

ALASKA LEGISLATIVE COMMITTEE ON TRANSPORTATION

3179 ST AK RAILROAD SYMPOSIUM - SB 7

THE NEW ALASKA RAILROAD

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

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

- The railroad must be allowed to be fully competitive.

- It must be organized as an independent corporation.

- The cost of transferring the railroad to the state must be recognized and funded by the state rather than the railroad.

**FULLY
COMPETITIVE**

**INDEPENDENT
CORPORATION**

**TRANSFER
COST FUNDED**

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

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

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

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

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

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

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

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

A successful railroad will become attractive to private industry.



**FULLY
COMPETITIVE**

THE RAILROAD MUST BE FULLY COMPETITIVE

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

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

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

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

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

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

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

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

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

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

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

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

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

THE RAILROAD MUST BE AN INDEPENDENT CORPORATION

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

1. That the organizational format meet the requirements and restrictions of the federal transfer legislation.
2. That the format support the railroad's potential to be self-sustaining.

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

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

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

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

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

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

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

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

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

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

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

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

Management must be isolated from undue political pressure.

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

RECOMMENDATIONS FOR THE ALASKA RAILROAD CORPORATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

COST OF TRANSFER MUST BE FUNDED BY THE STATE

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

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

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

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

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

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

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

**TRANSFER
COST FUNDED**

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

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

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

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

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

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

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

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

Resolution of the pension liability issue was critical to purchase.

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

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

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

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

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

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

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

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

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

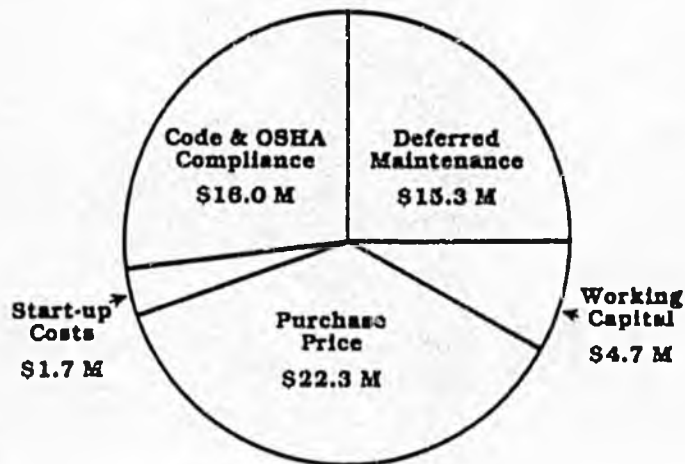
In determining whether a goal of financial self-sufficiency was possible, the committee found that the more conventional financial statement approach in analyzing profit and loss analysis fails in two respects when examining the railroad's financial statements.

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

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

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

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



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

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

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

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

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

THE FUTURE OF THE ALASKA RAILROAD

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

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

What about that future?

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

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

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

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

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

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

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

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

These questions do not need to be solved immediately.

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

APPENDIX

THE TRANSFER PACKAGE

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

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

THE ALASKA RAILROAD TRANSFER ACT (ARTA):

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

APPENDIX

ALASKA RAILROAD

PRO FORMA CASH FLOW ADJUSTMENTS

(1983 \$000)

	(1) FY 84	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
Adjusted Transfer Team Cash ("Worst Case")	(19267)	(11315)	(8830)	(5366)	(3048)	(66)	82	341	245	248
Pensions (2)	3165	3044	2933	2830	2740	2651	2558	2468	2374	2285
Cash Adjusted for Pension Issue	<u>(16102)</u>	<u>(8271)</u>	<u>(5891)</u>	<u>(2536)</u>	<u>(308)</u>	<u>2585</u>	<u>2640</u>	<u>2809</u>	<u>2619</u>	<u>2533</u>
State Adjustment Reversals:										
CODE/OSHA Compliance	1200	1200	1200	1200	1200(3)					
MCW/Capital Needs	2500	2500	2500	1500	1500					
USRA Adjustment Reversals:										
One-Time Startup	1750									
Working Capital	4377	95	168	57	49					
OSHA	500	500	500	500	500					
CODE	1500	1500	1500	1500	1500					
Maintenance-of-Way	1220	810	850	870	1010					
Total Adjustments Requiring Funding	<u>13047</u>	<u>6605</u>	<u>6718</u>	<u>5627</u>	<u>5759(4)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
C/N Adjusted Cash	<u>(3055)</u>	<u>(1666)</u>	<u>827</u>	<u>3091</u>	<u>5451</u>	<u>2585</u>	<u>2640</u>	<u>2809</u>	<u>2619</u>	<u>2533</u>

- Notes:
- (1) USRA and State used FY 84 as full-year transfer period. It is likely that transfer will occur in FY 85 and all adjustments should be moved one year forward.
 - (2) Pension adjustments for 10 years is due to funding requirement change. Includes USRA and State adjustments.
 - (3) Commonwealth North proposes adjustments only to fund first five years' costs of transfer.
 - (4) Total up-front funding proposed by Commonwealth North totals \$37,756,000.

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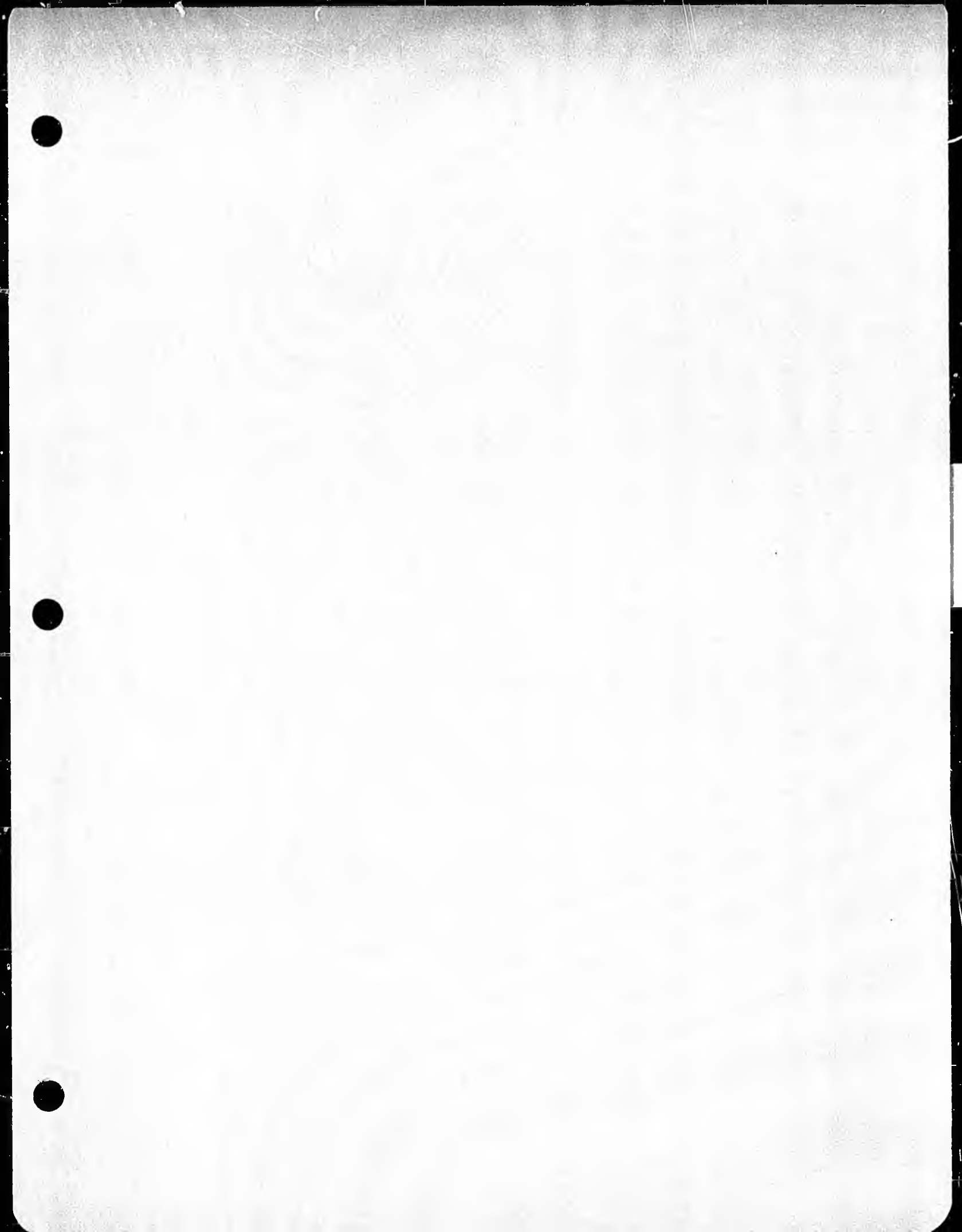
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POSITION OF TOTEM OCEAN TRAILER EXPRESS, INC.
ON TRANSFER OF ALASKA RAILROAD TO STATE OWNERSHIP

INTRODUCTION

My name is Leonard H. Shapiro and I am Vice President of Pricing for Totem Ocean Trailer Express, Inc. We at Totem greatly appreciate this opportunity to make our views known on the transfer of the Alaska Railroad to state ownership.

Totem Ocean Trailer Express, Inc. is the operator of two, modern, deep-water, ro-ro vessels between Tacoma, Washington and Anchorage, Alaska. Totem services all points within the Alaska rail belt area via connecting motor carriers and the Alaska Railroad. Totem is vitally interested in the transfer of the Alaska Railroad to state ownership for the following reasons:

1. The Alaska Railroad is a major interline carrier for Totem. Over half of the freight which Totem moves north of Anchorage is carried in "piggyback" service by the Alaska Railroad. Our tenderings of freight to the Alaska Railroad places us, we believe, within the top five customers of the railroad.
2. A healthy, viable railroad contributes to a healthy economic climate in Alaska. A healthy economic climate generates demand for Totem's services, and should the Alaska Railroad be used to further develop the state's mining industries, this would significantly increase the demand for the movement of finished goods and capital equipment which are Totem's primary markets.
3. The Alaska Railroad is also a major competitor to Totem via its interline agreements with rail-barge and ro-ro barge operators, and as such its pricing and operations policies are part of the overall competitive mix which Totem must face.

SUMMARY OF TOTEM'S POSITION ON TRANSFER OF THE ALASKA RAILROAD TO THE STATE OF ALASKA

As discussed below, Totem has three major concerns with Senate Bill 352 and House Bill 512, as currently written. These concerns are:

1. Entry of the Alaska Railroad into the Water-Carrier or Motor-Carrier Business:

Totem desires specific amendments which would preclude the entry of the Alaska Railroad into either the water or motor-carrier business.

2. The Railroad Should be Subjected to Both the Federal and State Antitrust Laws:

Totem desires specific amendments to the proposed legislation which would subject the Alaska Railroad to both the state and the federal antitrust laws.

3. Prohibition Against Unfair Ratemaking by the Alaska Railroad

Totem desires a specific amendment to the proposed legislation which would prohibit the Alaska Railroad from using either its direct or indirect subsidies to institute rates which are below-cost if these rates are below those set by competing private carriers.

The balance of my testimony shall address itself to the three issues noted above. Totem feels strongly that a financially healthy and strongly competitive railroad will be an asset to both the State and all modes of carriers. What Totem desires with the amendments we are proposing is that all carriers compete on the same basis.

TOTEM'S CONCERNS ON TRANSFER TO STATE OWNERSHIP OF THE ALASKA RAILROAD

Totem supports the transfer of ownership of the Alaska Railroad to the State of Alaska. We support a transfer which will result in a financially strong, competitive railroad. We recognize, however, that state ownership, in which the "profit motive" is normally lacking, can create specific problems where the railroad competes with privately owned transportation companies. We feel that the legislation which "sets up" the method of operation of the Alaska Railroad should address these specific problems to ensure that all carriers can compete on an "equal basis."

Specifically, we feel that the following areas should be addressed:

1. Entry by the Railroad into the Water-Carrier or Motor-Carrier Business:

TOTEM desires legislation which will prohibit entry by a state-owned railroad into the water-carrier or motor-carrier business.

We feel quite strongly that the Alaska Railroad, which has enjoyed an average subsidy of 17.5 percent of revenue for the past several years, should direct all of its energies towards operating the most efficient rail service possible.

Utilization by the Alaska Railroad of either their direct or indirect subsidies to enter the water or motor-carrier fields should be prohibited. Indirect subsidies are those the railroad enjoys by virtue of public ownership. Examples (All of which are allowed under the proposed legislation now under consideration) would be: significantly lowered interest rates due to tax-exempt bonds; elimination of need to earn a profit; lack of any requirement that they pay interest on their working capital; freedom from taxation; elimination of the requirement that they pay for licenses, permits, etc.

Currently, the water-carrier field is served by all four major modes: ro-ro, container, rail-barge and break-bulk barge, and we see no long-term shortfall in available capacity (recent press reports indicate there will be two major new entrants using state-of-the-art, ro-ro barges this year).

Within the motor-carrier field there are a multitude of motor carriers available in the state, and this industry has been severely depressed for several years, i.e., there has been significant overcapacity available.

2. Antitrust:

TOTEM desires specific legislation which would place a state-owned railroad under both the federal and state antitrust laws.

