff and retained special counsel. Included are the following work efforts: (1) legal work pertaining to the 3(e) (ANCSA) claims against railroad property by native village corporations, including ongoing negotiation and staff work to support the State's position during the adjudication process; (2) legal assistance for the preparation of transfer documents and attention to related land conveyance problems; (3) resulting from the response to various court actions by third parties because the railroad transfer; (4) ongoing legal assistance with issues involving regulation by the Interstate Commerce Commission (ICC); and (5) support of efforts relating to personnel/labor relation matters. The following breakdown by object of expenditure presents the needed funding for this area.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Personal Services	Staff Attorneys	\$180,000
Travel	Staff Attorneys	20,000
Contractual	Wickwire Lewis	150,000
	David Walsh	75,000
	David Rogers	<u>75,000</u>
	Total	\$500,000

Work Component #6 - ICC Rate Valuation/Capital Plan Activity

Work efforts under this component will consist of the following: (1) initiation of planning work necessary to file the appropriate valuation studies before the ICC for purposes of rate-making justification; and (2) performance of ongoing capital planning analysis. This second task will be a continuation of efforts performed under task #5 in Attachment B. It will be coordinated with the initiation of the ICC valuation studies to maximize generation of a data base useful to both efforts. Funding in this area is needed for contractual assistance, which will be directly managed by the Transfer Team Staff.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Contractual	Consulting Assistance	<u>\$225,000</u>
	Total	\$225,000

ALASKA RAILROAD TRANSFER PROJECT BUDGET

PROJECT BUDGET

The following depicts the project budget by work component and amount:

	<u>Amount</u>
(1) Alaska Railroad Transfer Team Staff	\$ 304,100
(2) Department of Natural Resources Assistance	250,000
(3) Department of Labor Assistance	213,500
(4) Department of Administration Assistance	257,400
(5) Department of Law Assistance	500,000
(6) ICC Rate Valuation/Capital Plan Activity	<u>225,000</u>
Project Total	\$1,750,000

ATTACHMENT C

Capital Improvement Program - FY85

In Thousands (000) of Dollars

This CIP is prorated for FY 85. All amounts shown are in 1985 dollars. These estimates represent costs to the State, and are only part of the ARR's total capital budget. Revenues from the ARR for capital improvements will be added to State funding.

<u>Item</u>	<u>Amount</u>	
Working Capital Fund	\$ 4,900	As with all businesses, the ARR will need working capital. It is estimated that one month's worth of operating expenses will be adequate working capital for the ARR.
OSHA/Code Compliance	\$ 4,500	As a federal agency, the ARR has not been subject to many health, safety, and building code standards that would otherwise apply. These codes will apply upon transfer, and initial surveys conducted by the State have been used to determine necessary compliance levels. See Appendix C of the Alaska Railroad Acquisition Assessment for more details.
Other Capital Improvements	\$ 6,400	These expenses represent the minimal expenditure necessary for the ARR to maintain current levels of service, while initiating efforts to reverse deterioration of physical plant condition. Component priorities have been selected using the findings of the State's independent condition assessment. As indicated in the attached supplement, most capital improvements are for track and roadbed, upgrade of certain cargo handling facilities, and motive power and equipment purchases.
TOTAL	<u>\$15,800</u>	

Supplement to Item #3, Attachment C

Track & Roadbed - \$6,185,000

Ties - Install 50,000 @ \$42.00 ea.	= \$2,100,000
Rail - Install 6 miles @ \$350,000 ea.	= \$2,100,000
Ballast - Install 85,000 yd ³ @ \$14 yd ³	= \$1,190,000
Other - (Turnouts, sledding, culverts, ditching)	= \$ 795,000

Bridges - \$883,000

Replace stringers, bents, and spans
Reset bearings, piles, and abutments

Tunnels - \$1,060,200

Line with multi-plate
Excavate rock fall areas

Docks - \$706,800

Preliminary work to rebuild barge slip #1 at Whittier

Communications - \$570,000

Complete microwave system
Remove pole lines
Acquire equipment

Motive Power & Equipment - \$4,845,000

Locomotives	= \$2,250,000
Upgrade Facilities	= \$1,845,000
Equipment	= \$ 750,000

Note: This totals \$14.25 million and is the ARR's overall FY 85 capital budget, of which \$6.4 million is covered under this fiscal note.

DRAFT

TABLE IX: BALANCE SHEET
 SEPTEMBER 1982-83
 (Thousand dollars)

CATEGORY	1983	1982
ASSETS:		
Current Assets:		
Cash (Note 8)	\$9,646	\$14,966
Trust and Deposit Funds (Note 9)	32	7
Accounts Receivable	14,195	13,105
Materials and Supplies (Note 10)	10,143	7,040
Prepaid Expenses	20	0
	<u>34,036</u>	<u>35,118</u>
Properties:		
Land (Note 11)	265	265
Buildings	12,943	12,921
Roadway Structures & Facilities	127,215	125,000
Equipment	57,895	49,864
Non-Operating Property	1,947	1,877
Total Properties	200,265	189,927
Less Accumulated Depreciation:	60,516	57,678
Properties - Net	139,749	132,249
Additions & Betterments in Progress (Note 12)	11,599	12,059
	151,348	144,308
Other Assets and Deferred Charges	2,524	3,029
Total Assets	<u>\$187,910</u>	<u>\$182,455</u>
LIABILITIES & PROPRIETARY INTEREST OF THE U.S. GOVERNMENT:		
Current Liabilities:		
Accounts Payable	\$4,721	\$3,416
Accrued Payrolls Payable	1,320	1,056
Trust and Deposit Funds (Note 9)	32	7
	<u>6,073</u>	<u>4,479</u>
Other Liabilities and Unadjusted Credits	2,209	3,152
Total Liabilities	<u>\$8,282</u>	<u>\$7,631</u>
Proprietary Interest (Note 13):		
Net Investment	200,621	192,995
Retained Earnings from July 1, 1954	(18,171)	(23,578)
Current Year Operating Results	2,824	9,561
Extraordinary Items (Note 6)	(5,646)	(4,154)
Total Proprietary Interest (Note 13)	<u>179,628</u>	<u>174,824</u>
Total Liabilities & Proprietary Interest	<u>\$187,910</u>	<u>\$182,455</u>

Notes follow Table XI

DRAFT

TABLE X: STATEMENT OF CHANGES IN FINANCIAL POSITION
 FISCAL YEARS 1982-83
 (Thousand dollars)

CATEGORY	1983	1982
Funds were provided by:		
Revenues and Other Receipts	\$56,438	\$58,699
Appropriations from Congress (Note 14)	<u>7,600</u>	<u>6,160</u>
Total Funds Provided	64,038	64,859
Funds were used for:		
Labor	35,579	33,221
Other	14,044	17,839
Capital Improvements & Replacements	<u>16,348</u>	<u>11,821</u>
Total Funds Used	65,971	62,881
Increase (Decrease) in Government Equity	(1,933)	1,978
Other Increases (Decreases):		
Undelivered Orders	(2,924)	3,983
Supplies and Materials	3,103	1,119
Properties	7,040	3,964
Other	<u>(482)</u>	<u>513</u>
Total, Other	6,737	9,579
Total Increase (Decrease) in Government Equity	<u>\$4,804</u>	<u>\$11,557</u>
Proprietary Interest:		
Beginning Balance	\$174,824	\$163,267
Increase (Decrease)	<u>4,804</u>	<u>11,557</u>
Ending Balance (Note 13)	\$179,628	\$174,824

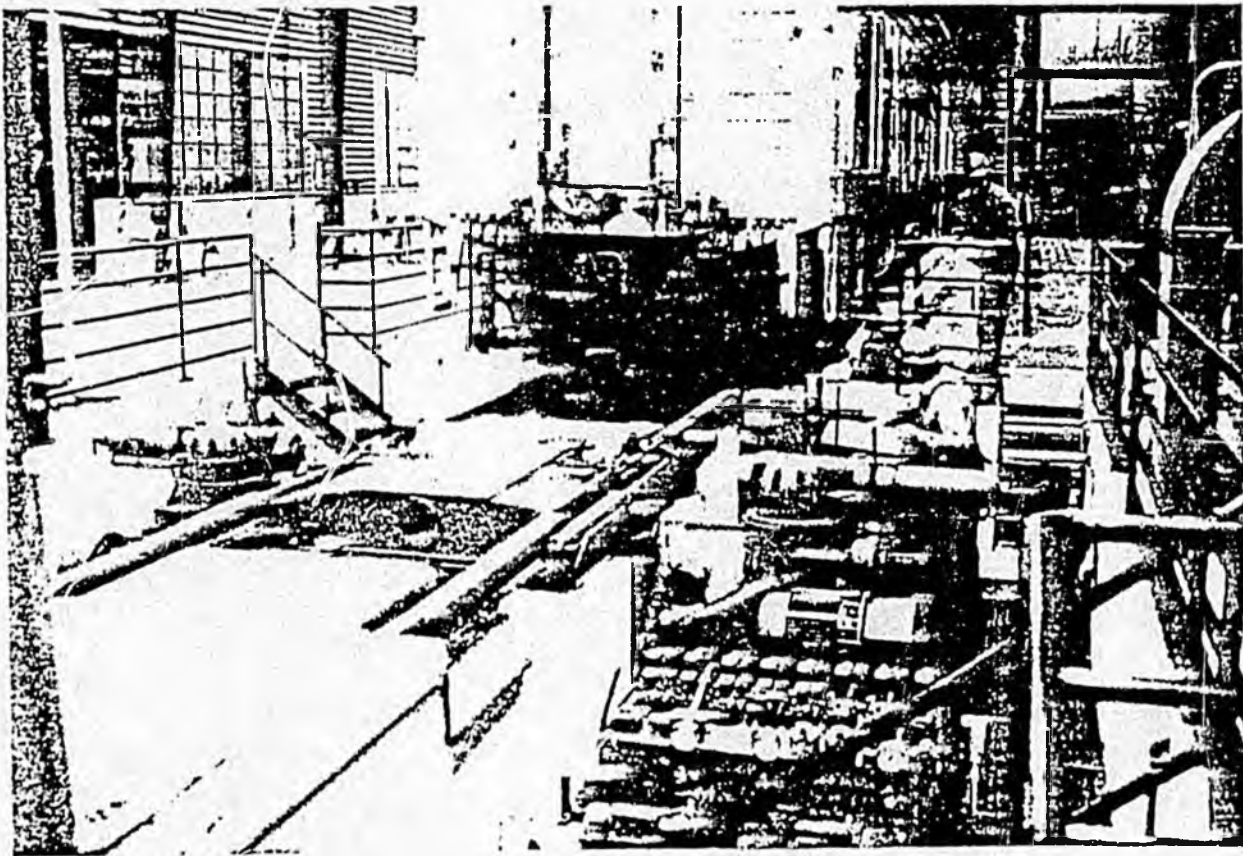
Notes follow Table XI

DRAFT

TABLE XI: FIVE-YEAR CONDENSED SUMMARY OF OPERATIONS
FISCAL YEARS 1979-83
(Thousand dollars)

CATEGORY	1983	1982	1981	1980	1979
REVENUES:					
Operating	\$52,397	\$55,445	\$40,782	\$26,737	\$23,200
Non-Operating (Note 16)	<u>3,697</u>	<u>3,352</u>	<u>3,159</u>	<u>2,155</u>	<u>2,081</u>
Total Revenues	\$56,094	\$58,797	\$43,941	\$28,892	\$25,181
EXPENSES:					
Operating	\$52,993	\$48,978	\$40,358	\$34,380	\$31,285
Non-Operating (Note 17)	<u>277</u>	<u>258</u>	<u>273</u>	<u>344</u>	<u>204</u>
Total Expenses	\$53,270	\$49,236	\$40,631	\$34,724	\$31,489
NET PROFIT (LOSS)	\$2,824	\$9,561	\$3,310	(\$5,832)	(\$6,308)
Less Extraordinary Items (Note 6)	<u>(\$5,646)</u>	<u>(\$4,154)</u>	<u>(\$204)</u>	<u>(\$692)</u>	<u>(\$319)</u>
Annual Retained Earnings	(\$2,822)	\$5,407	\$3,106	(\$6,524)	(\$6,627)
Expense/Revenue Ratio	94.97%	83.74%	92.47%	120.19%	125.05%

Notes follow Table XI



A modern wheel truing machine was installed in a newly constructed shop building in 1983.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

The Alaska Railroad uses the generally accepted principles, standards, and related requirements of governmental accounting as approved by the Comptroller General of the United States. Operations are conducted in a manner consistent with related commercial enterprises and, at the same time, in conformance with the requirements incumbent upon a Government agency.

