

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988
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EXHIBITS

Response to Question No. 8
Exhibit A Market Analysis to Establish Fair
Market Rental Rate Applicable to
Alaska Railroad Corporation Leased
Lands -- March 1986, Prepared by
Franklin M. King, Jr., MAI,

Response to Question No. 9
Exhibit B Alaska Railroad Corporation
Long Term Lease Policy

Response to Question No. 10
Exhibit C Alaska Railroad Corporation
Approval Authority Guide, May 1985

Response to Question No. 27
Exhibit D Rule 4 - Public Disclosure of
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Anchorage, Alaska
February 6, 1987

ALASKA RAILROAD CORPORATION 1987 LEGISLATIVE SESSION

FISCAL INFORMATION

House Bill No. 47
Publish date: 1/19/87

Title: An Act relating to the Alaska Railroad Corporation
Sponsors: Brown, Ellis and Boyer

HB 47 proposes numerous and substantial changes to the Alaska Railroad Corporation Act ("ARCA"). The issues fall into four categories, confidentiality of railroad marketing and business data, passenger and freight service operational restraints, leasing procedures, and wildlife losses.

A position paper submitted by the Alaska Railroad Corporation ("ARRC") has explained that the issues and concerns implied by the bill's provisions have been adequately accommodated or protected by existing laws and/or ARRC Board rules and management practices. In addition, many of HB 47's abrupt and significant changes threaten to destroy those dynamic characteristics which give ARRC the flexibility it needs to survive economically in today's declining freight markets. If this occurs, the legislature's earlier vision of a financially and operationally independent railroad will in large part be undone.

We anticipate that, as a result of this legislation, revenues will be lost and expenses will be increased. ARRC will be unable to sustain its operations without State subsidies. Given the fact that ARRC projects a very modest profit in 1987, subsidy requests should be expected to closely mirror the added costs and losses attributed to legislative changes. These figures are listed below.

Although it is extremely difficult to accurately estimate just what figures should be expected, the following summary provides a reasonable projection of anticipated annual expenses/losses.

Should the economy continue its present decline, these figures should be expected to increase, perhaps by as much as 10% per year.

Passenger Service Losses

As a result of innovations in equipment and scheduling, ARRC has been able to significantly reduce its passenger service losses which existed at transfer, some \$2.2 million annually. HB 47 would require ARRC to maintain the "level of passenger...service provided at the time of transfer." If this means that ARRC would be required to add back to its passenger service the cost of a full service train to northbound winter service and replace its self-propelled rail diesel cars, an additional \$512,000 loss should be anticipated. Should ARRC lose its financial self-sufficiency as a result of this requirement and others, entire State subsidy of passenger service would be required. Without meaningful innovations, the loss could be as high as \$1.5 million annually.

Additional Real Estate Administrative Costs and Revenue Losses

The additional procedural requirements related to land leases and renewals are expected to require an additional \$50,000 in administrative costs. Estimating a growth rate of 25% in real estate revenues and a 50% reduction in lease revenues due to significant procedural requirements and time delays not common to commercial enterprises, ARRC projects an annual \$250,000 loss of real estate business.

Confidentiality of Railroad Marketing and Business Data

HB 47 proposes that, unlike other modes of transportation including truck and water barge, its confidential marketing data and proprietary business information be available for public, and competitor, inspection. Beyond the policy and legal issues raised by this suggestion, ARRC expects to lose a significant portion of its freight revenues should this proposal be implemented. These losses are directly attributed to restrictions in railroad marketing mechanisms and opportunities which would be caused by HB 47. General freight revenue losses are estimated at \$4.6 million annually.

Total Annual Fiscal Impact

Passenger Service Losses	\$1,500,000
Real Estate	300,000
General Freight Revenues	<u>4,600,000</u>
Total	\$6,400,000

1. How much land was transferred to the ARRC from the federal government?

Response: Approximately 40,600 acres were transferred to the state-owned Alaska Railroad Corporation ("ARRC") by the federal government on January 5, 1985. Transfer documents included interim conveyances, quit claim deeds, exclusive use easement deeds, patents and exclusive licenses, each reflecting varying quality of ownership interest. As competing claims to the parcels of land involved are adjudicated by the federal Bureau of Land Management and surveyed, the title documents will be reissued and acreages may change.

2. What percentage or what approximate number of acres is railroad utility corridors?

Response: Railroad utility corridors comprise approximately 34% of the ARRC's total acreage, or 13,800 acres.

3. What percentage or what approximate number of acres is rail land?

Response: Rail land (non-right-of-way) constitutes 66% of the total real property of the corporation, or 26,800 acres.

4. What is the approximate number of acres of rail land which is necessary for the operation of the railroad? For example, for railroad terminals, yards, and offices.

Response: This figure cannot be accurately estimated at this time. As noted below, all rail lands are needed for support of railroad operations. Lease and permit revenues are responsible for a significant portion of ARRC income. Like other American railroads, ARRC depends upon its land resources to sustain its economic viability. See responses to Questions No. 6 and No. 17 below.

5. For each of the following local government entities, state the approximate number of acres of land located within each entity, give a general description of the land and major improvements and give the estimated fair market value of the land:

- Anchorage
- Seward
- Fairbanks
- Whittier
- Palmer
- Wasilla
- Other municipalities

Response: The following figures are exclusive of the 200-foot right-of-way which runs throughout each governmental entity's jurisdiction. Fair market value figures are derived from the Jackson-Cross appraisal performed prior to transfer.

Anchorage: Approximately 660 acres in the Anchorage Terminal Reserve, of which some 300 acres are used for terminal operations. Approximately 95% of this district is zoned I-2 and intended primarily for heavy manufacturing, storage, major shipping terminals and other related uses. Uses which are generally permitted in commercial districts are also found here. Approximately 50% of the property is leased to third parties, whose improvements include warehouses, tank farms, Quonset huts and storage yards. An additional 900 acres is located at Portage and used in part for the railroad's loading facility and parking associated with the Whittier Shuttle. Fair market value estimated at \$39 million.

Seward: Approximately 300 acres, of which 50 acres are used for railroad operations (i.e. TOFC yard, railroad dock). The remainder is unimproved and submerged lands in Resurrection Bay. Fair market value estimated at \$1.4 million.

Fairbanks: Approximately 461 acres, of which some 270 acres are utilized for a TOFC yard, shops, and other railroad facilities. Approximately one-half of the remaining land is leased, for uses and with improvements similar to those found in Anchorage, i.e. warehouse, tank farms, Quonset huts, storage yards. Fair market value estimated at \$6.1 million.

Whittier: Approximately 272 acres, of which approximately 150 are used for railroad operations. Major improvements include railroad docks, barge slips, ferry terminal, shuttle ramp, small boat harbor, and several commercial buildings leased to third parties. Fair market value estimated at \$.9 million.

Palmer: Right-of-way only.

Wasilla: Right-of-way only.

Nenana: Approximately 270 acres, most of which is leased to the City of Nenana for commercial purposes. Fair market value estimated cannot readily be broken out of the "other" category in the Jackson-Cross appraisal.

Valdez: Approximately 60 acres, which includes raw and undeveloped land as well as trackage for rail barges and two lessees. Fair market value estimated at \$365,000.

6. State the fair market value of (1) all land as described above and of (2) all rail land which is not necessary to the operation of the railroad.

Response: The fair market of the lands discussed in the responses above was obtained from the Jackson-Cross appraisal that was used as a basis for evaluation prior to transfer. Because of the overall declining economy statewide, ARRC believes that this fair market value (in the neighborhood of \$51 million for the total real property now owned by ARRC) has probably decreased.

In light of the fact that revenues derived from non-operational leases and other uses of real estate by third parties represented 9.6% of the ARRC's total revenue in 1986, ARRC believes that all rail land is necessary for the operation of a financially sound railroad.

7. If the ARRC is unable to provide the fair market value as requested in the preceding questions, give the railroad's most accurate estimate of the fair market value, describe the basis of the estimate, and describe what steps have been taken, if any, to determine the actual fair market value.

Response: Since transfer, the ARRC has not commissioned a full fair market value appraisal of its properties. Individual appraisals are being done in accordance with the requirements of some lease agreements. These recent appraisals on individual parcels of leased land show a decline in value over the past two years.

8. Describe each lease affecting rail land, specifically including a general description of the land involved, the term of the lease, and the lease rate.

Response: The ARRC is presently the lessor in approximately 300 leases and permit or grantor in some 700 other permits, road crossing agreements, easements or other land use agreements. ARRC will be happy to provide the Committee with a computerized listing summarizing the 1000 total agreements if it desires, but for convenience furnishes the following general information.

Revenues in 1986 from ground leases was approximately \$5.5 million. Generally speaking the railroad lands are located in industrial zoned districts where the intended use is primarily for heavy manufacturing, storage, major shipping terminals and other related uses. The term of these ground leases ranges anywhere from 10 to 55 years. The average lease rate among the 300 tenants would fall between 8.5 and 9.5% per year. The annual rate being set in new leases is 9.5%, as established in a study performed for ARRC (copy attached).