All of the privately owned water and motor carriers are subject to the federal and state antitrust laws. It is our belief that the railroad should be subjected to the same laws as the private carriers are. In short, we should all play by the same rules.

3. Ratemaking Policy:

TOTEM desires specific legislation which would prohibit a state-owned railroad from practicing unfair rate making.

Specifically the practice of initiating rates which include direct and indirect subsidy and do not recover the full cost of service when such rates are below these in effect over private carriers.

The railroad, by virtue of state ownership, will in all probability enjoy some form of direct subsidy, as well as indirect subsidization (as discussed earlier, by virtue of state ownership, the railroad is not faced with all of the expenses which a privately owned and operated corporation is). We believe that on all traffic where the railroad is cross-competitive with privately owned and operated carriers, the railroad should not be permitted to utilize its direct or indirect subsidies to set rates below those established in the private marketplace. This, we feel, is simply "fair play" inasmuch as Totem does not have available the railroad's direct or indirect subsidies, and we have no desire to become involved in any subsidy schemes. Certainly, if the railroad, without using either direct or indirect subsidies, can price their services below that of the privately owned and operated carriers, they should be allowed to do so. The railroad should further be allowed to meet any rate set by a competitive carrier offering a similar service irregardless of whether it is above or below cost.

There may be specific instances in which the state feels that use of the railroads direct and indirect subsidies should be used to price below not only cost but the rates set by the private carriers. In these cases permission to set such specific rates should be granted by the legislature and not be the result of the unilateral action of the railroads management.

ANSWERS TO QUESTIONS WE HAVE BEEN ASKED

Questions which have been raised on positions Totem has taken, along with our response, are:

1. TOTEM's argument that the railroad would unfairly use its direct and indirect subsidies to compete with water and motor carriers ignores the fact that highway carriers are subsidized.

As discussed later in this section, any direct and indirect subsidies which Totem enjoys by virtue of using federally maintained waterways and ports is the same for Totem and the Alaska Railroad. The Alaska Railroad owns and operates two major port facilities within the State of Alaska; Seward and Whittier. I have been advised that the Alaska Motor Carriers Association will be responding in detail on the issue of subsidy to the motor carriers.

From Totem's perspective, the interline motor carriers we use receive NO subsidies which are not also available to the Alaska Railroad. We base this contention on the fact that for cross-competitive freight (that freight for which both Totem and the Alaska Railroad compete) many of the consignees in Alaska are not located on rail sidings, and thus both Totem and the Alaska Railroad must use motor carrier service to make final delivery of the freight. Inasmuch as both carriers are using motor carrier service, both carriers benefit equally from any subsidy which is present. Indeed, I would guess that the Alaska Railroad is one of the largest purchasers (via interline agreements with motor carriers) of motor-carrier service within the State of Alaska.

It should be noted further that motor carriers, through their purchase of license plates, trailer and tractor registration fees, and the payment of gasoline taxes, make a significant payment toward the cost of constructing and maintaining the Alaskan highway system. This cost is also shared by private automobiles which use this same system. Were it not for the payments made by the motor carrier industry, the cost of constructing and maintaining this highway system would, in our estimate, be solely borne by the operators of private automobiles and their fuel and license taxes would have to be increased by several orders of magnitude if the existing network were to remain.

Therefore, we at Totem do not feel that the motor carriers enjoy any subsidy which has a significant impact on their ability to compete with the Alaska Railroad.

2. If TOTEM uses the Alaska Railroad exclusively for overland delivery of our freight, we should be "indifferent" to the Alaska Railroad's rate policy:

As a practical matter, many of Totem's customers are not located on rail sidings, and thus use of the Alaska Railroad for all overland deliveries

is an impossibility. It should further be noted that many of our customers, who are located on rail sidings, desire a level of service which can only be obtained through the use of motor-carrier delivery. What Totem desires is a railroad which bases its prices on the cost of providing service as most all privately operated railroads and motor carriers do, and which does not use any direct or indirect subsidies to compete unfairly with these privately operated carriers.

3. Why isn't ICC regulation of the Alaska Railroad's rates sufficient to eliminate any problems the private carriers might have with the railroad utilizing subsidies to compete with the private carriers?

Totem feels quite strongly that the ICC is not set up to regulate a state owned railroad. Commission cost accounting procedures have no method of taking into account either direct or indirect subsidization which the state owned railroad may receive. It should further be noted that a primary component of commission regulation of railroads is the fact that the railroad must face the "test of the marketplace" in terms of its ability to earn a profit. A primary component of the Staggers Act, which significantly changed the reasonableness test for railroad rates, was the feeling that in the "long run" the railroads would not price their services below cost because they would have to eventually earn a profit on the provision of those services.

A state owned railroad would have no need to earn a profit. Additionally, the ICC has no method of factoring in to any cost analysis (assuming that they utilize their current cost formulas) the value of direct and indirect subsidies which would be received by the railroad. Thus, commission regulation is not a viable method of ensuring that the economic advantages enjoyed by a state owned railroad are not utilized unfairly against the railroad's privately owned competitors.

4. Doesn't the desire of the private carriers to establish a "rate floor" in reality "tie the hands" of the Alaska Railroad?

The privately owned carriers have absolutely no desire to establish anything akin to a "rate floor" or to "tie the hands" of the Alaska Railroad. What we desire is simply that the railroad "play by the same rules" as privately owned carriers. Our sole concern regards the railroad's rate practices on movements of commodities which are cross-competitive between the railroad and the privately owned carriers. We have absolutely no desire to have any impact on the railroad's rate policies for the movement of commodities such as coal, gravel and other historic rail bulk commodities.

Within that area of commodities which are cross-competitive, all we ask is that the railroad not be allowed to use its direct or indirect subsidies when it sets prices which are below those which have been set by private carriers in a free and competitive marketplace. It should be noted that our position allows the railroad to meet any rates set by the private

carriers irrespective of where or not the railroad can earn a profit by so doing — all we ask is that the railroad not be allowed to artificially depress the rates of the private carriers through the use of either direct or indirect subsidies — if the railroad can price below the private carriers and still earn a profit, they should certainly be allowed to do this.

5. What is the position of Totem on the expansion of the railroad?

Totem feels the railroad should be expanded and utilized as the primary tool in developing the mineral deposits within the State of Alaska. Any expansion of the railroad will improve the overall business climate in Alaska and such improvement will automatically mean there will be more business available for all carriers. We feel it is a legitimate use of state power for the state to use the railroad to assist in opening up undeveloped areas of the state, and private carriers will certainly support the Alaska Railroad in these efforts.

6. Totem is also beneficiary of public subsidy in that we use public docks (those owned by the municipalities of Anchorage and Tacoma) as well as channels and navigation aids maintained by the U.S. Corps of Engineers and the U.S. Coast Guard

All of the above is true; however, competing rail-barge carriers use the same channels and navigation aids and thus all carriers operate on an equal basis. In the case of port facilities, the private carriers who use municipally owned docks operate under "full payout leases" which are publicly filed with the Federal Maritime Commission. Indeed, if the lease arrangements which the private carriers make with municipally owned docks do not fully cover the cost of these facilities, they are subject to being found "unreasonable" by the Federal Maritime Commission and disallowed.

Carriers operating from Alaska Railroad owned docks at Whittier and Seward do so pursuant to "secret" agreements between the Alaska Railroad and themselves. There is no requirement that the railroad recover their costs for providing these facilities, and because these agreements are "secret," the privately owned carriers have no way of knowing if the railroad has in fact charged "full cost" for these facilities.

THE ALASKA RAILROAD WILL BE EXEMPT FROM THE ANTITRUST
LAWS UNLESS THE LEGISLATURE EXPLICITLY MAKES THE RAILROAD
SUBJECT TO THE ANTITRUST LAWS

The Federal antitrust laws generally do not apply to state action. This is because the Supreme Court has consistently held that the antitrust laws are not intended to interfere with action directed by a state legislature. This so-called state action exemption applies whenever the state's policy is to "displace competition" (for example by operating a motor or water carrier), even if the legislature does not pass a statute specifically claiming the exemption.

The federal transfer act permits the State of Alaska to invoke any exemption from the antitrust laws which is available. The state action exemption is available even if the bill says nothing about antitrust exemption. Because the state action exemption is automatic, therefore, the Alaska Railroad will be exempt unless the bill expressly provides that the Railroad is subject to the antitrust laws.

TOTE Suggested Committee Report Language

It is the policy of the State that the Alaska Railroad should be operated in a business like manner so as to foster the development of a strong and financially sound system of Interstate Commerce. Accordingly, the Railroad should not use public resources or the benefits of its public status to compete unfairly with private carriers. Subsection (d)(1) makes the Alaska Railroad fully subject to the federal antitrust laws. The bill declines to invoke the so-called State action exemption, or any other exemption from the antitrust laws. Subsection (d)(3) also explicitly limits the Railroad to acting as a rail carrier and prohibits it from entering the water carrier or motor carrier business in competition with privately owned carriers.

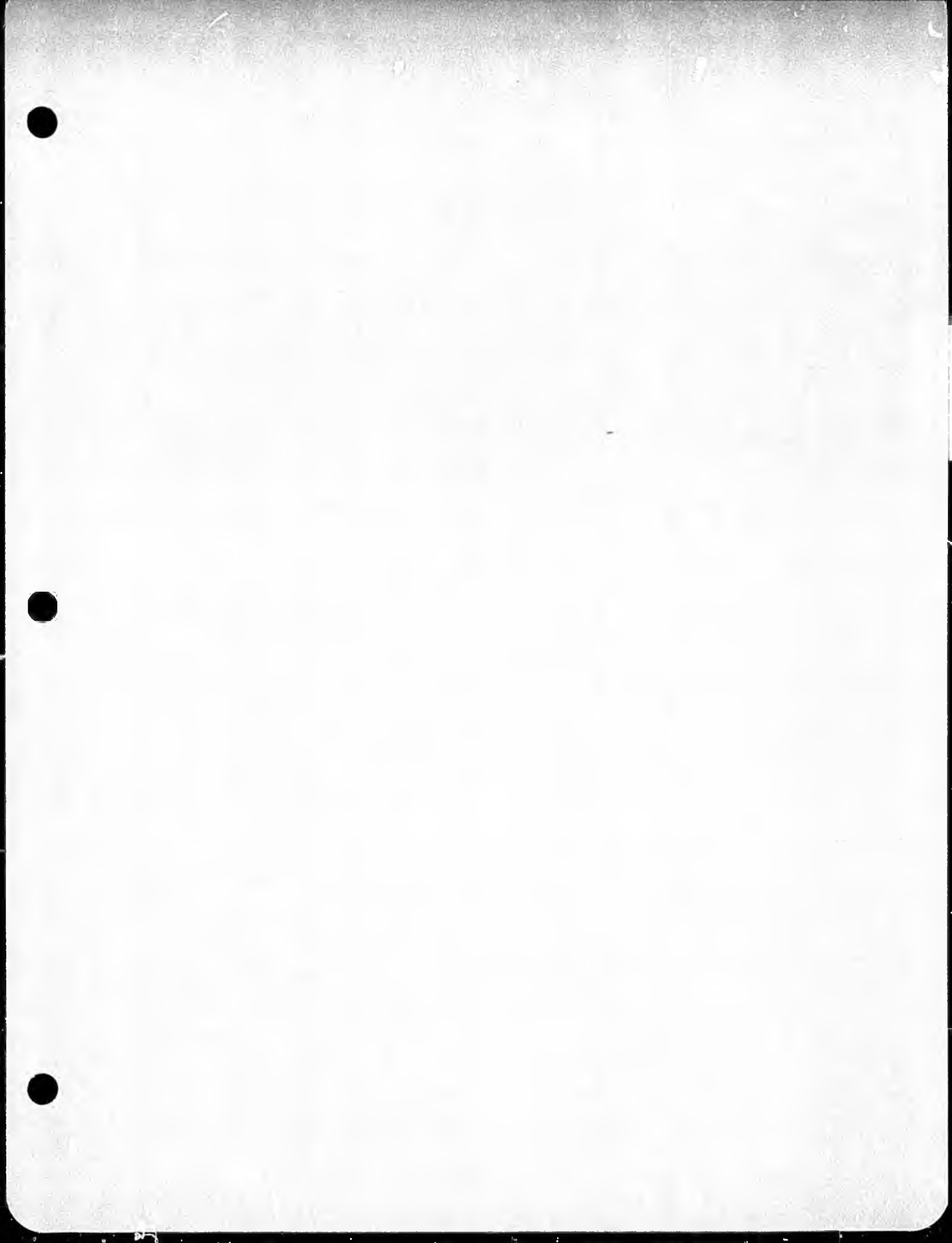
Subsection (d)(2) prevents the Railroad from utilizing the public benefits of direct or indirect subsidy (such as ability to issue tax-exempt bonds and freedom from taxation and license and permit fees) to undercut rates established in the competitive marketplace. This provision allows the Railroad to meet any rate for comparable service set by any privately owned and operated carrier irrespective of whether or not the Railroad can earn a profit by doing so. This section only prohibits the Railroad from using its subsidy to undercut the rates of the private carriers for comparable service. If the Railroad can price below the privately owned carriers and still earn a profit, it is certainly permitted to do this.