As is the customary practice of the industry, the Railroad uses betterment and retirement accounting instead of depreciation accounting for roadbed and track. Under this method, prescribed by the Interstate Commerce Commission, the cost of replacing tracks and structures--less salvage recovered--is charged to the appropriate operating expense account and only the cost of betterments is capitalized. These capitalized items are not depreciated, but upon retirement of the tracks and structures, the entire capitalized amounts--less salvage recovered--are charged to expense.

The accounting system and related procedures disclose financial condition and operating results to provide full accountability of the Government's investment in the Railroad and to afford management the necessary data to carry out its responsibility in the most efficient and economical manner.

The Railroad is financed from a revolving fund.

2. REVENUES

Revenues from rail operations are included in income on an accrual basis upon the completion of service.

3. EXPENSES

Expenses are accrued or applied or both on a basis consistent with generally accepted accounting principles.

4. MAINTENANCE OF WAY AND STRUCTURES

Maintenance of way and structures include expenses incurred by engineering (\$9,207,000) and communications (\$652,000).

5. GENERAL AND ADMINISTRATION

General and administration accounts include expenses for headquarters and staff (\$1,378,000) and the administration department (\$4,485,000).

6. EXTRAORDINARY ITEMS

Extraordinary items include the loss on excess current inventories (\$23,000), deferred outlays (\$3,760,000), prior-year adjustments (\$697,000), and costs associated with the transfer evaluation (\$1,166,000).

7. DEPRECIATION

Depreciation is computed using the straightline method and is based on estimated service lives of depreciable properties, except for the railway track and structures, which are computed using the industry betterment method. Depreciation charges are determined by using the composite or group rates applicable to various classes of property.

The following is a list of depreciation charges in FY 1983:

	(Thousand dollars)
Mechanical - equipment	\$2,807
Engineering - buildings and structures	892
Transportation - docks	438
Communications	170
Non-operating	66
Other	31
Total	<u>\$4,404</u>

8. CASH

Cash refers to the fund balance with the U.S. Treasury, which is the net amount of cash receipts, e.g., revenues, proceeds from sales, and amounts of congressional appropriations, less disbursements.

9. TRUST AND DEPOSIT FUNDS

Trust and deposit funds include special deposits and other collections not covered by the revolving fund and cleared by disbursement or transfer, as appropriate. A contra account to this asset account is reflected in the liability section.

10. MATERIALS AND SUPPLIES

Inventories, consisting of replacement or repair parts for equipment and road property, construction materials, and fuel, are valued at average cost, including freight.

11. LAND

Land includes only property purchased by the Railroad from private owners and carried at acquisition cost. The Railroad owns over 38,000 acres withdrawn from the public domain at no cost; this land is not included in the financial records.

12. ADDITIONS AND BETTERMENTS IN PROGRESS

This is a control account for authorized capital projects during the period of construction or procurement. Upon completion of the capital project, the related costs are transferred into the appropriate fixed asset property account.

13. PROPRIETARY INTEREST OF THE U.S. GOVERNMENT

The proprietary interest shows the Federal Government's net interest in The Alaska Railroad. At the end of FY 1983, it is summarized as follows:

	(Thousand dollars)
Appropriation by Congress	\$259,496
Allotments from other agencies, sales of lots, etc.	1,724
Property transferred or donated (not public domain)	19,903
Earthquake losses	(16,738)
Deficits from operations and capital losses to 6/30/54	(63,764)
Retained earnings (7/1/54 to 9/30/82)	(18,171)
FY 1983 operating results	2,524
Extraordinary Items (Note 6)	<u>(5,646)</u>
 Total proprietary interest of the U.S. Government	 \$179,628

14. CONGRESSIONAL APPROPRIATIONS

Funds appropriated by Congress were obligated within the fiscal year, as shown below:

	(Million dollars)	
	<u>FY 83</u>	<u>FY 82</u>
Congressional appropriations received	\$7.60	\$6.16
Obligated during fiscal year	<u>\$7.60</u>	<u>\$6.16</u>
 Amount unobligated at end of fiscal year	 \$0.00	 \$0.00

15. OTHER OPERATING REVENUES

Other operating revenues include those revenues that were neither freight nor passenger. Individual accounts exceeding \$90,000 in FY 1983 were:

	(Thousand dollars)
Reimbursable services	\$2,036
Sale of non-invested property	1,301
Reimbursements - real estate, utilities, and equipment	541
Whittier shuttle - vehicles	533
Wharfage and handling	148
Mail	145
Switching	116
Equipment rentals	90
All other	<u>395</u>
 Total	 \$5,305

16. NON-OPERATING REVENUES

Non-operating revenues in FY 1983 were:

(Thousand dollars)

Miscellaneous rentals	\$3,466
Interest earned	144
All other	<u>87</u>
Total	\$3,697

17. NON-OPERATING EXPENSES

Non-operating expenses in FY 1983 were:

(Thousand dollars)

Buildings	\$199
Depreciation	60
Equipment	10
All Other	<u>2</u>
Total	\$277



At a re-enactment of the original golden spike ceremony Governor Sheffield wields the same maul used by President Harding in 1923.

FREIGHT

Table II shows freight revenue tons and freight revenue dollars by major classification of commodities for fiscal years 1983 and 1982. Total tonnage for fiscal year 1983 exceeded fiscal year 1982 by 34 percent. For the third consecutive year sand and gravel led all other commodities in percentage gains. The primary cause of the 60-percent escalation was a vigorous private and business construction year plus increases in public works projects in Anchorage. The drop in movements of iron and steel products from Seward to Fairbanks destined for the North Slope from its peak in 1982 accounted for the return of manufacturers and miscellaneous products to a lower level, but still above FY 1981.

TABLE II: FREIGHT TRAFFIC BY COMMODITY

COMMODITY	1983 FY	1982 FY	% CHANGE
REVENUE TONS CARRIED (000's)			
Sand and Gravel	4,397.7	2,753.8	+ 59.7
Coal	625.8	653.6	- 4.2
Petroleum, Oil, Lubricants	462.2	439.4	+ 5.2
Manufacturers and Misc.	323.1	449.9	- 28.2
TOFC/COFC (Piggyback)	98.0	122.4	- 19.9
Products of Forests	105.1	77.0	+ 36.5
Products of Agriculture	<u>6.1</u>	<u>6.8</u>	- 10.3
Total Tonnage	6,018.0	4,502.9	+ 33.7
REVENUE DOLLARS (000's)			
Sand & Gravel	6,647	4,556	+ 45.9
Coal	5,007	5,072	- 1.3
Petroleum, Oil, Lubricants	9,723	8,376	+ 16.1
Manufacturers and Misc.	15,704	22,512	- 30.2
TOFC/COFC (Piggyback)	3,625	4,915	- 26.2
Products of Forests	2,955	2,301	+ 28.4
Products of Agriculture	<u>126</u>	<u>145</u>	- 13.1
Total Revenue	43,787	47,877	- 8.5

PASSENGER

Aggressive and expanded advertising and marketing resulted in an overall increase of 21 percent in passenger ridership as shown in Table II. The marketing efforts included active promotion of tour packages which attracted, for the first time, nine cruise ships to stop at the Railroad's Port of Whittier, and provided over 14,000 of the special train riders.

TABLE III: PASSENGERS HANDLED

SERVICE	1983 FY	1982 FY	% CHANGE
Anchorage-Denali-Fairbanks	61,887	60,810	+ 1.8
Anchorage-Portage-Whittier (Shuttle)	117,740	95,449	+ 23.4
Specials	<u>31,732</u>	<u>18,857</u>	+ 68.3
Total Passengers Handled	211,359	175,116	+ 20.7

The number of vehicles carried on the Anchorage-Portage-Whittier (shuttle) service was 19,516, up 10 percent over FY 1982.

TARRIFS

The major rate adjustments made in FY 1983 are reflected in Table IV:

TABLE IV: FY 1983 TARIFF CHANGES

TYPE	DATE	% INCREASE
Interline	1-17-83	5
Intrastate:		
General Commodities	2-12-82	5
Gravel	4-19-83	3
Passenger:		
Anchorage - Fairbanks	1-01-83	10
Whittier Shuttle	7-01-83	10

Attachment E
3/14/84

ALASKA RAILROAD OPERATIONS SUMMARY
(Dollar Amounts in Thousands)
Fiscal Years 1973-1982*

