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Chairperson: Have you been able to hear the discussion that's been going on in the Committee Room.

Fairbanks: Yes.

Chairperson: Do you have something at this time that you would like to testify or give some comments?

Fairbanks: There's several gentlemen here that represent various [indiscernible] in the trucking industry I believe that are going to have a spokesman.

Chairperson: All right. Would that person like to come forward and state their name, their occupation and proceed with their comment.

Williamson: My name is Ken Williamson. I'm Terminal Manager for Lynden Transport here in Fairbanks.

Chairperson: Yes, go ahead Mr. Williamson.

Williamson: We all testified, as you mentioned earlier on these hearings, and quite a few of us here in Fairbanks and, like you earlier mentioned, everyone seems to be a little opposed to the regulations. I think the main reason is the fact that there's a lot of equipment out there that's set up that will, the operations will be hindered in a safety manner if they have to be run with the less driver weight which this law would force us to run, primarily in the tanker business. I also feel very strongly that the law would eventually be circumvented by a lot of people trying to haul more weight by taking a torch and cutting the strings so the axle does not lift to get them by the scale. They can go past the scale and do what they want to do or slide backwards off the hill or whatever. I think the industry has pretty much testified that they're really against this proposal and most of us wish the state would kind of leave it alone.

Chairperson: Anything else, Mr. Williamson.

Williamson: Basically, that's it.

Davis: Thank you, Mr. Williamson. Just a question, I guess is that it looks like you're quite a way down the road on this and, not to use that pun I suppose, and what happens if they do become implemented? Do you see, as you said, do you see people circumventing the law and we certainly don't want to make a worse situation that we already have. Do you have any "what ifs" or suggestions to the Committee if these things do become law?

Williamson: I definitely feel that there will be people out there that are going to circumvent the law. You have a lot of problems, insurance problems right now, I think this will worsen this issue because of people who are going to be forced to try to haul products at a rate which is already too low in many cases. We have a lot of serious problems there on the road right now with safety and, as you well know, insurance. I think this is going to worsen that because people will try to operate when the conditions are such that they should not. They will leave that axle down and they will try to pull the hills with it, creating a problem.

Davis: Mr. Williamson, one of the things that I talked to the Chairman about was the insurance issue and problems that that's making for your industry and if you have any comments to that effect, we'd certainly welcome, I'm sure Madame Chairman would certainly welcome those now because the lift axles are certainly an element, as you say, if we have a trucking industry that becomes more prone to any accidents, that's certainly going to affect all of you and all of us indirectly. But, so, if you have any comments on that, we'd certainly appreciate it.

Williamson: Yes, I do. Last year when we lost the A.T.C., we practically have no governing agency that will police the insurance issue or the safety issue. Our company has a tractor in our yard that's totalled, the driver, that was seriously injured, the other carrier had no insurance. I have talked to the Department of Motor Vehicles, Department of Public Safety, Department of Commerce, the Attorney General's office to try to get something straightened out and at least try to get this company to prove insurance. Currently it's against the law to operate a commercial vehicle in the state of Alaska without insurance. There is absolutely no peak put in the law whatsoever and no one monitors this sort of thing.

Chairperson: Mr. Williamson, if I might interject a statement or question here. Would it be your recommendation, perhaps, that this Committee take into consideration some type of legislation that would delve into that law.

Williamson: Absolutely, Bette. There's something that has to be done on this because you know we don't want to kill a bunch of kids in a school bus and then say we should have done something. Unfortunately, I would estimate that probably 10% of the carriers north of Fairbanks are currently operating without insurance at this time.

Chairperson: That's a large estimate and I see the danger. Do you have something more, Representative Davis.

Davis: Yes. Mr. Williamson, I'm, as you can tell, currently out of town, but I have a member of my staff there and I will be glad to sit down with you or anyone else and work with the Chairman to try to put some teeth into the law. So, if you have some comments there, I believe that you can get a copy of the legislation that was passed last year there from Legislative Affairs. I'll be there for a couple more weeks and will be glad to sit down and try to help work something out.

Williamson: Okay, we have a copy of it here and have been looking at it. Also, I have talked to other members of the Department of Commerce and different places, and people are interested and want to do something. I think the main reason or main problem is there is apparently no funding for this and also no directive as to whose responsibility this is after when the A.T.C. was abolished last year.

Davis: Mr. Williamson, I think we can get an AG's opinion to find out who would, which agency would, or which department would have a responsibility. I'm not saying that we can solve all the problems, but I think we can do some work on this and I'll be back sometime tomorrow. I'll be glad to meet with you later on this week or next week so we can get working on this. From my angle, I will be glad to help in anyway I can.

Williamson: That would be very good.

Chairperson: Is there anyone else in Fairbanks? Mr. Williamson, I thank you very much for your testimony and there are no further questions to be asked of you. Is there anyone else in Fairbanks that wishes to testify? That word testify is always scary, so I'd rather say who'd like to make any comments. Is there anyone in Valdez that would like to make any comments? Valdez are you able to hear us?

Valdez: Chairwoman Cato, my name is George Chiller, I am testifying from Valdez and representing Alaska Freight Lines, a transportation affiliated common carriers.

Chairperson: Thank you, George. Will you go ahead and make your comments.

Chiller: Chairwoman Cato and members of the Committee, I would like to address my comments to the

proposed regulations and to be quite frank with you I haven't seen the latest draft; however, in what I understand, I would like to address my particular comments to the gross vehicle limitations with regard to the operation of double 40 combination, particularly out of Valdez. I would assume that my comments would have some general applicability to operation of double 40's in general. As a little background, I would like to comment that back in 1984, Alaska Freight Lines applied for and was successful in obtaining the application and permission to operate double 40's on the Richardson Highway between Valdez and Fairbanks and since the outset of that we have proven it has lent itself in terms of the growth of the traffic which has moved over the docks of Port of Valdez to the point that in September of 1984, we received our first pipe shipment ever of oil-country tubular goods and we have been very successful since then. Subsequent to that, in moving one of tubular goods in competition with other ports of entry in the state. Now I can trace this back directly to the operation of the double 40's. Primarily, we have been able to offer our rates on a competitive basis with other modes of transportation and other ports, and without the double 40's I don't think that Valdez would have achieved the rate of growth that is enjoyed to this point. I point to the fact that in the last few months, from July to early December, we were able to transport well over 10,000 tons of cargo between our two companies and fully 90% of that cargo was transported on a 40 foot combination. So, it is very significant and very important to us to be able to transport our commodities, which are primarily moving through Valdez oil county tubular goods, relatively low tariffs and low margins by use of double 40 equipment. It gives us significant economies and allows us to be competitive in the area of very competitive at the market place. In addressing particularly the limitations of gross vehicle weight, I am again working in the dark, but it is my understanding that the gross vehicle weight limitations for combinations will be set based on what we call the bridge law, which is a trade off between wheel base and the number of axles, at nine axles and 131,500 pounds. I would wish at this point to pause and let anybody who knows more than I do about this correct me and then I will resume my comments.

Chairperson: Is he correct. Just one moment Mr. Banahan will make a statement.

Banahan: I'm not sure, can you hear me? Can you hear me? In the latest copy of the regulations as I have in my

possession state that doubles will be permitted to operated on a permit basis on the Richardson Highway. The permits, as they are presently issued, simply state that from the front of the first trailer to the rear of the rear trailer be no more than 90 feet in length and according to these regulations special overlength permits may be issued in accordance with an Alaskan Statute that's in effect on the route between Fairbanks and Prudhoe Bay for semi-trailers up to 48 feet in length. But, primarily with the route with which you're concerned and I know some other people are concerned with, that regulation has really not been changed. From what I understand, the state Department of Transportation will continue to regulate and allow the regulations to give the Division of Weights and Measures the authority to grant permits for doubles moving between Valdez and Fairbanks on a year-round basis.

Chiller: Thank you for those comments and that clarification. It was my understanding, based on associate conversation with Division of Weights and Measures, that they were going to limit us to 131,500 gross vehicle weight on the doubles at a nine axle configuration. This was a recent conversation held with the Division of Weights and Measures.

Banahan: That is also that eight-axle or nine-axle configuration is not true also. They are going to continue to permit the combinations, doubles based on the amount of permanent axles that are used in those combinations. For example, if regular doubles combination you would have a nine axle situation, if you had tandems on the rear of each trailer and a two-axle dolly, if you had a three-axle group on the rear of each trailer and a tandem dolly, you would have eleven axles and that, coupled with the bridge formula that you're operating with right now and your length, would determine the amount of weight that you'd be able to haul. That will still be permitted under this change in regulations.

Chiller: Thank you, again, for that. I am fairly familiar with the gross vehicle weight regulations. I have a table in front of me, as a matter of fact, and I can comment to the effect that our companies normally used a 12 and 13 axle configuration for hauling cargo out of Valdez and most of our combinations have been permitted between 146-148,000 pounds. My comments, and I would like to continue and I'll be very short and brief to the point, if in fact the 131,500 pound weight limitation does come about, we will suffer dearly in Valdez. With a 12 or 13 axle combination and a reduction denying axles, it would

just be completely impossible for us to compete effectively out of Valdez. I think anybody looking at one of those charts can see the difference between let's say for instance, 146,000 pound permitted gross vehicle weight and a 131,500 pound permitted gross vehicle weight. You're looking at roughly a 9% reduction in that payload capability and this combined with the way rates are going right now and the commodities that we're hauling would just completely put Valdez out of the picture as far competing for this type of traffic. Thank you.

Banahan: That's right, it would put Valdez out of the picture. But under the proposed regulation changes, you will still be permitted to use the bridge formula based on the number of axles you have. Although, remember they cannot be lift axles. You will have to have them in a permanent position.

Chiller: Can I comment now with regard to lift axles. It hasn't been actually voiced or vocalized to this point, but the reason that the Division of Weights and Measures, Department of Transportation has a problem with the lift axles is not safety, as has been mentioned before, it is because as soon as the particular vehicle and combined with the number of axles under it pulls across the scales and receives the nod from the scales attendant and they proceed down the hill and prepare to go up the next one, that lift axle comes up. I have made a suggestion in the past and I would hold by it. First of all, I figure that the 38,000 pounds per tandem is a completely arbitrary figure and I don't know how they came about that figure. There was a lot of mish mash that was given out by the D.O.T., but I don't see that that was a justification for the numbers that they came up with. I would suggest that they go to a 40,000 pound allocation per tandem which would be in line with the 20,000 pounds as allowed for a dual wheeled axle under the current regulations. This would alleviate the dislocations that are going to be caused by the deletion of the lift axle and would put most of the combinations that exist now and the allowance allowed under those combinations on the current charts in parody. There would be very little change in the status quo. I think the safety at issue would be addressed and I think that the operating concerns of the trucking companies would be addressed in great part. Along with that, another comment. I don't believe that going to 38,000 pounds on the tandem and leaving the [indiscernible, tape noise] at 32 is correct. It violates a certain sense of proportionality and I think if you're going to raise one to 38,000, if

that's the case, then certainly triples should go to some higher allowance [indiscernible, tape noise].

Chairperson: Thank you very much, George. I would like to, when I get home and I'm going to get there one of these days, sit down and you and I discuss a few things and get in touch with my office and see if we can also talk to various other people as far as weights and measures are concerned and perhaps we can do something about this.

Chiller: Thank you, Chairwoman Cato, and I'd be pleased to do that. Thank you, again, Chairwoman Cato and Commission for the opportunity to testify.

Chairperson: Is there anyone else in Valdez that wishes to testify. We'll go now to Mat-Su. Is there anyone in the Mat-Su district that wishes to testify or make comments?

Mat-Su: Thank you Madame Chairman, our participant does not wish to testify at this time.

Chairperson: All right, thank you very much. Do we have anyone here in Anchorage that wishes to make comments? Yes, Representative Pignalberi would like to ask a couple of questions.

Pignalberi: Thank you, Madame Chairwoman. The first question I think is for the staff. Do we have a representative from D.O.T. here?

Chairperson: I don't believe there is anyone from D.O.T. here.

Pignalberi: I wonder if Wendy could tell us whether or not D.O.T. has compiled any statistics concerning the number of accidents involving lift axles and if Wendy doesn't know, if any of the other people who've been following this issue know if we have any empirical evidence that relates accident rates to lift axles.

Wendy: T.J. might be able to help me with this. That was one of the questions that was asked of the Department at several of these hearings and essentially, as far as excellent statistics go, Department felt that it was difficult to define what accidents had been as a direct result of lift axles. So they did have very inconcrete data available on that because they said that unless the accident had happened, and like Mr. Banahan had said earlier that he only remembers in the 15 years one that was directly related to lift axles, D.O.T. is saying that a lot of accidents probably are as a result of the lift axles, but yet they can't seem to document that. What they did for

the safety aspects, they had a video tape and the video tape essentially showed the difficulty handling, it was simulated series, and it showed the difficulty in handling a vehicle on bad driving conditions and how dangerous lift axles were. People who viewed the video tapes said that nobody who was a responsible driver would be driving first of all anything like what was simulated on the video tape. I don't know

Pignalberi: Thank you. I wonder if in the course of these hearings that D.O.T. held that they considered the comments that have been placed in the back of our book from different people in the industry whereby suggestions have been made to modify the proposed regulations. Two of the suggestions that I picked out that seem particularly worthy of consideration is that regulations only apply in the wintertime and that only a wintertime ban. I would like to hear what some of the people here have to say about that. The other one is the motion of grandfathering the existing vehicles that have lift axles so that we don't have to force someone to lose the investment that's already been made. I'd ask Wendy again if she knows whether or not, and I'm not saying that she knows, but I wonder if D.O.T./P.F. has addressed this to the best of your knowledge because you've been closer to the situation than we have in the interim. Then maybe Mr. Banahan can tell us what he knows about.

Wendy: As far as I know, D.O.T./P.F. has not addressed that issue. As a matter of fact, quite a few of the things that they were contacted over numerous times by House Transportation and T.J. Thrasher and myself had talked to them and brought up quite a few things and quite a few of the industries' concerns and, again, the answers from D.O.T. everytime was that these were the regulations and they were going to adopt them. Even after constant conversations with them over several hours one day, they wouldn't change their mind and wouldn't listen to anyone. Even on changing the weights or anything like that, they didn't seem to be responsive to discuss it. The only comment I've got to make is in all the time going through this, we asked for copies of the regulations. We never saw any form of these regulations. Finally, the way we finally got them was to call the Commissioner's office three days before this Committee meeting and have Susan Flieshauer give us a set of everything that had happened all the way through. House Transportation hadn't seen one single sheet of paper from D.O.T.

Pignalberi: Doesn't that violate the Administrative Procedures Act whereby the legislature has to be given notice

so many days prior to not only the regulation the first time it's issued and proposed but for the changes that occur. I think maybe there's something to look at there. I happen to have a real open mind on this issue. I'm learning about it as we go but I'm a little concerned that we haven't yet heard who wants to change the situation. Somebody wants to change status quo. The Department of Transportation is proposing to change the situation, but who is urging them on. They don't have any concrete, at least as far as we can tell, any concrete statistics to say that it is a safety problem though they may suspect it is, they may be right I don't know. But absent any empirical data, who is pushing for the changes. I wonder if you can tell me that.

Wendy:

Representative Pignalberi, the trucking industry and House Transportation has tried to answer that question over the last several months. Representative Cato telephoned quite a few of the backup information. In the back of the packet states that telegrams were received, a lot of requests were put into D.O.T. for two things:

1. To delay any decisions made on the hearings until further study and investigation could be done.
2. To hold hearings in sites like Valdez and a lot of other communities that were going to be dramatically impacted by these.

For some reason D.O.T. didn't grant either one of those requests, went straight ahead and the regulations, before any time had passed, were in the Lieutenant Governor's office. And T.J., I don't have any idea why, really, do you?

Banahan:

It's my understanding that the reason that the Department of Transportation wanted to make these changes was primarily one-fold and that was that their bridge section had determined that there was an amount of damage being done to the bridges on the roads between Prudhoe Bay and on the paved roads, as well by the trucking companies, and by those drivers that were overloading two axles. Instead of having that lift axle down, in the down position after they went over the scales, they would pull that axle up and then overload the two remaining axles on the highway. As a result, the damage to the bridges and roads was of a severe nature. Now, we in the association questioned them and questioned them to find data, some sort of data that would support that and to also provide some sort of information as to

the amount of deterioration that had occurred at various bridges, but they always gave us the general answer that their engineering department couldn't do that because they hadn't had time to make a complete study and they also felt that because of this abuse of the lift axle by the industry, not because of it but in light of it they were unable to provide or unable to get, in the dwindling state revenue, they were unable to provide enforcement of the regulations on a statewide basis. They couldn't enforce the lift axle regs so they went ahead and changed them and they couldn't prove where damage to the highways really existed but they had a suspicion that some of the bridges were being damaged because some drivers were evidently abusing the lift axle privilege.

Pignalberi: Madame Chairman, I have a question. Did we allow people that were Anchorage to testify?

Chairperson: No, I wanted to get to them as soon as this testimony finished. Representative Pignalberi, did you have another? We are going to get to people in Anchorage, so don't try to leave us. We do want to hear your comments also. As soon as we get through with this question, we'll have you come on.

Pignalberi: I guess my question is probably more of a comment in that I think we can all agree if you've got a truck that goes over the scale with its lift axle down and raises it, there's cheating going on there and it seems like the real answer is enforcement. Maybe it means that the D.O.T./P.F. maintenance people along the Haul Road should be given some limited enforcement authority for that purpose. But it doesn't seem like it's the kind of thing that you restructure a whole darn industry for. I am learning as we go here, so I would like to hear what these other people have to say.

Chairperson: Yes. We are now coming to Anchorage. I'm sorry that we were so long, but anyone that wishes to testify, will you please come forward, give your name and who you represent.

Rule: My name is Joe Rule and I drive for Sealand Freight Services. I am an owner/operator and a log driver. I feel that there's at least a conflict of interest when Commissioner Knapp sits on the Board of Directors and he is the Commissioner of D.O.T.? Am I right there, Bette?

Chairperson: If you're referring to the Board of Directors to the Railroad, yes.

Rule: Yeah, the Railroad. The Commissioner of the Department of Transportation sits on there and I think that whether this is the direction it came from, especially in the rail belt areas, the state of Alaska on one hand is further restricting the gross payload we can haul with a truck. Through predatory pricing they're already putting us out of business with the Railroad from Anchorage to Fairbanks and now Commissioner Knapp, whether he's done anything or not, he is in a very viable position to do that. They can take a 70,000 pound load of steel, put it on a flat bed, a two-axle flat bed, stick it on our railroad and haul it to Fairbanks. They don't cross any scales at all, you can't get them to take jump scales down there and just say they have a short distance, they're right in the business section of town, there's no scales to cross in all probability and if so, they could still split the load and very well afford to do that. We're getting strangled not only by the fact we can't haul the weight at 42,000 pounds, now the state wants to come in and take more gross vehicle weight away from us and I feel that any restrictions are out of line. I don't think we're being dealt with fairly right now and I think it's going in the wrong direction.