TOTE Proposed Amendments to Senate Bill No. 352

1. Add a new Subsection (d) to Section 1, as follows:

(d) It is the policy of the State of Alaska that the Alaska Railroad:

- (1) shall be subject to the antitrust laws of the State of Alaska, AS 45.50 471 - 45.50. 596, and to the antitrust laws of the United States, as defined in 15 U.S.C. 12, to the same extent as privately owned and operated railroads;
- (2) shall not use direct or indirect subsidy to compete unfairly with privately owned and operated carriers; and
- (3) shall not offer motor or water transportation services in competition with services offered on the date of transfer by privately owned and operated motor or water carriers.



Served November 3, 1983

31473

INTERSTATE COMMERCE COMMISSION

EX PARTE No. 346 (SUB-NO. 8)

EXEMPTION FROM REGULATION—BOXCAR TRAFFIC

11/07/83 11:06 P. 2

FROM

is essential to restore the viability of this service. Although boxcars have been the mainstay of rail freight handling equipment, recent decades have seen a steady decline in their use. As competition from the trucking industry has become ever stronger, boxcar service has lost much of the truck compatible traffic and has lost varying amounts of the remainder of the traffic that historically moved by boxcar.⁴ This trend will not be arrested unless the railroads can enhance the attractiveness of boxcar service through cost reduction and more flexible pricing. The exemption will make these possible.

II. THE FREIGHT RATE EXEMPTION

We exempted virtually all boxcar service from freight rate regulation, finding, as required by 49 U.S.C. 10505(a), that continued regulation was not needed to carry out the rail transportation policy of 49 U.S.C. 10201 or to protect shippers from abuse of railroad market power.⁵ The major question raised on appeal concerns the applicability of the freight rate exemption to the ARR.

A. Exclusion of Alaska Railroad.—In exempting boxcar freight rates, we found, among other things, that continued regulation was not necessary to prevent predatory pricing (i.e., below-cost pricing aimed at elimination of competitors). We specifically found that predatory pricing on the part of the ARR was highly unlikely.⁶

Sea-Land Service, Inc. (Sea-Land) and Totem Ocean Trailer Express, Inc. (Totem) contend that they are potential victims of predation by ARR and seek its exclusion from the exemption. They offer transportation between the west coast and Alaska that competes, to some degree,⁷ with the service of ARR. Totem transports trailers in "Ro-Ro" (roll on/roll off) vessels and Sea-Land transports containers in container ships. They connect with Alaskan motor carriers or with ARR's TOFC/COFC service. ARR operates only within Alaska. It handles traffic from the west coast in conjunction with Alaska Hydrotrain, which transports rail cars on barges. ARR's water/rail service handles less than 25 percent of the Alaska trade. Sea-Land carries about 45 percent, and Totem about 25 percent. Sixty-five percent of ARR's traffic moves in boxcars.

Sea-Land's strongest argument is that the Commission is precluded from exempting ARR's boxcar service by a court decision which disap-

⁴ Some former boxcar traffic has migrated to other types of rail equipment, such as covered hopper cars (in the case of grain) or trailers and containers on flat cars (TOFC/COFC service).

⁵ *Boxcars* at pp. 426-46.

⁶ *Boxcars* at pp. 441-2.

⁷ The commodities carried by the ARR tend toward bulk while that of Sea-Land and Totem tend more toward time-sensitive shipments. They compete for traffic such as lumber, sheetrock, plywood, insulation, drilling muds, drill pipe, dry groceries, general machinery, fabricated and unfabricated iron and steel, canned foodstuffs, roofing material, soda pop, newsprint, animal feed, and fertilizer.

proved exemption of ARR's TOFC/COFC service.⁸ We have closely examined the factors that were cited by the court in light of additional facts and changed laws available on the present record. In our view, they do not show that continued regulation of ARR's boxcar service is necessary to prevent predatory pricing.

The first problem cited by the court in TOFC/COFC is that ARR is government-owned and subsidized. The court concluded that, even if deregulated, ARR's rates will not be controlled by competitive market forces. For clarity in discussing this point, we think that the market forces which control rate increases must be distinguished from those which control rate decreases. In a free market, rate increases are controlled by competition because a purchaser can refuse to pay an increased rate if a substitute service is available more cheaply from a competitor. We think there can be no doubt that ARR's power to impose rate increases is strictly controlled by the existence of competitors, regardless of government ownership or subsidies.

Rate decreases in a free market are limited, not by competitive forces, but by a firm's own costs. Government ownership and subsidies are certainly relevant in that they could enable a firm to price below its costs. Whether the subsidy of ARR warrants continued regulation, however, depends on the extent of the subsidy and the nature of our regulation. The subsidy ARR receives is not for freight operating costs, but for capital expenditures and passenger service costs. This subsidy would be unlikely to lead us to find that particular ARR rates are unlawful. We have no authority to find rates unreasonably low if they cover the costs that vary directly with the level of transportation provided under the involved rate.⁹ As we have defined the directly variable cost concept, it includes only the line-haul cost of the lading, applicable switching and station clerical costs, and other costs specifically shown to vary with the level of traffic.¹⁰ Capital costs that do not vary with the level of traffic under the involved rate would not be included.

Even rates below the presumptive cost floor are not necessarily unlawful.¹¹ ARR's government owners, whether Federal or State¹² could well have legitimate reasons for public policy for subsidizing its rates. As long

⁸ *American Trucking Association v. American Railroad Association*, 656 F.2d 1115 (5th Cir. 1981) (TOFC/COFC).

⁹ 49 U.S.C. 10701a(c)(4)(B).

¹⁰ *Cost Standards for Railroad Rates*, 364 I.C.C. 898 (1981).

¹¹ *Id.* at 902. The presumptive cost floor includes only the line-haul cost of the lading and applicable switching costs and station clerical costs.

¹² A transfer of ARR to the State of Alaska could occur in 1984 under the provisions of the Alaska Railroad Transfer Act (ARTA), Public Law 97-468, 96 Stat. 2577. The Commission has promulgated an expedited modified procedure for providing a certificate of public convenience and necessity on the date of transfer. Ex Parte No. 446, *Alaska Railroad Certification* (not printed), served June 17, 1983. As we (footnote continued on next page)

as this policy was not aimed at driving private transportation companies out of business, it would not be our place to interfere. We see no reason for the Federal government or Alaska to set out to destroy Sea-Land and Totem, since the transportation services provided by these companies are beneficial to the State of Alaska. Thus, in our view, even though ARR is government-owned and subsidized, that is an insufficient reason for continued regulation of ARR's boxcar rates.

The second factor cited by the court is that ARR is immune from anti-trust laws. The importance of this factor is greatly diminished, however, by the existence of other checks on ARR's abuse of pricing freedoms. At the present time, as a federally-owned railroad, ARR is subject to close scrutiny by Congress and by DOT. It cannot begin to engage in the kind of drastic price cutting that would undermine the viability of its competitors without arousing immediate reactions from those with ultimate control over it. The Commission, can readily revoke ARR's exemption and step in if ARR were to engage in a campaign of true predation against its competitors. Moreover, once the ownership of ARR is transferred to the State of Alaska, it will be subject to the antitrust laws.

The third factor, which understandably may have carried the most weight with the court, was Congress's then-recent direction that the Commission investigate whether ARR's rates were predatory. The court held that the Commission had included ARR in the TOFC/COFC exemption in the face of this congressional concern about possible predation. Even though the Commission had concluded a study¹³ showing that ARR's rates covered its costs of service, the court noted that Congress had not yet had time to respond to the study. The passage of time has placed this particular circumstance in a different light. Congress has accepted the Commission's rate study¹⁴ and has taken no action that would indicate dissatisfaction with its conclusions.

Beyond the factors that concerned the court, Sea-Land takes issue with our conclusion that, "since there would be no barrier to rapid reentry of competing water-motor service, ARR could not enjoy a sustained period of post-predation monopoly pricing." Our point was that ARR would never attempt to eliminate its competitors by below-cost pricing, because it could not later preserve a monopoly long enough to recoup its losses.

(footnote 12 continued)

there noted, the Commission's authority over the federally owned ARR is exercised under Executive Order No. 11107 (superseded July 19, 1981, by Executive Order No. 12434). After the date of transfer to the State of Alaska, we will have statutory jurisdiction as provided in section 601(a)(1) of the ARTA. In each case, we regulate ARR under the provisions of 49 U.S.C. Subtitle IV and other applicable laws. The applicability of certain provisions of the Alaska Railroad Act (ARA) is discussed later in this part of the decision.

¹³ Study of Alaska Railroad Water/Rail Contract Rates and Water/Rail Tariff Charge Rates, submitted to Congress June 15, 1981.

¹⁴ See S. Rep. 97-109, 97th Cong., 2d sess. 10 (1982).

Sea-Land argues that the high cost of ships and terminals would be a major barrier to reentry once competitors were eliminated. We grant that reestablishment of ocean transport operations would not be quite as easy as reentry of motor carriers, but we think Sea-Land overstates the obstacles. Even though ships and terminals are large investments, they would not have to be bought or constructed new by a fresh competitor. Present facilities would not be scrapped by a failing company, but simply sold or leased to other companies or closed down. These facilities would be available to new competitors if ARR attempted to set prices at monopolistic levels. We do not believe that ARR could hope to eliminate companies such as Sea-Land or Totem by predatory pricing before governmental forces would intervene.

Sea-Land next argues that the Commission has no power to exempt any service of the Alaska Railroad from regulation even if the criteria of section 10505(a) are satisfied. It bases this argument on a provision in the ARA that the rates fixed by the President for the ARA "shall be equal and uniform." Sea-Land considers exemptions to be inconsistent with that requirement because they would permit ARR to adopt unequal and nonuniform rates.

The requirement that DOT, through authority delegated by the President,¹⁵ establish "equal and uniform rates" for the ARR, does not create a standard to be enforced by the Commission. We regulate ARR's rates under portions of 49 U.S.C. Subtitle IV that are specified by Executive Order.¹⁶ Subtitle IV contains no requirement that rail rates be "equal and uniform."¹⁷ Moreover, even if the "equal and uniform" requirement were a mandate to the Commission, it would not require a regulatory program aimed at predatory pricing. Predation concerns rate levels in relation to costs, not rate uniformity.

As DOT correctly observes, if the "equal and uniform" language prohibited the Commission from exempting a service of the ARR, it would also prevent us from approving the use of contract rates by the ARR, since contract rates can be unequal and nonuniform. Yet Congress itself has acknowledged the existence of ARR contract rates and has not condemned them as inconsistent with the ARA.

Sea-Land also cites a provision in the ARA that the ARR shall "perform generally all the usual duties of a common carrier by railroad." We are unable to see how this provision could require exclusion of ARR

¹⁵ Executive Order No. 12434, section 1.

¹⁶ Executive Order No. 12434, section 3. We issued a notice of voluntary compliance with this new Executive order on July 25, 1981.

¹⁷ The prohibition against unreasonable discrimination in 49 U.S.C. 10741 permits rate discrepancies based on differences in service, traffic, or other circumstances. It does not apply to rail rates applicable over different routes, to contract rates, or to certain other rates.

from an exemption granted to other common carrier railroads. If Congress intended ARR to be subject to stricter Commission regulation than other railroads, it would have so stated explicitly.

In enacting the ARTA, Congress expressed its intention that the ARR shall be given "all business opportunities available to comparable railroads."¹⁸ Similarly, Executive Order No. 12434,¹⁹ under which the Commission now voluntarily regulates ARR rates, provides that "[s]uch rates shall be filed with the Interstate Commerce Commission to the same extent as rates are filed by comparable carriers subject to its jurisdiction." Thus, we see no basis for the view that we are powerless to give ARR the benefit of an exemption that will apply to all other railroads.²⁰

Continued regulation of ARR's boxcar operations would serve, not to protect Sea-Land and Totem from predation (for no protection is needed), but to foreclose ARR from efficiency gains that would make it a more effective competitor in the normal course of business. Certainly, we would not exclude ARR from the exemption to serve that objective. Neither transportation law nor Commission policy is offended by bona fide competition that is not predatory in nature. While Sea-Land and Totem may have to work harder to defend their present dominant share of the Alaska trade, we see no reason to fear that the exemption will lead to their disappearance from this market.

B. Other freight rate exemption issues.—One of the arguments made by several carriers in the initial comments was that the Commission should grant exemptions by specific commodities rather than granting a broad exemption for all traffic transported in boxcars. This point of view is reiterated without additional support by the Chicago and North Western Transportation Company. As we have previously explained, a major goal of the exemption is the competitive revitalization of boxcar service. This goal requires freedom from regulation for the entire field of service. It cannot be accomplished within a reasonable period of time by piecemeal commodity-by-commodity exemptions.

Canadian carriers²¹ assert that the exemption will be incompatible with the Canadian scheme of regulation, which requires tariff filings but does

¹⁸ Public Law 97-468, 96 Stat. 2577, section 608(a)(2).

¹⁹ Published July 21, 1983, at 48 F.R. 33229.

²⁰ It is clear for another reason that the Commission has the authority to relieve ARR from the requirements of the Interstate Commerce Act which were made applicable by Executive order. Section 3 of the order specifically subjects ARR to subchapter I of chapter 105 which includes the exemption authority (49 U.S.C. 10505).