	<u>FY 1973</u>	<u>FY 1974</u>	<u>FY 1975</u>	<u>FY 1976</u>	<u>FY 1977</u>	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>
Operating Revenue	\$16,996	\$20,783	\$41,416	\$52,517	\$33,376	\$27,440	\$23,100	\$26,737	\$40,782	\$55,445
Non-Operating Revenue	681	703	871	1,161	1,646	1,651	2,081	2,155	3,159	3,352
<u>Total Revenues</u>	<u>17,677</u>	<u>21,486</u>	<u>42,287</u>	<u>53,678</u>	<u>35,022</u>	<u>29,091</u>	<u>25,181</u>	<u>28,892</u>	<u>43,941</u>	<u>58,797</u>
Operating Expenses	\$20,057	\$22,389	\$35,883	\$49,387	\$35,703	\$33,301	\$31,285	\$34,380	\$40,358	\$48,978
Non-Operating Expenses	153	158	272	191	255	213	204	344	273	258
<u>Total Expense</u>	<u>20,210</u>	<u>22,547</u>	<u>36,155</u>	<u>49,578</u>	<u>35,958</u>	<u>33,514</u>	<u>31,489</u>	<u>34,724</u>	<u>40,631</u>	<u>49,236</u>
<u>Gain (Loss)</u>										
Before depreciation - cash flow (\$ 7)		\$ 1,300	\$ 8,513	\$ 6,628	\$ 2,186	(\$ 1,227)	(\$ 3,089)	(\$ 2,306)	\$ 6,567	\$13,274
After depreciation (\$ 2,533)		(\$ 1,061)	\$ 6,132	\$ 4,100	(\$ 936)	(\$ 4,423)	(\$ 6,308)	(\$ 5,832)	\$ 3,310	\$ 9,561
<u>Capital Expenditure</u>	<u>\$ 1,260</u>	<u>\$ 313</u>	<u>\$ 2,772</u>	<u>\$ 8,602</u>	<u>\$ 8,316</u>	<u>\$ 5,823</u>	<u>\$ 8,181</u>	<u>\$ 6,893</u>	<u>\$11,409</u>	<u>\$11,821</u>
<u>Revenue Tons of Major Commodities</u> (in thousands of tons)										
Sand and Gravel	2	1	1	104	700	727	637	396	1,797	2,754
Bulk Petroleum	363	414	557	624	532	374	220	252	379	439
Coal	565	563	584	607	550	593	524	590	653	654
Iron & Steel Pipe & Fittings	11	15	107	174	16	28	33	37	83	165
Piggyback	48	57	95	114	100	100	99	92	113	122
Forest Products	49	56	120	124	82	68	55	109	101	77
Manufactured Iron & Steel	18	37	60	89	19	12	12	10	8	19
Cement	15	14	25	32	42	33	33	32	43	51
Machinery and Machines	12	21	60	31	47	47	24	16	28	24
Hfms. & Misc. NOS	32	34	44	29	17	13	25	26	11	**
Other	216	165	209	260	200	183	156	181	146	198
<u>TOTAL</u>	<u>1,331</u>	<u>1,337</u>	<u>1,862</u>	<u>2,188</u>	<u>2,305</u>	<u>2,178</u>	<u>1,808</u>	<u>1,741</u>	<u>3,362</u>	<u>4,503</u>
<u>Passengers</u>	<u>74,000</u>	<u>84,000</u>	<u>81,000</u>	<u>84,500</u>	<u>103,632</u>	<u>126,277</u>	<u>151,045</u>	<u>150,678</u>	<u>161,068</u>	<u>175,116</u>

* The Federal Government changed its fiscal year from July 1-June 30 to October 1-September 30 beginning in FY 1977, resulting in a transition quarter in 1976. To avoid a 15-month fiscal year for comparisons, these statistics use July 1, 1975 through June 30, 1976 as FY 1976, and October 1, 1976 through September 30, 1977 as FY 1977, dropping the transition quarter.

**Hfms. & Misc. NOS. (not otherwise specified) discontinued, now included in specific categories.

AK. RAILROAD

Fiscal

NOTE

SB 357

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SB 352
Title: Alaska Railroad Corporation Act of 1984
Sponsor: Kerttula, Faiks, & Halford
Requestor: Senator Moss
Date of Request: 3/8/84

FISCAL DETAIL

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

EXPENDITURE / REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING	-0-	37,300	57,750	58,000	57,300	57,900
100 PERSONAL SERVICES		24,300				
200 TRAVEL		300				
300 CONTRACTUAL		4,800				
400 SUPPLIES		5,200				
500 EQUIPMENT		1,200				
600 LAND & STRUCTURES		-0-				
700 GRANTS, CLAIMS		1,500				
800 MISCELLANEOUS		-0-				
TOTAL OPERATING	-0-	37,300	57,750	58,000	57,300	57,900
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-	15,750	11,000	8,250	4,450	2,000
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER	-0-	37,350	67,200	70,200	73,300	76,350
TOTAL	-0-	53,100	78,200	78,450	77,750	78,350

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: Mark S. Hickey, State Railroad Coord. Phone: 465-3900
Division: Alaska Railroad Transfer Team Date: 3/15/84

Approved by Commissioner: R. J. Knapp Date: 3/15/84
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

STATE OF ALASKA 1984 LEGISLATIVE SESSION

FISCAL NOTE

Bill/Resolution No.: SB 352

Title: Alaska Railroad Corporation Act of 1984

BILL ANALYSIS

Overview:

This fiscal note is based upon the results of the Alaska Railroad Team's Alaska Railroad Acquisition Assessment, released in December 1983. That document provides a comprehensive analysis of the major issues concerning acquisition of the Alaska Railroad (ARR). It includes a thorough assessment of the financial exposure to the State from ensuring continued rail operations in accordance with the requirements of the Alaska Railroad Transfer Act of 1982 (ARTA).

The estimates presented in this fiscal note are derived from the "worst case" scenario of future railroad activity. Current indicators such as the continued uncertainty over the export coal contracts suggest use of this analysis as the most realistic forecast for determining actual fiscal impact. Please note that the acquisition cost of \$22.3 million for railroad purchase has been addressed in a separate fiscal note attached to the acquisition legislation.

While the data and forecasts used in both the Acquisition Assessment and this fiscal note reflect the input and work of the railroad and the United States Railway Association (USRA), the final estimates are based on independent analysis and downward adjustment by the Transfer Team. Our work includes such factors as removal of uncertain revenue increases, increased costs for compliance with state and local building codes, and additional adjustments for necessary capital rehabilitation.

This bill analysis is limited to providing explanations of the fiscal impact resulting from the proposed legislation. It should be noted that there exist policy conflicts between provisions of this legislation and the Sheffield Administration's Policy Statement of January 26, 1984.

Assumptions:

The FY 85 figures are based upon an assumption that actual railroad transfer will occur somewhere between November and January of that fiscal year. As a result, most of the estimates are merely prorated for a partial fiscal year ending in July 1985. However, there are certain one-time, start-up expenditures directly attributable to the actual railroad transfer which cause the sizeable shortfall during what is only a partial fiscal year.

Although a breakout of specific operating expenditures has been provided for FY 85 in order to provide the railroad operating entity a functioning program during its first year of operations, an actual budget structure has not been included to avoid prejudicing the new operating entity's prerogatives to formulate its own budget structure and subsequent submissions. Please note that the FY 85 submittal also contains the request for all funds needed by the Transfer Team and other state agencies to perform the duties resulting from passage of this legislation and acquisition of the railroad.

Although the current legislation places the Alaska Railroad within the Department of Commerce and Economic Development for purposes of the constitution, other sections of this bill anticipate removing it if a proposed constitutional amendment passes next November. Accordingly, this note does not address a specific "agency affected" to avoid a future conflict in this area.

Since the constitutional amendment cannot become effective until November if it passes, this note is predicated on an assumption that all funds for the corporation will be passed through by the respective line agency under which the corporation is located. Funds for all other state agencies will be passed on to the Transfer Team for further processing as appropriate.

Administrative costs incurred by the line agency under which the corporation is located should be minimal and will be covered as part of the corporation's overhead. Please note that all fiscal impact to state agencies resulting from this legislation have been coordinated by the Transfer Team and are reflected in this note.

All estimates are presented in constant 1985 dollars. An annual inflation factor of 6% has been used to convert the original 1983 constant dollar estimates in the Acquisition Assessment.

Operating Expenditures:

This estimate includes both general operating expenses and new expenditures resulting from the railroad transfer (i.e., additional costs due to potential loss of railroad gravel reserves under third-party claims). Included in the former category are costs for maintenance-of-way, maintenance of power and equipment, transportation services, communications, administration and overhead, marketing and real estate management. The latter category includes increased legal and overhead expenses, additional insurance and risk management contributions, fiscal impact to the Transfer Team and other state agencies because of railroad acquisition, and one-time, start-up costs for items such as the printing of new letterhead and the marking of personal property.

Although revenue is projected to increase during FY 87-89, costs during that period are not significantly larger than the first two years of operations due to the sizeable, one-time transfer related expenses immediately following transfer. These estimates are based on historical data provided by current railroad personnel and reflect anticipated operating expenditures needed to comply with the terms of ARTA.

Attachment A provides more details on the FY 85 submittal by object of expenditure. Some \$4 million of this estimate is to cover immediate expenditures resulting from actual transfer of the railroad. This includes the following:

- (1) \$1.750 million for the Alaska Railroad Transfer Team to perform its duties as outlined in Attachment B;
- (2) \$2 million for specific one-time, start-up costs to be incurred by the new entity for items such as the marking and inventorying of personal property, the printing of new stationery and payment warrants, additional legal costs, and certain corporation expenditures for the new Board of Directors;
- (3) \$200,000 in funds to conduct a final pre-transfer audit to establish the accuracy of balance sheets and the identification of accounting problem areas; and
- (4) \$80,000 in additional fiscal impact to the Department of Administration to ensure preservation of railroad archival records and additional labor relations work not budgeted for in the Transfer Team's FY 85 budget memo.

Another component of the FY 85 submittal includes \$270,000 in funds in direct response to the following requirements of the legislation:

- (1) \$200,000 to initiate the Special Report required in Section 9 on the feasibility of attracting private sector involvement in the railroad's operations;
- (2) \$35,000 to the Department of Natural Resources to respond to any state land request by the corporation under Section 42.40.360; and
- (3) \$35,000 to fund costs for the new railroad employees labor relations agency as provided in Section 42.40.780.

The remaining estimates in this area reflect the normal operating expenses by category for the part of FY 85 involving state operation of the railroad. These specific estimates have been prepared with the close cooperation of railroad administration and budgeting personnel. All expenditures for per diem and compensation of the Board of Directors have been included in the general estimates for the 100 and 200 categories.

Capital Expenditures:

The capital component of this fiscal note represents a combination of increased capital costs resulting from transfer and prorated expenditures for ongoing railroad operations. The analysis contained in Chapters 4 and 5 of the Acquisition Assessment serve as the basis for both of these estimates.

In addition, the results from the State's independent engineering condition assessment have been used to project an increased level of expenditure minimally acceptable to begin reversing deterioration of the railroad's physical plant, including the initiation of a systematic plan for replacing aged rolling stock. It is important to understand that engineering condition alone cannot be the basis for a projected level of sustained capital expenditure, but must be tempered by national trade-offs between long-term plant condition and available revenues.

The capital estimate of \$15.8 million includes a one-time expenditure of \$4.9 million to replace the railroad's working capital fund. ARTA establishes a process where little, if any, money will be transferred from the ARP's Revolving Fund because of pre-transfer federal claims and contingent liabilities that must be paid by the fund. As a result, an amount equal to about one month's worth of operating expenses (which is similar

to working capital requirements for other railroads) is needed to fund and maintain adequate working capital for the railroad after transfer.

Another capital expenditure resulting from railroad transfer is the initiation of compliance with Occupational Safety and Health Act (OSHA) requirements and state and local building codes. Approximately \$4.5 million per year has been set aside during the forecasted period to move toward compliance in these areas. Chapter 5.3 of the Acquisition Assessment provides more details regarding this requirement.

The remaining \$6.4 million of this estimate covers general railroad capital needs, prorated for the period of state ownership during FY 85. An additional \$7.85 million is projected for expenditure by the railroad for this program. Attachment C provides additional information regarding the capital improvement program to be performed during FY 85.