Chairperson: Thank you, Mr. Rule. There is a question.

Shultz: A question maybe to anyone. Has anyone ever testified in favor of these things.

Rule: I testified against, I opposed the legislation we're discussing right now in I think late August or late September, we had a meeting out on International Airport Road. I don't know whatever became of all of this, but it was probably an 80 to 20 margin I'd say of people opposing the lift axle. I don't know. Is that what you have.

Chairperson: Your margin is even higher than that. That public hearing was held in August and there were 37 people testifying, 35 testifying against adopting these regulations.

Rule: I wasn't sure if that was the same one. Bette, or not.

Shultz: My question is, "Did anyone testify in favor of adopting these regulations?" That information wasn't on here. Did anyone come forward? It just says that there are 35 against, did 2 people testify in favor? Or just 35 people testified out of 37.

Rule: Two people in that meeting testified in favor of it.

Pignalberi: I'm trying to figure out if these people testified for the regulations are from the trucking industry.

Rule: I know the two people that testified at the meeting and both of those people were in a kind of exclusive market. Both of those people don't haul very much cold commodity and heavy load, both of those particular individuals were in the LTL less than a little related and it didn't matter to them anyway. They just didn't want the extra cost of keeping up lift axles. They never had to haul 30-32,000. I think that has a lot to do with it.

Chairperson: Continue, Representative Pignalberi.

Pignalberi: Thank you. I'm really glad we've got a driver here to talk to, maybe we'll hear some others. Do you feel that your life is at stake when you're driving with the lift axle down? Do you think there is an increased safety problem? Do you represent a hazard to my life, to your life, to anyone?

Rule: No, sir, I don't really feel that's the case because the way it is right now, I have a control valve inside my cab and it's almost as automatic as braking. If the front end's not steering properly that's the first thing that gets hit and lifted up and, as Mr. Banahan pointed out earlier, most of the time, almost 100% of the time, if icy conditions are in the wintertime and the road is frozen and there's not going to be any damage occurring to the road.

Pignalberi: The other question I have, I guess is if you would help me. The three of you are all senior to me in your experience. We've got something called the Administrative Regulatory Review Committee in the legislature and I don't think, what's it for? Is it maybe dealing with this?

Chairperson: It's there to investigate proposed regulations and to see whether or not and to go back over regs that are in place. This committee has just come into its own this last year. Prior to that time, it was chaired by an individual who didn't do a great deal on it. I don't think they've gotten to this issue as yet; however, I think that your suggestion that we give this to them for them to start raising some cane of some kind, or at least so that we get some clear explanations, would be an excellent one.

Shultz: Year before last, in the ballot issue before the people asking to give the legislature the opportunity to write or hear the regulations on the bills prior to the passage of them was defeated. The people

said leave it to the departments to write regulations. Keep the legislature out of it. Had we had the opportunity to have that passed, we would be sitting in a position now where you wouldn't be faced with this kind of crap.

Davis: If I may, it's a comment from my friend from Coke. I voted against giving the legislature that authority because at that time I thought the legislature was in such a disarray that I didn't want to give you guys any more authority. But I do have a bill that's being drafted, and it just occurs to me that it will be introduced this session, it will require the departments provide the justification for any regulations they propose. And clearly here we have the same justification. Anybody who's listening out there, I hope you'll lend some support to that bill.

Shultz: My expression is that if the testimony is unanimous on this and they have conducted public hearings and the public segment is not to adopt these regulations, then I, for the life of me, cannot figure out why L.O.T. hasn't simply backed off on it.

Chairperson: If I might make an expression to answer you, Representative Shultz. I personally called from outside while I was out there, called the Commissioner, told him the stats that I knew and said that 74.2% of the testimony was against the adoption of the regulations [tape end].

TAPE 2, SIDE B

Chairperson: from them that would be satisfactory to us.

Davis: I would like to find out D.O.T.'s reason why they weren't here, but you mentioned in your testimony that you felt the Commissioner had a conflict of interest and the only thing that I could see why you would think that is because he's on the Board of the Railroad. I guess my question is, I think you're more than right co-piloting one of those 18 wheelers, but my question is, when you lift the axle up, that puts more weight on the wheels that are on the ground. What basically happens, what kind of weight are we talking about? Its 38,000 pounds and then when the lift axle goes up, then how much more weight goes on the road? That's my first question.

Rule: Basically, what you're doing is you're shifting the weight. There is a matter of leverage here. It's not necessarily the skidding of the axle that's preventing you to turn. That, in addition with the lessening of weight as the axle goes down, if you

can just picture leverage working on the front end, that axle is ahead of the drivers, when you push it down consequently the front end of the truck gets lighter and that definitely loses traction. There are several people around now that have steering lift axles and they help. But it's never been my, I've never seen a problem lifting that axle up. Usually, you know it long before you're in that kind of a situation. You'll slip, you'll feel it slip a little bit on the corner and you have to pick them up. There's one other point that is going to be hard to work around taking this lift axle off, a lot of trucks aren't even equipped with a sliding fifth wheel and when you can put 42,000 pounds on those drivers and you're a little bit heavy on the drivers, you can decrease just a little bit of weight on that lift axle and it shifts weight to the front end of that truck, providing you don't go over the 11 or 10,000 pounds, whatever the tire size. But what it does basically is it gives you a little bit of allowable weight to play with. So you can load maybe a little bit heavier or a little bit light on those drivers and you have a little. It's too cost prohibitive to reload the load 15 times to get it just perfect. That axle, basically what it does is it allows you to even everything out. Five pounds of air will put another 500 pounds, or take another 500 pounds off of the steering axle and add it on to the drivers. It gives you a little something to play with. When you start talking about 38,000 pounds, that load is going to have to be perfect or the fifth wheel is going to have to be slid and if you don't have a sliding fifth wheel, you're going to have to, as a result, reload or you're not going to be able to. It just inhibits you just a little bit more on how we can, my main concern is competing with the railroad. We all have to compete with each other too. There's no lack of competition in the trucking industry. But it makes it much, much harder. It's just added costs that are incurred. It's going to be passed onto the public and a lot more so to outlying areas that aren't served by the railroad.

Davis:

We appreciate your testimony. Another I guess question I have is do these bridges have, do they have some kind of a set national standard, they can only have so much weight per. Maybe that's an unfair question, we should have D.O.T. here, but do they have some load limits, which according to the engineer, if you have 10,000 more pounds on the wheels or whatever in that part of their formula that causes X number of damage or X damage to those bridges.

Rule: Yeah, I'm not quite sure about nationally, but there is a bridge formula, I've seen a bridge formula in this state and I'm not sure how it stacks up with the other states though. I'm quite sure that if there's a bridge doesn't meet the specifications, they wouldn't be on a federal highway. It'd probably be marked. For most bridges, I'm sure there is.

Davis: I guess my question is, are some of our bridges not up to, some of our bridges were obviously built 20 to 30 years ago, so are some of our bridges not built to the weights that perhaps are carried. Could that be some of the motivating factors? Your testimony is real good and I can understand some of the fluid motion that a lift axle would give to a trucker that's going down the highway. It makes a lot of sense to me. I'm just curious if there's any other engineers out here, sitting here if you do this then this is going to happen and all that sort of thing.

Rule: I don't think that there is any bridge in this state on a main traveled artery that wouldn't be able to support the difference of 4,000 pounds on them that I know of. It was Mr. Chiller that brought up the 40,000 pounds? I support that theory. I think that's a good theory. It seems like no matter how strong of opposition that we get to get rid of this, it's still going to be here. If it is going to be here, I support the 40,000 pounds. He answers a lot of your questions and takes care of a lot of it. But like I said, the only thing that we're not going to have is the availability to shift the load with the axle and not just on the drivers but on the lift axle on a trailer, you can do the same thing with your driver weight. You put more weight on the lift axle on the trailer and consequently it takes weight off your drivers. It's simple leverage. It's a big plus for us and it saves money and it saves time.

Chairperson: Okay, thank you very much, Mr. Rule. Do we have anyone else from Anchorage that wishes to testify. By the way, tell your dad hello.

Rule: He'll be here tomorrow to see you.

Chairperson: Okay. Give your name and who you represent.

Jones: My name is Dennis Jones and I represent myself. I'm an owner/operator. I think one of the things on the safety that people are missing the point of under the new regulations, if you do away with the lift axle on the truck and you have three fixed axles on the trailer, you can put more weight on the trailer.

reduce your traction on the truck and that's where the unsafe part of it comes in. Especially with doubles. You have two 40-foot or 45-foot trailers or whatever the combination, where you have the heavier load on there and less weight on your drivers and that does make for an unsafe situation. Do you understand what I mean?

Davis: No, what do you mean on your drivers?

Jones: On the drivers, I mean the driving axles of the truck. Currently with the three-axle group on the drivers with the lift axle you can carry 42,000 pounds, if you do away with that and you have 38,000 pounds on there and you still have the 42,000 pounds behind you or twice that with two loads. You're reducing your traction of the tractor and it makes it harder to pull and drive and handle on the road. That's one thing that, you know, under the current set of facts we don't have that. We have more weight on the driver. The second thing is on the 40,000 pounds weight limit that they're not going to allow us, they say it's 38,000. They're saying, "well if you get rid of your lift axle and we bring it up to 38,000, that makes it almost equal to what you're carrying now because of the weight of the lift axle." My lift axle and most of them don't weigh 4,000 pounds. I'm allowed to carry 42,000 now with the lift axle. You take 1,200 or 1,300 pounds away and I can only carry 38,000. The difference isn't there that the D.O.T. is saying is there and it's just a fact that most people don't understand.

Davis: Just to show my ignorance on this issue, but ...

Chairperson: You're not, we're all trying to get to the basis of things we need to know.

Davis: What is the 38,000? Where is there a breaking point between 38,000 and 42,000? Why does 38,000 work out to be a magic figure and why is it when 42,000, with 38,000 pounds if you lift the axle up and it becomes 42,000 on those tires. Do you significantly increase the damage to the road, or that's what the engineers and the Department of Transportation are saying. Is this some established criteria nationwide that they have approximately 38,000 per axle. Maybe I'm even starting to learn what I'm talking about, but do you understand what I'm saying?

Jones: The rest of the nation I don't know about, but Alaska, under the current rules with a two-axle driver group or two axles on the group, you're allowed 34,000 pounds. With three axles it's 42,000. So there's

an 8,000 pound difference there between two and three. But under the new regulations proposal they are saying for two axles they'll allow you 38,000 where right now you only have 34,000 for a two axle group. But under the current regulations with three axles you're allowed 42,000.

Davis: That's not per axle?

Jones: No, no. That's for the group. The industry has been asking and supporting 40,000 pound limit for two axles and the new regulations say they will give you 38,000.

Chairperson: Might I intervene here for just a minute. In other words, the difference of 2,000 pounds in your estimation really isn't all that important. It doesn't make that much difference, 38,000 pounds is an arbitrary figure. Am I correct in thinking that?

Jones: Right. That's the way I feel and I believe a lot of people feel is that they just reached out and pulled this figure out of the sky because it doesn't make that much difference with just 2,000 pounds. The way it is now with the company that I work for and the equipment that they have, they've invested millions and millions of dollars in, under the 38,000 pound load limit for two axles, we won't be able to haul most of our loads. It's just too much weight because of the equipment.

Pignalberi: Madame Chair, I would like to have drawn for me what the different variations are. What we've got now, what D.O.T. is proposing and the different configurations. Could you do that?

Chairperson: Maybe Harry could.

Banahan: I was going to put the different weights that are allowed under each configuration.

Chairperson: To those that are in the audience that are in Valdez, Fairbanks and Mat-Su, what we're doing at the present time is attempting to draw a configuration so that we can a little bit more to us who are not actual, or layman and not actually involved in this, can understand a little more readily what we mean by axle load.

Fairbanks: Representative Cato, this is Maxine, the moderator in Fairbanks.

Chairperson: Yes, Maxine.

Maxine: Valdez has called and asked permission to disconnect from the teleconference as a participant. Perhaps Mat-Su might want to do the same thing and since there seems to be a little break, maybe this would be a good time to pause and let them make the interrupting tone that you will hear.

Chairperson: All right, thank you a lot. I think that would be an excellent idea. We'll just pause and I'll keep the mike off so the tone doesn't bother us.

Drawing was prepared.

Banahan: Under these scenarios you have two current regulatory situations and the one that's proposed. In the top situation, there is 11,000, these are groups of axles, the steering axle here, these are the drive axles on a truck. The rear set is the group of three axles. This is a typical North Slope rig, typical highway rig in Alaska. There's a group of three axles on the rear of the truck. Under that scenario you can see that the raised rates and the axle, of course, is the lift axle as it's currently employed. Under that scenario you'd be allowed 11,000 on your steering axle, then you pull up over the scale and you weigh that second group, you're allowed 42,000 on that and 42,000 on the rear. Combined total weight there of 95,000 pounds. The second group would be termed a normal pavement highway type vehicle. You have a three-axle truck without the lift axle. Currently if you have that scenario, you're allowed 11,000 on the steering, 34,000 on the group of two axles, drive axles of the truck and 42,000 as previously noted on the rear of the truck.

Davis: Let me ask you a question of the lift axle. When that lift axle is down, is that.

Banahan: That's when it's down, 42,000.

Davis: Okay, when it's up, what does it become.

Banahan: When it's up it becomes 34,000. In other words, any axle that's not touching the ground is not counted as allowable.

Davis: No, I don't mean that. When it becomes, you shift weight obviously, so.

Banahan: I'll get to that. But this is a typical legal load or what is allowed under the present regulations. Now, you can see if you allow 42,000 on a group of three axles and you have 42,000 on a group of three

axles then you lift, take this axle and move it up, then all of a sudden you have 42,000 pounds on two axles instead of three.

Davis: But, you're not supposed to do that.

Banahan: That's not supposed to be done, no.

Davis: I guess I don't understand that, because you've got 42 back here.

Banahan: Those axles in the back do not lift.

Davis: Okay, so there's three.

Banahan: They're just a group of three axles. Any time you bring that lift axle down on the road, you'd be creating a group of three. When you lift it, then you're creating a group of two, but you still have the same load weight bearing down now on two axles instead of three, so the weight is concentrated. Under this condition here, this is what the state is proposing in their new regulations. They're proposing to go 11,000 on the steering, 38,000 on the set of two and 42 on a group of three. This is an 81,000 pound combination, 91, 91,000 pound combination. The real reason we need 40,000 pounds on the set of rear axles is because when we take this lift axle off, we are eliminating approximately 2,500 pounds of weight, the mechanism weighs that much, so that gives us an increased payload of 2,500 pounds. But the decrease from 42,000 allowable on three down to 38,000 on a group of three is 4,000 pounds. Take away the 2,500 of the weight of the lift axle assembly and you're still left with 1,500 pounds or 2,000, pounds somewhere in that neighborhood, that you're going to lose in overall gross weight of your payload. If you had 40,000 pounds, we wouldn't lose that 1,500 or 2,000 pounds and would be able to haul the same payload that we've hauled before even though we have the reduction from 42 to 40,000 pounds. I think that was what Dennis was agreeing to when he was talking to you.

Davis: Before you go, you would, basically you would have this. That means your load would be 6,000 pounds more, right. Or if you had only two axles here, you'd have 6,000 pounds more than normal.

Banahan: Yes, but what we haven't put up here, but need to take into consideration is the weight of the units and the weight of the trailer and the weight of the tractor.

Davis: In other words, it wouldn't be 6,000, it would be around 4,000 pounds or 3,500 pounds.

Banahan: Under these proposed regulations, if they take away the lift axle and give us an additional 4,000 pounds over a set of two axles, which they're proposing, they will in effect cut our payload 2,000 pounds. Because even though they're taking away the use of the lift axle, we're losing weight because it's going to come off the truck. The driver's not going to keep it on there, the additional weight they could haul around, they could haul payload instead. The weight of the truck is going to be lightened once the lift axle comes off, so your payload can increase. But, if they give us 40,000 on these two axles, if we take the lift axle off, the payload will remain virtually the same.

Shultz: They came up with an arbitrary figure and said 38,000 was enough because you'd be removing your lift axle, so the difference isn't that much when the lift axles come off. You're not gaining that much.

Banahan: Most of the figures that they came up with were arbitrary. We never saw any engineer reports or any engineer studies that had anything to do with the condition of roads and bridges, in any way, shape or form. They're cleaving to the numbers they chose.

Chairperson: Thank you very much, Mr. Banahan. Dennis, did you have further comments? Does anyone have any further questions. I want to thank you both, you and Mr. Rule for being here today and I think we have a lot more insight in the Committee because of the testimony that has been given from Fairbanks, Valdez and Anchorage and also the presence of T.J. Thrasher and Harry Banahan. I think it's made it a lot more, and I also agree with basic picture drawing, sometimes we can get a better idea if we can put it out in good pictures. Mike's just going to put some wheels on those trucks right now. Do we have any further testimony? If not, then we'll disconnect the teleconference and go into a work session and just discuss some of things we've been talking about on teleconference.

Fairbanks: This is Fairbanks. We have one more person who would care to speak.

Chairperson: All right, we would very much enjoy that.

Thees: Chairman Cato, my name is Howard Thees, I work for Kodiak Overhaulers. I'm the general manager here in Fairbanks.

Chairperson: Yes.

Thees: In relation to comments of Mr. Knapp, I was in a meeting with him probably about a month or so ago and I directly asked him why did he not go to the industry and let us give him some answers and solutions and he said, "well, I did, you didn't give me any." Well, it's obvious that we have 74% against this regulation. We gave him some answers but I think it was cut and dry. He walked in the door when this all started and did what he wanted to do. And he coldly told me that it was ours, we were going to do it and it's going to happen and I think that there's something that the industry can give him some light if he'd just listen to us or somebody would.

Chairperson: Thank you very much for that comment. I can assure you it will be duly recorded.

Thees: Another thing, Ms. Cato, we mentioned that these regulations are gubernatorial, I think a lot of people aren't taking consideration of the 75-80% of the industry, we've got about a 66-region allowance. When he told us he was going to give us 38,000 and 12,000 on the front. They haven't taken into consideration is bridge miles. If this does happen, we're really going to be eliminated down to 3,500 less than that because the bridge law will supersede any axle law. That's another thing I think needs to be taken into consideration.