²¹ The Canadian National Railway Company and Canadian Pacific Limited.

not regulate rate levels. Their specific complaints about the exemption are no different from those made by domestic carriers and have no special bearing on cross-border movements. We have retained jurisdiction over matters of car supply and mandatory interchange. The exemption does not relieve carriers of an obligation to provide contractual terms for loss and damage liability. Although tariffs will be required by the Canadian government and not by us, the two systems are merely different, not incompatible. Carriers should have no difficulty conforming to the applicable regulatory scheme of either country. They do this now in transporting other commodities that we have exempted. We note that the Canadian government itself has not objected to the exemption.

Finally, a few of the pleadings repeat earlier assertions that the exemption will lead large carriers to eliminate joint rates, to the detriment of small carriers. We considered this argument at length in *Boxcars*²² and concluded that it was without foundation. We observed that joint rates can generally be eliminated even under regulation, particularly on unprofitable traffic,²³ although litigation can make the process unnecessarily expensive and time consuming. Through traffic can continue to be handled even in the absence of joint rates. Most importantly, we saw no reason to expect major carriers to disrupt the movement of profitable traffic originated by small carriers, for they, too, benefit from the revenue earned on this traffic. Thus, where joint rates enhance the attractiveness of through rail service, we expect that they will continue to be offered even in the absence of regulation. Nothing said in the petitions leads us to doubt the correctness of these observations.

Several class III carriers have argued that the exemption is inconsistent with specific protections for class III carriers contained in 49 U.S.C. 10705a. In the absence of our use of the exemption power provided by 49 U.S.C. 10505, section 10705a would indeed place certain limits on the ability of carriers to impose surcharges or cancel joint rates. However, we believe that an exemption from section 10705a (along with other ratemaking provisions of chapter 107) would further the rail transportation policy of section 10101a without leading to abuse of market power.

The rail transportation policy of section 10101a strongly favors competitive ratemaking where competition is possible. As explained in our prior decision, boxcar traffic is especially subject to diversion to other

²² 367 I.C.C. at 443-44.

²³ Joint rate surcharges and cancellations on traffic that makes little or no contribution above variable cost are readily permitted under 49 U.S.C. 10705a. Other joint rate cancellations are governed by the public interest standard of 49 U.S.C. 10705(e). The Commission has indicated that this provision is not to be considered in a vacuum. It should be applied consistently with the overall policy of the Staggers Rail Act that the Commission intervene only when there are inadequate economic restraints on railroad market power. See Ex Parte No. 445, *Standards for Intramedal Rail Competition*, notice of denial of petition for rulemaking served July 7, 1983 (published July 11, 1983), at 48 F.R. 31672.

modes and consequently will not bear excessive rate increases. What matters to the shipper is the origin-to-destination rate, not the size of the connecting railroad of origin or destination. In other words, after excessive rate increases on boxcar traffic, diversion would take place regardless of whether the traffic moved jointly with a class III railroad or moved solely on a class I railroad. This gives long haul class I railroads an incentive to hold down rates that they would charge for transportation to junctions with class III carriers in the absence of joint (single factor) rates for the origin-to-destination movements. In fact, if the boxcar exemption experience even partially duplicates our experience with deregulation of TOFC/COFC service, traffic will be attracted back to boxcars, and some of the added traffic is bound to move over class III carriers.

Of course, if a joint movement of boxcar traffic with a class III carrier were inherently inefficient or unprofitable, then the larger carrier could be expected to use the exemption to remedy the situation rather than to tolerate an indefinite cross subsidy of the joint movement at the expense of other traffic or its ability to earn adequate revenues. This, however, would be entirely consistent with the rail transportation policy and with the policies of other sections of our governing statute.²⁴ Carriers cannot afford the luxury of preserving inefficient routes when competitive pressures force them to reduce costs as much as possible.²⁵ The very purpose of a section 10505 exemption is to eliminate unnecessary regulatory restraints on price and service changes which may be found in our governing statute. Given the pervasive competition for boxcar traffic, the rail transportation policy of section 10101a does not require retention of restrictions on ratemaking for through boxcar service involving class III carriers.

As already noted, we expect no loss of service on efficient routes.

No new arguments were raised in the petitions concerning other aspects of the freight rate exemption. Thus, we reaffirm our previous conclusions on this subject without further discussion.

²⁴See, e.g., 49 U.S.C. 10101a(10) and 10707a(e)(2)(C), both of which favor the elimination of non-compensatory rates.

²⁵The Commission has clearly stated that it does not favor rate equalization between efficient and inefficient routes, as follows:

Nor do we think it would be in the public interest for carriers to attempt to maintain equalized rates over competing joint routes. Obviously, some of the many routes between two points will be much more costly than others. If railroads are to compete effectively with other modes, a more efficient route must be permitted to carry a lower rate. It should not be priced at the same level as other joint rates between the points involved. The railroads, faced with a declining market share, must be free to make rate adjustments necessary to attract or retain traffic.

Traffic Protective Comm'n, 366 I.C.C. 112 at p. 122 (1982). See also *Guilford Transp. Industries, Inc. - Control - D&H Ry Co*, 366 I.C.C. 396, 408-09 (1982).

III. THE CAR HIRE EXEMPTION

A. *Background.*—Car hire regulation, like freight rate regulation, has been an obstacle to pricing flexibility and cost reduction in boxcar service. The rentals railroads pay for use of one another's cars are based on a formula prescribed by the Commission.²⁶ Each day that a car is on the lines of another carrier, the car's owner collects the prescribed rental charge, not only while the car is loaded, but even after it is unloaded, regardless of whether the car stands idle on the other carrier's lines, is reloaded for return movement, or returns empty.

A phenomenon caused by this system especially during periods of low traffic movement, such as the present, is the unnecessary cross hauling of empty cars. A carrier with a shipment to load for transport to a destination on another carrier's lines, and with an empty car of that carrier available, generally returns that carrier's car empty and loads the shipment in its own car. When the shipment is delivered and the other carrier has a shipment to load in the reverse direction, it too returns the available car empty, and loads the shipment in its own car. Under the present rules, each carrier often finds that it is a net benefit to load its own car and collect car hire from the other carrier, rather than to load the other carrier's returning car and collect only its share of the freight revenue.²⁷ Obviously, this unnecessary hauling of empty cars inflates each carrier's operating costs compared to costs that would be incurred in loading the returning foreign car and avoiding unnecessary movement of the orig-

²⁶The formula distributes the annual car ownership costs, including return on capital investment, over the number of days that a car is "active" (i.e., not stored on the owner's lines). Given the purchase price and age of a car, this formula produces the daily and per-mile rental charge that the car is entitled to earn. See *Car Service Compensation—Basic Per Diem Charges*, 358 I.C.C. 715 (1977) and 362 I.C.C. 884 (1980).

²⁷In each case the carrier must compare the following costs and benefits:

Using a system car	Using a foreign car
1. Car-hire cost of foreign car returned empty to gateway	Car-hire cost on foreign car returned loaded to gateway
2. Operating cost of moving foreign car empty to gateway	Operating cost of moving foreign car loaded to gateway
3. Operating cost of repositioning system car for loading	Operating cost of repositioning foreign car for loading
4.	Car-hire cost of holding and repositioning foreign car for loading
5. Operating cost of moving system car loaded to gateway	
6. Car hire revenue earned by system car while off line	

(footnote continued on next page)



INITIAL POSITION STATEMENT
OF THE ALASKA TRUCKING ASSOCIATION, INC.

Submitted by T. J. Thrasher,
Managing Director

The ALASKA TRUCKING ASSOCIATION, INC. (ATA) supports in full the continued existence of the Alaska Railroad as an essential part of the Alaskan transportation network. As a representative of the Alaska trucking industry, the ATA feels very strongly, however, that the bills have certain defects which should be legislatively corrected before adoption by the Legislature.

There are serious concerns regarding the impact that state ownership of the railroad could have on privately-owned transportation entities. The ATA feels that the future integrity of privately-owned shippers and carriers should be preserved in such a manner so as to allow the citizens of Alaska to enjoy the benefits of strong, vigorous and fair competition among all modes of freight service for the movement of cargo between the contiguous United States and Alaska and within Alaska.

The members of the ATA are also major shippers with the railroad. Our concerns are both as competitors and as shippers.

COMMENTS

1. On page 10 of House Bill 512 and page 10 of Senate Bill 352, reference is directed to Section 42.40.300, "General Powers." In addition to the exercise of other powers authorized by law, the corporation may:

(16) determine routes, schedules, and types of service to be provided by the Alaska Railroad; ...

(18) plan for and undertake expansion of the railroad and railroad activities, including extension of the Alaska Railroad's rail system, and contract with other modes of transportation service connecting to the railroad's rail services;
...

It is not clear whether the state-owned railroad would compete with the existing non-rail transportation system. For example, will the railroad be able to form a competing trucking company, freight forwarder or water carrier to compete with existing private modes of transportation? The ATA believes language should be inserted in the bill to prevent such competition. A state-owned railroad must not be allowed to expand its operations and service beyond the railway into other modes of transportation. The state-owned railroad must continue to utilize other private modes of transportation connected to the railway system.

2. On page 10 of House Bill 512 and page 10 of Senate Bill 352, reference is directed to Section 42.40.300, "General Powers." In addition to the exercise of other powers authorized by law, the corporation may "(15) prescribe rates to be charged for services provided by the Alaska Railroad on a competitive basis ..." The ATA does not object to fair competition. If the real costs of operating the railroad result in inherent cost advantages and hence lower rates, there is no objection.

However, the bill does not deal with two important issues which will confront every shipper. First, rates should not be discriminatory. There is no prohibition on discriminatory rates in the legislation. Second, rates should be based on the real cost of providing the service. Again, the only legislative command is that there be competitive rates. Thus, if the railroad sets its rate levels below the cost of providing the service, then the only way to makeup the resulting deficiency is through a legislative appropriation.

Apparently, up to \$100,000,000 of funding is contemplated over the next ten to twelve years according to news reports in Anchorage. The ATA believes that to underwrite an

entity, tell that entity to be competitive and then tell private enterprise that somehow this is fair competition is unsound public policy. It is essential that the state-owned railroad compete with air, water and motor freight carriers fairly, and that rates for railway service are non-discriminatory, reasonable and just and are established on a cost-based rate. That is, the rates must be based on the real cost of providing the service. The state-owned railroad must not be allowed to instigate pricing policies that would eliminate reasonable competition among the other modes of transportation.

3. The third major area of concern is that many significant financial arrangements entered into by the railroad such as certain shipper agreements are not subject to public disclosure. The specific references are to A.S. 42.40.200-42.40.270 found on pages 7 and 8 of the bills. The bill exempts several important areas from any public disclosure whatsoever. For example, rate agreements with shippers may be negotiated in executive session (see A.S. 42.40.200) and are not subject to public disclosure (A.S. 42.40.270(b)), and, in fact, cannot even be disclosed through legislative audit (A.S. 42.40.270). While appreciating the need for confidentiality for some of these arrangements, there should be some means for a competing shipper to have access to such information to insure that shippers with similar circumstances have equal rate treatment to further insure that the agreements are equitable and non-discriminatory.

4. Also, the ATA notes that none of the rulemaking by the Railroad Corporation is subject to the rulemaking provisions of the Administrative Procedures Act. See A.S. 42.40.900(a)(10), page 27 of the bills. Thus, there is no opportunity for public comment on what the Railroad Corporation will do.

CONCLUSION

These comments are only generalized at this time. As the bills progress through the Legislature, the ATA will have a further opportunity to review these bills and offer constructive comments. Further, the ATA, at the time of this writing, has been informed that the Rules Committee, by request of the Governor, has just introduced Senate Bill 370 which the ATA has only just received and has been unable to study. The ATA asks leave to make appropriate comments on this bill as well. Legislation that addresses the operation of the Alaska Railroad by the State must include safeguards that will encourage increased productivity within the private sector and less reliance on the State to provide services that can be provided by the private sector. The legislation must also recognize that the railroad is now a publicly-owned entity and some of the safeguards expected by the people of any publicly-owned entity should be included in the legislation.



TESTIMONY

BEFORE

THE ALASKA HOUSE AND SENATE TRANSPORTATION COMMITTEES

JANUARY 26, 1984

JUNEAU, ALASKA

H. L. SCHUYLER

SEA-LAND SERVICE, INC.