9. Describe the leasing policy of the railroad for rail lands, including any factors considered and procedures followed

to determine whether the lease is for the benefit of the people of the state, is in conflict with the land use plans of local governments, is compatible with adjacent land uses, or to otherwise communicate with local governments and adjacent land owners.

Response: The attached copy of the ARRC's long-term lease policy indicates that the corporation considers all the factors listed in the Committee's question. The procedures followed are also addressed.

It is the policy of the ARRC Real Estate Department to approve of those leases, subdivisions, plats, and land uses that are consistent with local municipal ordinances and land use regulations. For example, for rail lands within the Municipality of Anchorage, Title 21 of the Municipality's ordinances, "Land Use Regulations", would be strictly adhered to with respect to leasing and approved activities of lessees, just as any other commercial enterprise.

10. What individual(s) is in charge of implementing the policies or procedures described in the preceding question?

Response: The ARRC's Director of Real Estate, Larry J. Houle, is the individual in charge of implementing the policies or procedures described in the preceding question. His actions are subject to the chain of approval expressed in the corporation's Approval Authority Guide (relevant pages are attached).

11. Is the ARRC currently considering any leases in addition to those identified or those to which ARRC is currently a party? If so, describe.

Response: There are presently five requests before the Real Estate Department to lease ARRC property. Three of these requests pertain to land located in the Fairbanks Terminal Reserve, each parcel approximately 5 acres in size. The fourth request to lease has been made by the Municipality of Anchorage for a tract ranging from 61.4 acres to as much as 120 acres in size located south of the mouth of Ship Creek. The fifth relates to acreage at the head of Passage Canal in Whittier.

12. Is the ARRC considering any development, sale or disposal of rail land or of any resources thereon? If so, describe.

Response: Presently, the only such activity being considered is the potential land trade with the Municipality of Anchorage for the Government Hill bluff area. There is a remote possibility that the Municipality of Anchorage may also be interested in the 12 acres of land underlying the Panoramic View Apartments also located on Government Hill.

13. What is the current status of the previously contemplated development of the bluff surrounding Government Hill, referred to by the residents as the Government Hill Greenbelt or West Bluff?

Response: In accordance with the ARRC Board of Directors' wishes expressed at its September 1986 monthly meeting, there is no development presently contemplated as to the bluff lands adjacent to the Government Hill area of Anchorage.

14. Describe any negotiations the ARRC is conducting with the Municipality of Anchorage regarding the above described development and any potential resolutions.

Response: There are no on-going negotiations between the Municipality and ARRC, although both parties have expressed interest in the concept of an exchange of lands which would permit the Municipality to administer the site as a greenbelt or park.

15. Is the ARRC currently negotiating or has the ARRC been requested to negotiate with any local governments regarding lease, transfer of interest, sale or other disposition of rail land? If so, please describe the local governments involved and issues raised in such negotiations or requests.

Response: The ARRC has worked with all of its host local governments in the past regarding uses of railroad land. For example, the City of Whittier requested a lease for a camper park located on railroad land. A lease was offered to the City but was never executed because funding for the project evaporated. A lease was finalized with the City of Seward for property underlying the new U.S. Coast Guard Shore Support Facility. At the request of the Tri-Valley community located in the Healy area, a long-term lease for a cemetery site was granted. The ARRC is presently finalizing a lease with the City of Palmer for expanded use of the old depot and beautification of the right-of-way through town. Negotiations are proceeding with the City of Nenana over the issue of periodic fair market rental value adjustments under its existing lease.

ARRC has also worked with local governments regarding historic sites. The City of Talkeetna and ARRC cooperated in the leasing of the German Bachelor's Cabin, although the lease was executed by ARRC and the Talkeetna Historical Society. The ARRC also worked with the state Department of Natural Resources in leasing property currently occupied by the Potter Section House south of Anchorage.

Finally, the ARRC has worked with the Municipality of Anchorage to achieve the development and construction of a portion of the Coastal Trail along and within the railroad right-of-way adjacent to Knik Arm in Anchorage. Negotiations are still underway regarding some aspects of this use. The Municipality of Anchorage has also initiated discussions with ARRC concerning its desire to assume a lease presently held by Anchorage Dredge and Dock. The Municipality plans a Ship Creek Landing development at the site, and has proposed that ARRC grant it a new lease for the property.

ARRC is involved in negotiations with several Native corporations regarding land entitlements under the Alaska Native Claims Settlement Act and the Alaska Railroad Transfer Act. Settlement of one of these matters was recently reached with Eklutna, Inc.

16. Describe the procedures the ARRC follows when a local government requests communication with the ARRC regarding rail land located within local government boundaries.

Response: When a local government communicates with ARRC for leasing purposes, the corporation responds either in writing or in person, at times by telephone. Responses may come from either the President and CEO or the Director of Real Estate. Communications regarding other activities on rail lands, either existing or proposed, such as road crossings or utility easements, are customarily assessed first by the appropriate technical department (e.g., Engineering, Telecommunications). The final permitting document is executed by the Real Estate Director.

17. Describe all natural resources, including without limitation, sand, gravel, oil, gas, timber and minerals on rail land, and any existing or planned inventory of those natural resources.

Response: No inventory has yet been taken, nor is one presently planned. Railroad lands do contain sand, gravel, timber, and coal reserves.

18. Describe all disposals of interest in, development of, or lease of any of the resources identified in response to the above question.

Response: The only agreement relating to disposal of such resources to date has been an entry permit granted to the Usibelli Coal Mine Company for exploratory analysis upon railroad properties located in the Healy area.

19. Describe all changes in the levels of freight and passenger service which have been implemented since the transfer from the federal government.

Response:

Changes in freight service since the transfer from the federal government:

a) ARRC has added daily scheduled overnight freight service between Anchorage and Fairbanks which is particularly important for shipments of petroleum products, trailers on flat cars, and general commodities.

b) ARRC has added unit trains for export coal service between Healy and Seward.

Changes in level of passenger services since transfer from the federal government:

a) ARRC found that ridership between Anchorage and Fairbanks in the winter was primarily from persons needing access to their homes and cabins between Anchorage and Hurricane. Consequently, ARRC increased the number of trips through the north local area (Anchorage to Hurricane) from eight per month during the 1984/85 winter to fourteen per month during the winter of 1986/87. With this increase in local service, ARRC found that a reduction in number of winter trips each month to Fairbanks from four to two served customers' needs.

b) The northline trains were split into an express and a local train during the summer season. This increased the number of trains on the north line from fourteen to twenty per week from 1984 to 1986.

c) The Budd car, a self-propelled rail diesel passenger coach (RDC), is used on the north local trains instead of full service trains.

d) The number of shuttles between Portage and Whittier increased from twenty-five per week during the summer of 1984 to thirty-four per week during the summer of 1986.

e) During the winter, the number of Portage/Whittier shuttles increased from six to eight per week from 1984/85 to 1986/87 with the addition of the Saturday Budd service.

f) Buses instead of passenger rail cars are used on the Whittier Shuttle and between Anchorage and Portage. This enables ARRC to provide faster service with direct pick-up and drop-off at many Whittier locations. This change was partially due to the retirement of an antiquated passenger train set. At Portage, the buses are driven onto flat cars for the rail trip to Whittier. There, the buses disembark and make various stops in the community.

g) Anchorage to Seward service was provided by Budd car one day a week during the summer of 1986 versus none in 1984.

20. Describe all currently proposed or planned changes in the levels of freight and passenger service which have been implemented since the transfer from the federal government.

Response:

Proposed changes in the level of freight service:

There are no proposed changes in the level of freight service at this time. ARRC plans to change its service level as and when needed to serve its customers and meet market demand.

Proposed changes in passenger services:

a) ARRC plans to purchase a new passenger train to arrive in 1988 which will increase the available seats in the summer season. The retirement of an antiquated train set may result in additional "sold-out" days during the 1987 summer season.

b) Seven more private rail passenger cars will arrive in 1987. This will add four hundred and twenty more available seats per day in the summer of 1987, between Anchorage and Fairbanks.

c) The number of Portage/Whittier shuttles increased from 25 per week during the summer of 1984, to 34 in 1986, and will probably increase to 42 in 1987.

d) If the Whittier citizens and other shuttle customers desire, the ARRC may replace two full train shuttles per week during the 1986/87 winter with four Budd car shuttles per week during the winter of 1987/88.

e) The Seward summer service will increase to three Budd car roundtrips per week in 1987 from one in 1986 and none in 1984.

f) ARRC may add one roundtrip per week to Seward during the 1987/88 winter.

21. Describe the procedures which the ARRC follows and the factors considered when it evaluates the need to change levels of freight or passenger service.

Response: Management reviews ARRC's costs, competitive factors, market demands, and customer and community needs before making a change in level of either freight or passenger

service. In some cases, ARRC management has attempted to elicit community input through public hearings.

22. Describe all changes in the rates charged by the railroad for hauling freight since the transfer from the federal government.