Chairperson: I think probably one thing we need to do as far as the Committee, is get a copy of the bridge formula and understand it so that the members of the Committee can understand it a little more readily.

Thees: Another thing, too, Mr. Banahan I'm not throwing weight or anything, but when he mentioned that we were going to be able to gain 42,000 in the winter in Fairbanks, that's true; but the roads that we have to take are off our trailer to put on our drivers so we really don't gain anything at all. We're helping ourselves as far as the safety tractor as traction, but when you come right down to it, we're still right back where we were at. If we lost weight that we could have used in the beginning.

Chairperson: Correct.

Thees: Okay, I just wanted to clarify that and make sure everyone understood that.

Chairperson: Representative Pignalberi, would like to make a comment?

Pignalberi: I just want to say, "Thank you Mr. Thees" for his testimony. He might remember me from the days when we worked at Weaver Brothers together. It's good to hear from you Howard.

Thees: Thank you.

Davis: Thank you Mr. Thees for coming out today. Just a question, if I could, on the bridge law. I'm not familiar with that. I'm not sure if perhaps there's other people that could be luminated by you explaining that to us in greater detail.

Thees: There's a federal law that takes effect and they use a formula and I don't have it here with me but they use a figure 500 and they divide the length and the width and so many axles and what happens is that comes out with a weight distribution, an overweight gross allowance of what you have. So what it says here is that you can ease that weight 65 feet is I think the magic number for this new regulation they're putting in. That means you can add 12,000 and 38 and 38. But if you need a rate of say a length of 60 feet, then they're going to cut your gross weight, which could be 80 down to 35,000. To meet that law you've got to take it off either the front or the back, one or the other.

Davis: I guess that's my, that was a question I had earlier and it's not, these regulations are. I guess my question was earlier and maybe you sort of brought it up again, is there some directives that Department of Transportation are following in order to, they've obviously not listened to the public testimony, so is there some kind of directives, like you said this formula, cast that they can't go over that without violating some kind of federal law? Is that what you're saying?

Thees: I asked Commissioner Knapp that last time at the meeting with him and he told me to call Juneau or he would get back to me. One of the gentlemen called me from Juneau and I asked him that question. He said, "Well, yeah we cannot supersede the federal law." And I said, "Well, you did on the regs because you gave us 550. How come on the back." He says, "Well, you can't do that." So he said there is a federal law, they cannot supersede it or change it.

Davis: Mr. Thees, we certainly have got, you people have too, but we certainly have had less than full cooperation and I'm sure that Madame Chairman has expressed that. I intend to talk to the Commissioner myself and see if we can't have a little bit more

cooperation between people here. Thank you for bringing this to our attention. I don't know, it sounds like we need to do some work here.

Thees: I have one other question to the Chairman, too. Is this a law, a regulation now? Is this something that's going to happen? Has it been signed, or something we can still put a scratch to?

Chairperson: Howard, the regulations have passed through the Attorney General's office but modified to a certain extent, but not substantially and are not in the Lieutenant Governor's office to be signed to go into effect January 1, 1986.

Thees: So, can they be stopped? What's going to happen?

Chairperson: I'm not sure they can stop before then. Perhaps legislatively we can modify those regulations.

Thees: Okay, thank you.

Davis: Until they're implemented they're not a law, so it's kind of like it's not over until it's over, I guess. I intend to talk to the Commissioner about this and I'm sure that they'll be here tomorrow. Is that correct, Madame Chairman, someone from the Department?

Chairperson: Not that I know of.

Wendy: Alaska Railroad will be here tomorrow.

Davis: Well, it's not over yet, Howard. So, I'll be talking to them and I'm sure that Madame Chairman will be too. Thank you, again, for coming today.

Thees: One more question, Chairman. Is it possible for the Committee to write a letter to the Governor and say, "Can we hold off on this thing until we get some input?" Is that something that can happen?

Chairperson: If you wait just a moment, we're going to have a formal motion to that effect, Howard. Representative Pignalberi, are you still writing your motion.

Pignalberi: Yes.

Chairperson: Well, take just a jiffy until he finishes that. Would you like to wait and listen to the motion?

Thees: Yes, thank you.

Chairperson: Okay, we'll keep you on line then.

Pignalberi: Madame Chairman, I would move and ask unanimous consent that on behalf of the Committee you write a letter to the Governor stating that inasmuch as there has been no evidence to support the safety claim against the lift axles, and inasmuch as the Department of Transportation has offered no rationale to justify the proposed regulations, and inasmuch that the Department of Transportation has not responded to any of the suggestions for modification and compromise that have come out of the public hearings, they held on these regulations, that inasmuch as there may be a conflict of interest between the Commissioner's position as a Director of the Railroad Corporation and in his role as regulator of the Highway System that the members of this Committee find the Department's action to be arbitrary and capricious so far as these regulations are concerned and would ask the Governor to take steps to nullify the proposed regulations.

Chairperson: Wendy, did you get that.

Wendy: Yes, I did.

Chairperson: All right. Is there a second to that motion?

Shultz: Comment, objection.

Chairperson: Objection for the purpose of discussion.

Shultz: It's kind of a lengthy statement that you made there. It's kind of a lengthy statement and I don't know whether I got all of it or not. I think possibly that I would rather just see a letter drafted supporting the not adopting those regulations at this point and time without going in and tearing the Department of Transportation a new one at this point. That's my opinion. I think that maybe we could. Do you have a comment, go ahead, Mike.

Davis: I can't say it any better than Representative Shultz, but my comment would be I don't think we want to scorch turf on this, we want some cooperation. I think, although it's well written and it speaks to the issue well, I think we want these people to cooperate with us. We don't want them to go to the mat, so I would like to have a letter to the Commissioner which sort of follows that vein. If you can put it in those terms, I would be glad to second the motion.

Pignalberi: I would like to withdraw the motion and ask either Representative Shultz or Davis to make their own motion.

Chairperson: All right, motion has been withdrawn. Representative Shultz, would you like to make a motion.

Shultz: I would just like to make the motion that we write a letter and have staff draft it up and circulate it around and we'd sign it as Committee members supporting them not adopting these regulations at this point and time, and maybe go on in the letter and include something to the effect. No. I would just like to make a motion that we send a letter to the Governor.

Chairperson: All right, Representative Shultz. It is moved that we send a letter to the Governor discussing, if I may add a couple of words, discussing the regulations proposed by D.O.T. having to do with the trucking industry.

Shultz: Asking them not to adopt the regulations.

Chairperson: Asking the Governor not to or just stop the adopting of the regulations. Is there a second to that motion.

Davis: I second it.

Chairperson: Motion has been made and seconded. Any further discussion on the motion?

Davis: Madame Chairman, why don't we let, I'll speak in favor of the motion, but why don't we let our Chairwoman come up with the language, but the basic thrust of the language which would be something to the effect that our man with the golden pen came up with. The thrust is that they haven't certainly listened to the testimony. Something to that effect, but use the language, work it up and then send it off.

Shultz: That's what I would like to have, since we're discussing now what we would like to have in the letter and that's one of the things we should corroborate or brought up. That we should point out the fact that the Department has not listened to the testimony. We should clearly point that out in the letter. That's one of the things that should be included.

Chairperson: All right. Shall we take a vote on the motion? And then I would like to make a statement. Is there unanimous consent? Hearing no objections, so carried. The comments that I would like to make was that Representative Shultz suggested that we send around to the members of the Committee. I would like to find out if we could do this by telephone rather

than trying to mail that, otherwise we will not get it in there in time.

Davis: Madame Chairman, why don't you just write it.

Chairperson: I would like the discretion to write the letter and I'm sure that we could write it in such a manner that D.O.T. can't get any madder at us than they are.

Davis: We've got a couple of weeks here before the implementation of the regulations, so I just say you basically know what we want in a letter, just do it.

Chairperson: Right, Wendy will draft that. Perhaps she can have it ready for us tomorrow and read it to us. Do you think that would be too much to ask of you, Wendy.

Wendy: I'll do one tonight.

Chairperson: All right, real fine. Again, thank you Fairbanks for being with us. Thank those in Anchorage for being with us. Mat-Su and Valdez, Mat-Su I think is still on, thank you for being with us. Valdez I think has signed off. That will end the teleconference portion of this meeting.

Fairbanks: Madame Chairman this is Fairbanks.

Chairperson: Yes, go ahead.

Fairbanks: I believe we have one more person who would care to make a comment.

Chairperson: All right, we'll take the time.

Thees: Will you try and make sure that's going to the Lieutenant Governor not the Governor, correct?

Chairperson: No, this letter will go to the Governor who has the capability of stopping the regulations. The Lieutenant Governor doesn't have that type of power. All he can do is just file the regulations.

Thees: Who's supposed to sign, him or the Governor.

Chairperson: The letter will go to the Governor.

Thees: Who's [indiscernible] regulations the Lieutenant or the Governor.

Chairperson: I didn't get your question.

Thees: Who's supposed to sign this regulation?

Chairperson: The Lieutenant Governor, but once they pass the AG's office and everything it's merely a matter of signing them and putting them on file. It isn't a matter of any discretion on his part, because I've already asked him.

Thees: Okay, thank you.

Chairperson: Was there somebody else in Fairbanks that wanted to testify or was that just the comment that wanted to be made.

Fairbanks: I think that was the last comment, thank you.

Chairperson: All right. Thank you very much for being with us. Hopefully, during the session you'll hook up on our teleconferences too and we'll be able to get a lot more transportation issues before the public. We're off the teleconference. I am, as I said prior to that time said on the air that, I'm a little upset with D.O.T. on this situation and hopefully things will be able to ease off and maybe we can stop those regulations and get more study done on them on the part of D.O.T. to where they come up with substantial evidence if they want to put regs like that into force.

Banahan: I still can't understand, I don't think in all of our dealings with the D.O.T. with Knapp and Freetag and Simpson who were the three principals of this whole thing are throwing that whole scenario. Did they ever come up with one concrete, solid tested fact of what shape the actual bridges were in.

Chairperson: No, I haven't seen any evidence to that.

Banahan: You know, bridges have a life span and these bridges that they're going to have to replace are the result of natural attrition.

Chairperson: I think I can agree with you on that, Harry. One thing that might be kind of interesting, and it's merely a comment and comparison, and I'm not talking about the Dalton or anything like that. But, as you know, we don't have any regulations on campers at all and I understand the damage they do to the road is much more than a loaded truck and yet the Department is not taking that into consideration whatsoever.

Banahan: I'm not sure about campers myself, but we're looking at two axles when most of them are three at best.

Chairperson: And the weight involved. In other words, what I'm saying is all the damage to the road is not done by

13-wheelers. A great deal of it's done by 4-wheelers and 6-wheelers.

Banahan: A vehicle with four cords of wood in the back of it is. You see it all the time.

Pignalberi: The weight limit per square inch.

Banahan: My advise to Commissioner Knapp was, "Commissioner, we're abiding by the law as it's been in effect and spent jillions and jillions of dollars trying to get our equipment in line to do the best possible work under those laws. Now if your roads are out of order, don't crack down on the industry."

Chairperson: Why penalize the industry?

Rule: Fix the roads. Because Knapp has an interest in other than our industry.

Banahan: Well, it may not be a fair statement.

Rule: Madame Chairman.

Chairperson: Yes.

Rule: It has become evident to me today, this is the first one of these meetings that I've attended, that the people on this Committee don't necessarily understand the whole thing and I don't necessarily understand the legislative end of it, but my question right now is, it's become obvious that they've ignored the people that testified. We have a double permit on the Kenai Peninsula. It was basically the same set of facts. The people that do it, the drivers, the industry was against it, and yet it was done. It was shoved on us. There was nothing we could do about it. It's basically the same as this, well you can testify, but we're going to do what we want any way. My question is, something like that, what does it come up for review with the Department of Transportation or this Transportation Committee? Where do I as a driver that don't feel safe operating on that highway, and I've made my feelings known to the company and to the State Troopers, to the Department of Transportation and they all tell me, tough, we can't do anything about it. Where is that rectified.

Chairperson: Well, I can't really answer that except for the fact that the thing that can be done legislatively is that sometimes the legislature can pass a law that might prohibit that particular situation. Now with the doubles on the Kenai, I have to confess complete ignorance on it.

Rule: Well, the doubles, for example, first the long doubles, the first is right on the Parks Highway and it's a completely different highway than the Glenn.

Banahan: It's up to federal specs.

Rule: Anyway when they made a trial run down there, they followed the truck with a camera to see what they would have to do to rebuild the highway to bring it up to specs to be able to do it safely. Then they came out and told us well, that's all it is to see what we have to do to redesign the highway. Then they all said, "well, we're all against it. The road's not up to it." Next thing we know, we have the permit. This year it was supposed to be pulled the first of November and it was renewed.

Chairperson: I didn't know about that.

Rule: Against the objections of everybody in the industry that has to do the actual driving.

Chairperson: I didn't know that at all as far as the Kenai Peninsula.

Rule: It was supposed to be from May until the first of November. A seasonal permit.

Chairperson: Well, I knew, it was my understanding that that permit would be pulled and it would just be the one on the Richardson that would be allowed.

Rule: Everybody thought that too right up to the first of November. The third of November here goes a truck down the road, a long double and they said, "Oh, it was renewed." My next question is, and I'm sure you are well aware of it, there's absolutely nothing done to enforce any safety regulations because there is no safety regulations.

Chairperson: You're so absolutely right.

Rule: We can say whatever we want about these accidents. A truck will go down here with 100,000 pounds on two axles and sit there and wait for the scale house to close. They know when it's open and closed. And as soon as they close it, they go by. We have these nice big fancy scale houses and we don't even have the manpower or the money to operate them.

Chairperson: I agree with you wholeheartedly and you're talking there a little bit on H.B. 133, which we just passed this last year and was not funded. What we're going to have to do as legislators is work like hell for

that funding for them for the Department of Safety, so they can.

- Rule: What I get as a driver when I go into the scales, I say, "hey, what about Joe Blow down here with an unsafe truck, an unsafe load, an unsafe whatever." They say, "hey, there's nothing we can do about it. That's the scale house." You talk to a state trooper and they say, "hell, we don't want to unless we can have it all and it's a big fight." Something's got to be done.
- Chairperson: Something's got to be done. I agree with you, concur with you totally and that's going to be one of our purposes this coming year.
- Shultz: They're using the doubles between Valdez and Fairbanks, right?
- Rule: Right.
- Shultz: They're also using them on Parks.
- Rule: Right.
- Shultz: Okay. Now, I'm getting a lot of pressure, a lot of static from the motorists in the area, the private vehicles complaining about the trucks, the double rigs and I was over on Parks Highway the other day and I met two of them down by Hurricane Gulch and through that area and you know the story of my life, the wash back after they went by, I didn't know whether I was going into the ditch or what.
- Rule: Nonshouldered roads were doing that on down there. Absolutely zero shoulders.
- Shultz: Richardson Highway is a very good example of no shoulders. There's none from Lackeys to [indiscernible].
- Rule: May I give you an example. On our Kenai Highway, the Sterling Highway permit, we as drivers argued with the company, we said, "It's unsafe. We don't want to do it." Well, my boss finally went for a ride to Kenai in a set of long doubles in the winter-time. He flew back, he wouldn't even ride back in the truck. The next day he had a letter out saying that until the highway is upgraded to make it safe to do it year around, we wouldn't do it year around any more. Well, due to competition, that letter went by the wayside. That man is the same man that pushed that permit through, asked for it. When he finally experienced it himself, he didn't want nothing more to do with it.

Shultz: Commenting from Valdez said if they take the doubles away from them, then they are going to be unable to compete.

Rule: Correctly, you know what Valdez is saying, "unable to compete." Not unable to compete with trucks, but railroad.

Shultz: I understand that. But at the same time, if you don't have the doubles, and they know it, it's going to take at least four or five years before you're going to be able to put shoulders on the roads in the state that need shoulders.

Rule: Then you're looking at a matter of safety, and which is more important.

Shultz: It's not that expensive.

Chairperson: I would like to direct our conversations back a little bit more. I would like to advise everybody that on the double situation out of Valdez, believe me I have an interest, not a vested interest I don't own any trucks or anything; however, their safety record has been 100%.

Rule: Well, that's the same thing that Joe Swanson, the Division of Weights and Measures, or whatever he is, I can't remember now, but I called him and said, "what is this garbage that you're going to allow this permit down there?" He says, "Hey," he says, "we've been pulling them on the Parks Highway for three years." I says, "no, you're wrong. You haven't been pulling them, I have." The Parks Highway I have no objection to pulling, absolutely none; I do on the Sterling Highway.

Chairperson: Yeah, I think all these things are going to have to be taken into consideration as to the conditions of the road, the safety record, various things like that.

Rule: Do you know that now that they've rammed it down us.

Davis: What is the status on the ... how many trucks, how many doubles are on the Kenai and is it now still a permit or is it established?

_____ : It's getting to be an awful lot because of competition. Through attrition everybody is being forced to haul 202 prices or just a little over the price. For the price of one five-year school, now the rates have gone so far down and we're really struggling.

Rule: People, all of the trucking lines have to pull to compete and it doesn't do any good, but they're doing it any way. It's a fact. It's a limited permit. You can't do it when the weather is bad. That doesn't mean anything. You go down here past the scale house at Potter, it's warm or it's raining or whatever there. Well it says due to limited visability you can't haul. Well, you go around the corner five miles down the road and it's snowing so hard you can't see. Here's this set of doubles out there on permit, it says it can't do it.

Banahan: Stamped in red right on the deal there and [tape end].

TAPE 3, SIDE A [audio surge throughout tape]

Rule: stay completely over the center line and a car hits me, who's going to get the responsibility. It's going to be the general public, yet I as a driver fight against it and can't get anything done.

Chairperson: Yeah, well, what I'm trying to say to you right now, Dennis, is the fact that in every law there has to be some exceptions and in every area, the rules are going to have to be just a little bit different. So we as a Committee will be working on some of these things, with D.O.T., some of these exceptions need to be.

Rule: I guess my main point is that we would like a little input and like I say, you have the input, listen to us.

Chairperson: Right. That's one thing I'm very distressed about. We've all been discussing today quite thoroughly about the inability of bureaucracy to listen to us.

Rule: Mr. [indiscernible] in the job that he has, he says. "Well," he says, "Hey," he says, "I have a cabin down on the Kenai River, Cooper land," and he says, "I drive that road." I says, "Hey, you drive that road in the summer." I said, "I'm not some fly-by-night. I've lived here all my life, I was born and raised in Seward and I've been working here almost 20 years driving a truck." Now if he drives down there in the summertime, he has no complaints against it. I do. Who has the say-so. He does. I want to talk to them about it, but I don't know how to go about it.

Chairperson: The other reason is, let's you and talk and we'll see if we can find a way.