It should also be noted that based on a recent audit review of the ARR's financial statements, about \$4 million per year of capital expenditures could just as easily be categorized as operating costs (primarily maintenance-of-way expenditures) if generally accepted accounting principles are applied to the railroad. However, no adjustments have been made with our estimates to avoid creating greater confusion by conflicting with existing railroad procedures prior to a general system overhaul by the corporation upon transfer.

Revenue:

This estimate on a prorated basis represents projected FY 85 revenues from its freight, passenger and real property rental activities. The FY 85 revenue figure is based on a projected commodity mix fairly similar to the last two years of railroad operations. Attachment D contains some additional information from the ARR's 1983 Draft Annual Report regarding FY 82 and FY 83 operations.

These projections are based on information from the railroad and USRA, which were then adjusted downward by the Transfer Team to remove 50% of the net cash from anticipated revenue increases in export coal, interline and pipe traffic. If either of these movements were in fact to materialize in a significant way, it could sizeably reduce the need for general fund assistance during FY 87-89. Likewise, any major downswing from our projections would probably result in the need for even larger general fund assistance during those years.

Funding Source:

The "Other Funds" appearing on the fiscal note are railroad revenues.

Positions:

ARTA basically mandates a two-year period of full protection of current salaries and benefits for all employees who choose to transfer. What happens following that period becomes a matter for contractual negotiation between management and employees.

The figures presented in this part of the fiscal note are the actual number of employees in each category as of March 1, 1984. No estimate can be made of the actual number of those choosing to transfer, although it is anticipated that most employees will do so. In the case of temporary employees, the first number on this line is the actual number today, while the second estimate reflects the average number of temporary hires used in the summer for major maintenance work.

Summary:

The estimates provided in the attached fiscal note are primarily based on the Transfer Team's assessment of the likely fiscal impacts from state acquisition of the Alaska Railroad. It is important to reiterate that the acquisition cost of \$22.3 million has been addressed in a separate fiscal note attached to the acquisition legislation.

It is our view that the corporation's overall organization as currently envisioned in the proposed legislation will not have any appreciable impact immediately on the railroad's general financial condition. Beyond the increased cost for modifying the existing administrative and management systems during the first two or three years following state takeover, it is difficult to predict whether the proposed organizational arrangements in this legislation will generate cost efficiencies not enjoyed during federal ownership.

The philosophy in the current legislation is, to the extent possible, to foster a self-sustaining business orientation for railroad operations. This is consistent with the Transfer Team's analysis of the types of steps necessary to achieve a break-even position at some point during the first decade of state operations.

There is no specific mandate in this legislation for new extensions or any more services than those currently in existence. This should allow the railroad adequate time to reorganize and streamline its existing operations. In addition, although several specified planning responsibilities have been added to the railroad's duties, the long-term savings from performing these kinds of systematic assessments should more than compensate for any short-term costs resulting from performance of these efforts.

Attachment E is a ten year summary (FY 73-82) of the railroad financial operations during federal ownership. It should be noted that an additional \$66.2 million dollars in congressional appropriations was provided during this period to cover passenger expenses and certain capital needs.

ATTACHMENT A

Operating Budget - FY85

In Thousands (000) of Dollars

This operating budget is prorated for FY 85 except for the impacts to state agencies depicted in the 300 level. All amounts shown are in 1985 dollars. These estimates represent the total prorated FY 85 operating budget for the railroad following state acquisition. Projected revenues from the railroad's operations will serve as the main source of funds for these expenditures, with limited assistance from general fund appropriations.

<u>Category</u>	<u>Amount</u>	<u>Explanation</u>
100 Personal Services	\$24,300.0	This funding level is based upon current work force of 478 permanent full-time, 38 part-time and 64 temporary positions. Of this amount salary comprises \$19,950 and benefits comprise \$4,350. Also included in this estimate are the Board of Directors' compensation expenses.
200 Travel	300.0	This funding level is the estimate of travel funding needs, including the Board of Directors' travel expenses.
300 Contractual	4,800.0	This funding level includes coverage of the following areas: continuation of Transfer Team activities for FY 85 - \$1,750.0 (see Attachment B); Transfer Financial Audit - \$200.0; \$200.0 for initiation of the Special Report required in Section 9 of the bill; Department of Administration - \$80.0 for archives preservation and labor relations coordination; costs for the labor relations agency under Article 8 of the bill - \$35.0; Department of Natural Resources - \$35.0 for land designation activities under Article 5 of the bill. The remainder of these funds are for the railroad's general contractual needs resulting from capital improvement, operations and financial planning activities.

400 Supplies	5,200.0	This funding level is required for the day-to-day operations of the railroad, supporting all facets of operations from administration to maintenance of way.
500 Equipment	1,200.0	This item is the complement of the supply item also supporting day-to-day railroad operations.
700 Grants & Claims	1,500.0	This item provides for funds for the railroad's risk management expenses, payment of damage claims, workmen's compensation expenses and other money claims against the railroad. No grants are anticipated.
TOTAL:	<u>37,300.0</u>	

ALASKA RAILROAD TRANSFER PROJECT

FY 85 PROJECT BUDGET

The goal of the Alaska Railroad Transfer Team is to provide an orderly and informed decision-making process for possible transfer of the Alaska Railroad from federal ownership, thus ensuring continuation of essential rail services in Alaska. If a decision is reached to pursue state take-over of the railroad, then it is also the goal of the Alaska Railroad Transfer Team to organize and oversee a systematic transition from federal ownership.

This document discusses the major work components of the FY 85 budget submittal. The need to pursue some of these efforts is entirely contingent on a decision to acquire, while other work efforts are separate from that decision. Attachment A provides the FY 85 budget submittal as introduced by the Governor. Attachment B is the project budget for FY 84 and provides considerable detail regarding several work tasks, many of which are ongoing in 1985.

The following breakdown is structured on a component or agency basis, versus reiterating specific details regarding ongoing work tasks. As a result, some of this explanation should be read in conjunction with Attachment B in order to fully understand all of the scheduled work efforts.

Work Component #1 - Alaska Railroad Transfer Team Staff

As indicated in Attachment A, funding is needed to support four positions in the Office of the Commissioner, Department of Transportation and Public Facilities. These positions are as follows: a State Railroad Coordinator (Special Assistant II); a Planner IV; a Planner III; and a Correspondence Secretary III. These four individuals comprise the Transfer Team Staff with direct responsibility for performance and coordination of all team activities. This group reports directly to the Commissioner of DOT&PF in the performance of their duties. The following breakdown represents expenditures directly related to this area by object of expenditure.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Personal Services	4 Positions - DOT&PF	\$195,100
Travel	4 Positions - DOT&PF	66,000
Contractual	Printing/limited Professional Services	35,000
Supplies	Miscellaneous	<u>8,000</u>
	Total	\$304,100

Work Component #2 - Department of Natural Resources Assistance

An existing Reimbursable Services Agreement with the Department of Natural Resources will be continued during FY 85. Work efforts covered by this assistance include ongoing support activity by the Division of Technical Services for conveyance documents and related title review work. Additional support by DNR will be provided for coordination with the Bureau of Land Management's cadastral survey work and assistance from the Division of Land and Water Management to implement the railroad transfer. The following breakdown by object of expenditure presents the needed funding for these services.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Personal Services	4 Positions - DNR	\$191,900
Travel	4 Positions - DNR	20,000
Contractual	Miscellaneous	
	Professional Services	30,000
Supplies	Miscellaneous	8,100
	Total	\$250,000

Work Component #3 - Department of Labor Assistance

Specific assistance is still needed by 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. Although this was scheduled for performance during FY 84, insufficient funding required postponement of this work effort until FY 85. Scheduled funds during FY 84 for this effort were diverted to cover additional labor relations work by the Department of Administration and the use of an Engineer-in-Training position to assist with the engineering condition assessment. The following breakdown provides an estimate for this activity by object of expenditure.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Personal Services	2 Full-time - DOL 2 part-time	\$142,700
Travel	2 Full-time - DOL	7,300
Training	2 Full-time	5,200
Contractual	Miscellaneous Professional Services	39,800
Supplies	Miscellaneous	6,500
Equipment	Health Sampling Equipment/ Memory Typewriter	12,000
	Total	\$213,500

Work Component #4 - Department of Administration Assistance

Activity in the area will consist of continuing work efforts initiated during FY 84 explained under task #6 of Attachment B. Particular attention must be paid to the analysis of the five collective bargaining agreements, which will support the full scale initiation of the two-year renegotiation process in conjunction with the new entity established to operate the railroad. Another important work effort will be to conduct an orderly transition from federal to state ownership for all personnel matters and ensure that all of the specified requirements from the federal transfer legislation are properly met by the new organization established to operate the railroad. Other efforts include assistance with insurance and risk management needs. The following breakdown by object of expenditure presents the necessary funding for this area.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Personal Services	1 Full-time Position	\$105,000
	2 Part-time Positions	45,000
Travel	1 Full-time, 2 Part-time	105,000
Contractual	Liaison Assistance/	
	Miscellaneous	
	Professional Services	
Supplies	Miscellaneous	<u>2,400</u>
	Total	\$257,400

Work Component #5 - Department of Law Assistance

Assistance from the Department of Law is needed for several tasks to be performed by existing AG staff and retained special counsel. Included are the following work efforts: (1) legal work pertaining to the 3(e) (ANCSA) claims against railroad property by native village corporations, including ongoing negotiation and staff work to support the State's position during the adjudication process; (2) legal assistance for the preparation of transfer documents and attention to related land conveyance problems; (3) resulting from the response to various court actions by third parties because the railroad transfer; (4) ongoing legal assistance with issues involving regulation by the Interstate Commerce Commission (ICC); and (5) support of efforts relating to personnel/labor relation matters. The following breakdown by object of expenditure presents the needed funding for this area.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Personal Services	Staff Attorneys	\$180,000
Travel	Staff Attorneys	20,000
Contractual	Wickwire Lewis	150,000
	David Walsh	75,000
	David Rogers	75,000
	Total	\$500,000

Work Component #6 - ICC Rate Valuation/Capital Plan Activity

Work efforts under this component will consist of the following: (1) initiation of planning work necessary to file the appropriate valuation studies before the ICC for purposes of rate-making justification; and (2) performance of ongoing capital planning analysis. This second task will be a continuation of efforts performed under task #5 in Attachment B. It will be coordinated with the initiation of the ICC valuation studies to maximize generation of a data base useful to both efforts. Funding in this area is needed for contractual assistance, which will be directly managed by the Transfer Team Staff.

<u>Object of Expenditure</u>	<u>Description</u>	<u>Amount</u>
Contractual	Consulting Assistance	\$225,000
	Total	\$225,000

ALASKA RAILROAD TRANSFER PROJECT BUDGET

PROJECT BUDGET

The following depicts the project budget by work component and amount:

	<u>Amount</u>
(1) Alaska Railroad Transfer Team Staff	\$ 304,100
(2) Department of Natural Resources Assistance	250,000
(3) Department of Labor Assistance	213,500
(4) Department of Administration Assistance	257,400
(5) Department of Law Assistance	500,000
(6) ICC Rate Valuation/Capital Plan Activity	<u>225,000</u>
Project Total	\$1,750,000

ATTACHMENT C

Capital Improvement Program - FY85

In Thousands (000) of Dollars

This CIP is prorated for FY 85. All amounts shown are in 1985 dollars. These estimates represent costs to the State, and are only part of the ARR's total capital budget. Revenues from the ARR for capital improvements will be added to State funding.