Response: ARRC has used contract rate agreements and exempt rate quotations in an effort to take better advantage of opportunities under deregulation as well as to respond to competitive pressures. As a result, individual rates have varied upward and downward. There have been no across-the-board changes in tariff rates. With regard to specific rate amounts that are not set forth in ARRC's tariff, please see answer to Question No. 29.

23. Describe all currently proposed or planned changes in the rates charged for hauling freight since the transfer from the federal government.

Response: ARRC plans to restructure its exempt rate quotes for intermodal traffic to simplify that segment of ARRC's business. ARRC plans to restructure exempt rate quotes for other segments in the future for the same reasons. Otherwise, ARRC does not have any present plans to change its rates other than to change them when necessary to meet competition and improve profitability.

24. Has the Board invoked an executive session to discuss the policy aspects (as opposed to the financial details) of acquisition or disposal of any interest in land? If so, please state when, describe the land affected, and the action discussed.

Response: No, the Board has not invoked an executive session to discuss the policy aspects of any land acquisition or disposal.

25. Why does the Board believe it is necessary to invoke executive session to discuss the policy aspects of acquisition or disposal of an interest in land?

Response: It would be necessary to invoke an executive session for discussion of land acquisition and disposal when the financial details of proposed transactions would have a significant chilling effect on the marketability or viability of the proposal. Depending upon the financial, operational, or legal aspects of a transaction, early public disclosure may discourage interest by responsible developers, afford real estate competitors an opportunity to frustrate ARRC plans, and/or increase or decrease market values to ARRC's detriment. Please note that no Board action can take place in executive session.

26. Describe each instance since February 1985 in which the Board has invoked an executive session to discuss the subjects described in A.S. 42.40.170(b)(7).

Response: Those instances included the following Board meetings:

February 15, 1985 - Board Mtg. - Tariff Increase
November 21, 1985 - Board Mtg. - Corporation Marketing Plan
- Costing Procedures
December 19, 1985 - Board Mtg. - Corporation Marketing Plan
February 20, 1986 - Board Mtg. - Marketing Update
April 17-18, 1986 - Board Mtg. - Marketing and Financial
Projections
May 21, 1986 - Board Mtg. - Marketing Update

Such information was also discussed in executive session as part and parcel of litigation reports. For example, a state case, City of Valdez v. ARRC, unsuccessfully sought protected pipe rate costing information, and an ICC boxcar exemption proceeding was an unsuccessful effort by watercarriers to deny ARRC the benefit of ICC deregulation of railroad boxcar movements.

27. Describe those specific categories of documents which the ARRC does not make public.

Response: ARRC does not specifically designate by type those documents that are open for public inspection and those that are not. Rather, when a particular request for information is received, ARRC first determines the nature of the request and then provides the information if it is not within the scope of those matters set forth in AS 42.40.210(b) and Board Rule No. 4.

ARRC's Board of Directors has adopted Rule 4, a copy of which is attached as an exhibit, which elaborates upon matters not available for public inspection.

28. Describe those specific categories of documents which the ARRC does make public.

Response: See response to Question No. 27.

29. Describe the specific types of documents which ARRC withholds from the public as being "proprietary information" associated with specific shippers consistent with the standards and practices of the ICC.

Response: The types of documents which fall into the category relating to proprietary information, divisions and

contract rate agreements would include cost studies, cost data, contract rate agreements, exempt rate quotations, divisions sheets, bills of lading, waybills, any documents relating to a shipper's business, and any notes or correspondence relating to any of the above.

30. Describe the specific types of documents which ARRC withholds from the public as being "proprietary information" associated with divisions consistent with the standards and practices of the ICC.

Response: See response to Question No. 29.

31. Describe the specific types of documents which ARRC withholds from the public as being "proprietary information" associated with contract rate agreements consistent with the standards and practices of the ICC.

Response: See response to Question No. 29.

32. Other than the specific types of documents described, describe other specific types of documents which the ARRC withholds from the public as "proprietary information" consistent with the standards and practices of the ICC.

Response: See response to Question No. 29.

33. List each rule pursuant to which the ARRC has designated documents as privileged or proprietary under A.S. 42.40.220 or otherwise, and describe the types of documents and information withheld from the public pursuant to each rule.

Response: See response to Question No. 27.

34. Describe the rationale of the ARRC in refusing to provide the Transportation Committee with documents requested by that committee in 1985 and 1986.

Response: It is our recollection that the information requested was operating costs for movement of freight via trailers on flat cars. Railroads in the United States have not been required by law to divulge costs. Such information has always been considered proprietary, and confidentiality has been protected. Clearly, such rules promote competition by allowing railroads the same business advantages and marketing mechanisms enjoyed by other transportation modes. In those instances where it was necessary for the Interstate Commerce Commission to have the costs in order to arrive at a conclusion, the cost data was submitted to the Commission on a confidential basis, was not divulged to the complainant or to the public, and did not appear in any printed report. Federal and state laws provide ARRC the same rights and benefits to

protect confidential information. This enables the company to price and contract its services on a businesslike basis and to respond quickly to market conditions.

35. Describe the documents and categories of information the ARRC refused to give to the Transportation Committee.

Response: Although we are not certain at this date what documents were refused, they were most probably those which would divulge confidential contract rates or operating costs, and which could be attributed to any freight service segment.

Categories of information which must remain confidential:

- contract rates
- operating costs for specific freight moves
- any information which would identify shipments concerning one shipper or consignee

36. Describe all procedures and practices by which the ARRC attempts to minimize the adverse effect of the operation of the railroad on wildlife.

Response: In cooperation with the Alaska Department of Fish and Game ("ADF&G"), the ARRC has experimented with numerous methods to minimize the adverse effects of its operations on wildlife, specifically big game. Historically, moose are the game population most affected by the railroad, primarily in years of deep snow (3 to 5 feet) for long periods of time. Unfortunately, many of the experiments have failed to demonstrate a reliable way to discourage moose usage of the plowed track (see response to Question No. 39 below). Presently, the effort is concentrated on plowing the right-of-way as wide as possible, and a combination of lights, horns and bells to frighten them away from the track. Where possible, the train engineers slow down to reduce the chance of a strike.

ARRC is again cooperating with ADF&G in its ongoing study of the moose mortality along the tracks. For example, arrangements are being made for game biologists to accompany a locomotive on several trips north this season. The corporation has also engaged a private consultant to develop electronic equipment to frighten the moose and drive them away from the track. Research and equipment design under that contract are scheduled for completion within the current winter season, with construction and installation of equipment to follow depending on the results of research.

37. Describe all actions taken by the ARRC if a train hits a moose, including names of people to whom the information is reported, reports made, and attempts to salvage meat.

Response: The ARRC has, at least since the early 1980's, cooperated with the ADF&G and fish and wildlife enforcement officers of the Department of Public Safety ("DPS") to ensure the retrieval and salvage of moose hit by trains. Since 1983, this process has been refined and carried on under an informal understanding by which railroad crews immediately reported a strike to the train dispatcher, who called the appropriate fish and wildlife number for the game management unit involved. If the moose was salvageable (that is, sufficiently intact after the collision), the railroad section crew was under instructions to transport the carcass to the nearest public road crossing, where DPS had notified the next eligible charity to pick it up. The process was completed within 20 hours after the collision and in most cases (when the section crew could be immediately contacted), within only a few hours. ADF&G game biologists have assured ARRC that game retrieval within this time frame is sufficient, so long as the air temperatures are as cold as is generally the case during the period when moose strikes occur.

The train which strikes a moose is required to stop and make an inspection unless it is clear that the animal is free of the track and presents no danger to train movement. The crew evaluates the condition of the animal (i.e. is it alive and crippled? is it salvageable if already dead?) and immediately notifies the Dispatcher by radio. The local section crew is then notified of the necessity to either dispatch a crippled moose and/or salvage the carcass. The carcass is field dressed, with the ARRC providing necessary equipment for this purpose, and delivered to crossings as discussed below.

This procedure was formalized for the current season with an addition to the ARRC's Timetable No. 120, a set of operating rules utilized by all operations personnel. A copy of the procedure is attached as an exhibit. It generally restates the process which had been previously developed by ARRC and DPS officers and includes the specific telephone numbers used by the Dispatcher to notify DPS. In addition, for the Gold Creek area where DPS has not in the past maintained a charity list (due to the area's isolation from the public road system), the ARRC has worked with DPS to distribute sign up sheets among area residents and return those sheets to DPS to compile a list of eligible recipients. In these areas, the ARRC crew retrieving a moose is authorized by DPS to transport the carcass to a convenient spot along the track for access by the next eligible recipient. The section crew members, residents of the area themselves, are well aware of the best locations for such pick-up.

Such salvage activities cost ARRC money and divert employees from other necessary duties. For example, in

calendar year 1986 (a year of light snowfall), approximately 200 man-hours were expended, for an estimated \$5,000 in additional labor costs.