Rule: I would like to. We've got to do something. I am very encouraged by what I saw here today.

Chairperson: I didn't realize you were from Seward. In other words, I'm your representative, aren't I?

Rule: Well, I don't live there now, I live in Anchorage.

Chairperson: Oh, okay.

Rule: What I'm saying, I lived in Seward, I live in Anchorage.

Chairperson: Yeah, what part of Anchorage do you live in? Is Marco your representative.

Rule: No. I was born and raised in Seward. I've lived in Alaska all my life and had no intention of going anywhere. I'm not somebody that came up here and just learned how to drive, like a lot of people.

Chairperson: Right. But let's get together and talk over those things and see if we can find some type of solution. At least a method to go about looking for solutions.

Davis: Can you give this some, some of this in writing so we can have it. [Bad Tape]

Rule: If anything would be done about it, I'd be glad to do it. So far, I have been shoved aside. The Commissioner of the Department of Transportation wouldn't even return my phone call and it's not Knapp, it was the one previous to Knapp. When they first issued the permit.

Chairperson: That was Ward or Casey, yeah. I think it was Ward, though. Casey wasn't in there long enough to answer any phone calls anyway.

Rule: He was in there long enough to do a lot of damage.

Chairperson: Yeah. I'm going to call a ten-minute recess and then we'll come back. So we'll recess for ten minutes.

Chairperson: This meeting is recessed until tomorrow, Wednesday, November 18, 9:00 a.m., 1985.

Chairperson: Wednesday, December 18, 1985, we'll reconvene from our recess from yesterday and the first thing on our agenda, did everyone get their report, Wendy, on Essential Air Service? We will continue on. Mike are you in Fairbanks.

Operator: No, we're having difficulty getting him hooked up. We've had a couple changes of.

Shultz: Davis is gone.

Chairperson: Yeah, he had to leave last night.

Operator: He decided to hook up in his office and it didn't work. Now he's going back to the Information Office.

Chairperson: Oh, okay.

Shultz: I'd like to have chewed him out for being late.

Chairperson: You do that. We're not hooked up for teleconference, we're merely hooked up for Mike up there.

Pignalberi: I've lost touch with this issue, do we have somebody to kind of put us.

Chairperson: Yeah, that's why I'm going to call on Reed to bring you, because I'm not quite as conversive with it as I should be and so in just a minute we'll call Reed and have him. You have our report don't you Reed.

Reeves: I'll be glad to set them right.

Chairperson: Oh, that will be absolutely great. All right, would you come up and give your name and everything for the tape and give us a summary. We'll go through this.

Stoops: For the record, my name is Reed Stoops and I'm here today to represent the Alaska Air Carriers Association. First of all, we'd like to thank the Committee for its' cooperation last year in helping us to get House Bill 133 passed and also in its work to help fulfill the requirements of the Letter of Intent which went with that legislation. Wendy Chamberlain's done a lot of good work during the interim and we also tried our best to cooperate with the Senate Transportation Committee and I think we've had at reasonably good success in doing that. Just by way of review, the House Bill 133 last year established the minimum insurance levels that would be required for various classes of air carriers and in addition, also dealt with truck safety. We're here just to deal with the Air Carriers portion of the bill. Along with that legislation, there was a Letter of Intent that dealt with four points and there was directed a report to come back to the legislature by the beginning of the next session. The issues to be dealt with in that report included:

1. Federal safety regulations that are applicable to Alaska Intrastate air commerce and which if any, ought to be incorporated into state certification compliance programs.

Just a brief summary, what was meant by that was that right now you have federal regulations which govern commuter airlines but when Safety C was thrown out there was really no regulation effecting or governing charter operations. Under the bill that was passed last year, establishment of minimum insurance levels for air charter operations in addition to what's required under federal regulations for the commuters, but there's really no other requirements. So, that was designed to take a look at what safety related requirements, if any, should be considered in the future. If it turned out that one of the effects of deregulation was an decrease in safety, it would deal with that point.

2. Was whether flying conditions in Alaska warrant additional safety training for pilots. Is that something with the weather or conditions of airstrips unusual enough up here that federal regulations aren't sufficient in order to qualify some of these flying people for hiring.

There was some statistical data that I'll be glad to cover on that point.

3. There was also a provision dealing with the Essential Air Service Program, which is a federal program, which is scheduled to be phased out next year and there is an analysis of that program and what some of the potential impacts of phase out would be.
4. Last, there was a look at how the Department of Commerce implemented 133 during the interim.

Shultz: Question. On page 2, these air carriers that are presently receiving this subsidy, are you saying that that is going to go by the wayside.

Stoops: Right, President Regan proposed last year, in the Fiscal Year '86 budget that that be phased out as part of federal cost control measures. Senators Stevens and Murkowski were able to get that funding back in for one more year, but at this point everybody seems to think that there's a pretty good chance that Fiscal Year '87 program is gone, in which case Alaska Airlines will not receive a subsidy to provide jet service into Cordova, Yakutat, Petersburg, Wrangle and Gustavus. Those five communities

and there'll be no money for rural service on Kodiak Island, Western Alaska, places that don't get a minimum of two trips per week.

Shultz: Okay, now this subsidy though is primarily for mail, is it not?

Stoops: There's two separate programs. The Post Office runs a program that provides contracts to various carriers to carry the mail. That's a separate program for mail only and indirectly that does have an effect of subsidizing passenger service provided that the air carrier runs passengers. They could do with just the cargo service, but assuming they do it as passenger service, they carry passengers on the mail run as well. But the other program is separate and distinct and it was intended to make sure that communities received a minimum of two trips per week and if no carrier was willing to do that under the normal environment, commercial environment then they could apply to the federal government and on a competitive basis they could be awarded a contract to subsidize the cost of flying in there twice a week to make sure there's a minimal level of service. In the report that Wendy's included, what the minimum level is for each community in the state and which communities are receiving that subsidy and which carriers are now serving those communities. In summary, there was about \$4.5 million appropriated last year, of which Alaska Airlines got the majority, \$3 million for the jet service, and then there was about another \$1 million to \$1.5 million that went to the rest of the state. I think 16 communities, the Kodiak area were subsidized and a number of Western Alaska, a few in Prince William Sound.

Chairperson: Might I ask you a question, also? Reed, I was just down in Seward and I was talking to Ludwig's wife, I can't think of her name, and evidently that contract came up for bid three or four times and Chisolm had it, Lachina had it and finally Harbor Air had it. Now, correct me if I'm wrong, but Harbor Air applied for that on the program that you're talking about that just had to do with the mail. Am I correct?

Stoops: Well, they would have applied to the Post Office and that part of the program is still in effect. Senator Stevens has done a good job keeping that alive.

Chairperson: That part is still.

Stoops: Right, and they have changed the way they've done it so now as a competitive process as well. Anyway on the Essential Air Service Program at this point we

haven't, it's basically an overview that's provided for you, a good overview, and we haven't, the air carriers haven't really taken a position on future fundings for that at this point. I suppose we'll deal with that at some later point, it's maybe obvious at least on the Southeast run there'll be some of the smaller carriers interested in providing service on a competitive basis. Obviously, Alaska Airlines won't want to continue its jet service, so I'm not sure how we're going to work that out amongst ourselves and as far as the bush routes, there may be continuing support in the manner of subsidy if we're going to have no air service at all. We haven't really dealt with that. We've concentrated more on the other aspect, the regulatory aspects of the study.

Pignalberi: Reed, I'm just wondering, hasn't anybody given any thought, or has any discussion been had about what happens if Alaska Airlines, for example, was to pull out of some of the Southeastern communities. The state, in recent years, has spent many millions of dollars in upgrading those airports at that airline's request. We've put in landing aids, paved the runways, lengthened the runways, built terminals, sometimes a state expense, because I know they built the terminals, but regardless how the money was spent, I think it's irrefutable that the state has put a lot of upgrades into the airports in Southeast Alaska. How would we recover that if they decide it's uneconomic to serve those cities if the feds decide not to subsidize?

Stoops: I'm not sure that there would be anyway to recover those. Well, yeah, it may mean that there may be some jet aircraft that somebody else would be willing to fly in if Alaska doesn't. Alaska may continue flying jets without a subsidy. That's obviously difficult to be certain. They have been active this summer lobbying communities to help them to continue the subsidy at a reduced level and I'm sure that during the next year or so, both the federal, they'll try to get continuation of the federal fundings for that purpose. But as to whether, what happens if the funding is cut off, I don't know if there's anyway of knowing in advance exactly what Alaska Airlines will do. It's possible that they'd run jet service in the summer and discontinue in the winter, or at a reduced level.

Pignalberi: We probably ought to hear from them.

Stoops: Summarizing some of the statistical information that's provided for you in the report, it's kind of

interesting based on what we've read in the newspaper today, at least with my assumption, that we're headed toward a record year for accidents. It seems that every, at least several times a month we read about another aircraft accident somewhere in the state and as it turns out then, in 1985 through the beginning of November, there were 40 accidents that have taken place this year, which is a significant number of accidents but it's also lower than 1980 and 1981. They had 64 and 56 accidents respectively. So, while we're higher than we were in '82, '83 and '84, we're still substantially down from what we had in the early '80s and the same is true of fatalities. There's been 23 fatalities to date this year in airline accidents as compared to 29 in 1980 and 32 in 1981, though the year's not over yet.

Chairperson: Might I ask you a question at this point, Reed? These accidents, are they by charter air services, major air services or small bush lines or just exactly what?

Stoops: There is a breakdown in the report that shows the number of accidents that were related to commuter or scheduled services and those that were related to charter services. The number of accidents in the charter services have been higher than the number in the commuters. Just as an example, in 1985 so far six of the fatal accidents have been by air taxi operations. One has been by commuter operation. But part of the problem is with this study, and it's not the fault of the researchers. It's just that the information doesn't exist, is we can't really make a valid comparison because we don't know the number of miles flown or the number of hours flown by the commuters versus your charter operators. So, until we have that information, it's a little bit difficult to determine whether the air taxi operations are more safe or less safe. One of the things that we will recommend to you this next year is that we cooperate with the federal government and try to do a better job at building a statistical base that we can make a good comparison on. Otherwise, we'll have no way of knowing whether it's a good idea to apply some additional regulations to the air charter operations or the scheduled carriers.

Chairperson: To carry through on the thing that I asked, would you say that deregulations had anything to do with the fact that they were regulated during 1981, '82, '83 and '84 and deregulation came into effect, could this by any chance have anything to do with the increase in fatalities or accidents.

Stoops: Madame Chairman, at the beginning of the year, we expected that that would be the case, that we assumed that deregulation would make the air industry somewhat less safe because people, there would be no longer any requirements for basis of operations or maintenance programs, some of the things the agency used to do. With the information we have at hand, you can't really demonstrate or make a case one way or the other. We do know that there's more accidents. A number of those accidents have been by established carriers as opposed to new carriers, but we really don't have the basis on which to make a sound judgment at this point. I think that both studies, both the House and Senate studies make that conclusion and we have to agree with them. At this point we can't come back to you and say we want additional safety related requirements put into 133 simply because we don't have the statistical basis on which to prove that those additional regulations would result in safer traffic. So, we'd like your cooperation this next year to continue the study with our assistance and try to get a better handle on whether we do need some additional pilot training, or we need some additional number of hours, or for some way of assuring that when a passenger gets in that plane that we have the best possible maintenance programs and the best trained pilots you can have access to.

Shultz: Just wondering, you mentioned a while ago the increasing of the insurance rates or the amount of insurance that the carriers have to carry. Are you getting, I heard on the radio coming in about some carrier from Southeast or I don't know where out of Dillingham or something, was having a problem with insurance, and I've had other air carriers talk to me about problems that they're having with the cost of liability insurance, are you still or are you guys getting a lot of feedback or a lot of complaints.

Stoops: That's one of our priority issues and we've been dealing with it in a comprehensive basis, not only amongst ourselves but along with all the other industries that are also having problems. It's not our position that we should reduce the amount of liability insurance that's required, because at some point the consumer deserves to be flying in an aircraft that's covered so if there is an accident, there's some guarantee that they'll be compensated for whatever injuries occur. But liability insurance in the industry is getting higher, safe rated as it is for the doctors or the architects and engineers, for a number of daycare centers and other groups. Rather than trying to reduce the minimum, our approach

is to join with other industries in suggesting some changes to the tort system so that we can try to deal with the issue comprehensively rather than just on an industry by industry basis.

Shultz: Just out of curiosity, if I may follow-up, what is your feeling of, okay, having the maximum amount of liability insurance, but at the same time what are your feelings of going in and capping the amount of liability insurance, or the amount that a person can collect? A finger's worth X number of dollars, a hand is worth. It's grim to say that a life is worth X number of dollars, an insurance company knows exactly where they stand. And putting a cap on the amount of money that lawyers can charge.

Stoops: Those are two of the proposals that are being considered in a comprehensive solution. A cap wouldn't be, the cap would be for non, for pain and suffering, you wouldn't suggest that there'd be a cap on what a person could recover just for compensation for wages and other things like that. But in addition to that juries have awarded substantial settlements for pain and suffering and that's difficult to quantify. We've had billion dollar plus settlements just for that aspect alone. We do agree that a cap on that would be in everybody's interest because right now the industry is just passing those higher insurance payments back to the consumer. Not just by our industry, but the truckers have affected higher transportation costs across the board, higher medical costs.

Shultz: Doesn't Workmen's Compensation, don't they have a cap on if you go out here and work on a machine and you lose a hand, Workmen's Comp., bingo.

Stoops: Right, they have a schedule. That's one of the things we've looked at in trying to develop a system and it does have some merit in that there's some certainty. If somebody's injured, rather than having to go through a long expensive process to determine what the compensation would be, it would be nice if there was a simple way of recovering an immediate amount of money and then if there's going to be litigation after that, then fine up to some level. That's something that we've looked at and so far have come to the conclusion that a cap on pain and suffering would be the cleanest way to do it. But there is some merit to a Workmen's Comp. type of approach if you could figure out how to cover the administrative cost for that. There may not be a lot of support for the administration that's necessary

to run the Workmen's Comp. type program across the board for everybody. It's an interesting idea.

Chairperson: Might I interrupt for just a minute. Mike, are you there in Fairbanks listening to us?

Davis: You bet.

Chairperson: Okay, feel free to break in anytime you have a question, because you're still on the tape as being here.

Davis: Yeah, thank you, Bette. It's been pretty good transmission except for one time, Representative Shultz was fading out. But it's been an excellent transmission, thank you.

Chairperson: That's all right, Representative Shultz has just now discovered that he has a button on his mike.

Shultz: I have my mike on now, Mike. I was going to just make not here, it a quarter to ten here, I don't know what time it is there in Fairbanks. You might have been a little bit late.

Davis: There must be a hidden message there. I'm not picking it up.

Chairperson: Well, don't worry about it too much. Go ahead Mr. Stoops.

Stoops: I guess moving along to just a few comments on the status of House Bill 133. What's happened since the session was over last year is that the Air Carrier portion of the bill, the responsibility was placed in part with Commerce. The Department of Commerce, the Commissioner of Commerce has assigned that responsibility to the Division of Weights and Measures, apparently for funding purposes. I think they felt that they had a better ability than some of the other divisions to deal with the clerical support that was necessary and we have worked with Joe Swanson, the Director of Weights and Measures, to try to provide our assistance in making sure that the program was implemented as intended. There was a letter that went out late in the summer that notified the various carriers that this law had passed and that they were responsible to get a certificate from the state to assure that they did carry the minimum level of insurance that was now required, \$150,000 per year. We had a provision in the bill, as you recall, it allowed the companies to acquire that new level of insurance when their old policy expired, so it would be staggered during the

year. It wouldn't all happen abruptly upon the effective date of the bill.

Chairperson: Might I intervene again, Reed. What, how do you monitor, how do we monitor, how does anyone monitor the fact that air carriers are carrying insurance?

Stoops: Well, the system that was contemplated was a real simple one in that we required carriers to submit to the state a copy of their insurance policy indicating that number 1, they carried \$150,000 per seat for every plane that they were flying. And secondly, that there was a clause in that insurance policy that required 30 days notice to the state if that policy was going to be cancelled to avoid a situation where somebody cancels their policy then just continues flying. So, we assumed that it could be done through the mail. If the carrier did not submit it, then there was no basis on which to issue a certificate. We know pretty much which carriers are lying because a lot of them are already registered with the federal government or have been registered in the past. So there's a list of carriers, although we may not pick up some of the new ones. And we're going to try it just on a, try to do it through simple administrative procedures. The first letter went out and there was apparently about 20% of the carriers responded back and provided their copies of their insurance policies and received a certificate. But until the end of the year, it's hard to determine how effective, what compliance ratio we're going to have because a lot of insurance policies don't come due until November or December, so until then carriers aren't required to comply with the law until their insurance policies come due. So probably in another month we'll know how many of the carriers in the state complied to the law just on the basis of one or two letters from the Department. So hopefully sometime in the session, we'll be able to let you know how satisfactory that system has been in working. The only problem area that I would like to raise, and you might want to talk to Joe about it, is that we had some difference of opinion over the enforcement language in the bill this last year, that early on after the session we held a meeting to make sure that we were in agreement on how the bill would be implemented. Joe didn't feel that the enforcement sections were clear enough to allow him to aggressively enforce the bill. We had a somewhat different opinion, but we agreed to get an opinion from the Attorney General's Office.

Signalberi: Would you repeat that please.

Stoops:

Okay, there was some difference of opinion over how enforceable the bill was. There was some different interpretations on two of the enforcing provisions on exactly how that would be done and in order to clarify that we sought an Attorney General's opinion to see whether we were right or Joe was right and to date we've never gotten an Attorney General's opinion back again, so we don't know who's right. But in the mean time, there's been at least one case of reports of carriers who've been flying without insurance and unfortunately it was a case where the federal government also had jurisdiction. They actively sought enforcement, but the state did not actively seek enforcement of the state law. There may be legitimate grounds for that position, but on the other hand, we'd sort of like to see at least a letter going out from the state indicating that that carrier was in violation of state law and if it turns out that it is unenforceable because of lack of money or because of language to the bill, then we can correct that during the next session, a technical amendment. But we would be happy to see, we would be happier if there was a more aggressive posture by the state.

Pignalberi: Would you explain what the constitutional question?