<u>Item</u>	<u>Amount</u>	
Working Capital Fund	\$ 4,900	As with all businesses, the ARR will need working capital. It is estimated that one month's worth of operating expenses will be adequate working capital for the ARR.
OSHA/Code Compliance	\$ 4,500	As a federal agency, the ARR has not been subject to many health, safety, and building code standards that would otherwise apply. These codes will apply upon transfer, and initial surveys conducted by the State have been used to determine necessary compliance levels. See Appendix C of the Alaska Railroad Acquisition Assessment for more details.
Other Capital Improvements	\$ 6,400	These expenses represent the minimal expenditure necessary for the ARR to maintain current levels of service, while initiating efforts to reverse deterioration of physical plant condition. Component priorities have been selected using the findings of the State's independent condition assessment. As indicated in the attached supplement, most capital improvements are for track and roadbed, upgrade of certain cargo handling facilities, and motive power and equipment purchases.
TOTAL	<u>\$15,800</u>	

Supplement to Item #3, Attachment C

Track & Roadbed - \$6,185,000

Ties - Install 50,000 @ \$42.00 ea.	= \$2,100,000
Rail - Install 6 miles @ \$350,000 ea.	= \$2,100,000
Ballast - Install 85,000 yd ³ @ \$14 yd ³	= \$1,190,000
Other - (Turnouts, sledding, culverts, ditching)	= \$ 795,000

Bridges - \$883,000

Replace stringers, bents, and spans
Reset bearings, piles, and abutments

Tunnels - \$1,060,200

Line with multi-plate
Excavate rock fall areas

Docks - \$706,800

Preliminary work to rebuild barge slip #1 at Whittier

Communications - \$570,000

Complete microwave system
Remove pole lines
Acquire equipment

Motive Power & Equipment - \$4,845,000

Locomotives	= \$2,250,000
Upgrade Facilities	= \$1,845,000
Equipment	= \$ 750,000

Note: This totals \$14.25 million and is the ARR's overall FY 85 capital budget, of which \$6.4 million is covered under this fiscal note.

DRAFT

TABLE IX: BALANCE SHEET
SEPTEMBER 1982-83
(Thousand dollars)

CATEGORY	1983	1982
ASSETS:		
Current Assets:		
Cash (Note 8)	\$9,646	\$14,966
Trust and Deposit Funds (Note 9)	32	7
Accounts Receivable	14,195	13,105
Materials and Supplies (Note 10)	10,143	7,040
Prepaid Expenses	20	0
	<u>34,036</u>	<u>35,118</u>
Properties:		
Land (Note 11)	265	265
Buildings	12,943	12,921
Roadway Structures & Facilities	127,215	125,000
Equipment	57,895	49,864
Non-Operating Property	1,847	1,877
Total Properties	<u>200,265</u>	<u>189,927</u>
Less Accumulated Depreciation:	<u>60,516</u>	<u>57,678</u>
Properties - Net	139,749	132,249
Additions & Betterments in Progress (Note 12)	11,599	12,059
	<u>151,348</u>	<u>144,308</u>
Other Assets and Deferred Charges	2,526	3,029
Total Assets	<u>\$187,910</u>	<u>\$182,455</u>
LIABILITIES & PROPRIETARY INTEREST OF THE U.S. GOVERNMENT:		
Current Liabilities:		
Accounts Payable	\$4,721	\$3,416
Accrued Payrolls Payable	1,320	1,056
Trust and Deposit Funds (Note 9)	32	7
	<u>6,073</u>	<u>4,479</u>
Other Liabilities and Unadjusted Credits	2,209	3,152
Total Liabilities	<u>\$8,282</u>	<u>\$7,631</u>
Proprietary Interest (Note 13):		
Net Investment	200,621	192,995
Retained Earnings from July 1, 1954	(19,171)	(23,775)
Current Year Operating Results	2,824	9,500
Extraordinary Items (Note 6)	(5,646)	(4,154)
Total Proprietary Interest (Note 13)	<u>179,628</u>	<u>174,824</u>
Total Liabilities & Proprietary Interest	<u>\$187,910</u>	<u>\$182,455</u>

Notes follow Table XI

DRAFT

TABLE X: STATEMENT OF CHANGES IN FINANCIAL POSITION
 FISCAL YEARS 1982-83
 (Thousand dollars)

CATEGORY	1983	1982
Funds were provided by:		
Revenues and Other Receipts	\$56,438	\$58,699
Appropriations from Congress (Note 14)	<u>7,600</u>	<u>6,160</u>
Total Funds Provided	64,038	64,859
Funds were used for:		
Labor	35,579	33,221
Other	14,044	17,839
Capital Improvements & Replacements	<u>16,348</u>	<u>11,821</u>
Total Funds Used	65,971	62,291
Increase (Decrease) in Government Equity	(1,933)	1,978
Other Increases (Decreases):		
Undelivered Orders	(2,924)	3,983
Supplies and Materials	3,103	1,119
Properties	7,040	3,964
Other	<u>(482)</u>	<u>513</u>
Total, Other	6,737	9,579
Total Increase (Decrease) in Government Equity	<u>\$4,804</u>	<u>\$11,557</u>
Proprietary Interest:		
Beginning Balance	\$174,824	\$163,267
Increase (Decrease)	<u>4,804</u>	<u>11,557</u>
Ending Balance (Note 13)	\$179,628	\$174,824

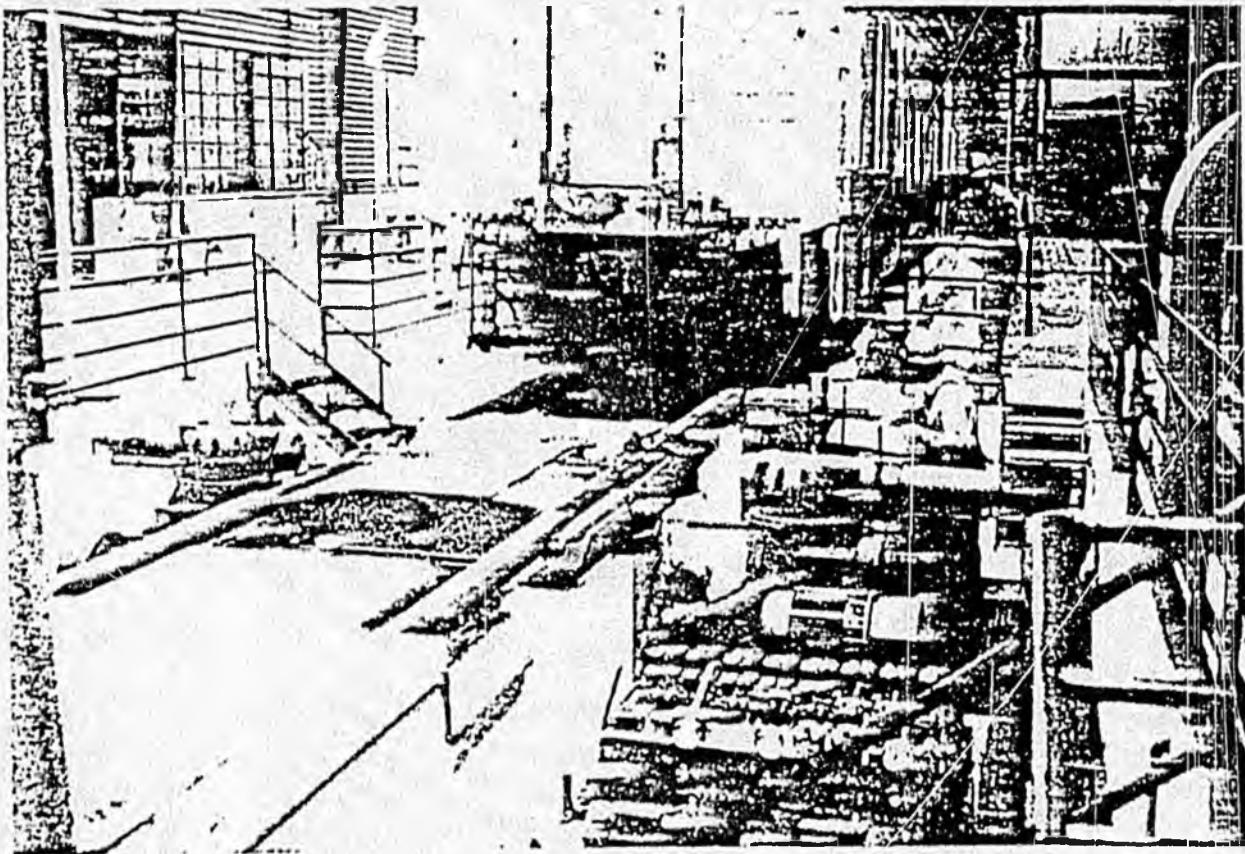
Notes follow Table XI

DRAFT

TABLE XI: FIVE-YEAR CONDENSED SUMMARY OF OPERATIONS
 FISCAL YEARS 1979-83
 (Thousand dollars)

CATEGORY	1983	1982	1981	1980	1979
REVENUES:					
Operating	\$52,397	\$55,445	\$40,782	\$26,737	\$23,200
Non-Operating (Note 16)	<u>3,697</u>	<u>3,352</u>	<u>3,159</u>	<u>2,155</u>	<u>2,081</u>
Total Revenues	\$56,094	\$58,797	\$43,941	\$28,892	\$25,181
EXPENSES:					
Operating	\$52,993	\$48,978	\$40,358	\$34,380	\$31,285
Non-Operating (Note 17)	<u>277</u>	<u>258</u>	<u>273</u>	<u>344</u>	<u>204</u>
Total Expenses	\$53,270	\$49,236	\$40,631	\$34,724	\$31,489
NET PROFIT (LOSS)	\$2,824	\$9,561	\$3,310	(\$5,832)	(\$6,308)
Less Extraordinary Items (Note 6)	<u>(\$5,646)</u>	<u>(\$4,154)</u>	<u>(\$204)</u>	<u>(\$692)</u>	<u>(\$319)</u>
Annual Retained Earnings	(\$2,822)	\$5,407	\$3,106	(\$6,524)	(\$6,627)
Expense/Revenue Ratio	94.97%	83.74%	92.47%	120.19%	125.05%

Notes follow Table XI



A modern wheel truing machine was installed in a newly constructed shop building in 1983.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

The Alaska Railroad uses the generally accepted principles, standards, and related requirements of governmental accounting as approved by the Comptroller General of the United States. Operations are conducted in a manner consistent with related commercial enterprises and, at the same time, in conformance with the requirements incumbent upon a Government agency.