38. How many moose were hit by trains in each calendar year from 1980 through 1986?

Response: Rather than using figures for calendar years, the following statistics encompass the winter season of the indicated year, which is when most moose strikes occur. Figures for the years before 1984 were compiled by the ADF&G.

1979-80	-	54
1980-81	-	24
1981-82	-	50
1982-83	-	144
1983-84	-	63
1984-85	-	384
1985-86	-	37
1986-87 (to 2/6/87)	-	91

39. Describe all other procedures of which the ARRC is aware which would additionally minimize the risk of hitting moose and state why the ARRC has not implemented such procedures.

Response: The ARRC is not aware of any other procedures it could employ which would fulfill the criteria addressed in this question. There have been other suggestions but in our experience they have proven unfeasible. Among the failed experiments are sonic whistles, which did not sound when the trains moved at slow speeds and froze when it was very cold; slowing the train, which raised havoc with schedules, made it impossible to climb certain grades on the icy track, and lead to many more crippled animals; and decking between ties on bridges so that moose can safely cross, which caused federally-required speed sensors on the train wheels to work improperly. Other, even less feasible ideas have been considered and rejected, such as installing a "bumper" on the front of locomotives. Operating the train only in daylight hours is equally impractical, since the problem arises in winter when those hours are too short to allow the shipping business of the railroad to survive. In addition, to meet shippers' arrival time requirements, night operations are essential.

Another suggestion, which does not appear feasible and has thus not been implemented by ADF&G and the ARRC, is a special "hunting season" to thin moose in the area when heavy snowfall occurs. This concept would be difficult to administer and has been soundly criticized by ADF&G personnel. See Dickerson, J.C. & Kramer, R.J., "When Moose and Train Meet: Avoiding

Collisions on the Alaska Railroad," Alaska Fish & Game (Sep.-Oct. 1986). A copy of this article is attached as an exhibit.

40. Describe all pesticides used by the ARRC, and the areas in which such pesticides are applied. Describe any complaints the ARRC has received regarding the use of pesticides, and describe the procedures the ARRC has or intends to implement to discuss such complaints in public.

Response: Beginning in the 1950's, the federal Alaska Railroad conducted a herbicide program to control vegetation along the railroad right-of-way. Vegetation maintenance is periodically required to ensure safe railroad operations. The state-owned ARRC has not applied any such chemicals since it took over operation of the railroad in 1985. It applied to the state Department of Environmental Conservation in 1985 for a permit to apply a herbicide known as hexazinone on the right-of-way. After public hearings, a working draft of ARRC's proposed Vegetation Maintenance Management Program study was distributed to interested parties for comment. To allow sufficient time for public and agency input, ARRC withdrew its application for spraying in 1985. No application was filed for the 1986 spraying season and thus the right-of-way has not been treated for some time.

Because of the likelihood of harm to its roadbed (vegetation allows water to seep in among ballast and gravels, weakening support of ties and rails) and the encroachment of brush along the right of way which blocks train crews' view (particularly to see dangers in time to avoid collisions), ARRC expects to file an application for a permit to apply hexazinone in the coming summer. All the comments received on the draft study will be used in the preparation of the permit application.

Hexazinone is low in toxicity to mammals, fish, birds, and invertebrates and has been fully tested to EPA standards. The permitting process will, of course, comply with the public notice and opportunity to comment required by state law and DEC regulations. See AS 42.40.440. ARRC has received complaints regarding the proposed use of any herbicide, including hexazinone, from a group of Talkeetna area residents in the past and expects they, as well as any others, will again have an opportunity to express their concerns on the matter in the public notice process.

41. Describe any action the ARRC has undertaken to determine alternate methods of vegetation control other than pesticides actions undertaken in the past.

Response: The working draft referred to in the response to Question No. 40 was commissioned from the Corps of Engineers and included an assessment of alternative methods of vegetation

control. The study concluded that the available alternatives, which included general expansion of roadbed maintenance, manual labor, and mechanical control, among others, were either cost prohibitive or not feasible to completely eliminate the need for herbicide application. ARRC does mechanically remove vegetation outside the ballast section of the roadbed.

42. Describe the current situation in Moose Pass.

Response: The current situation in Crown Point has remained largely unchanged during the fall and winter of 1986. Exhaustive environmental monitoring in addition to work already performed by ARRC has been ongoing by State of Alaska contractors. Currently Dames & Moore, a contractor working on behalf of the state, is completing work on a study to determine what chemical residues may still remain in the Crown Point impact area. The final report is due on March 2, 1987.

Despite study results which indicate that suspect chemicals are not present in homes or appear at or below ordinary household levels, complaints persist by some residents that the March 2, 1986 tank car release has a continuing detrimental effect on their health. Many other residents have returned to their "pre-release" lifestyles, and appear not to be impacted whatsoever. In an effort to determine the health and property issues, and to assist those who remain displaced, the defendants in a lawsuit brought by some 50 Crown Point residents have brought in experts to assist in the monitoring of ongoing problems. In addition, some claims have settled.

43. How many residents are still not living in their homes as a result of the incident at Moose Pass?

Response: It is difficult to determine precisely the number of residents that are currently out of their homes because of the gas release. Most residents of the area returned to their homes immediately after the incident. In the following months, some individuals moved back in the area on their own volition. Others have reaccommodated themselves in the area in new or renovated living quarters. Approximately 45 people remain out of their homes at the present time, which makes up approximately 18 families.

44. How much money has the State of Alaska paid to attempt to rectify the adverse effects at Moose Pass?

Response: In December 1986, the State of Alaska estimated that expenditures were in the neighborhood of \$650,000.00. Estimates of the overall expenditure for the state by the time it ceases making payments exceed \$850,000.00.

45. How much money has the ARRC paid to attempt to rectify the adverse effects at Moose Pass?

Response: Approximately \$650,000.00 was initially spent in assisting Crown Point residents immediately after the release, and in clean up and environmental monitoring. Ongoing expenses are accruing as claims are settled, and costs are incurred for professional and outside services.

46. Describe the procedures the ARRC has implemented to prevent a recurrence of the type of incident that occurred at Moose Pass?

Response: New steam track heating procedures have been implemented which are intended to greatly reduce any risk of human error in the heating of tank car commodities. It must be noted, however, that the March 1986 release was not simply a case of the overheating of a tank car commodity. Once the error had been realized, railroad personnel properly contacted the consignee and shipper and explained the situation. The shipper's disastrous advice was that the product was probably not harmed and the car could be safely moved to its designation, where its load would cool. After the event, ARRC soon learned that the exothermic chemical reaction which resulted could have been easily avoided by cooling the shipment by running cold water through the car's steam coils. Procedures will also insure that accurate and reliable information concerning heating is received from shippers and/or manufacturers. Finally, UF-85, the commodity in the March tank car, is now heated by the consignee at the delivery point when necessary to offload it into tanker trucks. Rather than heating the entire load at once, the consignee heats the material as it enters the exit hoses. Temperatures are also well within safety ranges.

47. What is the policy of the ARRC with regard to hiring Alaskan residents?

Response: The ARRC was one of the first businesses in Alaska to join the Governor's Council on Alaskan Hire. ARRC recruits almost exclusively with Alaska Job Service offices throughout the state. The only positions which are advertised outside Alaska are those positions for which a highly qualified candidate cannot reasonably be expected to be found in the state or positions in our Seattle office.

Attached is Board Resolution No. 85-5: Relating to the policy of Hiring Alaska Residents.

48. What is the policy of the ARRC with regard to purchasing Alaskan goods and services?

Response: ARRC's Procedure 33 - 2.01, adopted at the July 18, 1985 ARRC Board Meeting states:

3.5 Female, Minority, and Alaskan Vendors. It is the policy of the ARRC to encourage meaningful participation of female, minority, and Alaskan owned vendor sources to provide useful and acceptable quality services or materials at competitive prices. Procurement personnel are responsible for making practical efforts to locate and solicit minority vendor bids for products or services. The Manager of Procurement is responsible for the effective implementation of this guideline in ARRC procurement activities.

This policy was subject to public review and input prior to adoption by the Board of Directors. A public hearing was conducted June 21, 1985 at ARRC Headquarters which was attended by approximately thirty local vendors. Their input was considered in the procedure subsequently presented to the Board on July 18, 1985, at which time public comment was allowed by the Board and considered prior to adoption. This procedure follows the legislature's mandate in ARCA "that the procurement procedures of the corporation meet accepted railroad industry standards." AS 42.40.100(8).

49. Who is the individual in charge of implementing the policies described above?

Response: The Manager, Procurement or his or her equivalent.

50. What percentage of ARRC employees are Alaskan residents?

Response: As of February 6, 1987, 98% of ARRC employees are Alaskan residents (some employees are located in Seattle).

51. What percentage of the goods and services (other than services rendered by employees) purchased by the ARRC are of Alaskan origin, production or manufacture?