Stoops:

It wasn't really a constitutional question, I don't know if Joe can address it when he comes. I think there were two problems. One is that if there was a violation, was a violation per incident. In other words, if somebody carried passengers without insurance, do you fine them everytime that they made a trip with a passenger or is it just one violation, no matter how many times they flew with passengers. That was one question. We felt that that could be handled by regulation, but Joe wasn't comfortable with that. And then secondly, what's the recourse if you are caught. There's a fine, that's obvious, but whether or not you can issue a stop order to stop that person from flying until they have it, there was also a difference of opinion. We thought that the law said that you could do that. There was sufficient authority. Joe said we're not really sure about that, we think that all we can do is revoke their certificate of compliance, but we can't stop them from flying. Again, that wasn't our interpretation, but at this point, the state's interpretation is that they weren't comfortable that they could enforce, so maybe Joe can address those points. I guess we would have liked to at least seen a letter go out saying that you are in violation and that we intend to take action if you don't cease flying until you acquire your insurance. But in the

one case that we are aware of, the federal government did seek compliance and apparently they have been effective. So that incident has been taken care of. It's something that we do have to deal with because we know that there's other carriers out there that are flying without insurance right now.

Davis: Reed, this is Mike Davis. I've got a question for you. Thank you, Madame Chairman. When you say the carriers are flying without insurance, isn't that also a violation of federal law, that they can't fly without insurance.

Stoops: Representative Davis, it's a violation of federal law if they're a scheduled carrier, in which case they have to have \$300,000 per seat liability insurance. If it's strictly an air charter operation, there is no applicable federal law, it's only state law.

Pignalberi: Interstate.

Stoops: Yeah, if they're flying within Alaska and it's only a charter service, only state law applies.

Davis: And you're saying that there's no enforcement then of the insurance regulation and those that are in violation are not being cited.

Stoops: So far, that's the case and we'll admit that it's early, that it is difficult for the Department because of a lack of funding. There may be some legitimate differences of interpretation in the bill, but we're just raising the point to assure that in the future that there is aggressive enforcement because it's in people's best interest and we think it's in the industry's best interest.

Davis: If I can continue, Madame Chairman?

Chairperson: Go ahead, Representative Davis.

Davis: Reed, does the industry have any suggested amendments of things that would make sure that there is teeth. The truckers said yesterday there was no teeth in the law. Do you have any recommendations or are you going to bring any recommendations to the legislature so that the enforcement provisions are being ferrated out.

Stoops: Yes, Representative Davis. In the packet that has been made available to the Committee here, there is a proposed set of amendments that was prepared by Joe Swanson that I intended to deal with in the

testimony today. There are two or three suggested changes in the enforcement language that we're prepared to support.

Davis: I have the packet, so I have if it's the blue folder, I have that. If it's in there, I'll find it.

Chairperson: Reed, do you have the page number that you're going to be.

Stoops: Just a sec, let me get the blue folder.

Davis: Well, Madame Chairman, when Reed's taking a look at this are you considering introducing some legislation that will be Transportation Committee legislation to address these issues and the ones that were addressed yesterday with the truckers?

Chairperson: That will be something, Mike, for the Committee to decide. But, yes, I very definitely think so. I don't think we want to open up 133, but I do think that we'll probably have to introduce some type of legislation that will take care of some of the problems that have arisen from that. From what I understand, it's primarily in funding and then the decision of which agency is actually to do the enforcing and we're going to have to, as a Committee, make some preparation for that.

Davis: Well, Bette, if you would like any cooperation from me or any assistance before the legislature convenes on some of these issues, I'd be glad to work with you on that.

Chairperson: I would certainly appreciate it, Mike, and we'll keep that in mind and I'll be able to get in touch with you up there.

Davis: Ten four.

Stoops: Madame Chairman, the proposed legislation is not in the blue packet, I don't believe, but I got a copy from Wendy, so I'm sure that it's available and as soon as we find Wendy.

Chairperson: Yeah, as soon as she gets back. She's busy on another errand right now. As soon as she gets back, we'll find that out.

Stoops: Until we get copies of the legislation to deal with, I'll defer my specific comments.

Chairperson: Here she is now.

Stoops: While we're getting copies of some suggested amendments to the bill, at this time I would like to defer for a few minutes and allow Dave Zundel, who is Executive Director of the Air Carriers Association, to talk to the Committee just briefly about some of the work with the Air Alaskan Aviation Safety Foundation is doing. How they're cooperating on the safety aspects of the study and what things they're doing to try to reduce the accident rate.

Chairperson: Excellent. Mr. Zundel, would you like to come forward. Then give your name and occupation for the record.

Zundel: Madame Chairman. My name is David Zundel. I am the Executive Director of Alaska Air Carriers Association and also the Executive Director of Alaskan Aviation Safety Foundation. I would like to speak on to kind of summarize what the Alaskan Aviation Safety Foundation has been doing in the last, particularly since October of 1985, but specifically, also including a little bit of history of the foundation's beginnings and the funding that the state has given the foundation. Alaskan Aviation Safety Foundation was established in 1978 by the aviation industry to foster aviation safety by providing aviation training throughout the state. In the first few years, the Foundation conducted aviation management courses, pilot and mechanic seminars and chief pilot seminars, etc., between the years of 1978 and 1980. Then in September of 1980, the National Transportation Safety Board, NTSB, published their special study, Air Taxi Safety in Alaska. The NTSB report clearly established an air safety problem which indicated that the accident rate in Alaska was four times the accident rate for air taxis in the rest of the United States. The NTSB report concluded that there were three major factors that contributed to the high air taxi accident rate in Alaska. Number one, the bush syndrome. An attitude on the part of air taxi operators, pilots and passengers in Alaska that range from casual acceptance of risks to willingness to take unwarranted risks when flying. Two, inadequate airfield and communication facilities. And three, inadequate weather observations and insufficient navigational aids. In June, 1980, Alaska State Legislature appropriated \$51.3 million for further development of the state aviation system. Specifically, the money was for airport improvements and weather services. The other side of the problem is education of management, pilots and passengers to overcome the bush syndrome. Note: it is not just the bush pilot syndrome. The NTSB report recommended to the Alaskan aviation industry the following:

Extend their safety program to reiterate the hazards of air taxi operations in Alaska to overcome in particular the bush syndrome. The Safety Foundation began a study in 1980 to determine how best to implement the recommendations of the NTSB. Phase one of that was the completion of a report, that was by the way funded by the state legislature through the Safety Foundation, a report by the American Airlines Training Corporation defining Alaskan aviation training requirements. This report was completed, again, through the funds provided by the state legislature. The study completed in July of 1980 was effective in determining a specifically designed training curriculum suited to the needs of Alaskan aviators. The next phase was to create such curriculum. On September 13, 1983, the state contracted with the Safety Foundation to develop an Alaskan aviation safety curriculum that would include lesson plans to be used by experienced Alaskan aviation operators when training both private and commercial operators to fly aircraft safely in Alaska. Dr. Jerry Cockrell was hired by the Foundation to spearhead this project and it was completed in the summer of 1985. Phase three of the program is the phase that we started in October of '85 and that was to conduct safety seminars throughout the state. We actually began a preliminary phase of the seminars, the safety seminars in Bethel. That was the first one we did and that was done in April of 1985. Since October, the Safety Foundation has been involved in an aggressive program. We've been in Anchorage [tape end].

TAPE 3, SIDE B

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TAPE 4, SIDE A

Chairperson: However, I think this could be handled after study with a different method than opening a bill. So thank you for your testimony or comments, that word testimony always gives me, I feel like I'm in church or something. Mr. Stoops.

Stoops: Madame Chairman, if it's the pleasure of the Committee, we would appreciate an opportunity, about five minutes, to express our preliminary reviews on those amendments.

Chairperson: All right. Would it matter if we took about a ten minute break and then got back to it? Would that break the chain of thought.

Davis: Madame Chairman, can I just say one comment, please?

Chairperson: Yes, Representative Davis.

Davis: I guess my comment is, and I've never heard the answer to that, and that's what is the, there was a lot of positions in the A.T.C. that were disbanded, whatever and what happened to all those positions in terms of the budget? Was there anything that was a carryover that they went into other departments? I guess I don't need the answer, but maybe Mr. Swanson can give that to us. What happened to all those positions that were in A.T.C. that did some of the functions that he's requesting positions for now?

Chairperson: All right. Mr. Swanson's prepared to answer that.

Swanson: The demise of A.T.C. and the particular, most of the individuals had conversations with our personnel officer just a couple of days ago, have been placed in other agencies. They are a couple that are still remaining. The position that we're asking for on the administrative side is strictly a clerical position, falling within one that was not specialized to A.T.C. The investigative position, the way the bureaucracy works or the administration works, I'm forced to work within the personnel system and I had to pick a series that's still alive, so I picked one of our major ones, standards inspector, and identified that as the place where I would put the individual. The investigative positions that were in A.T.C. have been eliminated from our personnel system, so I can't pick up that particular type of person. Now, certainly if one of those people were around and on the register, we would look at them as part of the expertise. I'm not saying that we would choose that individual. Am I making any of that clear.

Davis: Sorry to hold up the coffee break, but I guess what I'm trying to say is that we eliminated A.T.C., was there a reduced amount of money because of that elimination or did all those positions just transfer other places?

Chairperson: I wonder if Representative Adams could answer that question for us a little bit more clearly than. He doesn't have his detail book with him, but Mike we will get the answer to that question to you. I'm not sure where those positions went either.

Swanson?: They did not go in the Department of Commerce.

Chairperson: They did not go in the Department of Commerce, we've got that down pat.

Davis: I don't really want the answer right now, Madame Chairman, but thank you for holding off the coffee break for me. Go get a cup of coffee.

Chairperson: Okay, I would like to declare a ten minute recess and I mean just ten minutes. Let's get back so we can finish up in time to go to lunch or whatever.

Zundel: We, as the Air Carriers Association, received this Saturday and really have not discussed with our constituents to the point where we feel that we can legitimately tell you that the industry says this or that about the proposed changes. There are, particularly the 75% concept, I think we'll take under advisement and get back with you in respect to that as far as our recommendations. There are some aspects of his proposed changes that I think that we would concur. Let me see how this is, under 42.30.200, Section B or Section D, excuse me, a person who violates this section is guilty of a Class D or A misdemeanor and is punishable by a fine of not less than \$500, and he's changed that to \$1,000 or more. One of the things that we asked Joe Swanson to find out from the Attorney General was, rather not, this should be a \$1,000 fine per flight, per day or what. That was one of the questions we asked them. We recommend that we charge or fine them \$1,000 per incident, which would put a stop to it immediately and that was one of the focuses of our asking the Attorney General's opinion because we felt like that would certainly put some teeth in it.

Pignalberi: What's an incident?

Zundel: Every time the carrier flew with passengers would be an incident. Every flight that he would fly as an air taxi with passengers would be an incident. So that would stop him in his tracks. The other provisions under 42.30.225, clarification of compliance of air carriers, under Section B. This was a recommendation of Alaska Air Carriers, excuse me, Alaska Airlines. The annual fee for a Certificate of Compliance is \$50. The Certificate is valid for a period of 12 months following the date of certification. The Certificate shall be displayed on the aircraft so that it is visible to boarding passengers. I think we concur with Alaska Airlines' comments on that. And Section C, the Department may investigate complaints or violations of this section and conduct other investigations, we would certainly concur with the ability of the Department to carry on investigations. Section D, a person who violates this section is guilty of a Class 3 misdemeanor, we would also concur with that particular provision.

Then under 42.30.360, Section 3, aircraft means propellor, rotary or jet powered device used or design for flight in the air, we also would concur with those things. But the first section we would certainly like to have time to consult our members and take it under advisement. I would like to also say before I leave is that some of the statistics from your report are not adequate to determine the safety level of air carriers. I think that was pointed out time and time again with the report. It seems to me that with the Alaskan Aviation Safety Foundation now having a statistical department, that we certainly could help the state in that area.

Chairperson: We would certainly appreciate, Mr. Zundel, your being able to furnish more information so that our staff can be a little more accurate. We frequently fly blind on some things, I'm using I didn't realize that pun on words, but we do frequently get in a position where we don't really have the right stuff but we have what's available to us. And with your new help, why we'll certainly appreciate your keeping in touch with our office and furnishing us with that information so that we can be more correct.

Zundel: Thank you, Madame Chairman. Let me say, also, tomorrow we will have a meeting with Gene Morris, a statistician along with the Safety Foundation, including in that meeting will be Jim Michealangelo from the NTSB, Chief of the NTSB office here. We'll also have a representative from the F.A.A. and we hope to crystalize, I guess, our thinking in terms of what direction we want the statistician to move. But we've got the data and we've got the capabilities now and I'm excited about that, I guess I mentioned before. And tomorrow we'll crystalize just exactly what direction we can go. But we will have the information, I think, within six months. The information I think will help the state to determine what the problems are, which has not been done before.

Chairperson: Oh, that just sounds absolutely great, doesn't it.

Zundel: Thank you very much.

Chairperson: Thank you, Mr. Zundel. Mike, are you in Fairbanks?

Davis: You bet.

Chairperson: Are you lonesome up there?

Davis: Well, no I got my parka and my coffee. I'm doing fine.

Chairperson: Okay. We kind of miss you being down here, so we can exchange pleasantries. Mr. Furnace has joined us, Representative Furnace. He's been ill with the flu. Let's hope this doesn't set him back because we surely need him here this afternoon. Would the committee like to make some comments on what has proceeded so far, as far as comments from the industry and the Department of Commerce, Weights and Measures Division.

Pignalberi: Thank you. Madame Chairman, I certainly want to thank the witnesses we had this morning for helping us review the situation in the air taxi industry since we passed House Bill 133, which we had to do because with the public abolished the Alaska Transportation Commission. I, for one, am considering introducing a bill next session, and I just don't know if I'm going to have time to put it together, that will attempt to reinstate the Alaska Transportation Commission. I would ask the people who are participating in this teleconference, the air carriers and mention it to the truckers' representative that I'd like to get some response from them and I've already gotten some initial informal response from Mr. Swanson. But I sure would like to get some feedback on that because I, for one, think that part of the accident problem that we're having is because the Commission is gone.

Chairperson: Mr. Zundel, would you care to comment on that.

Zundel: Yes. Madame Chairman and others on the Committee, this is kind of an interesting subject because the carriers in their 1986 convention basically have voted to table the motion, that is about half the carriers were for and half against the A.T.C. and so at that point there was nothing concrete. Our feeling, basically, is that carriers ought speak as a united voice. That's difficult sometimes with the independence of Alaskans in particular, of the Air Carriers Association's members. At this point, the only thing that I can say is that there is a division still in the Carriers. Half of them believe that there ought to be a regulation and half of them do not. So we've got a selling job to do amongst our own group, if we are to support that concept or not.

Chairperson: Representative Pignalberi, I'm interested in your trying to put through a bill. I'm just going to give my own personal opinion. I felt that the A.T.C. should be streamlined, should have been not done away with, but streamlined so they could be functionally more efficient than they were under the fat, at that time existing situation. Unfortunately, I

lost, but I would be open to a modified version of A.T.C. coming back. I have come to the point and time in my life where deregulation is beginning to mean to me that people could do whatever they damn well please without regard for anyone else. I don't like rules and regulations much better than anybody else, but if you're committed to taking into consideration the health, welfare and that sort of thing of our citizens, as we are commanded to do in the Constitution, then we have to find ways to do that and as far as regs and that sort of thing, I've always felt sometimes that they were just a little too pressing on me. But when I knew I had to do something, then I went ahead and did it and didn't do too much crabbing about it. Yet when I had free rein, I pretty much well did as I pleased. I think the average citizen feels a great deal the same way I do. People want to be law abiding and we don't want particularly real restrictive regulations, where we can't turn around without asking somebody, but we do need some directions, just like kids in school, they need a direction to go in. That remark comes from my school teacher experience. I think we all in life need a direction and if that direction isn't there that we can just go off on tangents and then create some pretty impossible situations. Well, enough of that. Do we have any other comments from the Committee. Representative Shultz, do you have anything to comment? Representative Davis in Fairbanks, do you have any comments you wish to make?

Davis: Well, I just have a comment to Representative Signalberi. I've always felt that the A.T.C. needed to be fine tuned and despite audit after audit, they never did it and so the result was the public threw the whole thing out and I sometimes felt that they went out that way. But I think implementing or reinstating the A.T.C. given the public's mandate is [indiscernible], Marco. That'd be my comment on the whole issue.

Zundel: I would like to comment, Madame Chairman and Representatives concerning the Air Carriers concept of how we can police ourselves, our own association and what we're doing in terms of, what we're trying to do is lift the industry standards. Let me speak on that if I could for just a moment. The Air Carriers Association, 15 years ago under the direction of Richard Wien and others in the industry, particularly Rex Bishop of Alaska Helicopters, and Ken Eisner from Tamsco Helicopters, and others, Orville Livingston from Livingston Helicopters, created a code of ethics for the Air Carriers Association. We basically just

reemphasized those code of ethics, I'll make a copy for the Representatives here, because I think it's very significant. The attempt that Richard Wien and others tried to do. Basically, we believe the industry can do a lot to pull itself up from its own bootstraps and cleanse those carriers in the industry from our association that should not be there. Our motto is aviation committed to safety. Our Association is dedicated to safety. One of the things that we're trying to do, one of the first things that we have done this year is to create a membership committee and not allow those carriers that are not committed to safety into the Association. The second phase of that program, basically will be to have an audit or a safety consultation from the Safety Foundation on a yearly basis. We hope through these means and others, through programs like a Chief Pilot course, a Corrective Operations course, a Director of Maintenance course and the Pilot Curriculum, to lift the industry in terms of safety. So we want to do some of that on a private basis and I think that we can do that. We want to tout the Carriers Association's commitment to safety through the press and through public education so that people will realize what the Air Carriers Association stands for and that is a commitment to safety. That has not been done and we hope to do some of that work ourselves, including our own members, and raising the level of safety, the consciousness of safety. Thank you very much.

Chairperson: Thank you very much, Mr. Zundel. Are there any other comments? Do we have any further discussion on the aviation part of our meeting? If not, no comments, Mike, you sitting all right up there?

Davis: Just fine.

Chairperson: Will you be back at 1:30 with us?

Davis: Looking forward to it.

Chairperson: All right. I think I am too. I say that with tongue in cheek. However, if there is no further business, then I think we'll recess now until 1:30 and reconvene at 1:30.

Prior to the report of the Railroad to us, I would like to have Jack Burton make a statement that he wishes to make. Jack, will you?

Burton: Chairman Cato, distinguished Committee members, I'm Jack Burton. I'm President of American Federation of Railways, Local 183, which represents the largest

barzaining unit on the property. Unfortunately, I just got back into town, I've been on leave down in the lower 48 down there and just wanted to [indis-cernible] here. I haven't even prepared a testimony, but what I'd like to ask is for you to keep the record open today. We do have some differences with the Alaska Railroad management inasmuch as we've got some problems and everything. We're going to try to address those problems in the House if we can resolve that. I just came back from talking to Congressional[?] leaders down in Washington down there. They recognize some of the problems that we have. I've talked to the legislative branch down there and we're talking about maybe making an amendment to the Alaska Railroad Transfer Act if we can't get these problems solved in the house. Basically, that's about all I got today and [indis-cernible] our testimony, we'll be back late today.