As is the customary practice of the industry, the Railroad uses betterment and retirement accounting instead of depreciation accounting for roadbed and track. Under this method, prescribed by the Interstate Commerce Commission, the cost of replacing tracks and structures--less salvage recovered--is charged to the appropriate operating expense account and only the cost of betterments is capitalized. These capitalized items are not depreciated, but upon retirement of the tracks and structures, the entire capitalized amounts--less salvage recovered--are charged to expense.

The accounting system and related procedures disclose financial condition and operating results to provide full accountability of the Government's investment in the Railroad and to provide management the necessary data to carry out its responsibility in the most efficient and economical manner.

The Railroad is financed from a revolving fund.

2. REVENUES

Revenues from rail operations are included in income on an accrual basis upon the completion of service.

3. EXPENSES

Expenses are accrued or applied or both on a basis consistent with generally accepted accounting principles.

4. MAINTENANCE OF WAY AND STRUCTURES

Maintenance of way and structures include expenses incurred by engineering (\$9,207,000) and communications (\$652,000).

5. GENERAL AND ADMINISTRATION

General and administration accounts include expenses for headquarters and staff (\$1,370,000) and the administration department (\$4,485,000).

6. EXTRAORDINARY ITEMS

Extraordinary items include the loss on excess current inventories (\$23,000), deferred outlays (\$3,760,000), prior-year adjustments (\$697,000), and costs associated with the transfer evaluation (\$1,166,000).

7. DEPRECIATION

Depreciation is computed using the straightline method and is based on estimated service lives of depreciable properties, except for the railway track and structures, which are computed using the industry betterment method. Depreciation charges are determined by using the composite or group rates applicable to various classes of property.

The following is a list of depreciation charges in FY 1983:

	(Thousand dollars)
Mechanical - equipment	\$2,807
Engineering - buildings and structures	892
Transportation - docks	438
Communications	170
Non-operating	66
Other	<u>31</u>
Total	\$4,404

8. CASH

Cash refers to the fund balance with the U.S. Treasury, which is the net amount of cash receipts, e.g., revenues, proceeds from sales, and amounts of congressional appropriations, less disbursements.

9. TRUST AND DEPOSIT FUNDS

Trust and deposit funds include special deposits and other collections not covered by the revolving fund and cleared by disbursement or transfer, as appropriate. A contra account to this asset account is reflected in the liability section.

10. MATERIALS AND SUPPLIES

Inventories, consisting of replacement or repair parts for equipment and road property, construction materials, and fuel, are valued at average cost, including freight.

11. LAND

Land includes only property purchased by the Railroad from private owners and carried at acquisition cost. The Railroad owns over 38,000 acres withdrawn from the public domain at no cost; this land is not included in the financial records.

12. ADDITIONS AND BETTERMENTS IN PROGRESS

This is a control account for authorized capital projects during the period of construction or procurement. Upon completion of the capital project, the related costs are transferred into the appropriate fixed asset property account.

13. PROPRIETARY INTEREST OF THE U.S. GOVERNMENT

The proprietary interest shows the Federal Government's net interest in The Alaska Railroad. At the end of FY 1983, it is summarized as follows:

	(Thousand dollars)
Appropriation by Congress	\$259,496
Allotments from other agencies, sales of lots, etc.	1,724
Property transferred or donated (not public domain)	19,903
Earthquake losses	(16,738)
Deficits from operations and capital losses to 6/30/54	(63,764)
Retained earnings (7/1/54 to 9/30/82)	(18,171)
FY 1983 operating results	2,824
Extraordinary Items (Note 6)	<u>(5,646)</u>
 Total proprietary interest of the U.S. Government	 \$179,628

14. CONGRESSIONAL APPROPRIATIONS

Funds appropriated by Congress were obligated within the fiscal year, as shown below:

	(Million dollars)	
	<u>FY 83</u>	<u>FY 82</u>
Congressional appropriations received	\$7.60	\$6.16
Obligated during fiscal year	<u>\$7.60</u>	<u>\$6.16</u>
 Amount unobligated at end of fiscal year	 \$0.00	 \$0.00

15. OTHER OPERATING REVENUES

Other operating revenues include those revenues that were neither freight nor passenger. Individual accounts exceeding \$90,000 in FY 1983 were:

	(Thousand dollars)
Reimbursable services	\$2,036
Sale of non-invested property	1,301
Reimbursements - real estate, utilities, and equipment	541
Whittier shuttle - vehicles	533
Wharfage and handling	148
Mail	145
Switching	116
Equipment rentals	90
All other	<u>395</u>
 Total	 \$5,305

16. NON-OPERATING REVENUES

Non-operating revenues in FY 1983 were:

(Thousand dollars)

Miscellaneous rentals	\$3,466
Interest earned	144
All other	<u>87</u>
Total	\$3,697

17. NON-OPERATING EXPENSES

Non-operating expenses in FY 1983 were:

(Thousand dollars)

Buildings	\$199
Depreciation	60
Equipment	10
All Other	<u>2</u>
Total	\$277



At a re-enactment of the original golden spike ceremony Governor Sheffield wields the same maul used by President Harding in 1923.

FREIGHT

Table II shows freight revenue tons and freight revenue dollars by major classification of commodities for fiscal years 1983 and 1982. Total tonnage for fiscal year 1983 exceeded fiscal year 1982 by 34 percent. For the third consecutive year sand and gravel led all other commodities in percentage gains. The primary cause of the 50-percent escalation was a vigorous private and business construction year plus increases in public works projects in Anchorage. The drop in movements of iron and steel products from Seward to Fairbanks destined for the North Slope from its peak in 1982 accounted for the return of manufacturers and miscellaneous products to a lower level, but still above FY 1981.

TABLE II: FREIGHT TRAFFIC BY COMMODITY

COMMODITY	1983 FY	1982 FY	% CHANGE
REVENUE TONS CARRIED (000's)			
Sand and Gravel	4,397.7	2,753.8	+ 59.7
Coal	625.8	653.6	- 4.2
Petroleum, Oil, Lubricants	462.2	439.4	+ 5.2
Manufacturers and Misc.	323.1	449.9	- 28.2
TOFC/COFC (Piggyback)	98.0	122.4	- 19.9
Products of Forests	105.1	77.0	+ 36.5
Products of Agriculture	<u>6.1</u>	<u>6.8</u>	- 10.3
Total Tonnage	6,018.0	4,502.9	+ 33.7
REVENUE DOLLARS (000's)			
Sand & Gravel	6,647	4,556	+ 45.9
Coal	5,007	5,072	- 1.3
Petroleum, Oil, Lubricants	9,723	8,376	+ 16.1
Manufacturers and Misc.	15,704	22,512	- 30.2
TOFC/COFC (Piggyback)	3,625	4,915	- 26.2
Products of Forests	2,955	2,301	+ 28.4
Products of Agriculture	<u>126</u>	<u>145</u>	- 13.1
Total Revenue	43,787	47,871	- 8.5

PASSENGER

Aggressive and expanded advertising and marketing resulted in an overall increase of 21 percent in passenger ridership as shown in Table II. The marketing efforts included active promotion of tour packages which attracted, for the first time, nine cruise ships to stop at the Railroad's Port of Whittier, and provided over 14,000 of the special train riders.

TABLE III: PASSENGERS HANDLED

SERVICE	1983 FY	1982 FY	% CHANGE
Anchorage-Denali-Fairbanks	61,887	60,810	+ 1.8
Anchorage-Portage-Whittier (Shuttle)	117,740	95,449	+ 23.4
Specials:	<u>31,732</u>	<u>18,857</u>	+ 68.5
Total Passengers Handled	211,359	175,116	+ 20.7

The number of vehicles carried on the Anchorage-Portage-Whittier (shuttle) service was 19,516, up 10 percent over FY 1982.

TARRIFS

The major rate adjustments made in FY 1983 are reflected in Table IV:

TABLE IV: FY 1983 TARIFF CHANGES

TYPE	DATE	% INCREASE
Interline	1-17-83	5
Intrastate:		
General Commodities	2-12-82	5
Gravel	4-19-83	3
Passenger:		
Anchorage - Fairbanks	1-01-83	10
Whittier Shuttle	7-01-83	10

Attachment E
3/14/84

ALASKA RAILROAD OPERATIONS SUMMARY
(Dollar Amounts in Thousands)
Fiscal Years 1973-1982*

	FY 1973	FY 1974	FY 1975	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981	FY 1982
Operating Revenue	\$16,996	\$20,783	\$41,416	\$52,517	\$33,376	\$27,440	\$23,100	\$26,737	\$40,782	\$55,445
Non-Operating Revenue	681	703	871	1,161	1,646	1,651	2,081	2,155	3,159	3,352
<u>Total Revenues</u>	<u>17,677</u>	<u>21,486</u>	<u>42,287</u>	<u>53,678</u>	<u>35,022</u>	<u>29,091</u>	<u>25,181</u>	<u>28,892</u>	<u>43,941</u>	<u>58,797</u>
Operating Expenses	\$20,057	\$22,389	\$35,883	\$49,387	\$35,703	\$33,301	\$31,285	\$34,380	\$40,358	\$48,978
Non-Operating Expenses	153	158	272	191	255	213	204	344	273	258
<u>Total Expenses</u>	<u>20,210</u>	<u>22,547</u>	<u>36,155</u>	<u>49,578</u>	<u>35,958</u>	<u>33,514</u>	<u>31,489</u>	<u>34,724</u>	<u>40,631</u>	<u>49,236</u>
Gain (Loss)										
Before depreciation - cash flow (\$ 7)	\$ 7	\$ 1,300	\$ 8,513	\$ 6,628	\$ 2,186	(\$ 1,227)	(\$ 3,089)	(\$ 2,306)	\$ 6,567	\$13,274
After depreciation	(\$ 2,533)	(\$ 1,061)	\$ 6,132	\$ 4,100	(\$ 936)	(\$ 4,423)	(\$ 6,308)	(\$ 2,832)	\$ 3,310	\$ 9,561
<u>Capital Expenditures</u>	<u>\$ 1,260</u>	<u>\$ 313</u>	<u>\$ 2,772</u>	<u>\$ 8,602</u>	<u>\$ 8,316</u>	<u>\$ 5,823</u>	<u>\$ 8,181</u>	<u>\$ 6,895</u>	<u>\$11,409</u>	<u>\$11,821</u>
<u>Revenue Tons of Major Commodities</u> (in thousands of tons)										
Sand and Gravel	2	1	1	104	700	727	637	396	1,797	2,754
Bulk Petroleum	363	414	557	624	532	374	220	252	379	439
Coal	565	563	584	607	550	593	524	590	653	654
Iron & Steel Pipe & Fittings	11	15	107	174	16	28	33	37	83	165
Piggyback	48	57	95	114	100	100	89	92	113	122
Forest Products	49	56	120	124	82	68	55	109	101	77
Manufactured Iron & Steel	18	37	60	89	19	12	12	10	8	19
Cement	15	14	25	32	42	33	33	32	43	51
Machinery and Machines	12	21	60	31	47	47	24	16	28	24
Hfrs. & Misc. NOS	32	34	44	29	17	13	25	26	11	AA
Other	216	165	209	260	200	183	156	181	146	198
<u>TOTAL</u>	<u>1,331</u>	<u>1,337</u>	<u>1,862</u>	<u>2,188</u>	<u>2,305</u>	<u>2,178</u>	<u>1,808</u>	<u>1,741</u>	<u>3,362</u>	<u>4,503</u>
<u>Passengers</u>	<u>74,000</u>	<u>84,000</u>	<u>81,000</u>	<u>84,500</u>	<u>103,632</u>	<u>126,277</u>	<u>151,045</u>	<u>150,678</u>	<u>161,068</u>	<u>175,116</u>

* The Federal Government changed its fiscal year from July 1-June 30 to October 1-September 30 beginning in FY 1977, resulting in a transition quarter in 1976. To avoid a 15-month fiscal year for comparisons, these statistics use July 1, 1975 through June 30, 1976 as FY 1976, and October 1, 1976 through September 30, 1977 as FY 1977, dropping the transition quarter.