Response: ARRC purchases approximately \$8,000,000.00 in goods during 1986. Of this figure \$4,000,000.00 represents locomotive and other fuels which are all of Alaska origin, production and manufacture. All office supplies, lumber and other building materials are purchased on the local market. Whether these are of Alaskan origin, production or manufacture is not known, except with respect to wooden railroad ties. During 1985-86, the ARRC purchased approximately 35,000 hardwood ties from Wrangell Forest Products Ltd. in southeast Alaska for its summer maintenance programs. Goods which are peculiar to the ARRC, such as locomotive parts, passenger car parts, and the like, are not obtainable on the local market and

must be purchased from vendors outside Alaska. Additionally, the majority of such parts must be obtained from the original manufacturer to maintain warranties.

Services purchased by ARRC include engineering expertise, legal counsel, risk management services, adjusters, printing and binding services, employee counseling services and medical referral services. To the greatest extent possible and available, these services are obtained through competitive procurement practices. In most cases these services are obtained from the local market.

52. Provide a copy of the 1985 budget of the ARRC.

Response: Attached (1985 Budget Prepared by Federal Railroad).

53. Provide a copy of the 1986 budget of the ARRC.

Response: Attached.

54. Provide a copy of the proposed 1987 budget of the ARRC.

Response: Attached.

55. To the extent it is not clearly reflected in the above budgets, state the percentage of total budget and dollar amount for each year identified above expended on or allocated to:

- administration of the ARRC
- travel expenses for executive level employees
- salary levels for each executive level employee
- fringe benefits for executive level employees

Response:

Percentage

<u>1985</u>	<u>1986</u>	<u>1987</u>	
21.9	20.5	19.2	administration of the ARRC
0.5	0.8	0.5	travel expenses (total management)
--	11.9	11.8	salary of non-represented employees

Thousands of Dollars

<u>1985</u>	<u>1986</u>	<u>1987</u>	
13,209	11,909	10,826	administration of the ARRC
322	450	300	travel expenses (total management)
--	6,919	6,668	salary of non-represented employees

Above percentages are approximate.

Salary Levels*:

<u>Range</u>	<u>Number of Positions</u>	<u>Position</u>
\$125,000	1	President/CEO
\$70,000-92,000	16	Vice Presidents and Department Managers (3 levels)
\$58,000-64,000	40	Mid Level Managers (3 levels)
\$22,000-53,000	56	First Level Managers and Professional Staff

* Information only for February 1987; prior years have not yet been compiled. Please advise if this is needed.

56. What was the final net profit or loss of the ARRC in 1985, 1986, and projected for 1987?

Response:

<u>Thousands of Dollars</u>		
<u>1985</u>	<u>1986</u>	<u>1987</u>
7,133	(1,500) Estimated Loss	354 Estimated Income

57. What percentage of the ARRC's income for calendar years 1985 and 1986 was derived from passenger and freight operations, and how much from rail lands?

Response:

<u>Percentage</u>			
<u>Income 1985</u>	<u>Revenue 1985</u>	<u>Income 1986</u>	<u>Revenue 1986</u>
42.6	93.6	91.9	(440.0) - Passenger and Freight
57.4	6.4	9.1	340.0 - Real Estate
100.0	100.0	100.0	100.0 - Total Percent

58. What was the actual dollar effect of the reduction of inventory (as described in the Performance Audit dated July 28, 1986) undertaken by the ARRC in 1985 and in 1986 on the figures identified in response to the above question?

Response:

<u>Balance (Millions of Dollars)</u>		
<u>1-06-85</u>	<u>12-31-85</u>	<u>6-30-86</u>
7.5	4.6	4.6

*Inventory was revalued during 1985 to compensate for obsolete items as well as remove from inventory those items of no value.

59. What dollar amount, including allocable overhead, was spent during each year of operation by the ARRC on

- management of rail lands
- provision of passenger and freight service
- other operations (describe)

Response:

<u>Thousands of Dollars</u>		
<u>1985</u>	<u>1986</u>	
500	650	Management of rail lands (estimated)
59,601	57,242	Passenger and freight service

3702L

THE FOLLOWING PAGES WERE TREATED AS
A UNIT IN THE ORIGINAL FILE.

MARKET ANALYSIS TO ESTABLISH
FAIR MARKET RENTAL RATE
APPLICABLE TO ALASKA RAILROAD CORPORATION
LEASED LANDS -- MARCH 1986

PREPARED FOR:

Alaska Railroad Corporation
Larry J. Houle, Asst. V.P.
Realty Policy & Planning

PREPARED BY:

Franklin M. King, Jr., MAI
Executive Vice President
Real Estate Services Co.

File #86-16

EXHIBIT A

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CERTIFICATION

I certify that, to the best of my knowledge and belief,...

- 1.-- the statements of fact contained in this report are true and correct.
- 2.-- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions, and conclusions.
- 3.-- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- 4.-- my compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.
- 5.-- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the American Institute of Real Estate Appraisers.
- 6.-- the use of this report is subject to the requirements of the American Institute of Real Estate Appraisers relating to review by its duly authorized representatives.
- 7.-- I am currently certified under the voluntary continuing education program of the American Institute of Real Estate Appraisers.



Franklin M. King, Jr., MAI

STUDY OBJECTIVE

The objective of this study is to estimate the current "fair market rental rate" applicable to lands leased under the terms and conditions of the Alaska Railroad Corporation's newly-drafted, Long-Term Lease Policy. The estimated rental rate (a/k/a lease rate) is to be applied to the market value of land (fee simple interest) to determine the annual rent payment. A copy of the Long-Term Lease Policy is included in the addenda to this report.

SCOPE OF INVESTIGATION

The appraiser reviewed the ARR Long-Term Lease Policy and, for comparison purposes, secured information on land leases throughout the State. The comparative lease data are divided into private and public sector categories.

Private Sector Leases:

Data was gathered on over 50 land leases between private parties. A breakdown of the leases by locale is: Anchorage - 46%; Juneau - 23%; Fairbanks - 17% and; other areas - 14%. When possible, the appraiser reviewed the lease instrument but, in some cases, it was necessary to rely on interviews of the parties and prior "write-ups" by other appraisers. A tabular summary of the private sector lease data is set forth later in this report. Additional details, leases copies, etc., are on file.

Public Sector Leases:

Various public entities have active land leasing programs and information on same was obtained through interviews and review of lease documents. Data sources included: State of Alaska (Department of Natural Resources); Municipality of Anchorage; City of Cordova; Fairbanks North Star Borough; City & Borough of Juneau; City of Kenai and; City of Seward. A summary of pertinent public sector lease data is contained later in this report.

SUMMARY OF LAND LEASE RATES

Private Sector Land Leases

Lease No.	Rent As % FMV	Eff. Date	Lease No.	Rent As % FMV	Eff. Date	Lease No.	Rent As % FMV	Eff. Date
A-1	10.0%	7-85	A-18	9.0%	7-81	J-2	10.0%	11-85
A-2	7.0%	1-84	A-19	10.0%	9-79	J-3	9.0%	12-84
A-3	9.0%	6-84	A-20	8.0%	8-79	J-4	10.0%	5-84
A-4	10.0%	7-84	A-21	8.5%	6-78	J-5	9.0%	7-83
A-5	10.0%	9-84	A-22	8.0%	6-77	J-6	10.0%	8-83
A-6	8.0%	1-84	A-23	8.0%	10-75	J-7	11.0%	9-82
A-7	7.6%	3-84	A-24	9.0%	4-73	J-8	8.0%	11-82
A-8	8.0%	1-84	F-1	10.0%	8-84	J-9	11.0%	1-79
A-9	5.8%	3-83	F-2	10.0%	7-84	J-10	10.0%	10-78
A-10	8.4%	3-83	F-3	10.0%	8-84	J-11	9.0%	9-76
A-11	10.5%	9-83	F-4	12.0%	1983	J-12	8.0%	4-72
A-12	14.0%	8-83	F-5	9.8%	10-82	O-1	6.8%	9-84
A-13	9.0%	3-83	F-6	13.0%	10-82	O-2	12.0%	11-84
A-14	10.0%	12-81	F-7	7.0%	1983	O-3	10.0%	4-83
A-15	13.0%	8-81	F-8	5.3%	2-78	O-4	8.0%	3-83
A-16	10.0%	4-81	F-9	7.7%	1978	O-5	10.0%	10-83
A-17	12.0%	4-81	J-1	12.0%	1-86	O-6	10.0%	7-81
						O-7	10.0%	12-81

Range of Lease Rates: 5.3% --- 14.0%
 Average: 9.5%
 Median: 10.0%
 Mode: 10.0%

Public Sector land leases

State of Alaska (DNR)	6.0% --- 15.0%	(Eff. 1981 - 86)
Muni. of Anchorage (Port)	8.0% --- 10.0%	(Since late 1970's)
City of Cordova	9.0%	(Since mid-1970's)
Fairbanks N. Star Borough	10.0%	(7-84)
City & Borough of Juneau	9.0% --- 12.0%	
City of Kenai	6.0%	(Since mid-1960's)
City of Seward	8.0%	(Since mid-1970's)

MARKET DATA ANALYSIS

Lease Rates:

Private sector annual ground rents tend to be set within a range of about 5% to 14% of fair market value (FMV) as depicted on the facing page. The mean of the sample considered in this study was 9.5% and two-thirds of the private sector leases were at 8% to 10% of FMV. Nearly all of the leases involved commercial sites.