Chairperson: Yes, and I thank you for coming and asking that we keep it open. We very definitely will and I think we need to acknowledge and notify everyone that we always welcome additional written testimony, verbal testimony and try not to close anything off. Thank you, Jack. I'm kind of stalling for time, hoping that Representative Pignalberi would be able to get here. Marvene, is there something that's holding him up.

Marvene: Yes, he got called for a short meeting. He'll be back in just about half an hour.

Chairperson: About a half an hour. Well, darn it. It just goes to show that Representatives are not necessarily part-time Representatives, that a great deal of our time is involved in the legislature and we work at odd hours and sometimes have conflicting appointments. At this time, however, the audience does not have it, but we do have a written copy of the Alaska Railroad Corporation report. There aren't enough copies for the audience, but try to follow along with us as best you can. We would appreciate that. Mr. Turpin is going to give us the introduction. We'll talk about financial highlights and risk management by Mr. Yetter. The marketing overview, industry subsidies, Title V - U.G.U. Negotiations and caboose legislation. We'll also have other people to comment on other things that they wish to comment on. Mr. Turpin would you like to start out. Would you give your name and, I know this sounds ludicrous but we need it for the tape, your name and your occupation.

Turpin: I am Frank Turpin, President and Chief Executive Officer of the Alaska Railroad. I'm afraid that you have given my introduction, which is what we would cover today, but I have no problem at all, you did it beautifully. I wanted to introduce to the Committee Marvin Yetter. You've met before. We've made presentations. We have our Vice President of Marketing, Denny Robertson, with us today and I thought you may have questions that you might ask or you might like to ask about our marketing operations. Denny is over here. Then we also have Larry Wood, who is our Chief Counsel, and he is new to the Committee, I believe and Larry will be making some of the presentation. Here, again, if there's anything in the legal questions, why we'd be happy to have Larry try to answer those. So without taking up any more of your time, we thought we would briefly cover the financial highlights which I'm sure is of interest to the Committee and I've asked Marv to do that. Marv this is going to be quite an exercise without any diagrams.

Chairperson: I am terribly sorry about the lack of diagrams and things like that but they don't record on tape and it's extremely difficult for the Committee to have a record of what's being said. It's like nodding your head before the mike, it just doesn't activate the tape.

Yetter: My name is Marvin Yetter. I am Vice President of Finance of the Alaska Railroad and I'd like to cover three basic subjects today: The 1985 financial results through November, also what we're looking at in our '86 capital budget and then also give you a brief update on our risk management program. You may recall that we have sent letters out in past months with regards to how we have changed our insurance limits at the railroad to meet changing insurance industry. Starting off with the financial highlights, as far as income goes, through the month of November, we at the Railroad right now stand with a net income profit of \$5.8 million. That is against our target of \$7.1 million through December. Obviously, we've got \$1.3 million to go. We expect to do that in the month of December or come very close. Revenue, however, is down from what we forecast in the budget for two basic reasons. The coal, import and export coal, or I'm sorry the export coal and the local coal to Fairbanks is running about \$2 million under what we budgeted through November. Also, our trailer and flat car traffic, gainers and flat cars that is down about \$3.1 million from what was forecast. Also, in addition, our gravel that we hauled this summer was down about \$1.1

million. So the total, we had about a \$6.5 million shortfall from the budget with regards to revenue. I'm happy to say, though, that expenses are also down about the same amount. That's largely the result of reduced depreciation on the railroad. The depreciation is not as high as forecasted. Also, we have been able to hold the line in most areas on expenses. Now if we would not be holding the line on expenses, we would not see the \$5.8 million profit because of the shortfall in revenue. I think most of us know that the transportation industry rate structure has dropped off quite a bit in the last two years, probably 40-50%. Switching now to capital, presenting questions.

Shultz: Did the, on the coal, revenue off of that, was a lot of that due to the fire at Healy mine?

Yetter: In the month of November, we were down on coal, export coal about \$300,000 and that was a result. Also northbound coal was down because of the fire.

Chairperson: I would like to ask a question on that, too. With the fact that the coal was freezing in the cars, did that have anything to do with that revenue picture.

Yetter: We had some early problems, January-February of last year, that we think we have that problem resolved and we're working very closely to the Sun Eagle and we think that problem will be resolved this winter. It should not reoccur. Okay, moving to capital, the second page in your book there under financial highlights. We expected to spend, in capital spending, about \$14.1 million in 1985 through November. We have spent \$8.2 million in capital spending. Two basic reasons for the downturn.

1. We got a late start on our capital plan due to implementing what we call capital control procedures and analysis that lets us reevaluate each project before we begin that project.

In most government funding, state and federal funding, when an item is put in the budget as approved, regardless of when that project is started, the go ahead is given at budget approval time. At the Railroad we take a different approach. Industry takes a different approach to capital spending. Even though we put an item in the budget and we establish the budget, that is only a plan because it may be two years down the road or a year down the road before that capital project is really begun and your business conditions may have changed substantially at that time so it may not warrant starting

that project any more. So we put procedures in place to reevaluate based on economics, internal rate of return based on the communities that we're doing projects in to take into consideration these factors. We look at our \$14.1 million spending plan and felt that trying to do these analyses that some of the projects were not justified. They do not have the payback. They did not have the return to the Railroad that they should have so we did not do those. That's the basic reason why the spending is not up to what we originally forecast. Now I'll go over the '86 capital budget in a minute which will give you an idea of what we plan on doing in 1986. But to further carry that, even though we've only spent \$8.2 million through November in actual spending, we have upgraded the railroad with equipment and track structure to the tune of \$20 million. The third page there gives you an example. We had purchased five new locomotives at a cost of \$5 million; 45 new flat cars at a cost of \$4.5 million; 2 self-propelled coaches, these are extra coaches that we're improving the passenger service with, at a cost of \$1 million; improvements for tunnels, 5 tunnels south of Portage to Seward, \$2.4 million; we resurfaced our track and roadbed 180 miles this summer, which is almost a third of the line for \$2.9 million; energy conservation, we've installed energy, new heating, utility systems for hot water steam heat over in the Anchorage Port facilities that we have there. Just in 1985, we spent \$2.1 million on that project. The total project cost there is approximately, probably in the neighborhood of \$4-5 million. That project will save us \$300,000 alone each year just on energy consumption. In Whittier, we spent \$600,000 on the Tosse Yard over there, track lighting and that kind of thing. The same thing in Fairbanks, Allison Branch rehabilitation \$800,000. Then we purchased \$700,000 in engineering construction equipment in 1985. In major items \$20 million.

Chairperson: Might I interrupt you just to ask you a question at this time? At what and point and time were those five locomotives purchased?

Yetter: We ordered the locomotives I think about February of this year and they were delivered in May, end of May early June.

Chairperson: Inasmuch as the Railroad started out with no monies at all except the, I think it's \$10.3 that was given by the legislature.

Yetter: \$10.9 million.

Chairperson: And, were those locomotives purchased out of that money?

Yetter: Yes. As you can see, just on capital alone there was a lease purchase. But what we've done is, there was two funds given the Railroad. There was a \$4.9 million operating fund, because, as you said, we started out penniless, and we had no receivables or payables on the books so that \$4.9 million was there to be able to pay the bills until the revenue started coming in from the 30-day, 45-day lag on receivables. There was \$6 million appropriated for capital, to finish up capital projects that were in progress prior to the State taking over the Railroad. A good example of that was the tunnel projects. We did some work in a tunnel in 1984. Some of the energy system that we talked about, \$4 or \$5 million. A lot of these projects were started in prior years and it would have been a financial mistake and not good business practice to stop those projects and not continue because of all the dollars that were poured into them. The \$6 million was to finish those prior projects taken over or started under federal and then also to get the Railroad started on the way on the new capital plan. We have used that \$6 million to finish up those '84 projects. The locomotives were bought in 1985 on a lease purchase plan.

Chairperson: Was there anything in that \$10 million plus allocation that said that was to be used for operating expenses rather than capital improvements?

Yetter: We had to use the \$4.9 million for operating and we had to use the \$6 million for capital. That's the way it was appropriated. We did that. We had the funds separate and we did that.

Chairperson: Excuse me for.

Yetter: Any other questions on this?

Davis: Madame Chairman, I have a question when you.

Chairperson: Yes, Representative Davis?

Davis: I have a question on, not on the page that you're on but the next page on number 5, it says what percentage of the Railroad land is leased and what is the income from these leases. It goes on about how your department.

Chairperson: Mike, you're looking at our report. We're looking at the report the Railroad brought in to us today. So the pages don't coincide.

Davis: I see, thank you, Madame Chairman. Well, I still, if it's okay ask that question then.

Chairperson: Yes, I'm not sure Mr. Yetter's prepared to answer it, but yes. He'll give it a shot.

Davis: As I said it's point number 5 here and it talks about the amount of Railroad leased land and things like that and it says in here that you're not required to comply with Executive Budget Act, Accounting of Public Funds, all those sort of things, but there's also a stipulation in the law, as I recall, of fair market value. In other words, the leases that you have to charge are fair market value, but it looks to me like even though the legislature is requiring you to do that, there's no oversight, there's no way to know that you people are actually doing that. Is that correct?

Yetter: Well, I think there is an oversight in the sense that, of course, any policy like that that we develop is all done with public input and we've had it with regards to our lease policy and I think Mr. Turnpin's going to speak about that a little bit later. But we have had several meetings with the public regarding the development of our lease policy and to do those exact same things and make sure that we got in the policy that controls, that protects both the public and the Railroad. Also, of course, a good point that Mr. Turpin just made that we are required by the Act to be audited by an independent certified public accounting firm, which is Ernst & Whinney in our case. In addition to that, we are required by the Act to have a railroad expert management firm come in each year, annually, and do a study and determine whether or not the Railroad is being run cost effectively and meeting railroad standards. In addition to that, the office of Managing and Budget, or I'm sorry, the state auditors, that branch, have the right to come in and review the records of the Railroad.

Davis: I see. So they have the right to review that, but all that information can become public documents. Is that correct?

Yetter: I would have to check with our attorneys on that. I don't know, I don't think that with regards to our, the lease policy can be, I'm not sure about the rates we charge on other people's property.

Wood: Representative Davis, this is Larry Wood. With the Chairperson's consent I'll answer that question.

Chairperson: Please go ahead.

Wood: That would be part of the lease document and that would be something that someone could come in and look at. I guess you're talking about what rate is being charged for a specific lease, correct. And that is something that could be examined.

Chairperson: Mike, if I might interject a comment that there is nothing in the Act, however, that says that you must send to the legislature a report of those things. You'd keep them in-house and that there is nothing that says that they have to go to the legislature yearly. Am I correct in that?

Wood: If the Railroad decides it would like to issue a lease in excess of 35 years, it would have to either have a provision in the lease that that term would be subject to Railroad use, should it need that particular lease or that land after the 35 years, or get the legislature's permission to grant a lease in excess of 35 years. So with that one exception, that's a true statement. The information is available, as Mr. Yetter has pointed out, for audits. It is also available for inspection by Representative Davis or others who might have an interest in determining or assessing whether or not the Railroad has been abiding by this mandate, by the state law.

Chairperson: However, I think the point I'm getting at is that there is no direct obligation to inform the legislature of these things that we've been talking about. Am I correct as far as that in the Act?

Wood: Right.

Davis: Madame Chairman, I'm just trying to get things clarified for myself, but in here, in your report it says what percentage of the Railroad land is leased and what is the income from these leases and in here I'm perhaps mistaken(?) but it says that no information is available on how or where this income is spent. Maybe I just read into that, but there was no information on which land was leased and which wasn't. [tape end].

TAPE 4, SIDE 3

Chairperson: that information. So I think that's what that is referring to in your report.

Davis: Okay, thank you very much.

Chairperson: Let me clarify something in my own mind then. Inasmuch as the Federal records did not keep track of the 38,000 acres of land, individually piece by piece, then the Railroad is in the position right now that they actually don't know themselves what land is where and what you do have jurisdiction over. Am I correct in that?

Wood: Well, that's the process we're going through and we know generally. There is some land that is in use that we don't know and we're going through that effort now and cataloging and organizing that to make sure. But to say absolutely every one of them, you're correct.

Chairperson: Continue, Mr. Yetter.

Yetter: If there are no more questions in regard to that, we'll go on to the '86 capital budget. In 1986, our capital budget we expect to spend \$13.5 million against a budget that has a value, new purchases of \$17.6 million. What we're looking at in 1986 as far as major capital purchases in the area of equipment, we're looking at buying 20 new air dump cars, these are sort of like a gravel hopper car that has a side dump on them. We're looking at buying 3 locomotive cranes; 8 locomotives of which they may be remanufactured, they may be new; numerous light vehicles; about \$3 million in construction equipment; showing some building upgrade in regards to local employee housing that we have for the summer work crew; upgrading four section facilities; putting in a fire and security system in our Anchorage properties; numerous building renovations. So the value of that is \$17.5 million we will spend against those particular items. In 1986, \$7.3 million. With carryover spending of \$6.3 million, which is [indiscernible] project that was started in 1985, the total of those two then equals \$13.5 million to be spent. In order to make that spending plan of \$13.5 million, we expect to utilize the cash that we have on board at year-end 1985 plus the cash that's generated from profits in 1986.

Chairperson: Are there any questions on that? No.

Yetter: One other short subject that I think we need to just mention briefly on the last page of the financial section there, we all know the insurance industry has made a dramatic retreat as far as the availability of policies during the last year and also the cost of those policies has been rising significantly. Prior to July, 1985, Alaska Railroad tacked onto the state Risk Management Program. We paid our share,

but because we were tacked onto the state's plan, we got it at a reduced cost. For a \$50 million liability policy, \$200,000 deductible tacked onto the state plan, we pay \$500,000 annually for that coverage. July 1 we had to secure our own insurance. Also, the insurance companies would not allow Railroads to be tacked onto the state plans after July 1. So we went out and secured our own insurance. Railroads are very difficult to insure. The maximum insurance that we could get at a reasonable cost, regardless of casualty insurance, general liability insurance, worker's compensation, with a \$30 million liability limit and a \$2 million deductible, before we had a \$50 million limit and a \$200,000 deductible. We went to a \$30 million limit and a \$2 million deductible for an annual cost of \$1.2 million. In addition then, insurance on our buildings, contents and structures, the rolling stocks that we have on the Railroad, we got an additional policy which had a \$20 million limit but it had a \$10 million deductible. That policy cost \$120,000 a year. In addition, we have a directors and officers liability insurance. It has a \$5 million liability limit with a \$10-75,000 deductible depending on the occurrence, that's \$44,000 a year. The total of those three policies, which gives us less coverage than we had before with a substantially higher deductible is \$1.4 million. That is being funded out of Railroad profits. I think this is the same kind of situation that you're seeing, I know that there's a committee looking into that for the state. It's the same kind of thing that we're faced with in other things in Alaska.

Chairperson: Yes, I was just going to comment that the insurance rates in the state of Alaska is mighty bleak at the present time. All industries are, and individuals, are being faced with premiums that are almost impossible with far less coverage than they ever had before. There is a committee working on that and it's high time we did take a good strong look at that picture.

Yetter: If there's no other questions, that wraps it up.

Chairperson: Mike, do you have any other questions? I had one, but I'll save it for when Mr. Turpin comes up. It doesn't have anything to do with the finance system.

Turpin: I'll come up briefly if you want.

Chairperson: One thing that I was curious about and that is the Railroad corporation and I know the Acts rather well because I helped write it, is exempt from a great many things that your average corporation would have

to do and what I would like to know is how many services that the state gives are you taking advantage of or that you do have that are not available to private industries. What type of services?

Turpin: That's what I intend to cover.

Chairperson: Okay. Then we'll just wait until that time.

Burton: But, I think that's a very good question and I'm really very anxious to talk about it. What we have set up today is more or less a panel of people to answer your questions as much as anything else and I anticipated this would be one question area, so we're prepared for that. But we also have brought our Marketing Vice President to talk a little about our marketing area and the primary services that we sell, but he is also here to answer any questions you may have about our marketing. I want to remind you to please feel free to work us over because that's why we're here.

Chairperson: I will.

Burton: So I'll let Danny Robertson come up then and answer the marketing side of our operation.

Chairperson: Thank you, Mr. Burton. I feel like the lone ranger, I think all my colleagues have deserted me. They'll be back.

Robertson: My name is Danny Robertson. I'm Vice President of Marketing for the Alaska Railroad and for those people who are here today, I have the most interesting job. I would like to talk to you today about marketing, what it is on the Alaska Railroad, talk to you about our marketing policies, what the market is, what the institution of our revenues are, a little bit about taxes, that subject in particular. Marketing means different things to different people and so everybody gets a little different perspective when they hear the word marketing. On the Railroad it follows pretty much the textbook definition. It includes basically almost all of those things that you'll find in any standard college marketing textbook. First of all, we sell our services, we have a sales group, people who go out and try to drum up a little business. Secondly, we price our services, we set the prices to our service determining the ride, and this is basically something that the costs are based on what the competitive market is out there. Another area is weights and service contracts. This is a little more technical and involves more than just setting a price. It involves

writing a contract for, deciding what a contract will need between the Railroad and the shipper. Equipment and service plans, we in cooperation with operating fees, decide on the specifications of the equipment that we need for any particular traffic segment or new bridge [indiscernible]. The number of cars, for example, that we need, depending on the turn around we would get. Market planning means simply what we're doing all the time. We're planning for the volume of business that we can get, looking at it with the future of what business we should be going after and what we have to do to get that business. Market research is something that is done today mostly by our sales department because we really don't have the big staff, we just have a few people that are wearing several hats quite frankly and the salesmen are wearing the hats and that person who's out there is doing the market research and developing information on what new business might be out there and how we can pull it in. Market development is something that we have done very little of. Think of let's say a salesperson, not necessarily a salesperson but a marketing person on the Railroad who will go out and see an opportunity say for a coal mine or a mine, a business opportunity out there, then he would call the people who are doing that sort of thing and try and bring them in and bring in the financing and try to get the situation set up where somebody could go into business and give us business. This is called market development. Customer service is customers frequently freighting cars and expediting shipments, dealing with a customer while they're learning or quite a variety of things. Advertising I guess I don't have to explain here. Promotion means typically going to a trade show and having a good display along with providing say brochures or a number of other things and we'll communicate with the public about railroad service.