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

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

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

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

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

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

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

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

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

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

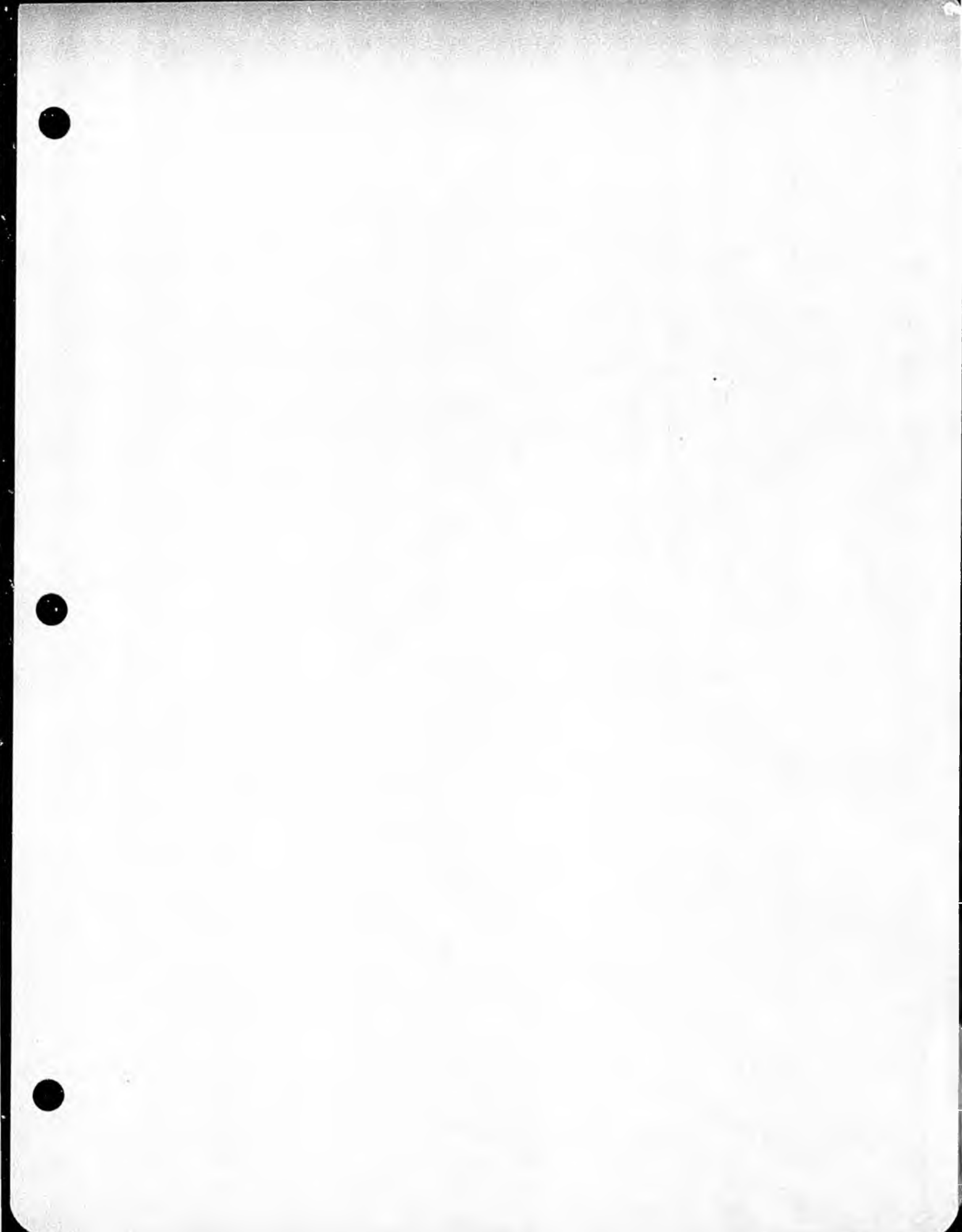
7. THE BILL PROVIDES FOR THE ESTABLISHMENT OF CONTRACT RATES BY THE RAILROAD. THE STAGGERS ACT ALLOWS CONTRACT RATES BUT THAT LAW CONTEMPLATED THE RAILROADS ENTERING INTO CONTRACTS WITH MAJOR SHIPPERS WHOSE CARGO THEY HAD HISTORICALLY HANDLED FOR THE BENEFIT OF BOTH. THAT CONTRACT ABILITY WAS NOT ENVISIONED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

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

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

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

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



Testimony by the Resource Development Council for Alaska, Inc.
on Senate Bill 352 and House Bill 512 --
Purchase and Operation of the Alaska Railroad

The Resource Development Council for Alaska, Inc. is the state's largest private economic-development corporation. We are made up of individuals and organizations from throughout Alaska and the nation. We work together to influence decisions and policies to achieve a sound, diversified private-sector economic base for Alaska.

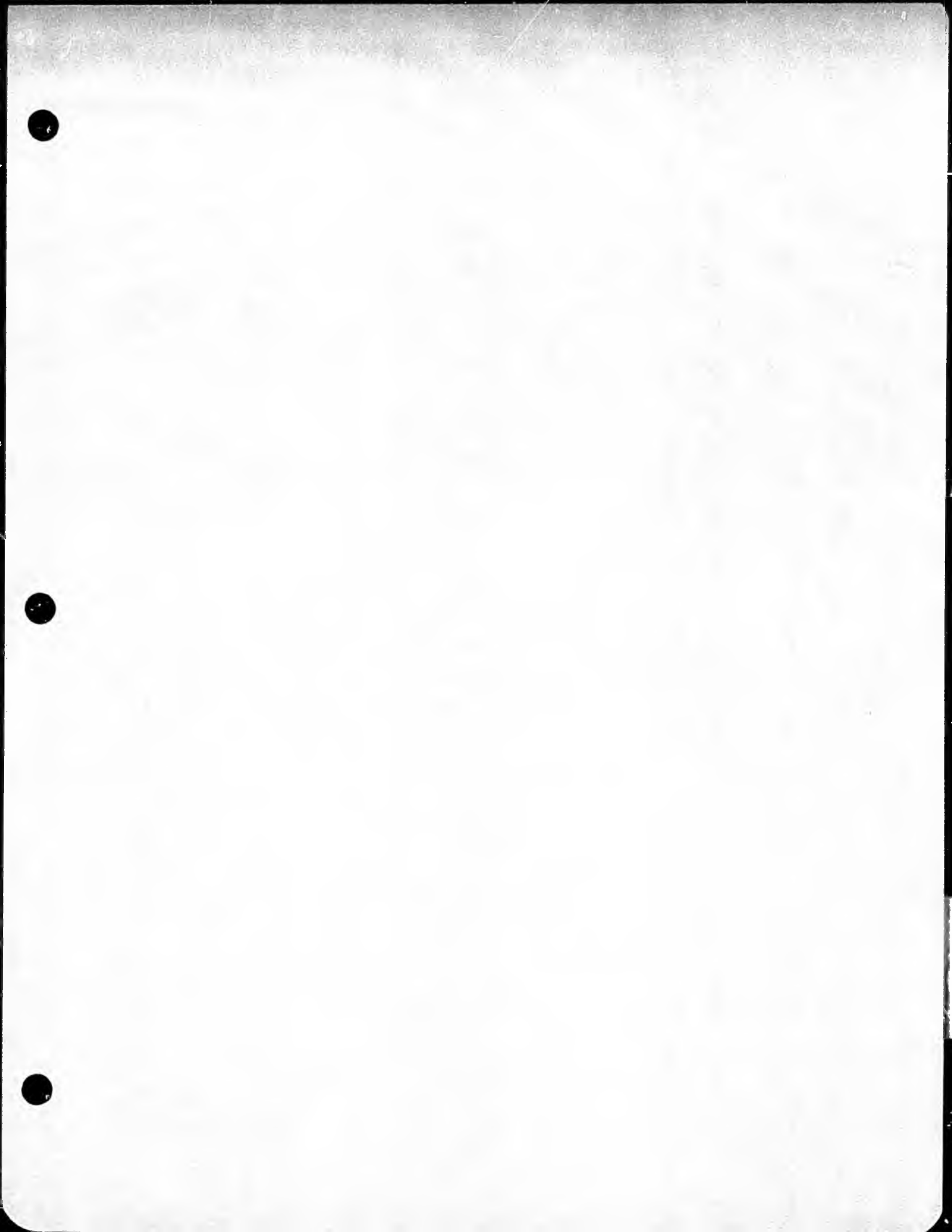
The Council has long supported the purchase of the Alaska Railroad and has urged that it be operated by the private sector. We have, therefore, a strong interest in Senate Bill 352 and House Bill 512.

Our Transportation Division has thoroughly analyzed the bills and compared them to our policy statements on transportation and the Alaska Railroad. We find the bills are compatible with and supportive of our stated policies.

The Alaska Railroad is the most viable alternative for accessing our vast resource potential and is essential to our economic security. All of Alaska can benefit from the purchase of the railroad and its use to provide our state with the goods and services that are taken for granted by the rest of the nation.

The Resource Development Council for Alaska wholeheartedly supports the passage of SB 352 and HB 512 as they are currently drafted. We urge that they be retained in their current form, except that we believe they would be strengthened if the last sentence of Section 42.40.250, Special Report, were changed to read: It shall make specific recommendations on ownership and operational alternatives and the transfer of all or part of the railroad to the private sector. The Council strongly urges that the powers given the Alaska Railroad Corporation be retained -- especially those given in Article 3, Rail Properties.

The Resource Development Council will work with all members of the legislature and the administration in addressing this critical issue.



January 26, 1984

Alaska Railroad Operating Entity
Sheffield Administration - Policy Statement

The Alaska Railroad is a fundamental link in Alaska's overall transportation system. Ensuring the continuation and development of this rail system as Alaska's transportation needs grow should be a major public policy objective in the years ahead.

Along with most Alaskans, I share this objective. I hope to see the Alaska Railroad provide the maximum benefit to our residents with minimum involvement by State government for regulatory oversight and public funding.

I support the development of the Alaska Railroad from its present status of a federally owned and operated agency to one which is funded and operated to the maximum extent possible by the private sector through a private company management contract or similar form of lease arrangement. I believe it will take a period of time to reach this goal. Consequently, it is important that any legislation provide adequate and specific provisions mandating that these alternatives be addressed.

It is important to keep in mind one essential fact: as long as the Alaska Railroad receives public funding, there must be comparable public oversight and accountability for its operation and management. If we accept anything less, we will be shirking our responsibility to all Alaskans to prudently and properly manage public funds.

I commend the members of our Legislature for the extensive interest they have demonstrated in the Alaska Railroad transfer issue. I know that many legislators have worked hard to develop acceptable transfer legislation which addresses a wide range of State policy concerns and interests over the past several years. Rather than introduce legislation of my own, I look forward to working with the legislation already in preparation provided that it is consistent with my following basic policy considerations:

- (1) Railroad operations should be insulated from political interference but remain responsive to the public interest. The public entity selected should be one best able to accomplish this goal.
- (2) The railroad entity should be constituted so that it has broad latitude in its operation and financing subject to public interest safeguards in existing state law, including the Executive Budget Act, Fiscal Procedures Act, and Administrative Procedures Act. I realize that certain sections of these laws may not be entirely applicable, and therefore limited exemptions may be necessary.

- (3) All revenues generated by the railroad should only be expended for railroad and related purposes.
- (4) The railroad should be able to incur bonded indebtedness to an extent consistent with its ability to repay the indebtedness from its own revenues.
- (5) The railroad should hold title to the surface estate of all lands received in the purchase and enjoy access to subsurface material necessary for actual rail operations. Specific arrangements should be included to ensure consistency with general state land policies, and to provide that sale of real property cannot occur without the approval of the Department of Natural Resources.
- (6) To minimize the State's exposure to railroad liabilities and to lower administrative costs, the railroad should take advantage of the economies of scale afforded by participation in the State's insurance and risk management plans. The Department of Administration should have primary responsibility for the negotiation of collective bargaining agreements with railroad employees.
- (7) The railroad should prepare and implement operating and capital plans, and explore long-range expansion needs. No later than three years after acquisition, the railroad must prepare a report for the Governor and the Legislature recommending a method for obtaining private sector participation in railroad operations.

FINANCING

AGRICULTURAL

PROJECTS

NOTE REGARDING THE FOLLOWING FRAME(S) ON MICROFILM:
COMPLETE DOCUMENT IS AVAILABLE IN ORIGINAL FILES.
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RURAL

ALASKA

IMPORT

SUBSTITUTION

NOTE REGARDING THE FOLLOWING FRAME(S) ON MICROFILM:
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TITLE PAGE ONLY HAS BEEN FILMED.

HOYT P. MOSS
P. O. BOX 122
DELTA JUNCTION, AK 99757

**Import Substitution
in Rural Alaska**

**House Research Agency
Alaska State Legislature
JULY 1962**

House Research Agency Report 81-6

UNIV. OF AK.

- FAIRBANKS -

RESEARCH

HIGHLIGHTS

NOTE REGARDING THE FOLLOWING FRAME(S) ON MICROFILM:
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G

Alaska State Legislature

SENATOR
H. PAPPY MOSS
P.O. BOX 182
DELTA JUNCTION, ALASKA 99737
(907) 395-4384



WHILE IN JUNEAU
POUCH V
JUNEAU, ALASKA
99811
(907) 465-4921

State Senate

MEMORANDUM

Date: February 16, 1983

Subject: Report from the House Transportation Committee Meeting
February 11, 1983, regarding HB 98

To: All Committee Members
Senate Transportation Committee

From: H. Pappy Moss, Chairman
Senate Transportation Committee

A handwritten signature in black ink, appearing to read "Pappy Moss".

House Bill 98 was not passed out of committee, mainly because the committee did not feel it could act on the Bill with a zero fiscal note attached. They felt the fiscal note problem should be discussed with OMB before action is taken on this Bill.

John Bates was there to discuss the merits of HB 98. He indicated that putting a four-lane highway into the Eklutna Flats area is not a high priority with the administration. It does not even appear on their six-year plan. He says that according to the Department's prioritization system it is well below many other projects in terms of need. He was quizzed on the specifics of the Department's prioritization criteria. He indicated the administration first looks at the general goals, and whether or not rehabilitation is appropriate. Then, the condition of the road is compared to the condition of other roads through a computer rating system.