Unlike private sector lease rates which are normally determined through open-market negotiations, public sector rates are most often established by appraisal. Not surprisingly, the indicated lease rate range of 6% to 15% closely approximates that of the private sector. This range is demonstrated by State Department of Natural Resources (DNR) leases but, narrows when one considers that the low-end rates are applicable to residential and recreation lands and the high-end rates are for 25-year fixed rent leases.

It should also be noted that: (1) All but one of the Port of Anchorage leases are at 9% to 10% of FMV; (2) The most recent lease rates for City & Borough of Juneau lands are at 10% and; (3) The City of Kenai deliberately maintains a relatively low lease rate of 6%.

From all indications, lease rates are not locationally-sensitive but are fairly uniform in range around the State. There is also an apparent uniformity of rates over the past 10 or so years.

Lease Term:

The standard ARR long-term ground lease will be for 35 years (longer periods may be negotiated). Excluding five short-term leases (1 to 5 years), the private sector leases have an average term of 53.71 years (including optional renewal periods), with a median and mode of 50 years. The public sector lease terms were:

State of Alaska (DNR)	25 -- 55 yrs.
Port of Anchorage	19 -- 61 yrs., typ. 50 yrs.
City of Cordova	20 yrs.
Fairbanks N. Star Bor.	50 yrs.
City & Bor. of Juneau	35 yrs.
City of Kenai	55 -- 99 yrs.
City of Seward	30 yrs. typically

The five private short-term leases demonstrate lease rates of: 7.6% (A-1); 8.4% (A-10); 10.5% (A-11); 10% (A-14) and; 7% (F-6). These rates are in the central data range and there is no evidence that the term of lease has a measurable impact on the selection of a lease rate.

Rent Adjustment Method:

The standard ARR lease will provide for rent adjustments at 5-year intervals based on appraisal of fair market rental value. Rent revisions are to be regulated by a rent "floor" determined by changes in the CPI (All Urban Consumers - U.S. Cities Average) and a rent "ceiling" or "cap" established through negotiation.

Nearly one-half of the private sector long-term leases (confirmed cases) call for rent adjustments at 5-year intervals. The others varied with the frequency of rent adjustments ranging from annually to as seldom as 10-year intervals. Rent floors were typically set at prior rent amounts, although there were a few leases specifying minimum annual increases of 5%. Several of the leases have rent caps whereby maximum rent is determined by an annual percentage increase in the previous rent. The maximum rates of increase ranged from 4% to 15%/year with the average being 8.74%.

Most of the private sector, 5-year adjustable leases provide for rent revisions in line with CPI variations and a lesser number call for adjustments based on reappraisals. Since land value appreciation has usually exceeded inflation in most Alaskan cities, it would seem reasonable for reappraisal leases to carry lower rental rates than those of indexed leases. This is supported by a matched pair of leases (A-2 and A-5) which are similar except that the former is a reappraisal lease with a going in lease rate of 7% and the latter is an indexed lease with a rate of 10%. As can be expected of an imperfect market, paired leases O-2 (reappraisal with 12% rate) and O-3 (indexed with 10% rate) are contradictory.

The data are also inconsistent with respect to rent caps (see A-1 vs. A-2, A-6 vs. O-2 & A-5 vs. A-18) but, all other things being equal, a lease with reasonable limits on potential rent increases should reflect a higher going in rate than one without limitations.

All of the public sector leases surveyed call for periodic rent adjustments based on reappraisals and this is predominantly done at 5-year intervals. The newer State DNR leases do not provide for rent adjustments during the first 25 years and, predictably, their lease rates (9.5% to 15%) are normally higher than rates for leases that are updated to market rent levels on a more frequent basis. Relatively few of the public sector leases include rent floors or caps.

Lessee Expenses:

Long-term land leases are usually structured so that lessees pay all property expenses, i.e., land rent is net to the lessor. This is true of all the public sector leases surveyed and also of over 80% of the private sector leases (confirmed cases).

The standard ARR lease will require lessees to pay all property expenses and, as such, fits the market norm.

Subordination, Assignment & Subleasing:

The standard ARR lease will not permit subordination of the lessor's interest (leased fee estate) but will allow assignment and subleasing with lessor approval. These are typical features as over 80% of confirmed private sector leases do not provide for subordination and 97% allow assignment and subleasing. Those leases allowing subordination to lessee financing exhibit lease rates ranging from 8% to 10% with an average rate of 8.6%. These rates seem low considering the added risk normally associated with subordination. However, it is recognized that there are factors blended into the rates.

Public sector leases do not allow subordination of the leased fee but usually permit assignment and subleasing with lessor consent.

Option to Purchase:

The ARR standard lease will not provide the lessee with an option to purchase the premises and, as would be expected, this is normally true of public sector leases. In those confirmed instances, 75% of private sector leases do not include an option to purchase either.

Although the sample data are inconclusive on this point, it would seem that an option to purchase should not affect lease rates if the price is at current market value. Other prices and unusual purchase terms could justifiably influence rental value.

Reversion of Lessee Improvements:

About 86% of the confirmed reversion clauses in the long-term private sector leases provide that either the improvements revert to the lessor upon expiration of the lease or the lessor may opt to remove same at lessee's expense. Notably, in these instances, the lease term (including renewal periods) approximates or exceeds the economic life expectancy of the improvements. This is also true in those few instances where the lessee has the option of removing the improvements.

Public sector reversion clauses vary, but most frequently call for tenant removal of improvements. Here again, lease periods are generally scheduled to approximate anticipated improvement economic life.

The ARR's standard reversion clause parallels that of the typical private lease in that, "...Lessor may, at its option, become the owner of all improvements located on the demised premises, or may require lessee, at the expense of lessee, to remove, demolish, or otherwise dispose of such improvements....".

Assuming that: (1) ARR lease periods will be negotiated to coincide with the normal useful life of lessee improvements and; (2) Salvage value will tend to be offset by the cost of removing improvements; then neither lessor nor lessee would benefit or lose from retention of the improvements upon expiration of the lease. Accordingly, lease rates would not be measurably affected by the reversion clause.

Condemnation Clause:

Private and public sector leases typically provide for awards based on the respective interests of the parties and, at a minimum, entitle lessees to awards for their improvements. The eminent domain provisions of the ARR lease are not unusual in that they specify lessee compensation to be governed by State law.

Arbitration:

The ARR lease provides for binding arbitration of disputes involving rent revisions, condemnation aspects and assignments of lessee's interest. Only 37% of the private sector leases (confirmed instances) allow for some form of arbitration and public sector leases do not normally include arbitration clauses.

Arbitration is normally a less expensive method of settling disputes than litigation and, as such, can benefit both landlord and tenant. Unfortunately, the sample data are mixed as to the effects of arbitration provisions (see A-2 & A-3 vs. A-6 and also A-18 vs. O-3). Even though there is no quantifiable market support, it seems reasonable that a small lease rate premium would accrue to an arbitration clause like that of the ARR lease.

LEASE RATE RECOMMENDATIONS

Although land leases constitute a large part of the market in some areas of the country, their limited use in Alaska makes it difficult to quantify differences in specific conditions and provisions. However, in spite of market irregularity, there is a relatively uniform range of lease rates around the State.

Private sector leases that are most comparable to the standard ARR lease are as follows:

Lease No.	Rate	Comparability
A-6	8.0%	Most similar
A-2	7.0%	Very similar but no arbitration
A-3	9.0%	Very similar but no arbitration
O-2	12.0%	Very similar but no rent cap
O-5	10.0%	Very similar but no rent cap
O-6	10.0%	Very similar but no rent cap
A-1	<u>10.0%</u>	Very similar but no rent cap or arbitration
Average=	9.4%	