AAHfrs. & Misc. NOS. (not otherwise specified) discontinued, now included in specific categories.

1
2
3 IN THE SENATE

SENATE TRANSPORTATION
COMMITTEE SUBSTITUTE

4
5 SENATE BILL NO. 352

6 IN THE LEGISLATURE OF THE STATE OF ALASKA

7 THIRTEENTH LEGISLATURE -- SECOND SESSION

8 A BILL

9 For an Act entitled: "An Act establishing the Alaska Railroad
10 Corporation to manage and operate the Alaska
11 Railroad; and providing for an effective date."

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

13 * Section 1. LEGISLATIVE FINDINGS AND PURPOSE.

14 (a) The Legislature finds that

15 (1) It is the policy of the state to

16 (A) provide safe, economical, and efficient transportation
17 to residents, businesses, visitors, and military installations in the
18 state;

19 (B) foster and promote the long-term economic growth and
20 development of the state;

21 (C) develop and implement plans for a transportation
22 network;

23 (D) foster and promote the development of the state's land
24 and natural resources;

25 (2) the Alaska Railroad is an essential part of the state
26 transportation network that may, unless preserved by state action,
27 cease to be a transportation option in Alaska;

1 (3) the federal government has offered to the state the option
2 of taking over the Alaska Railroad to ensure its continued existence;

3 (4) it is in the state's best interest to accept the railroad
4 under the terms and conditions offered by the United States
5 government;

6 (b) It is the purpose of this Act to create a viable
7 economic entity with the powers and duties necessary to operate and
8 manage the Alaska Railroad pending eventual transfer to the private
9 sector for ownership or operation or both consistent with 45 U.S.C.
10 1201-1214 (Alaska Railroad Transfer Act of 1982). It is the purpose
11 of the legislature to

12 (1) provide for the level of service that best satisfies the
13 needs of the people of the state consistent with the other findings
14 and policies of this section.

15 (2) create a public corporation with the powers, duties, and
16 functions needed to operate the Alaska Railroad and manage its rail,
17 industrial, port and other properties in the best interest of the
18 people of the state by insuring that the corporation will

19 (A) be exclusively responsible for the management of the
20 financial and legal obligations of the Alaska Railroad;

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

1 (C) have the ability to raise capital by issuing
2 obligations exempt from federal and state taxation;

3 (D) carry out its responsibilities on a self-sustaining
4 basis;

5 (E) provide the best possible combination of types and
6 levels of safe, efficient, and economical transportation to meet the
7 overall needs of the state, supported when necessary by state
8 investment;

9 (F) provide for the prudent operation of the railroad
10 according to sound business management practices; and

11 (G) preserve the integrity of the railroad utility corridor
12 for transportation, communication, and transmission purposes.

13 (3) insure that borrowing by the corporation does not directly
14 or indirectly endanger the state's own borrowing capacity.

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

16 CHAPTER 40. ALASKA RAILROAD CORPORATION.

17 ARTICLE 1. ESTABLISHMENT AND ORGANIZATION.

18 Sec. 42.40.010. ESTABLISHMENT OF THE CORPORATION. There is
19 established the Alaska Railroad Corporation. The corporation is a
20 public corporation and for the purposes of art. III, sec. 22, Con-
21 stitution of the State of Alaska, is an instrumentality of the state
22 within the Department of Commerce and Economic Development. The
23 corporation has a legal existence independent of and separate from the
24 state. The exercise by the corporation of the powers provided in this
25 chapter is considered an essential government function of the state.

26 Sec. 42.40.020. BOARD OF DIRECTORS. (a) The powers of the
27 corporation are vested in the board of directors. The board consists
28 of the commissioner of Commerce and Economic Development and six
29 voting members appointed by the Governor. These six members

1 must be residents of and registered voters in the state except
2 as provided in (b) and (c) of this section. No more than two of these
3 members may be from any one of the four judicial districts in the
4 state. Two of the voting members must have at least five years
5 experience as owners or managers of a business in the state. Except
6 for the commissioner of Commerce and Economic Development, a voting
7 member may not be a state officer or employee.

8 (b) One person may be appointed by the governor to be a voting
9 member of the board, if, at the time of appointment, the person has a
10 least 10 years of experience in management of railroads.

11 (c) Unless prohibited by law, one voting member shall be or have
12 been an executive official of an American railroad that is not now or
13 was never a connecting carrier* of the Alaska railroad.

14 *(d) In addition to the voting members, the following nonvoting
15 members shall serve on the board:

16 (1) an employee of the corporation appointed by the governor
17 to represent the employees;

18 (2) the chief executive officer of the corporation.

19 (e) The voting members of the board shall be confirmed by a
20 majority of the membership of the legislature in joint session. A
21 member appointed by the governor has the full powers and responsibilities
22 of a confirmed board member unless and until the member has been
23 rejected by the legislature.

24 (f) The board shall elect from its membership a chairperson and
25 vice-chairperson and prescribe their specific duties by rule.

26
27 *Problem - future analysis
28
29

1 (g) The board shall appoint a secretary and prescribe the spe-
2 cific duties of the secretary.

3 (h) The chairperson shall call meetings of the board at least
4 once every three months. The chairperson may call other meetings of
5 the board as the chairperson considers necessary. The chairperson
6 shall preside at meetings of the board.

7 Sec. 42.40.030. TERM OF OFFICE; REMOVAL. Except for the
8 commissioner of Commerce and Economic Development, the voting members
9 of the board serve for staggered terms of five years each, and serve
10 at the pleasure of the governor during their terms.

11 Sec. 42.40.040. VACANCIES. (a) A vacancy on the board is
12 filled by appointment by the governor, and the appointment must be
13 confirmed by the legislature in joint session. A member selected to
14 fill a vacancy holds office for the balance of the term for which the
15 member's predecessor is appointed.

16 (b) A vacancy on the board does not impair the authority of
17 a quorum of members to exercise the powers and perform the duties of the
18 board.

19 (c) A member whose term has expired shall serve until a succes-
20 sor has been appointed.

21 Sec. 42.40.050. COMPENSATION AND EXPENSES. (a) An appointed
22 member of the board is entitled to compensation at a rate of \$250 for
23 each day the member is engaged in the actual performance of duties as
24 a member of the board. The board may provide by rule for compensation
25 for partial days during which a member is engaged in the actual
26 performance of duties.

27 (b) In addition to compensation under (a) of this section, an
28
29

1 appointed member of the board is entitled to per diem and travel
2 expenses authorized by law for state boards and commissions.

3 Sec. 42.40.060. QUORUM. Four voting members of the board
4 constitute a quorum for the transaction of business.

5 Sec. 42.40.070. VOTING. Four affirmative votes are required for
6 board action. The board shall provide by rule for the manner of
7 voting, except that the board may not provide for voting by proxy.
8 The rules may provide for voting and conferring by means of telecommu-
9 nication devices.

10 ARTICLE 2. MANAGEMENT.

11 Sec. 42.40.090. MANAGEMENT BY THE BOARD. The board is responsible
12 for the management of the corporation but shall delegate certain
13 powers and duties to the chief executive officer in accordance with AS
14 42.40.110. In carrying out its responsibilities under this section
15 the board shall, subject to AS 42.40.110,

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

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

21 (3) Generally manage the corporation on a self-sustaining
22 basis;

23 (4) apply to the legislature for a subsidy if it is
24 required to maintain a service which is not otherwise self-sustaining;

25 (5) provide for safe, efficient, and economical
26 transportation to meet the overall needs of the state;

27 (6) raise needed capital by issuing obligations of the
28 corporation while insuring that borrowing by the corporation does not
29

1 directly or indirectly endanger the state's own borrowing capacity.

2 (7) The board shall review all public and private land
3 disposals proposals in planning for future development or expansion.

4 Sec. 42.40.100. EXECUTIVE OFFICERS. (a) The board shall
5 appoint the chief executive officer of the corporation subject to the
6 approval by the Governor. The chief executive officer serves at the
7 pleasure of the board. The board shall fix compensation for the chief
8 executive officer.

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

13 Sec. 42.40.110. DELEGATION. (a) The board shall by rule
14 delegate powers and duties necessary and appropriate for the
15 management of the daily affairs and operations of the corporation to
16 the chief executive officer, subject to a requirement of board
17 concurrence or authorization imposed by the rules.

18 (b) Within 60 days of its establishment, the board shall by rule
19 delegate the following activities of the corporation to the chief
20 executive officer or other executive officers designated by the board:

21 (1) leasing, granting easements in, issuing permits for the
22 use of, or conveying other interests that do not constitute a transfer
23 of the corporation's entire interest in real property of the
24 corporation;

25 (2) establishing specific rates, tariffs, divisions, and
26 contract rate agreements;

27 (3) making routine changes in service levels; and

28 (4) performing procurement activities.

1 (c) Specific board authorization or concurrence is required for
2 the following:

3 (1) transferring the corporation's entire interest in real
4 property;

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

6 (3) mortgaging or pledging corporation assets;

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

9 (5) acting as a surety or guarantor;

10 (6) adopting a long-range expansion and capital improvement
11 plan;

12 (7) certifying annual reports;

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

16 (9) expanding or reducing services in a major way;

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

20 (11) selecting independent auditors and accountants;

21 (12) the exercise of the power of eminent domain;

22 (13) collective bargaining agreements as provided by
23 42.40.700.

24 ARTICLE 3. ADMINISTRATIVE PROVISIONS.

25 Sec. 42.40.200. PUBLIC BOARD MEETINGS. (a) The meetings of the
26 board are public except executive sessions. The question of holding

1 an executive session to discuss matters that come within the
2 exceptions contained in (b) and (c) of this section shall be
3 determined by a majority vote of the body. No subjects may be
4 considered at the executive session except those mentioned in the
5 motion calling for the executive session unless auxiliary to the main
6 question. No action may be taken at the executive session.

7 (b) The following excepted subjects may be discussed in an
8 executive session:

9 (1) matters, the immediate knowledge of which would clearly
10 have an adverse effect upon the finances of the Alaska Railroad;

11 (2) subjects that tend to prejudice the the reputation and
12 character of any person, provided the person may request a public
13 discussion;

14 (3) matters which by law, municipal charter, or ordinance
15 are required to be confidential.