Chairperson: Danny, can I interject here. You slipped over advertising very neatly and adroitly. I understand that you have recently hired Rick Mystrome on a 3.5 million contract to market out in the lower 48 to advertise and I'd like to have you explain to us exactly what type of freight he's going to go after. What's it's all about.

Robinson: Okay. This year, 1985, without a real marketing program in effect or advertising program or advertising department, we will have spent about \$300,000 in advertising. That's kind of on an adhoc basis. You decide you want an ad in this magazine, somebody comes along with the groundwork. We have this

program if you cooperate with us and advertise and this amount of money, surprisingly enough, does go out in incidental advertising. The display ads that you see in some of the travel magazines, that sort of thing. We'd like to have the energy in the market place at all, you simply have to do this kind of thing. Now, we've said how advertising is one of the main marketing prospects that we had. We're going to try to do a good job of it. We can't afford the people; we can't afford a professional in advertising area or an advertising department, like some of your larger companies have. So what we did was organize what I call an advertising team. It's the representative of all the stockholders, in other words, the people, for example, the operating department. If the operating people can't do what we say in our ads, then we've made a big mistake. So we've taken people from each of the departments who might have an interest or be able to help in an advertising program and drawn up a team. The team decided that we need an agency, an advertising agency to do this. So they went through the selection process. They went for advertising for bids and have the presentation by all the advertising people, come back and they first narrowed it down to four agencies and finally they selected one and that happens to be the Mystrome. Now the \$500,000 was entry of close to \$200,000 over what we would have spent in 1985. That \$500,000 basically will go to the media for advertising. Mystrome will get his commission from the media. That's the way it works. We won't pay Mystrome for things like doing some research forms, surveys or that kind of thing that's necessary. But basically that money will go for advertising. It seems like a lot of money, but if you look at the advertising budget of any corporation this size, you'll find that this really isn't a lot of money to spend on advertising.

Turpin: I think one thing that Madame Chairman may be wondering and not appreciating. To you folks \$1 million of income that we receive takes a highly trained as a result of advertising in the lower 48 and we get about \$18 million, I think, from the lower 48. Business from the lower 48 that we need to identify down there.

Robinson: It's a lot of money. Right now above the three services that we have that bring up business, the Piggy Back from Seaway, the Mighty Train, Computer Line, railroad cars and the additional Canadian National and from [indiscernible]. We get about \$20 million. Our goal for 1986, if our Board of Directors go along with it, boosting up our sales to \$29

million. So with the increase of at 3.5 million, the sales and everything, we can get an extra \$9 million. It's there, it's waiting for us for the extra \$200,000 in advertising. Other than a good sales program you have to have a good advertising program. You have to have that kind of support [indiscernible]. But the \$20 million that we will get from the lower 48 [indiscernible] and [indiscernible]. [Mr. Robinson's voice is very muffled on tape.]

Chairperson: I would like to comment to the audience that not only am I Chair to the Transportation but during my ten years that the Railroad Act was written, plus the fact that I have a personal interest in it inasmuch as I represent the Sixth District, which contains the two ports that the Railroad goes into, which is Seward and Whittier. Of course, I'm always interested in what goes on then as far as the Railroad's concerned in those two areas. So I'll declare, it's not a conflict of interest as far as I'm concerned, it's merely an interest that I try to keep myself appraised of the various things that are occurring. Then I have a third port also in my district called Valdez.

Robinson: Any company that has, that's going to be successful needs to have at least the principles that are fairly consistent. We've set down [indiscernible] principles that we call our marketing qualities and I would just like to review a few of them here with the Committee. Some of the more important things. First of all, historically, people of Alaska have been found to enjoy low cost transportation. Recently, because of, against competition among the carriers, the rates have come down. Let me give you one example. I was talking to one of the truckers that [indiscernible], he told me that three years ago he charged \$1,600 to ship, to move a trailer load of freight from Anchorage to Fairbanks. \$1,600. Today he charges \$600. That's how substantial competition has been and we, since this is a competitive market we're dealing with, this is what really cuts the prices [indiscernible]. With the help of people of Alaska benefit, we have a significant and valuable end of the transport [indiscernible], like coal, gravel, [indiscernible], trainloads of Piggy Back. We have [indiscernible], but we don't have the responsibility the truckers have. We can move a high volume of freight at very little cost. So we can charge low prices and still make a reasonable profit and that's our goal and we're really enthusiastic about [indiscernible] low cost transportation. We think that this is one of our most important

issues. Another thing, in any marketing program you have to have the product, the service that the customer wants. Today the customers, our customers and the lower 48, want one rate for a number of carriers that they might use in the route. For example, they might move a carload of freight from Kansas City to Seattle, then the carload would continue on water up to Whittier and on rail again or might move on truck along a certain. They still want the shippers and I can guarantee that this is the direction I would want. Control it, fastest time in reaction on one rate. They don't want to monkey with the details of transportation. They don't want a transportation [indiscernible] that they have to [indiscernible], they want one rate and one rate only. This is what we're doing. We're giving them two contracts and we're trying to make it through with a shippers log and as little pressure. In the total process it's important that we deal with our connections here, there's Highway Trains, Canadian National, Seaway, Sealand and we're on good terms with all of them. Furthermore, because of our unique situation here, we think it's necessary that we be consistent and if we ever have to go to court, if we ever have to lay everything out on a table and everything, we really do feel that there could be no possible basis for criticism. Anyway, that's one of our policies, one of dealing with all of our connections here on a fair and equitable basis. We've had surprisingly low criticism. We've had no criticism that we can't beat. Any company that is going to be successful and a well recognized business ought to be recognized. Some people have different conceptions about what the market is and as far as the Alaska Railroad is concerned, none of our market places are greater than 16.7%, as we noted in the price part of your book there. In that you showed the charts scaled down 16.7% and there are different types of business that have been broken out here. I just wanted to try to [indiscernible], gravel, coal or our high volume, we treat differently than some of the others. In getting back to policy, we talked about the market place and the notification. I just want to mention one thing, we've done a few predatory pricing. Now predatory pricing is the practice of pricing below the variable cost in order to drive the competitor out of business. You do it. it sacrifices part of your own revenues and capital base too. Once you get that competitor out of business, then you can look at the environment, you can raise the prices from there. We won't do it. We won't have to do it. To do it is illegal. It's unethical and we just don't have to do it to stay in business.

So I want to point this out. That is our policy, my personal policy and it won't happen on Alaska Railroad. I believe we've taken a look at marketing and we've talked a little bit about the distribution of the revenue. One of the areas where we provided service and we don't make money. In fact, we subsidize it by freight revenue and that's the passenger route. We had some goals in our passenger business and that's to prove the reliability and the continued economical purpose of the end, so the people will go out. We want to improve the quality somehow. Somehow we've got to get the new equipment and we've got to have continued passenger service and we'd better have something people can be proud of. None of us can tolerate the present level of our passenger service with the equipment we had.

Chairperson: Might I interject one thing. Self-propelled cars, are those the bud cars that?

Robinson: Yes, they are, they [indiscernible].

Chairperson: Yeah. When we get different names for different things, sometimes you're not sure where you are and you do have two of those at the present time?

Robinson: No. We have two that are on order. The first one will be in next week. The second one about the middle of January. We plan to take open house on January the 6th and have everybody come down and see the new car. You want to be sure you're in town that day. That's Monday.

Chairperson: I know. I'm heading for Juneau that day. Maybe I can stay over an extra day. Will you come and pay my hotel room.

Robinson: We'll give you a ride.

Chairperson: Are these going to be put in to service to Whittier or are you planning a valley type, because I know we discussed that before, what your plans were in that area, as long as we're on the bud car situation.

Robinson: We plan to have one converse the same route as our regular passenger train service from Anchorage, running from Anchorage to Tenalo Point. The purpose of that is to free up our express service between Anchorage and Fairbanks. Free up that service from the local stops that normally will be made. The train will run actually ahead of our regular passenger train and make more stops and [indiscernible] bush. One thing if you notice that I've forgotten is the senior bush [indiscernible], that will be,

actually, that will include service to people who have no other means of transportation [indiscernible].

Chairperson: Will you be able to carry the groceries on this round?

Robinson: We're going to do that. Well, the bud car has plenty of room for that in cargo space, half passenger, half cargo space. However, the bush freight, we have another scheme that we were looking at for that. Again, we'll give better service. A point to mention is that [indiscernible] passenger service is in a state of change from about February through [indiscernible], of things that we're studying. For example, flat car service, a little pair of tweezers having a train station at Whittier and making a lot of Whittier [indiscernible] and back, and providing a service, improved service [indiscernible] and operating below cost.

Chairperson: You're talking about flat cars here now where they move the cars because I thought rather extensively on the bud car service to Whittier and I can't see where a bud car would do any good down there inasmuch as people have to have a vehicle. You're not going to get anybody to come into Anchorage on a bud car and carry all their groceries aboard and then try to stagger around Whittier with them. It's just uncommon sense when you know the area and stuff. You are talking about improving the shuttle service then?

Robinson: Improving the shuttle service, in fact, we have [indiscernible] the community of Whittier and they've given a lot of good ideas like scheduled changes and marketing. We're going to incorporate everything we can and that they want. If all the carrier was suggesting was [indiscernible], it's very likely [indiscernible]. We're coming to times about new Whittier service too. It's really going to be a plus and I think the people will be happy. There will be in accordance with a number, our typical number of car special trans that we have. Another one that you may be interested in is the Seward excursion. This is [indiscernible], this is a weekly train. During the summer time we'll have it on Saturday mornings, each Saturday morning. It will be in Whittier around noon and then lay over four hours and come back to Anchorage. Everybody we talked to, we talked to Harry Deems with [indiscernible] and he likes the idea. He thought it was good. He said the only problem we might encounter with this is that people may like it too well and we may have to.

Chairperson: Probably have to put a couple of buses on there at the railroad yard to get them downtown.

Robinson: No, I think what we'll do, this is the bud car we're talking about. We'll run on Saturdays, we could run it on the week [indiscernible]. As I indicated to you the whole passenger train is kind of [indiscernible] to Alaska and these are the things we're kind of planning on rather [indiscernible]. They sound good to us. [Indiscernible] improvement and both the profit and the service to the public, particularly, [indiscernible] we'd taken some real knocks and [indiscernible].

Wendy: I would just like the Committee members to direct their question, question 19, outlined question 19, but I guess I got a little bit enthusiastic. I think I'd be offering daily schedules to Seward.

Robinson: We're trying it out.

Wendy: I just don't want people to get up and think that.

Robinson: Reservations and ticketing area, that's inefficient today. We inherited a system that was pretty much out of date and we've been struggling with it for a while. Now we're going to put in a modern computerized system. It will take care of the [indiscernible] of the people who type reservations get them. It's supposed to be an airline type of system and we will do that after [indiscernible].

Chairperson: All right. Does the Committee have any questions for Mr. Robinson? If not, I thank you for your presentation.

Davis: Madame Chairman.

Chairperson: Yes, go ahead, Mike.

Davis: I have a question or maybe just a, I don't know how to put it exactly but I enjoyed the testimony and I've just got a question on marketing policy and on the advertising budget and I certainly can understand the aggressiveness of the Railroad to get out and hit those markets and I guess my concern, I suppose, is we have this entity that we've [indiscernible] asked to run as a private corporation and to show a profit and I think many of us were certainly in favor of that. I guess on one hand I see that a rather large corporation revisits the state and they don't have to be predatory to do a good job and I [indiscernible] and it's certainly an influence in driving down the rates. I see the [indiscernible]

economies of scale and I certainly [indiscernible] them for that but I can see an inherent conflict there between a small business person versus someone with their hand out for a budget of \$5 million. So, I can understand where some people are coming from when they say that they made their rates competitive. I don't know if you have any comments on that. I certainly don't have any criticism for you people that are trying to run the best corporation that you can and yet I see by doing that, as you say, a lot of the working rates were very high at one time and now they're certainly not now. Do you have any comments on that. I can't exactly say that there's really, really other than vicariously, but do you have any comments or anything that you might [indiscernible]? I'd appreciate your thought.

Robinson: I think I could comment on that and I can appreciate that a small business person who isn't as versed because the Railroad has been a direct way of life be upset about that. There's two things that I think we should keep in mind. The railroad is becoming competitive, has been following the race rather than leading in many instances. We haven't necessarily been a leader but where we've had to be competitive, we have been aggressive and come in at a market competitive price. Now we've been able to make money at this and I think this is where our system, harsh as it may be, is right because the people who would benefit from this sort are the consumers. They use the transportation service. If we can be competitive and get the business, we think we ought to deal with the goods and the most cost effective producer should be the one that gets the business. Again, I am sympathetic with those people who have been in long haul trucking and perhaps have not been able to provide partly as a result of our activities. One final comment on that, the same thing has happened throughout the lower 48. Railroads have become aggressive. They've become cost effective. They've made a profit over piggy back [indiscernible] and a lot of long haul truckers who were formerly competitive blame[?] us because they lost the business and now their customers are shipping their trailers on the railroad and we're doing the same. We're hauling for quite a few truckers.

Chairperson: Do you have any further questions, Representative Davis?

Davis: No, I don't have any questions. I could just see the dilemma that would explain why. It's not certainly anything that we would have anticipated but by taking the railroad it doesn't really matter

whether it was private corporation or if it was controlled by some other firm, they're going to basically be running the same kind of an operation. I appreciate any comments. Thank you.

Chairperson: Thank you very much, Representative Davis and thank you Mr. Robinson. Mr. Turpin.

Turpin: I thought I'd talk a little bit to you about industry subsidies and I guess this is probably being generated to a great extent by the trucking industry now. At least I've heard more from them than others, who are somewhat dismayed by the fact that they feel it's unfair competition for the Railroad not to pay taxes and still compete with them. We think it's rather ironic that the trucking industry is doing that because they're the most subsidized industry in the state. I don't have Alaska figures on that but I have a little chart from the state of Washington that has some very interesting data and also the state of Illinois has some other that is very similar. We may have this in Alaska, I'm not sure, but it might be something the Committee would find of interest. In the little table you have in your book breaks down the cost of the highway construction/highway maintenance and according to each class of vehicle that uses them. They found a very interesting thing on highway maintenance and operation and construction. The automobile costs about \$94 per year to operate for the state to pay the maintenance. The automobile owner pays about \$64 in taxes, or about 68% of the automobile cost to the state is actually paid by the owners. It goes through all the different types of things. One interesting thing is the taxes which pays, or rather fees for operation, pays almost twice its cost in the state for operation on the highways. When you get down to the truck trailer and look at a five-axle truck, you can see that their cost to the state, or they pay about 47% of their operating costs to the state and their taxes, which means that the trucks are subsidized by a suitable amount by highway maintenance costs. In this state we have no absolute data on most of the construction; however, one interesting example that I'm very familiar with is the Haul Road that goes to Prudhoe Bay. That costs the state over \$8 million a year just to maintain that Haul Road. I think it's \$8.5 million for 1986 and that road is exclusively used by trucks. You're not permitted to drive your car on it even if you wanted to. So it's an entirely complete subsidization of the trucking industry by the State of Alaska to the tune of \$8.5 million a year. The other highways are the same way.

Pignalberi: On the Haul Road, the trucks aren't all subsidized, you could say that that's a subdivision of the oil industry.

Turpin: No, I don't think you'd say that. The oil industry, for the most part, buys a lot of their supplies and equipment and, of course, Aleyeska certainly uses the road and built it and gave it to the state. It was \$122 million in construction plus another \$32 for the Yukon River bridge, which came from the federal government. So once you get into ...

Pignalberi: What about all those trucks that are going up to the Slope.

Turpin: Oh, but those trucks are paid for their haul. That's an income received by the truck. The advantage that trucks have over air traffic, for example, for the same amount of haul, that gives a truck quite a competitive advantage. He doesn't have to pay anything for maintaining his highway. While we're talking about that, how do you explain the 47% trucks pay on average highway income? And that's a direct subsidy to trucks.

Pignalberi: I would say then that you want to take a look at the airport maintenance also. The point is that that is the investment the state has decided to make to support that industry which, I, for one of course, fondly concur. I don't think that's a direct parallel with the competition from trucks and the railroad.

Turpin: Which leads me to get to the point. I'm coming to a point.

Pignalberi: But where the situation in Oregon or Washington, wherever this data is from, how we can extrapolate the situation there to the situation here and the Haul Road is an anomaly on the entire highway system in the state. So I don't think it serves to give your example.

Turpin: Well, I don't accept your point; however, they have been made. In the first place, I have only the data from the state of Washington which is reasonably close to the state of Alaska as confirmed by data from the state of Illinois. There is no data to my knowledge available for the state of Alaska or I would use that. My only point is that the trucking industry receives from the state substantial subsidies and I agree with you. I wouldn't object to that. That's why it still exists. Thus the trucking industry receives subsidies from the state of Alaska by not paying their share of the highway maintenance.

Now that's my only point and I don't disagree an airport for the same thing. But here is an industry that says it's unfair because the railroad doesn't pay taxes and they're not paying nearly enough taxes they should be paying if they were paying their own taxes.

Pignalberi: I just find it curious that now that you're with the Railroad that you're proposing that we increase the trucking rates for the North Slope which have been passed down the oil industry because of that high ground.

Turpin: That was just an introduction that I was going to make. Then I wanted to get into some of the other things.

Davis: Frank, can I interrupt you before you do that. Are you still on the introduction?

Turpin: Sure, Mike.

Davis: Well, Frank, I couldn't let that go that the oil companies gave that Haul Road to the State. I believe they took it off their tax bill. Isn't that correct?

Turpin: No. They did not. I signed the order myself. That was part of the investment on the pipeline. It didn't come off the tax bill. Now there were some reasons for signing it. The state agreed to maintain it and keep it open and they have. That's why they spend \$8.5 million a year.

Davis: Frank, well, we talked about that last night. It was my understanding that that was credit that they received for the money they put in that Haul Road.

Turpin: I don't believe it was.

_____: The only contribution they had was [Indiscernible] and didn't qualify. That would not pay them.

_____: Is it part of the rate base for pipeline?

Turpin: Part of the rate base for the pipeline so you're getting a return on investment.

Davis: Well, I was trying to get off to a point that I just didn't, couldn't let it slip by.

Turpin: We'll have to settle this one in a smaller group. I don't think really, the only point I'm trying to make is the trucking industry does receive quite a

huge subsidy chunk. Now we'll argue the merits of that, I don't have any argument against that. I would like to talk a little bit about what the Railroad receives and does for the state. Madame Chairman asked, before you were in the room I think, what we did receive. We actually, other than a tax free status, there is nothing to my knowledge in the way of services that we receive from the state without paying for it. There are a number of services that we have had to pay for that the Railroad formerly received from the federal government. [Tape end]

TAPE 5, SIDE A

Davis: You ought to see if Mike Szymanski'd be shy of a mike before.