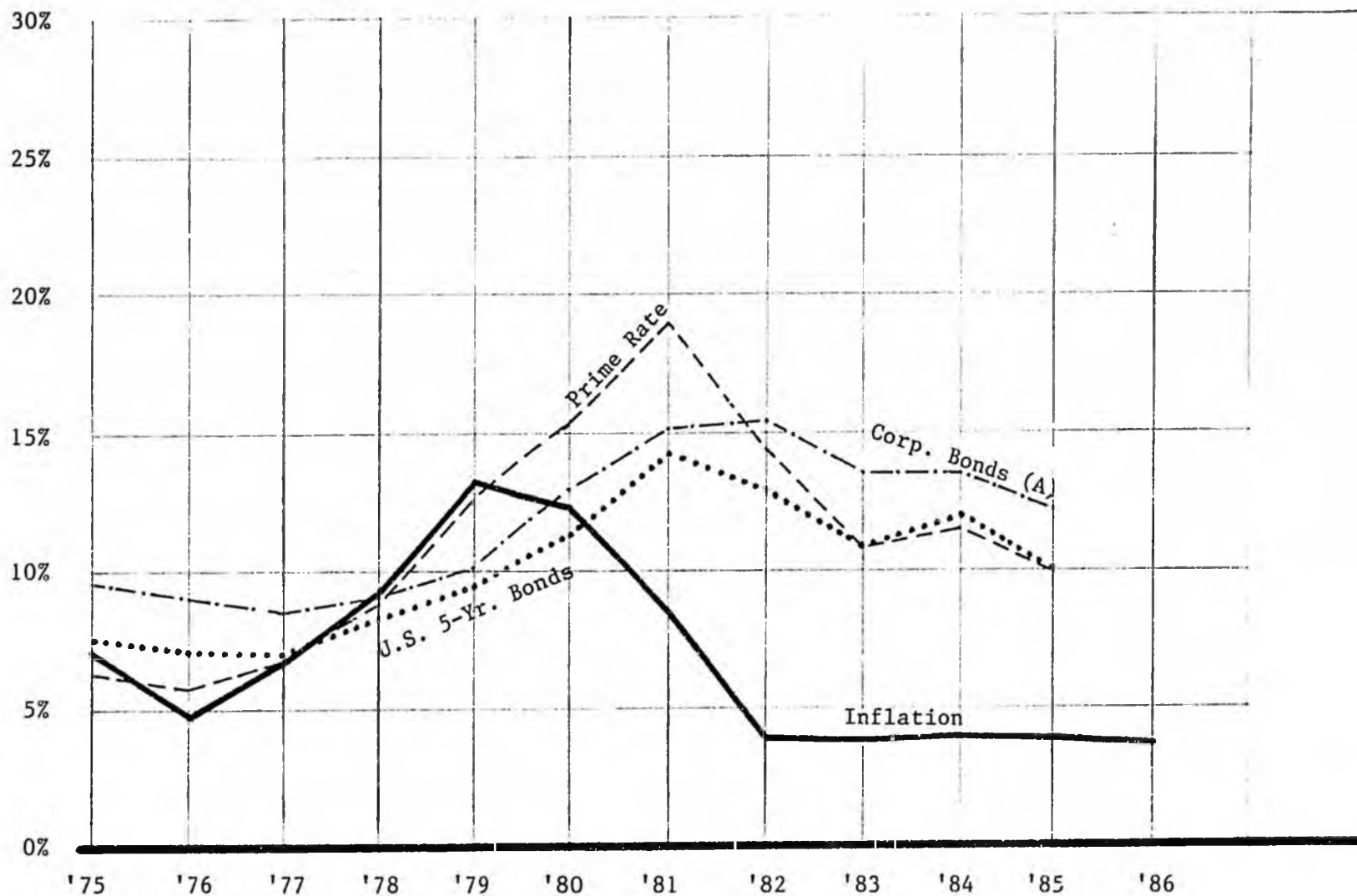
These leases epitomize market imperfection and, interestingly, their average rental rate is nearly the same as the average of the total private sector sample.

Based on analysis of private and public sector leases, a fair rental rate for ARR long-term leases would be at 9% to 10% or, say, 9.5% of market value. This lease rate is considered appropriate for all railbelt locales from Seward to Fairbanks (locational variations in land rents would, of course, be a function of land value).

This rate is based on the assumption that: (1) Lease periods will be negotiated to coincide with economic lives of lessee improvements; (2) The cost of removing such improvements at the end of a lease will be offset by their salvage value and; (3) Rent caps will be negotiated to limit rent increases to 5% to 10% per year.

It is recognized that methods of leasehold taxation vary within the State and those jurisdictions utilizing valuation of "possessory interests" tend to be more costly to lessees of tax-exempt lands than those that rely on appraisal of "rent savings". Nevertheless, the recommended lease rate of 9.5% is considered appropriate regardless of taxation method since it is consistent with the market norm, i.e., land rents are typically net to the lessor with the tenant being responsible for all property operating expenses.

SELECTED ECONOMIC INDICATORS



— INFLATION: % change in C.P.I. (Dec. over Dec.). 1986 forecast of 3.7% by TIME magazine's Board of Economists.

- - - PRIME RATE (yearly average).

..... U.S. 5-Yr. BONDS - Taxable

- · - · - CORPORATE BONDS (A)

YIELD ANALYSIS

Ongoing inflation and land value increases over the term of most leases result in internal rates of return (IRR) or yield rates in excess of actual lease rates. Three possible scenarios involving an ARR lease with a fair market rental rate of 9.5% are as follows:

- Assumptions: (1) Initial Land Value = \$100,000
 (2) Lease Term = 35 Years
 (3) Reversion Value of Lessee Improvements = 0

	EXAMPLE A Inflation & Land Apprec. @ 3%/Yr. (compounded)	EXAMPLE B Rent Cap @ +25% Over Prior Amt. & Land Apprec. @ 5%/Yr. (comp.)	EXAMPLE C Rent Cap @ +50% Over Prior Amt. & Land Apprec. @ 10%/Yr. (comp.)
	<u>Annual Rent</u>	<u>Annual Rent</u>	<u>Annual Rent</u>
1st 5 Yrs.	\$ 9,500	\$ 9,500	\$ 9,500
2nd " "	11,013	11,875	14,250
3rd " "	12,767	14,844	21,375
4th " "	14,800	18,555	32,063
5th " "	17,157	23,193	48,094
6th " "	19,890	28,992	72,141
7th " "	23,058	36,240	108,211
Land Rever. End 35th Yr	281,386	551,602	2,810,244
YIELD =	12.01%	13.42%	17.05%

Example A is believed to be on the conservative side as annual inflation has been closer to 4% since 1982 and is forecast at 3.7% for 1986 (see chart on facing page). Example C could be more representative of yield on urban lands such as those in Anchorage where the average compound rate of appreciation for commercial and industrial sites was 10.0% and 8.7%, respectively, over the past ten years (per survey data published annually by our firm).

Pre-tax yields in the range of 12% to 17% for ARR leases would certainly be in line with returns on competitive investments:

	<u>4th Qtr. '85</u>	<u>3rd Qtr. '85</u>	<u>2nd Qtr. '85</u>	<u>4th Qtr. '84</u>
Real Estate Yield	12.75-15%	12.75-15%	12.75-15%	13-15.5%
	<u>December</u>	<u>September</u>	<u>June</u>	<u>December</u>
Bond Yields				
Corp. (Aaa)	10.16%	11.07%	10.94%	12.13%
Corp. (A)	11.19%	11.99%	11.98%	12.92%
Corp. (Baa)	11.58%	12.48%	12.40%	13.40%

The real estate yields are on a pre-tax basis and are published by Real Estate Research Corporation. They primarily reflect IRR on unleveraged investments in prime properties such as major office buildings, industrial and R&D facilities, and large apartment complexes.

The bond yields are those of major corporations as reported by Moody's Bond Survey. Real estate capital requires greater yields than corporate bonds due to relative risk factors.

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

ANCHORAGE AREA	No. A-1	No. A-2	No. A-3	No. A-4	No. A-5	12
Lessor/Lessee	Sanchis/Fifth & "F" Bldg. Corp.	Murray & Scott/Racheff & Bright	Korpi/Newcore Partnership	Tsakres/Kakaras	Toppers Oil/North-shore Partnership	
Land Area/Use	41,914 s.f./Bank-office bldg.	2 acres/car wash	29,247 s.f./office bldg.	30,258 s.f./Retail bldg.	10,000 s.f./Convenience store	
Lease Date	9-1-85	1-16-84	6-7-84	10-1-84	12-1-84	
Term	25 years	25 years	75 years	55 years	25 years	
Renewal Option	Three (5 yrs. ea.)	None	None	One (55 yrs.)	Four (5 yrs. ea.)	
Annual Rent Effective Date	\$1.55/s.f. 7-85	\$.69/s.f. 1-84	\$1.37/s.f. 6-84	\$.79/s.f. 7-84	\$2.40/s.f. 9-84	
Rent Basis	10% FMV (est.)	7% FMV (stated)	9% FMV (stated)	10% FMV (est.)	10% FMV (est.)	
Rent Adjustment	@ 5 yr. intervals. Greater of 10% FMV or CPI	11.7% step-up after 3rd yr.; 5th yr. & every 5 yrs. thereafter by appraisal.	@ 5 yr. intervals by agreement or appraisal.	5% annual increase, implemented @ 3 yr. intervals.	CPI @ 5 yr. intervals.	
Rent Floor/Ceiling	Floor @ prior rent	Limited to 50% increase over previous level	+ 50% ceiling on first adjustment		min. 5% increase annually; cap @ 8% annually.	
Lessee Expenses	All	All	All	All	All	
Assign/Sublet	Requires lessor consent	Requires lessor consent	Requires lessor consent	Yes (without lessor approval)	Requires lessor consent	
Subordination	No	No	No	No	No	
Option to Purchase	No	No	No	No	No	
Reversion of Improvements	@ lessor's option	Removal @ lessee's option	@ lessor's option	To lessor	To lessor	
Condemnation	Lessee award limited to improvements	Typical	Lessee award limited to improvements	Typical	All awards to lessor	
Arbitration Clause	No.	No	No	No	No	
Other						