16 (c) The board may consider in executive session matters that
17 pertain to personnel, the corporation's legal position, land
18 acquisition or disposal, or proprietary information, as defined in a
19 manner consistent with the standards and practices of the United
20 States Interstate Commerce Commission for protection of information
21 associated with specific shippers, divisions, and contract rate
22 agreements.

23 Sec 42.40.220. MINUTES AND NOTICE OF MEETINGS. The board shall
24 keep minutes of each meeting. Reasonable notice of the meetings shall
25 be provided to the public.

1 **Sec. 42.40.230. RULES. The board shall establish a procedure
2 for adopting rules to carry out its functions and the purposes of this
3 chapter. The rules shall include a procedure for the adoption of
4 emergency rules when the adoption of an emergency rule is essential to
5 continue or to reinstate the orderly operation of the corporation's
6 facilities or program.

7 Sec. 42.40.240. PUBLIC DISCLOSURE OF INFORMATION. (a) Except
8 as provided by rule of the corporation under (b) of this section
9 information in the possession of the corporation is public and is open
10 to public inspection at reasonable times.

11 (b) The corporation may by rule designate and withhold public
12 disclosure of matters of a nonpublic, privileged, or proprietary
13 nature. Those matters include personnel records, communications with
14 and work product of counsel consistent with the standards and
15 practices of the United States Interstate Commerce Commission, and
16 information associated with specific shippers, divisions, and contract
17 rate agreements.

18 Sec. 42.40.260. ANNUAL REPORT. Within 90 days following
19 the end of the fiscal year of the railroad the board shall direct
20 preparation of, certify and distribute to the governor and to the
21 legislature a report describing the operations and financial condition
22 of the corporation during the preceding fiscal year. This report
23 shall include a breakdown of a service's real costs and income in each
24 category of railroad operations.

25
26 **To be revised to include notice of adoption of rules as required by
27 Alaska Housing Finance or Permanent Fund Corporation.
28
29
30

*State
Language*

1 Sec. 42.40.230. Rules. (a) The board shall establish in its bylaws
2 a procedure for adopting rules to carry out its functions and the purposes of
3 this chapter.

4 (1) The corporation shall make available to members of the public
5 copies of the rules adopted under this section.

6 (2) Within 45 days after adoption, the chairman of th board shall
7 submit a rule adopted under this section to the chairman of the Administrative
8 Regulation Review Committee under AS 24.20.400 - 24.20.460.

9 (b) Except as provided in (c) of this section, at least 15 days before the
10 adoption, amendment, or repeal of a rule, the board shall give public notice of
11 the proposed action by publishing the notice in at least three newspapers of
12 general circulation in the state and by mailing a copy of the notice to every
13 person who has filed a request for notice of proposes rules with the board or
14 the corporation. The public notice must include a statement of the time, place,
15 and nature of the proceedings for the adoption, amendment, or repeal of the rule
16 and must include and informative summary of the proposed subject of the rule.
17 On the date and at the time and place designated in the notice, the board shall
18 give each interested person or his authorized representative , or both, the
19 opportunity to present statements, arguments or contentions in writing, and
20 shall give members of the public an opportunity to present statements, argu-
21 ments, or contentions in writing, and shall give members of the public an
22 opportunity to present oral statements, arguments, or contentions for a total
23 period of at least one hour. The board shall consider all relevant matter
24 presented to it before adopting, amending, or repealing a rule which is adopted,
25 or its amendment or repeal, may vary in content from the informative summary
26
27
28
29

1 specified in this subsection if the subject matter of the rule, or its amendment
2 or repeal, remains the same and the original notice was written so as to assure
3 that members of the public are reasonably notified of the proposed subject of
4 the board's action in order for them to determine whether their interests could
5 be affected by the board's action on that subject.

6 (c) The board shall in its bylaws establish a procedure for adoption of
7 emergency rules when the adoption of an emergency rule is essential to continue
8 or to reinstate the orderly operation of the corporation's facilities or pro-
9 grams. The requirements of (b) of this section do not apply to the initial
10 adoption of an emergency regulation; however, upon adoption of an emergency
11 regulation, the board shall, within 10 days after adoption, give notice of the
12 adoption in accordance with (b) of this section. No emergency regulation
13 adopted under this subsection remains in effect more than 120 days unless the
14 board complies with (b) of this section during the 120-day period.

15 (d) A rule adopted under this section becomes effective immediately upon
16 its adoption by the board, unless otherwise specifically provided by order of
17 the adoption.
18
19
20
21
22
23
24
25
26
27
28
29

1 Sec. 42.40.270. ANNUAL AUDIT. The board shall have the finan
2 cial records of the corporation audited annually by an independen
3 certified public accountant experienced in railroad accounting. Th
4 corporation shall make all of its financial records available to a:
5 auditor appointed by the governor or to the legislative audit divisio:
6 for examination. Disclosure to the public by the auditor o
7 legislative audit division of this information is subject to
8 AS 42.40.240 and rules implementing that section.

9 Sec. 42.40.280. PERFORMANCE AUDIT. On a yearly basis the board
10 shall have a performance audit conducted by a recognized railroad
11 management expert on all aspects of the Alaska Railroad operations.

12 ARTICLE 4. POWERS AND DUTIES.

13 Sec. 42.40.300. GENERAL POWERS. In addition to the exercise of
14 other powers authorized by law, the corporation may

- 15 (1) adopt a seal;
- 16 (2) adopt rules;
- 17 (3) adopt bylaws governing the business of the corporation;
- 18 (4) sue and be sued;
- 19 (5) appoint trustees and agents of the corporation and
20 prescribe their powers and duties;
- 21 (6) hire legal counsel to represent the corporation;
- 22 (7) make contracts and execute instruments necessary or
23 convenient in the exercise of its powers and duties;
- 24 (8) acquire by purchase, lease, bequest, devise, gift,
25 exchange, the satisfaction of debts, the foreclosure of mortgages, or
26 otherwise, real or personal property, rights, ~~rights-of-way~~, fran-
27 chises, easements, and other interest in land, including land lying
28

1 under water and appropriation of water rights that are located in the
2 state, taking title to the property in the name of the corporation;

3 (9) acquire property by eminent domain in accordance with
4 AS 42.40.430;

5 (10) hold, maintain, use, operate, lease, exchange, donate,
6 improve, convey, alienate, dispose of, or transfer any real or person-
7 al property including facilities and equipment in accordance with the
8 provisions of this Act.

9 (11) contract with and accept transfers, gifts, grants or
10 loans of funds or property from the United States and the state or its
11 political subdivisions, subject to the provisions of federal, state,
12 or local programs;

13 (12) undertake and provide for the management, operation,
14 maintenance, use, and control of all of the properties of the corpo-
15 ration including, the tracks, equipment and other property transferred
16 to it by the federal government or by any person;

17 (13) recommend to the legislature and the governor any tax,
18 financing, or financial arrangement the corporation considers appro-
19 priate for expansion or extension and operation of the Alaska Rail-
20 road;

21 (14) maintain offices and facilities at places it desig-
22 nates;

23 (15) apply to the appropriate agencies of the state, the
24 United States, and a foreign country or other proper agencies for the
25 permits, licenses, or approvals necessary to construct, maintain, and
26 operate railroad transportation services, and to obtain, hold, and
27 reuse the licenses and permits in the same manner as other operating
28 units or persons;

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

4 (17) determine the routes, schedules, and types of service
5 to be provided by the Alaska Railroad;

6 (18) enter into contracts, leases, and other agreements with
7 connecting carriers, shippers, and other persons concerning the
8 services, activities, operations, properties and facilities of the
9 railroad, including contracts, leases and other agreements that
10 contain provisions intended to preserve and expand the railroad's
11 traffic base;

12 (19) plan for and undertake expansion of the railroad and
13 railroad activities, including extension of the Alaska Railroad's rail
14 system, and contract with other modes of transportation service con-
15 necting to the railroad's rail services;

16 (20) adopt rules that are designed to safeguard property
17 owned, managed, or transported by the corporation and to protect
18 employees and persons using the corporation's property or services;

19 (21) hire and discharge railroad personnel and determine
20 benefits and other terms and conditions of employment established in
21 accordance with obligations imposed by 45 U.S.C. 1201-1214 (Alaska
22 Railroad Transfer Act of 1982);

23 (22) assume and satisfy liabilities of the United States or
24 its agencies as provided by the federal transfer legislation and the
25 closing report or its substantive equivalent as accepted by the legis-
26 lature;

1 (23) maintain a security force to enforce state law and the
2 corporations rules with respect to violations that occur on or to
3 property owned, managed or transported by the corporation;

4 (24) borrow money and issue its bonds or notes and provide
5 for and secure their payment, provide for the rights of their holders
6 and purchase, hold, or dispose of its bonds or notes;

7 (25) secure the payment of its obligations by pledge or
8 mortgage or other lien on its contracts, revenues, income, or proper-
9 ty;

10 (26) consent to the modification of the rate of interest,
11 time of payment of an installment of principal or interest, or other
12 term of a loan, contract, or agreement to which the corporation is a
13 party;

14 (27) include in any borrowing the amounts necessary to
15 establish reasonable reserves and pay financing charges and interest
16 on the obligations for a reasonable period after which the corporation
17 estimates funds will be otherwise available to pay the interest,
18 consultant, advisory, and legal fees, and other expenses necessary or
19 incident to borrowing;

20 (28) purchase the corporation's bonds at a price not more
21 than the principal amount of them plus interest; and

22 (29) cancel bonds purchased under (28) of this section.

23 (30) do all things necessary, convenient or desirable to
24 carry out the powers and duties expressly granted or necessarily
25 implied in this chapter or under other laws of the state or the laws
26 and regulations of the federal government.

1 **Sec. 42.40.310. LONG-RANGE EXPANSION AND CAPITAL IMPROVEM
2 PLANS. (a) The corporation shall prepare and the board shall adop
3 long-range expansion plan and a capital improvement plan. The lo
4 range expansion plan shall delineate the manner in which the corpor
5 tion intends to accomplish the purposes of this chapter during each
6 the five years after the plan is adopted. The capital improve
7 plan shall present and explain the corporation's anticipated capit
8 improvements for each of the five years after the plan is adopted.

9 (b) The board shall annually review and update the plans r
10 quired under (a) of this section. The board may not contract for th
11 preparation or revision of either the long-range expansion plan or th
12 capital improvement plan, but shall require their preparation an
13 revision by employees of the corporation.

14 (c) The board shall provide copies of its updated plans to th
15 governor and the legislature by December 1 of each year.

16 Sec. 42.40.320. USE OF CORPORATION ASSETS. (a) The corporatio
17 shall apply all money, property, other assets, and credit of the
18 corporation toward activities authorized by this chapter. The corpo
19 ration may not issue shares of stock, pay dividends, make private
20 distributions of assets, make loans to board members or employees, or
21 engage in business for private benefit. The use of money, property,
22 other assets, or credit of the corporation for purposes not authorize
23 by law by persons having the possession or control of it is prohibi
24 ted.

25 (b) Notwithstanding the provisions of this section, the corpo
26 ration may

27 staff language for a two year program plan.