In this second step, DOT/PF seems to look at the physical road condition of a road, assign a numerical value to its condition, and then quantitatively compare it to the condition of other roads in the state. It should be noted, however, that the first criteria, the administration's goals, may well set the tone for what is the acceptable point of comparison between any two road projects. That is to say, in

the prioritization process, before DOT/PF arrives at the arguable, qualitative portion of their criteria, each decision must first clear a very subjective, and oft times abstract, policy mandated by the current administration. It is this nebulous conceptual criteria that may well account for fluctuation from year to year in DOT/PF's CIP priority list. It should also be pointed out, from a professional planner's point of view, the entire prioritization process used by DOT/PF is not only inefficient, but also antiquated. In conversations concerning this problem, it has been suggested that the use of outdated planning tools may well be attributed to the lack of planning expertise at the upper levels of DOT/PF's Division of Planning.

From the House Transportation Committee's discussion, it was apparent the issue here is DOT's prioritization process. It would seem that the sponsoring representatives disagree with the priority assigned to the Eklutna Flats area. As they presently prioritize, this project's priority can only be changed by a policy change of the administration. However, for the Eklutna Flats project, I would suggest that examining DOT's prioritization process would be the best approach.

Attached please find an example of a more sophisticated planning model which could easily be adapted to DOT/PF's system. The attachment is enclosed for comparative purposes only. It is not the only model available for use by DOT/PF.

ANALYTICAL PLANNING NARRATIVE: AN ALTERNATIVE APPROACH

Establishing a system for analytical planning in DOT/PF is indispensable to an adequate planning process and would greatly strengthen the planning functions described and help fill the gaps in the present structure, particularly at the system level, where project identification is presently more an administrative activity than an analytical one. Data generated from the system planning level is also useful for project planning in a system context, as a foundation for the more detailed project-level information that is required in reconnaissance and feasibility studies.

Technical Analysis

The type of technical analysis that fits well with the system planning function is called "sketch planning." This analysis technique takes a broad network view of the transportation system with quantitative measures of system relationships and system performance with order-of-magnitude levels of detail for life-cycle costs and benefits. It relates future traffic to future population growth and economic development in the project area. It can also be geared to produce indices of system performance which correspond to desired service levels in the villages and cities and to provide some indication of constraints that are preventing the system from reaching desired levels of service. The basic steps in this process are the same as those incorporated into at least one report already in DOT/PF's possession, namely:

- 1) Determine present socio-economic variables which influence demand for transportation;
- 2) Determine the relationships between these variables and traffic levels;
- 3) Forecast the socio-economic variables;
- 4) Forecast freight and passenger traffic by mode;
- 5) Identify potential projects or improvements in the transportation system;
- 6) Estimate costs of project construction, operation and maintenance; and
- 7) Evaluate projects based on service levels, cost-benefit analysis and other indicators of desirability.

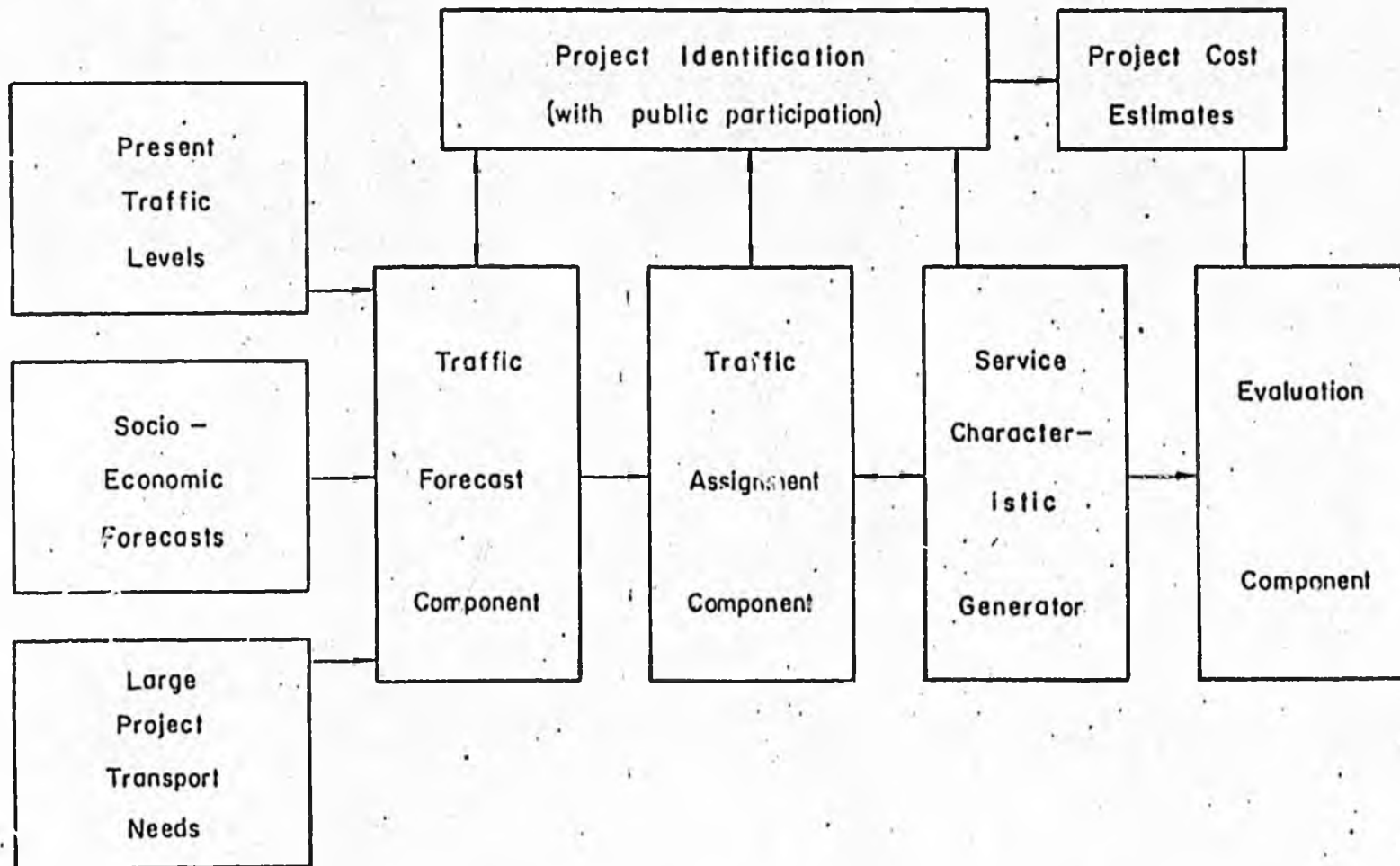
In order to accomplish these functions, the system, therefore, requires:

- 1) a traffic forecasting component which is tied to present traffic levels, basic socio-economic data, and specific characteristics of large

projects; 2) a traffic assignment component with a network model which may or may not be computerized; 3) a service characteristic generator which determines frequency of service by mode; 4) a project identification and cost estimation component, and 5) an evaluation component that compares system costs, characteristics and indices with and without any project or transportation demand or supply element. These components are shown graphically in the attached chart.

There are computerized sketch planning programs available. However, they are often oriented to urban transportation planning and would have to be adapted to rural Alaskan requirements. There have been studies produced for DOT/PF which have effectively modified an analytic system suitable for use in Alaska. They, however, have never been implemented.

Transportation Sketch Planning Components



Background:

The four-lane Glenn Highway, heading north out of Anchorage/Eagle River, narrows to two lanes at Eklutna Bridge.

Going south toward Anchorage/Eagle River, two major highways, the Glenn and the Parks, merge into the two-lane Glenn Highway. The effect is the same--four lanes of major highway narrow into an older, two-lane paved road.

The resulting doubly-bottlenecked stretch of road (see sketch, Attachment A) carries traffic across some of the most exposed, wind-buffeted area in the Matanuska Valley: the Eklutna Flats. Winds gusting across the flats have literally blown vehicles off the road. In the very recent past, a trailer being pulled by a semi was blown across the guard rail over the Matanuska River.

This section of highway also spans three major bridges across the Matanuska and Knik Rivers. Condensation produces heavy fog throughout this area almost daily. Another effect of the moisture present there is a large amount of road ice.

The area also supports a large moose population. The perimeters of the road are unfenced, allowing these animals to cross the roadway at random. The high banks necessary to keep the road from flooding inhibit the driver's ability to spot moose crossing this highly trafficked road.

Add to this already hazardous drive the fact that the Glenn Highway is the primary artery of the substantial commuter population traveling from the Mat-Su Borough to jobs in Anchorage/Eagle River. Forty percent of the Borough's working population is employed outside the Borough.

In addition, many residents shop and do business in the Municipality of Anchorage.

The Mat-Su Valley offers a variety of recreational and tourist pastimes, drawing large numbers from the Anchorage bowl to its lakes, streams, ski trails, and other facilities.

Finally, the Glenn Highway is the only road leading north out of Anchorage, and south into Anchorage, Eagle River, and the Kenai Peninsula.

Statistics and Projections:

According to a 1982 Mat-Su Borough census, the borough has 26,000 residents. From 1970-1982, the Borough has experienced an average annual growth rate of 13.4%. There is solid reason to believe that this growth will continue, and could accelerate, in the future. The population will probably increase if planned construction projects, such as the Healy-Willow Intertie and the Beluga-Anchorage gas pipeline, go forward as scheduled. (See Attachment B.)

Of the 9,000 employed Borough residents, 3,600 work outside the Borough, largely in Anchorage/Eagle River. Although most of these people drive, alone or in car pools, three commuter buses daily accommodate approximately 70 people.

Average daily traffic on the Glenn Highway at the Eklutna Bridge is over 14,000 vehicles (see Attachment C). According to DOT/PF Deputy Commissioner John Bates, traffic is already above average for a two-lane highway.

During peak tourist traffic times, the highway usage more than doubles. On Labor Day, 1982, the Glenn Highway was traveled by 35,560 vehicles (traffic count at Scale House south of Eagle River; no data available for this date at Eklutna Bridge).

Accidents and road repairs which block one or both lanes further complicate smooth traffic flow. Emergency medical services personnel have expressed concern that traffic tangles may one day block passage of ambulances en route to Anchorage.

The Glenn Highway was constructed in 1965-66, when the Borough's population was 6,350, and the population of the Anchorage area was 102,337. The road was upgraded to four lanes from Anchorage to Peters Creek in 1972. The four lane highway was expanded to Eklutna Bridge in 1980.

Conclusions:

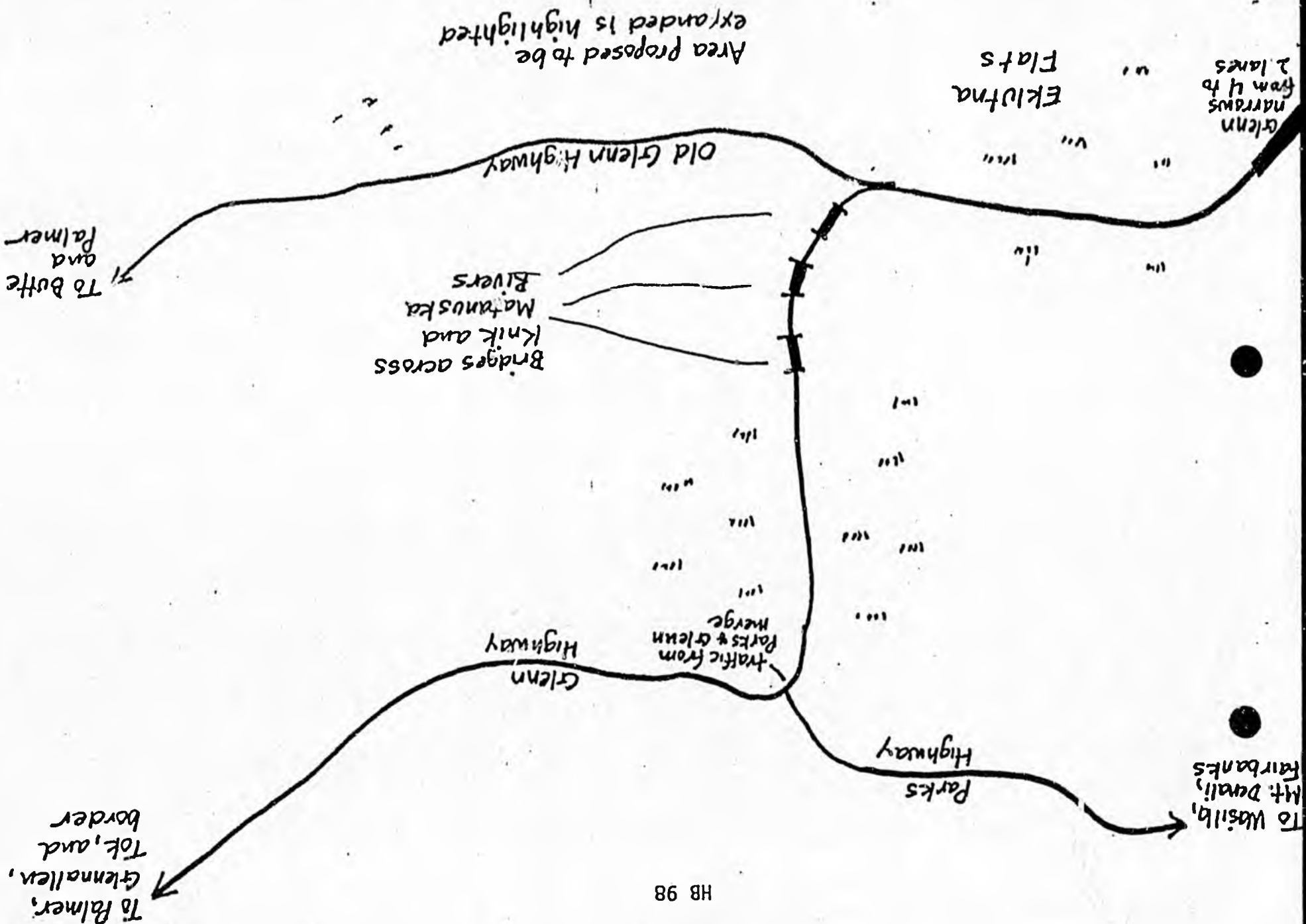
The Glenn Highway was adequate to meet traffic demands when it was constructed nearly twenty years ago. However, population in the Mat-Su area has more than quadrupled since that time, and Anchorage population has doubled. Tourism and recreation have become attractive industries for the economies of the Mat-Su and Anchorage areas. The existing road is no longer adequate for the increased demands being put upon it. As population, commuting workforce, and tourism increase, this strain will worsen.