Chairperson: Oh, that's because we didn't put one in front of him.

Szymanski: Didn't take you long to get back to Fairbanks, did it?

Davis: Fire away.

Szymanski: Where we at, Madame Chairman.

Turpin: We're talking about industry subsidies.

Szymanski: Are we on this 1:30, I've been looking and our agenda shows 1:30 supposedly a presentation Alaska Railroad Management. Obviously it's not 1:30.

Chairperson: That's where we're part of right now.

Szymanski: Okay, that's all I want to find out.

Turpin: I'll try to make this very short, but let me mention a few of the services. There were a great deal of legal services that were picked up by the federal government. All insurance, including tort claims, that type of thing, you heard Marv talk about. That's \$1.4 million. There were a number of administration plans that the Railroad did not have to do. The benefit system, the OSHA, the safety, the EEO and also Salvaid Administration. That was all picked up in effect by the Railroad. These kinds of things we're paying ourselves. Now statewide, in fact, we are giving quite a few things to the state. And one of them you've heard us mention before. We feel that the \$2 million that we absorb every year on our passenger service. See we lose \$2 million a year operating the passenger trains and that really is a great benefit to the state. Something that definitely

should be done and we are very much in favor of it, but in every other locality with a private railroad operation, the passenger service is subsidized. This is worldwide. There is no passenger service that is not subsidized by the group that benefits from the service. In this case, the state receives that service without paying any subsidy. The railroad is in effect paying \$2 million a year.

Szymanski: Are you proposing we trade taxes for lives.

Shultz: But, Frank, you were just talking about increasing the level of passenger service.

Turpin: Dick, we're not against passenger service. I think it's great for the state, it's a contribution that the Railroad can make that is very positive and we want to do that. If we were a free enterprise, paying taxes, then I feel the state should reimburse us for those costs on passenger service. I'm just saying that it ought to trade both ways.

Chairperson: In other words, Mr. Turpin, one of the things you're saying is that passenger service would be a service that's offered in lieu of taxes?

Turpin: That would certainly be one way to consider it, yes. And that's \$2 million a year. Now we have a great amount of permits and property that we let all the municipalities where we own property use for their public purposes. For example, there are four parks in Anchorage on land owned by the Railroad which we receive a total of \$110 a year revenue, which is just the money to pay for the fees. This would be at least a \$200,000 payment that the municipality of Anchorage would be making to the Railroad were we a private operation and paying taxes.

Szymanski: Thank you, Madame Chairman. I'm not flip or anything but I think you're hitting on a good point and I appreciate your being here today because one of the reasons I stopped by the hearing today is when I knew that you were going to be here and have this opportunity to kind of find out what's cooking on the Railroad. But if I hear you correctly then, if we could reverse this next legislative year, take the exact tax exemption away, make you available for municipal, state and local taxes so that they apply the same mill rate to you that they would the building at ARCO and the rest of them here in town, you'd have no problem with that in exchange, you're saying basically to the state, we'll pick up our subsidy portion on passengers.

Turpin: If all of the services were paid for that the Railroad provides at the market rate, I personally think that we probably would end up with more money than we would be paying in taxes.

Szymanski: Could we do that? I don't know any reason why we couldn't.

Turpin: I think you would have to open up the bill to do that, but sure that could be done. However, let me point out what happens to your tax money today or the money that you would be paying in lieu of taxes and paying as taxes. We estimate that the tax bill, and it would depend on assessments and other things, would range somewhere from \$1.5 million to perhaps \$3.5 million a year to the Railroad. Now that would be paid out of the operating surplus, which Marv told you earlier was about \$7 million this year, so that instead of putting all of that \$7 million into the Railroad to modernize the Railroad, buy new equipment and do those things, the \$3.5 million would go for something else. It would go to the municipality of Anchorage to do whatever they needed. The Railroad then would take much longer to build up into a modern railroad and into having these things that I think the state really needs in a railroad because we would have less money to put into the Railroad. It would have no impact on our tariffs or on the way we operate.

Szymanski: Well, I would think, Madame Chairman, I wasn't thinking about it from the tariffs perspective but what I heard you saying is you'd rather run it like a business in that way, where you'd be treated as a business, where there would be no subsidy exchange going on and you'd be eligible for local taxes, state taxes, business taxes. We reinstate gross revenue tax, whatever, you'd be there. You'd be ready to pay with everybody else. You'd throw it into your rate base eventually because you're going to have to build up a capital fund and everything else. You're going to have to run it like a business. You have your position that you're testifying today. You would support that position.

Turpin: We would have no problem with it. I don't know what the total impact would be until I knew more about what all the taxes would be and what could be charged to the various services. But I'm trying to make the point that the Railroad would not be, if we were paid in the same way that we are charged then it would not be a crippling blow to the Railroad and it certainly would have no impact on tariffs or competitiveness. If anything, it would probably make us

more aggressive and more competitive because we need the cash flow.

Szymanski: No question about it. If you eat \$3.5, you go ahead and pull \$3 million out of your capital fund which you're building capital, I mean rolling stock and anything else with, and you got to make that up somewhere. I mean if your fund has to be maintained at \$7 million, you're going to have to do it with increased tariffs, you're going to have to do it with other production costs. You're going to have to do it some way.

Turpin: No. We likely would be to increase tariffs, because that would mean we would lose market shares. More likely we would decrease tariffs. If we could decrease tariffs 10%, increase market shares 25%, then we could have a higher net cash flow and we would be better off.

Szymanski: Madame Chairman, I really like the idea. I think we ought to pursue it even more so, particularly during this next session.

Chairperson: I think its [indiscernible], Mike. Would you like to take that on for a project?

Szymanski: I'd love to work with Frank on that one.

Turpin: Bring your \$2 million when we meet.

Szymanski: You're getting it.

Pignalberi: Frank, can you just tell me why passenger expense, passenger travel is so expensive. It seems to me, and I really plead ignorance as I do in many things, if you got a string of 40 freight cars going up to Fairbanks which is identical to a passenger car, take them along for the ride. The incidental cost has got to be ...

Turpin: Well, we've got to pay arbitraries for that. In the first place, freight trains do not run on a schedule. We do have some now that run on schedule, but freight trains for the most part do not run at the hours that are desirable for passengers. The second problem with that, if you hook the coaches on the back of a freight train, it would be a very rough ride. It's not an easy thing to ride a vehicle on the rear end of a freight train. A long train and you have all the working with the cars. It would be unsatisfactory in many ways. In the wintertime you have the problem of having to heat the passenger cars and you don't have any heat as a rule. You

have to have another car to provide the heat and power. It's something that passenger service would be profitable if you had a full train every day but unfortunately there are too many days where you have just a handful of people riding and you still have to provide the full service.

Pignalberi: Put the passenger cars up front.

Turpin: Well, that's what you could do, of course. It's been tried worldwide and no railroad, just absolutely none, operates a passenger service profit. We're trying to find ways of getting ours as close to that as we possibly can; to reduce those losses, but we have a long way to go.

Chairperson: I would like to ask you one question, Mr. Turpin, and this discloses my vested interest. I see in here where you've provided land for four parks in Anchorage. What have you done in the communities of Seward and Whittier to make your presence there known? As far as the Railroad is concerned in Whittier, the City of Whittier gathers absolutely no, can generate no funds whatsoever because the land is owned by the Railroad and the City doesn't have any power whatsoever to generate any funds from the use of the Railroad. Would you be willing to give, you're going to love this one, the City of Whittier.

Turpin: I think per capita we probably contribute as much to Whittier as we do to Anchorage.

Chairperson: In what fashion.

Turpin: Per capita.

Chairperson: Per capita, very possibly.

Turpin: I know we do in Seward. We have one little park in Seward that we contributed to the City or we let the City use at no cost, and I'm not real sure about Whittier.

Chairperson: I don't think there's, from what I have been exposed to, there's absolutely no generation except for the crews that roll on, roll off situation when they go uptown and spend, that the City of Whittier can generate anything from the Railroad and yet their life is dominated by that Railroad and I recognize that we say per capita, but quite frequently per capita is a misleading thing inasmuch as some communities have a huge per capita, some have a small but they're just as important. But I was just curious if the Railroad has thought of any way.

Turpin: We pulled Anchorage out only because that's the easiest to do.

Chairperson: Right. It's so easy, it's become the, well, sometimes narrative to some of the rest of us who don't live in Anchorage. But I was curious as to if there was any plans or anything like that to the small towns that you do serve definitive by the fact that you're there. Interesting question.

Turpin: I can't answer Whittier, so I really don't know. I am familiar with some of the things we do in Seward and Fairbanks.

Chairperson: Do you have something more?

Turpin: No, I thought for a short subject, I took up enough time.

Szymanski: You may have covered it earlier and I apologize but maybe we can talk off the side you have, but the overall status of the Railroad is healthy. It's doing well and so forth. In a recent newspaper article I read something that there were some questions with and concerning labor unrest on the Railroad. Have you guys talked about that at all.

Turpin: That's the next subject.

Szymanski: So, you're going to cover that.

Turpin: We had planned to, yes.

Chairperson: So you're here on time, Mike.

Szymanski: Right on.

Turpin: Larry Wood is going to review this.

Chairperson: Thank you very much, Mr. Turpin. Mr. Wood would you identify yourself for the purpose of the record, please.

Wood: My name is Larry Wood. I am Chief Counsel for the Alaska Railroad Corporation. Representative Cato and members of the Committee, thank you for inviting us here today. Mr. Turpin asked that I cover labor negotiations and specifically one particular set of negotiations that we've been having recently. I'll try to review that as quickly as I can. If you have questions, be sure and feel free to ask me. I think one of the most important assets of the Alaska Railroad are the people that work there. I think they're the people that run the trains. I think

they're the people that put them together. They're the people that do the administrative and accounting tasks and they're the people that manage the Railroad. Us, the people you are talking to today. The federal legislation which is called ARTA, the Alaska Railroad Transfer Act, and ARCA, which is the State Act, the Alaska Railroad Corporation Act, took these things into mind I think when the Railroad was transferred into state ownership. And specifically, with regard to the labor force, the folks out doing the labor and ones that need counting on for some administrative office, we decided that during a two-year period following transfer, seven labor agreements, might be bargaining agreements, would be renegotiated by the management and by the labor unions. The reason for that I think is they wanted some promise, some commitment, Congress did, that there would be an ongoing process resolving any differences of opinions having to do with this new change in [indiscernible]. ARTA envisioned and ARCA required that management, the Board of Directors and labor leaders get together and decide on some procedures. How is this going to be done? We have seven agreements, five bargaining units, five unions representing our people, and only two years to accomplish a very important task. And I think that many of you that have been involved in labor negotiations know that it can be a long process. A give and take situation. There've been differences of opinions. It can take some time. So I think last spring we got together, management and unions, and agreed on a schedule. That was approved by the Board of Directors and through part of the summer, at least, drafted up the schedule that we had agreed to. During this process, however, it became apparent both to the unions and management that a lot of the areas that we were about to talk about could be discussed jointly, in common. So in August there was another agreement reached that we would do just that. We would attempt to negotiate a master agreement with all of the unions participating. Many of our union leaders are here today and I am sure that they may have an opportunity to give that side of that story as well. As we begin that process another agreement was struck and that is just what these common areas were. I've made a list of those for you in the booklet that we handed out. There's 28 items and they range in things. For example, the preamble section to rail passes and from seniority to pension, to recall provisions to discipline. So you can see it's pretty much across the board program that we've developed, the unions and management, to try to put together a master agreement. Now with any union or any group of employees, you're going to have difference. This may be recognized to a certain

degree. You're going to have to sit down at some point in time and negotiate the special differences with the specific bargaining units. So that's taken care of and where negotiations that should be conducted once this master agreement was put together. I think that's an up and down process. I think that personally I can say I've been very impressed by the degrees with which we've been able to sit down and talk. I think there's some mutual respect for each side and various opinions and there's always some differences of opinions. I've personally not been involved in the common areas of discussion as much as other types of discussions that have been happening, but I do know that there have been some ups and downs. I believe they've been meeting every other week now trying to reach agreement on several of these items that are listed. In fact, all those items that they put that together. One of our unions in the management of the Railroad have had a separate controversy that has been brought up. Although Title V of the U.S. Code affects, affected all of the lengthy bargaining agreements. I think one of our unions, United Transportation Union is affected the most by it. Title V you hear bantered about and what we're referring to is Title V of the Civil Service Reformat in 1978. The key to understanding this controversy, I think, has to do with some language refined in ARTA, the federal law. It said that during this transition period, this two-year period of time, the contracts that were in effect shall continue. When you examine the words what contracts were in effect, you got to take a look at the contracts themselves and decide what provisions were in effect and which ones weren't, and that's where we have the separation of opinion. Under Title V of the U.S. Code, there are certain things that were prohibited by federal law and one of those had to do with the delegation or negotiation way of management rights. That's another word that you see bantered about. What that really means is the right to define work, decide what work is to be done and decide who's going to do it and that can take on many different appearances. I want to talk about a few of those in just a moment. There reached a point in time where we were not able to reach an agreement with regards to what provisions were in effect. How did Title V impact the agreements. The federal railroad had had some success. I have to admit that there were some differences of opinion, but we have at least one pre-transfer case from the Federal Labor Relations Agency that indicated that Title V did seriously impact this, what I'll call the UTU contract. For those that may not know, the UTU Union are the folks, the trainmen and the enginemen,

that actually are out there in the field running the train. When it became apparent that we could not reach an agreement, it was decided by both sides, I believe our side suggested it, but eventually there was some agreement that we would try to get this resolved in court. We would try and get the court to answer a very difficult question. You've been probably reading bits and pieces about that for the last three or four months. The examples that I want to point out to you, again those are listed in the report that you should have, are just a few. There's many more that I can give, but I think for the sake of brevity, let me just talk about what management rights is about. How it affects the UTU contract. When we talk about defining work and assigning work, there are some work rules that were formerly included. This is again our position, in the agreement that we saw when transfer took place. As an example, I've got one listed here called "Hooking Up Engines." Road freight crews were paid one hour's time, that is one hour's wages, for hooking up or picking up locomotives. In other words, the assignment of that task was being penalized. Management's right to assign that task was penalized by what Mr. Turpin referred to as arbitrary, an arbitrary penalty. Two classes of service was something that Representative Pignalberi referred to recently momentarily, a minute ago. This is where employees were paid an arbitrary amount and required to perform a class of service different from which they are assigned. An example would be taking a business car or a passenger car and hooking it onto a freight train. You would have to pay an extra day's wage for the crew. This is another arbitrary. A means of disciplining the management for assigning a particular task to the field crews. Air pay is another example of trainmen who couple air brake hoses and terminals are paid one hour's pay. Through contest I have written here, it's a very important notion. Of all of the arbitraries, I personally think it's the one that best symbolizes this difference of opinion and through constants has to do with the union's prerogative under the agreement to decide or to have a veto right on just how many men are assigned to the manning of a train. We have different trains running different size crews. We have on train that is running a freight between Anchorage and Fairbanks now with two men. The contract through constants agreement that we took a look at it would be a transfer call for five in some circumstances. So you have a long disparity, a wide range of the numbers of men. Frankly, we feel that the assignment of crew size ought to be a managerial role. It's very kin to citing how many plumbers might fix your

sink and that sort of thing. Now I think management has to recognize though that beside efficiency there's something else that plays a major sequence and that's safety. You don't want to be making assignments that are unsafe. I also have listed switching at Whittier which called for employees on road freight jobs, that is being assigned to running down and picking up a train at Whittier and it can require them to do switching, they must be paid a minimum of four hours pay. The last example that I've go here has to do with other than shuttle equipment. If you were required to handle freight cars not part of the regular train, the Whittier shuttle crew received an additional arbitrary payment. The last issue that Mr. Turpin asked me to address just momentarily has to do with our efforts, the recent task to negotiate a resolution to the litigation that we've had with the UTU.

Szymanski: Before you move on to that, I would like to get a little clarification. The points which you just covered appear to be points which you would normally find in I guess a collective bargaining agreement if they were negotiated. Are you saying that none of the points that you just covered were ever agreed upon in a collective bargaining agreement?

Wood: I'm saying that there was an agreement at the time of transfer that have those provisions in it. Title V of the Civil Service Reformat, in our opinion and in the opinion of the Federal Railroad, some of the folks that were there, and the agreement that we share is that those provisions violate federal law in that they improperly delegated or negotiated a way to management's rights to assign work, to define work and to assign it.

Szymanski: And who did that? The federal government?

Wood: The Federal Railroad.

Szymanski: The Federal Railroad did that. I mean they performed that dastardly deed of giving away those items. Right?

Wood: Go back to the first step we left off and that is we're looking at the language, what agreements were in effect. What we're taking a look at are what provisions of the agreement were in effect.

Szymanski: Okay, but I'm sure trying to figure out where I'm at. I've got to look at things almost like I could picture them, right. Basically, I look at this tablet as the day I'm transferred supposedly some

guy said to you being the labor guy and the attorney for the Railroad. Here's the labor agreement that's in effect. Right? And you pick it up and they look at it and they say, "yeah, it look's like it, whatever." We worked on it, we agreed to it, whatever. Are the provisions that you just discussed in that agreement?

Wood: Yes.

Szymanski: And, was it the understanding of the parties involved that that agreement would continue for two years before it was renegotiated.

Wood: The inner setting of a federal government passing legislation was that the contracts which were in effect, the agreements that were in effect, that's what we're taking a look at. See the thing that maybe I didn't explain very well has to do with the controversy of the legality of certain provisions in those contracts. That's the issue we've asked the State Superior Court to answer. Very akin to what we find in the state law. There's a state law that's very similar to what we find true under Title V and it has to do with managerial crippling prerogatives by work assignment, and there is case law.

Szymanski: Okay, let me ask you another question. I can't understand where you're coming from. Basically, you're saying that you now are the new owner of the agreement. You looked at it and said that there's some illegal provisions in this thing that's got handed me. My question, is then of the provisions again that you say are in there, are you honoring those provisions until the court deals with them or until they're renegotiated, or have you arbitrarily removed them?

Wood: In August or July, there are two things that took place. When we took a look at the contract, let's keep in mind that I don't want to, you don't forget the point that even before transfer there was some uncertainty. There was at least one federal agency decision that substantiated the argument that this corporation is facing now. So don't take it for a given thing. Certain things were believed to be in transfer.

Szymanski: I've no problem of you describing that, just answer the question with regards to those provisions. Are they be honored or are they not being honored?

Wood: With regard to the arbitraries, what we've done there, is that in August, actually before August, there was a new train put on the tracks on the area