According to John Scribner of DOT/PF, Anchorage, the project to widen the Glenn from Eklutna Bridge to the Parks Highway Junction, if funded this session, would be completed in approximately 1987, when, according to moderate population estimates, the population of the Matanuska Susitna Borough will be over 34,000. (Reference Attachment B.)

Therefore, it is vital to the economic well-being of the Matanuska-Susitna Borough and the Municipality of Anchorage, both its commuter and recreational/tourist travelers, and to the safety of all users of the Glenn Highway to begin construction of a four-lane highway from the south end of Eklutna Flats to the Junction of the Parks Highway.

ATTACHMENT A

HB 98



Area proposed to be expanded is highlighted

Eklitna Flats

Glenn Narrows from 4 to 2 lanes

Old Glenn Highway

Bridges across Knik and Matanuska Rivers

Traffic from Parks & Glenn Merge

Glenn Highway

Parks Highway

To Butte and Palmer

To Palmer, Glennallen, Tok, and border

To Wasilla, Mt. Dora, Fairbanks

TABLE 4
 MATANUSKA-SUSITNA BOROUGH POPULATION PROJECTION
 MODERATE SCENARIO
 (MID RANGE)

<u>Year</u>	<u>Population</u>	<u>% Increase</u>
1981	22,339	-
1982	23,456	5%
1983	24,761	6%
1984	26,247	6%
1985	28,377	8%
1986	30,942	8%
1987	34,303	10%
1988	39,449	15%
1989	45,430	15%
1990	51,080	12%
1991	57,339	11%
1992	64,723	13%
1993	71,880	11%
1994	79,824	11%
1995	85,620	7%
1996	91,568	7%
1997	97,036	6%
1998	102,213	5%
1999	107,660	5%
2000	113,390	5%
2001	119,414	5%

Source: "GROWTH POTENTIAL, DEVELOPMENT ISSUES, SETTLEMENT PATTERNS"
 Volume 2 of 2, Matanuska-Susitna Borough Comprehensive
 Planning Program, May, 1982

ATTACHMENT B

Glenn Highway: Eklutna - Parks Highway Junction

Built In 1965-1966

Normal Traffic: 1981 ADT 7,400-8,000 no winter counts are available on this segment of the road. (ADT - AVERAGE DAILY TRAFFIC)

Variance between morning and evening:

<u>Station</u>		<u>SB</u>		<u>NB</u>	
Eklutna Bridge	AM	3133	(43%)	2226	(31%) 7/14/82
Eklutna Bridge	PM	4103	(57%)	4749	(65%) 7/14/82
Eklutna Bridge	day	7238		6975	7/14/82
Glenn - S. of Parks Hwy.	AM	2566	(42%)	1826	(30%) 7/14/82
"	PM	3481	(58%)	4190	(70%) 7/14/82
"	day	6047		6016	7/14/82

Both Ways

Old Glenn Junct.	AM	4306	35%	July (13-15), 1982
	PM	7697	65%	
	day	12157	100%	

above average for 2 lane rd.

Park Traffic: At scale house - no data available for subject segment.

State Fair - Friday 8/20/82
 NB 16,021
 SB 15,006

Labor Day - Saturday 9/4/82 (Scale house)
 SB 16,715 (into town) ANCHORAGE
 NB 18,845

Time Road Closed:

one lane - 3 days last summer/repair of bridge
 two lanes - 3 days - 3 years ago/repair R.R. crossing

No data available for road closures due to accidents.

Accidents: Should have accident data tomorrow.

COMMITTEE REPORT
SENATE

1/18/83

FURTHER: FINANCE

Date: Feb. 17, 1983

Mr. President:

The Committee on TRANSPORTATION has had SENATE BILL NO. 6

An Act making a special appropriation to the Department of Transportation and Public Facilities for construction of a four-lane highway from the south end of Eklutna Flats to the Palmer-Wasilla junction; eff. date.

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass do not pass
- do pass with attached amendments(s) same title
- replace with CS for _____ new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

Al Schwarz (proposed that the question of Federal Funds is EXPLORED)

CHAIRMAN

STATE OF ALASKA
PRELIMINARY STATEMENT OF FISCAL IMPACT

Bill No: SB 6 Date on Bill: 1/18/83
 Title: Approp... DOTPF..construct..hwy..Eklutna to Palmer-Wasilla junction.
 Sponsor: Kerttula and Moss
 Requestor: Senate Transportation Committee

1. Estimated fiscal impacts on:

a. Expenditures:

(Thousands of Dollars)

			FY 83	FY 84	FY 85	FY 86		
Capital				39,000.0				
Operating								
Total				39,000.0				

b. Revenues:

Revenue				-0-				
---------	--	--	--	-----	--	--	--	--

2. Source of funds to offset fiscal impact of bill:

3. Assumptions:

See Attached.

4. Disclaimer:

This statement has not been reviewed by the OMB in the Office of the Governor. It not represent the policy of the Sheffield Administration or the final estimate of fiscal impact.

Prepared By: Wayne Weeks Phone: 465-4060
 Division: Planning & Programming, Unit Support Date: _____

Approved by Commissioner: J. Bates Date: 2/16/83
 Department: Transportation & Public Facilities

5. Distribution:

- Original to Legislative Finance
- Copy to OMB
- Copy to Sponsor
- Copy to Requestor

2/8/83

ANALYSIS - SB 6

Construction of a four-lane highway from the south end of Eklutna Flats to the Palmer-Wasilla junction as described in SB 6 is not included in the Governor's 1984 capital request. Our estimated cost for construction of this project is \$60,105,000.

This estimate is based on the following.

Project Scope:

1. a new south bound 2 lane roadway from Eklutna Flats to the junction of the Parks Highway (8.5 miles);
2. bridges (4,500 feet);
3. an interchange at the intersection with the Old Glenn Highway; and
4. an overlay of the existing highway.

Estimated construction cost in FY 83 dollars is \$38,479,000, including a 10% contingency.

Project Schedule and funding needs:

1. an annual inflation rate of 10%;
2. preliminary engineering (P.E.) contracted out to a consultant;
3. P.E. funding available by July 1983; and
4. the construction contract advertising for bid by February 1987.

The estimated P.E. cost in FY 83 dollars is \$946,000, which is 3% of the estimated construction cost. The analysis assumes that P.E. costs are spread over 3 years. On completion of construction, it is estimated that maintenance and operating costs will approximate \$7,000 per lane mile. This translates to \$119,000 per year.

STATE OF ALASKA
PRELIMINARY STATEMENT OF FISCAL IMPACT

MAR 07 1983

Bill No: SB 6 Date on Bill: January 18, 1983
 Title: Approp. to DOT/PF for construction of a four-lane highway from Eklutna Flats to Palmer-Wasilla Junction.

Sponsor: _____
 Requestor: Kerttula & Moss

1. Estimate fiscal impact on:

a. Expenditures:

(Thousands of Dollars)

			FY 84	FY 85	FY 86	FY 87	FY 88	
Capital			400	400	334	30,000	28,971	
Operating								
Total			400	400	334	30,000	28,971	

b. Revenues:

Revenue								
---------	--	--	--	--	--	--	--	--

2. Source of funds to offset fiscal impact of bill:

Not identified by the sponsor.


3. Assumptions:

The ultimate fiscal impact of this Bill will be \$119,000 per year (in FY 84 dollars), starting in FY 88.

4. Disclaimer:

This statement has not been reviewed by the OMB in the Office of the Governor. It therefor does not represent the final estimate of fical impact.

Prepared By: Wayne Weeks Phone: 465-4060
 Division: DOT/PF, Planning & Programming Date: 2/2/83

Approved by Commissioner:  Date: 3-2-83
 Department: Department of Transportation & Public Facilities

5. Distribution:

- Original to Legislative Finance
- Copy to OMB
- Copy to Sponsor
- Copy to Requestor

ANALYSIS - SB 6

Construction of a four-lane highway from the south end of Eklutna Flats to the Palmer-Wasilla junction as described in SB 6 is not included in the Governor's 1984 capital request. Our estimated cost for construction of this project is \$60,105,000.

This estimate is based on the following.

Project Scope:

1. a new south bound 2 lane roadway from Eklutna Flats to the junction of the Parks Highway (8.5 miles);
2. bridges (4,500 feet);
3. an interchange at the intersection with the Old Glenn Highway; and
4. an overlay of the existing highway.

Estimated construction cost in FY 83 dollars is \$38,479,000, including a 10% contingency.

Project Schedule and funding needs:

1. an annual inflation rate of 10%;
2. preliminary engineering (P.E.) contracted out to a consultant;
3. P.E. funding available by July 1983; and
4. the construction contract advertising for bid by February 1987.

The estimated P.E. cost in FY 83 dollars is \$946,000, which is 3% of the estimated construction cost. The analysis assumes that P.E. costs are spread over 3 years. On completion of construction, it is estimated that maintenance and operating costs will approximate \$7,000 per lane mile. This translates to \$119,000 per year.

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Bristol Bay Borough

Box 189 • NAKNEK, ALASKA 99633

JIM D. CLARK
MAYOR

TELEPHONE
(907) 246-4224

February 10, 1983

Representative Cato, Chairman
House Transportation Committee
Pouch V
Juneau, AK 99811

Dear Representative Cato:

I am writing in support of HB 169 which provides funds for the continuation of the Local Service Roads and Trails Program.

This program has been of great benefit to our borough. Utilizing local labor and construction equipment already in the area, the program gets more out of the state's money than other grant programs. The personnel at Local Service Roads and Trails are accustomed to working with residents from rural Alaska, understand the conditions which exist there, and work closely to see that all funds are accounted for and used efficiently. Many projects of varying size have been funded in this way, improving conditions in Alaska and contributing to a sense of accomplishment by local residents.

I hope your committee will consider this legislation favorably so the LSR&T program can continue to exist.

Sincerely,

Don Penner
Administrative Assistant

/DP

BRISTOL BAY NATIVE ASSOCIATION

P.O. BOX 189

DILLINGHAM, ALASKA 99576

by Executive Committee

Bristol Bay Native Association
Resolution in Support of the
Department of Transportation and
Public Facilities Local Service -
Roads and Trails (LSR&T) Program

Resolution No. 83 - . 03

WHEREAS, the LSR&T program has been very effective in developing village roads in the Bristol Bay Area; and

WHEREAS, the LSR&T program has schedule projects to provide access roads in support of the Bristol Bay Housing Authority (BBHA) Low Income HUD Housing construction in several villages in the Bristol Bay Region; and

WHEREAS, the Bristol Bay Housing Authority has awarded contracts for the construction of houses at Aleknagik, Egegik, Levelock and Port Heiden; and

WHEREAS, the Bristol Bay Housing Authority has scheduled a housing program for 1984 and 1985 at the villages of Iliamna, Igiugig, Kokhanok, Newhalen, and Nondalton and will require access road construction in each village; and

WHEREAS, additional road construction is needed to improve or provide access to townsite lots within village townsites; and

WHEREAS, each village is in need of a Dump Site with access road.

NOW THEREFORE BE IT RESOLVED, that the Department of Transportation and Public Facilities reactivate there very successful Local Service Roads and Trails program which is the very foundation of municipal sewer, water and sanitary waste disposal systems; and

BE IT FURTHER RESOLVED, that all of the projects scheduled herein be incorporated within the reactivated Local Service Roads and Trails program.

SIGNED

William P. Johns
PRESIDENT

CERTIFICATION:

I, the undersigned secretary of said Association, do hereby certify that the Executive Committee is composed of ten (10) members, of whom 8 were present at a meeting this 20 day of January, 1983, and that the foregoing resolution was adopted by the affirmative vote of 8 members.

SIGNED

Ada Pookedak
SECRETARY

Representative Adelheid Herrmann
January 7, 1983
Page 3

City of Akutan

Coastal Resource Service Area

There has been some thought given to forming a Coastal Resource Service Area in the Aleutians west of Unimak Pass. I am enclosing a copy of a letter I recently received from Murray Walsh to Mayor Bill Fisher of Unalaska. In the letter, Mr. Walsh refers to a meeting that was held in Anchorage on November 16, 1982. In addition to the representatives from the Aleutians there were also people there from St. Paul and St. George. A resolution was passed by the participants at that meeting that the ~~Alaska Coastal Management Act~~ needs to be amended to provide for participation by all the communities of the region. ~~We would appreciate it if you could look at the issue and work on the drafting of such legislation or taking other steps necessary.~~ As things stand now, if a district were to be formed in the western Aleutians, at least five of the six seats would go to Unalaska, with the villages having one seat among the three communities, if we were lucky. The present law does not allow for the inclusion of the Pribilofs in an Aleutian district because of the link between the CRSA boundaries and the REAA boundaries. We are not sure if the Pribilofs would even be interested in being included in an Aleutian district, but one of the attractive features of that configuration would be the dispersal of power among more than one large community. It is a relatively complex issue and one that looks as if it will come to a head in the coming months. We would appreciate any help you can give us.

Local Service Roads and Trails

~~A second issue is that of the elimination of the Local Service Roads and Trails program by the Alaska Department of Transportation.~~ This program is relatively small, but it does good things for rural communities. DOT/PF thinks that it will be able to meet the diverse needs of rural communities through its regular program. We in Akutan have dealt with both parts of DOT and truly feel that the LSR & T program more adequately meets the rural need. Our LSR & T project is almost completed so it wouldn't really make that much difference to Akutan, but it is a program that has done good things for us. We would like to see other communities have the same opportunity.

Service Delivery in Rural Alaska

I am also enclosing a copy of a plan I have for coordination of service delivery by state agencies in rural Alaska. I mentioned it to you when we met. I have also sent a copy to Representative Jack McBride but he and I have not discussed it

needs answer

TWIN HILLS VILLAGE COUNCIL

GENERAL DELIVERY
TWIN HILLS, ALASKA 99576-2
(907) 972-8001

December 7, 1982

Adelheid Herrmann
P.O. Box 63
Naknek, AK 99633

Dear Adelheid:

On behalf of the Village Council and Community of Twin Hills, I would like to congratulate you to represent our district. With all our prayers and best wishes to your success at work.

I would like to know whether or not the legislator is planning on dissolving the DOT programs for villages that need state assistance in building their roads? I was told that these road construction firm companies are pushing to end state appropriation monies be contracted out to DCT.

We the Village Council of Twin Hills oppose the idea of having another private owned companies bringing in their own workers and build our roads. I think the program that DOT provides should not be dissolved. Because they hire local residents and at the same time the people who work, get experience in operating heavy equipments.

We also have two(2) new council members and all the council members terms will end October 1984. They are as follow:

- Arthur W. Sharp.....President
- Roger Wassillie.....Vice President
- John W. Sharp.....Sec./Treasure
- John C. Mark.....Member
- Christopher Sharp, Sr....Member

Thank you and congratulations again.

Sincerely,

Arthur W. Sharp
Arthur W. Sharp
President

cc: Twin Hills Village Council

KOLIGANEK VILLAGE COUNCIL
KOLIGANEK, ALASKA 99576 - VILLAGE TELEPHONE (907) 596-8001

December 28, 1982

Senator Nels Anderson, Jr.
Dillingham, Alaska 99576

Dear Nels:

I am now in receipt of your letter dated December 7th, requesting our list of five capitol project priorities. Before I list them, let me say that it would be appreciated if you would request that Rep. Herman, and Sen Mulcahy, have their offices insure that mail addressed to the village council is addressed as follows, in order to facilitate prompt responses on our part.

Koliganek Village Council
attn: C.T. Seidl, Admin.
Koliganek, Alaska 99576

As to our priorities we held a meeting this afternoon, and developed the following list:

- 1) It is imperative that we have the airport moved away from the village. This is far and above any other priority. You may recall the problem we have been having in the orderly expansion and growth of Koliganek, due to the Airport cutting us off. Representative Herman should also be aware of this situation as I went over it in detail during her campaign. Jack Moore's of BBNA, and Tom Hawkins are both very knowledgeable in the mechanics of such a land trade off and indicate that there are precedents for such action; we have allready discussed it.
- 2) Additional funding for our LSR&T project. The equipment is here in Koliganek, and we are awaiting spring for the continuation of our project, but could really use more funding to increase the length of our local roads.
- 3) The upgrading of water and sewer. Realizing that funding may not be available for such a large project as the excavating of ground and laying of pipe mains, it might be that two wells could be dug, with insulated pump houses that are equipped with self-draining, freeze proof water outlets. One each placed on either end of the village, so that we can pump cleaner water that is in the river, and the chore would be safer, than treading out on the ice, particuarilly for the younger children.

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TESTIMONY OF
SENATOR FRANK R. FERGUSON
ON SENATE BILL 7 BEFORE THE
SENATE TRANSPORTATION COMMITTEE

SENATE BILL 7 PROVIDES FOR A SUPPLEMENTAL APPROPRIATION TO THE DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES FOR \$10 MILLION FOR THE LOCAL SERVICE ROADS AND TRAILS (LSR&T) PROGRAM.

THE LSR & T PROGRAM IS A PROGRAM OF VITAL IMPORTANCE TO BOTH URBAN AND RURAL COMMUNITIES. THE PROGRAM OFFERS FUNDING FOR CONSTRUCTION OF LOCAL ROADS AND TRAILS THAT ARE NOT ELIGIBLE TO RECEIVE FEDERAL HIGHWAY FUNDING.

LAST YEAR, THE HAMMOND ADMINISTRATION BEGAN A PHASE-OUT OF THE LSR & T PROGRAM. THE DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES HAS STATED PUBLICLY THE REASONS FOR THE LSR & T PHASE-OUT IS DUE TO THE MUNICIPAL GRANT PROGRAM AND LINE ITEM APPROPRIATIONS. THIS EXPLANATION IS LACKING IN SUBSTANCE.

FIRST, LINE ITEM APPROPRIATIONS AND MUNICIPAL GRANTS ARE, IN

MOST CASES, THE SAME THING. WHEN MAKING A LINE ITEM APPROPRIATION TO A COMMUNITY, THE LEGISLATURE DESIGNATES IT AS A MUNICIPAL GRANT. THE MUNICIPAL GRANT PROGRAM IS NOT A PROGRAM FUNDED BY THE LEGISLATURE BUT RATHER A PROCEDURE ALLOWING THE STATE TO CONTRACT WITH LOCAL COMMUNITIES.

SECOND, APPROPRIATIONS TO LOCAL COMMUNITIES BY THE LEGISLATURE HAVE NEVER BEEN SUFFICIENT TO MEET THE EXISTING TRANSPORTATION NEEDS. THE LSR & T PROGRAM HAS ALWAYS BEEN LOOKED UPON BY THE LEGISLATURE AS A WAY TO FUND PROJECTS THE ADMINISTRATION AND LEGISLATURE WERE NOT ABLE TO CONSIDER DUE TO TIME CONSTRAINTS BUT WERE IN NEED OF CONSTRUCTION OR REPAIR IMMEDIATELY.

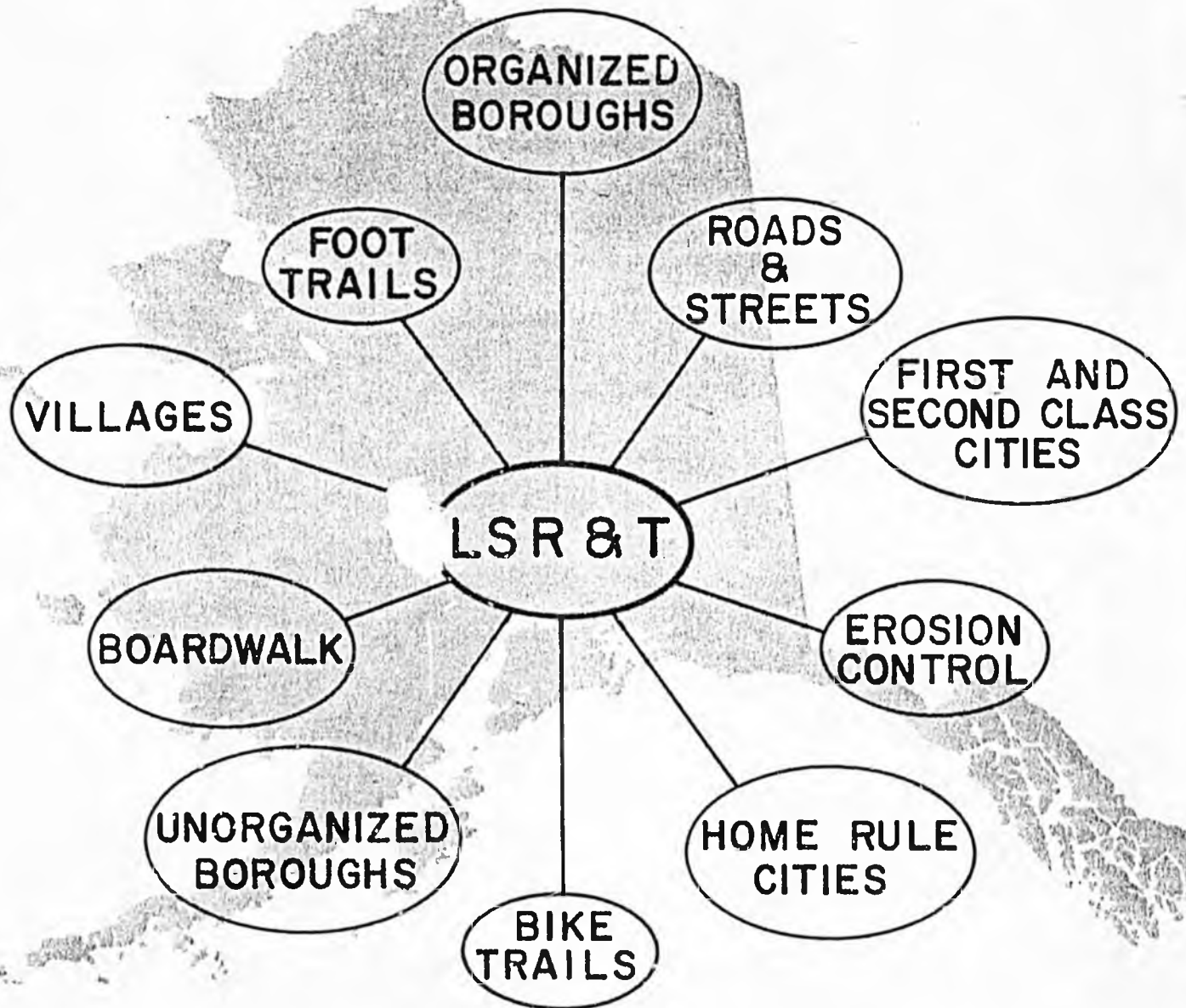
THE \$10 MILLION SUPPLEMENTAL WILL ALLOW THE DEPARTMENT TO ENTER INTO AGREEMENTS WITH LOCAL COMMUNITIES FOR PROJECTS THAT HAVE BEEN IDENTIFIED AS IN NEED OF FUNDING. BECAUSE OF THE PHASE-OUT, THE DEPARTMENT HAS BEEN TRYING TO CLOSE OUT PROJECTS AND NOT ENTERING INTO CONTRACTS FOR PROJECTS THEY KNOW NEED FUNDING. THE MEMORANDUM IN YOUR PACKETS FROM

SENATOR MOSS INDICATES THAT APPROXIMATELY \$2,818,000 IS AVAILABLE FOR FUNDING THROUGH THE END OF THE FISCAL YEAR. ACTUALLY, THE \$2,818,000 IS COMMITTED BUT NOT UNDER AGREEMENT.

IN THE PAST, DOT HAS RECEIVED \$10 MILLION DOLLARS TO COVER A TWO-YEAR PERIOD FOR THE LSR & T PROGRAM. SINCE THE LSR & T PROGRAM DID NOT RECEIVE FUNDING THIS FISCAL YEAR, THE \$10 MILLION WILL ALLOW THE DEPARTMENT TO ENTER INTO AGREEMENTS FOR NEW PROJECTS THIS CONSTRUCTION SEASON, AND CONTINUE OPERATIONS INTO THE NEXT FISCAL YEAR.

THREE YEAR LOCAL SERVICE ROADS AND TRAILS PROGRAM

1981 1982 1983

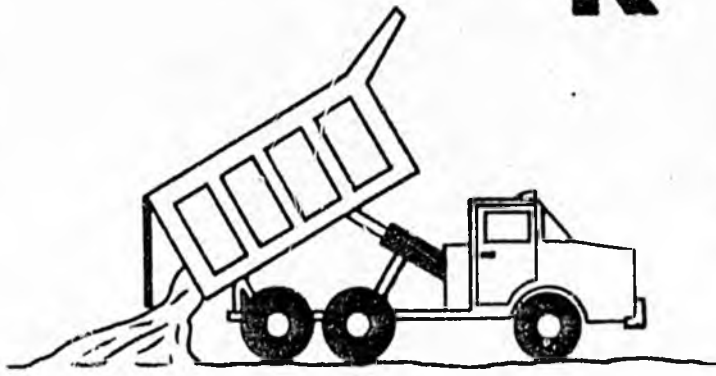


STATE OF ALASKA
DEPARTMENT OF TRANSPORTATION
AND PUBLIC FACILITIES

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HANDBOOK

STATE OF ALASKA
DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES
LOCAL SERVICE ROADS AND TRAILS