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

ANCHORAGE AREA

	No. A-6	No. A-7	No. A-8	No. A-9	No. A-10
Lessor/Lessee	Riendl/George & Ferrara	Von Wichman/ Kiester, et al	Tsakres/Chambers, et al	Calais Co./ Saent Ltd.	Arctic Plaza/Cook Inlet Natives
Land Area/Use	64,825 s.f./ commercial	33,064 s.f./Med- ical office bldg.	39,146 s.f./strip mall	75,360 s.f./ commercial	20,000 s.f./ parking
Lease Date	7-1-84	3-2-84	2-1-84	3-83	3-83
Term	35 years	2 yrs. & 7 mos.	40 years	55 years	yr.-to-yr.
Renewal Option	Three (5 yrs. ea.)	Long-term replace.	Five (10 yrs. ea.)	Two (10 yrs. ea.)	
Annual Rent Effective Date	\$.56/s.f. 1-84	\$1.51/s.f. 3-84	\$1.07/s.f. 1-84	\$1.15/s.f. 3-83	\$1.26/s.f. 3-83
Rent Basis	8% FMV (stated)	7.6% FMV (est.)	8% FMV (est.)	5.8% FMV (est.)	8.4% FMV (est.)
Rent Adjustment	@ 5 yr. intervals by agreement or appraisal	10% increase in 2nd year		Level 10 yrs.; then @ 5 yr. in- tervals based on 8.5% of agreed value	Nego. ea. yr.
Rent Floor/Ceiling	Floor @ orig. rent & ceiling @ +20% ea. adjustment			Floor @ initial rent; ceilings for 3 adjust. periods = 100%, 50% & 50%. No ceiling thereafter	
Lessee Expenses	All	All		All	All but taxes
Assign/Sublet	Requires lessor approval	Requires lessor approval		Requires lessor approval	No
Subordination	No	No		No	No
Option to Purchase	No	No		No	No
Reversion of Improvements	Removal @ lessee's option			@ lessor's option	N/A
Condemnation	Lessee award limited to improve- ments	All awards to lessor		Lessee award limited to improve- ments	No clause
Arbitration Clause	Yes-condemn.	No		No	No
Other		Method of Financing			Land not to be

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

ANCHORAGE AREA

No. A-11

No. A-12

No. A-13

No. A-14

No. A-15

14

ANCHORAGE AREA	No. A-11	No. A-12	No. A-13	No. A-14	No. A-15
Lessor/Lessee	Alaska Sales & Service/MacNutt	Dickerson/Freeman	Bailey & Fredric J./Bowden	Hickel Investment Co./E. Drage	CBS Real Estate Co./Bond
Land Area/Use	47,475 s.f./open storage	18,975 s.f./Auto motive services	75,111 s.f./office condos.	Service station	25,000 s.f./Fast Food Restaurant
Lease Date	9-1-83	8-8-83	3-30-83	12-4-81	11-15-81
Term	1 year	45 years	75 years	5 years	45 years
Renewal Option	None				Three(10 yrs.ea.)
Annual Rent Effective Date	\$.63/s.f. 9-83	\$2.53/s.f. 8-83	\$1.92/s.f. 3-83	\$19,440/12-81	\$1.56/s.f. 8-81
Rent Basis	10.5% FMV (est.)	14% FMV (est.)	9% FMV (est.)	10% FMV (est.)	13% FMV (est.)
Rent Adjustment	None	@ 3 yr. intervals based on CPI-U.S. avg.	@ 5 yr. intervals alternate % increase & appraisal	17.8% increase 2nd yr.; + 8% ea. yr. thereafter	Annual based on CPI changes (U.S. avg.)
Rent Floor/Ceiling		Floor @ orig. rent. Ceiling = +20% prior rent	Floor @ 5%/yr. increase. Ceiling @ 10%/yr. increase		
Lessee Expenses	All but taxes		All		All
Assign/Sublet				Requires lessor approval	Requires lessor approval
Subordination	No			Yes	No
Option to Purchase				No	No
Reversion of Improvements	N/A			Removal @ lessee's option	@ lessor's option
Condemnation					Lessee award limited to improvements
Arbitration Clause	No				No
Other	Land not to be built on			Use restricted to filling station	

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

ANCHORAGE AREA

	No. A-16	No. A-17	No. A-18	No. A-19	No. A-20
Lessor/Lessee	Chugach Investments/Maropix	Olympic Inc./Maropix Alaska	Miller, et al/Taco Johns of AK	Glenn Mall Assoc./Pizza Hut	Armstrong/Pines Corporation
Land Area/Use	35,280 s.f./Fast Food restaurant	30,000 s.f./Fast Food restaurant	13,674 s.f./Fast Food restaurant	Fast Food restaurant	48,852 s.f./Parking Lot
Lease Date	4-29-81	4-1-81	7-1-81	8-1-80	8-79
Term	45 years	45 years	5 years	20 years	55 years
Renewal Option	Three (5 yrs. ea.)	Three (10 yrs. ea.)	One (5 yrs.)		Three (5 yrs. ea.)
Annual Rent Effective Date	\$1.13/s.f. 4-81	\$1.30/s.f. 4-81	\$.79/s.f. 7-81	\$36,000/9-79	—/8-79
Rent Basis	10% FMV (est.)	12% FMV (est.)	9% FMV (est.)	10% FMV +4% gross	8% FMV (stated)
Rent Adjustment	@ 5 yr. intervals based on CPI (all-alaska)	Annually based on CPI-All AK	Upon renewal; based on CPI change	2nd 10 yrs. set @ \$45M/yr. (25% increase) plus 4% of gross over \$825M	@ 5 yr. intervals by appraisal value
Rent Floor/Ceiling	Ceiling @ +15% per year		Floor @ original rent		
Lessee Expenses	All	All	All	All	All
Assign/Sublet	Requires lessor approval	Requires lessor approval	Requires lessor approval	Requires lessor approval	Yes (without lessor consent)
Subordination	No		No		Yes-w/limits
Option to Purchase	After 3 yrs @ MAI appraisal		No		Yes @ scheduled prices
Reversion of Improvements			@ lessor's option		
Condemnation			Lessee award limited to improvements		
Arbitration Clause			No		Yes
Other					

ANCHORAGE AREA

	No. A-21	No. A-22	No. A-23	No. A-24
Lessor/Lessee	Gilmore/Gain & Watkins	S.S. Fuller/Walsh	Turnagain Holding/Gittins Const.	NBA-Loussac/5th & D Ltd.
Land Area/Use	21,750 s.f./apartments	87,579 s.f./mini-storage	Office Bldg.	6,500 s.f./commercial
Lease Date	6-78	6-77	10-75	4-73
Term	55 years	57 years	55 years	75 years
Renewal Option	None	None	None	None
Annual Rent Effective Date	\$.47/s.f. 6-78	--/6-77	--/10-75	--/4-73
Rent Basis	8.5% FMV (est.)	8% FMV (stated)	8% FMV (stated)	9% FMV (est.)
Rent Adjustment	25% increase begin year 6. Then rent sched. @ 8.5% of value	Level rent for 7 yrs. Then every 5 yrs. set @ 8% assessed value	@ 5 yr. intervals based on 8% appraised value	Every 5 years per CPI
Rent Floor/Ceiling				
Lessee Expenses				
Assign/Sublet	Requires lessor approval			
Subordination	Yes-w/conditions	Yes-w/limits	Yes	Yes
Option to Purchase	Yes @ scheduled prices	No	Yes @ FMV	Yes @ FMV
Reversion of Improvements	To lessor			
Condemnation				
Arbitration Clause	Yes	Yes	Yes	No
Other	Method of Financing			

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

FAIRBANKS AREA

	No. F-1	No. F-2	No. F-3	No. F-4	No. F-5	17
Lessor/lessee	Rockstad & Briskie/ Freeman	Bentley Trust/ Linck	Bentley Trust/ Sadco	Sexton/Taco Bell	Alexander/First Nat'l Bank	
Land Area/Use	22,707 s.f./auto- motive	41,000 s.f./Fast Food restaurant	34,430 s.f./strip mall	30,001 s.f./Fast Food restaurant	40,000 s.f./Branch Bank	
Lease Date	8-84	7-84	8-84	1983	10-82	
Term	35 years	20 years	20 years	20 years	55 years	
Renewal Option		Two (10 yrs. ea.)	Two (10 yrs. ea.)	Three (5 yrs. ea.)		
Annual Rent Effective Date	\$.90/s.f. 8-84	\$1.20/s.f. 7-84	\$1.20/s.f. 8-84	\$1.20/s.f. 1983	\$1.08/s.f. 10-82	
Rent Basis	10% FMV (est.)	10% FMV (est.)	10% FMV (est.)	12% FMV (est.)	9.8% FMV (est.)	
Rent Adjustment	Annually per CPI-Anch.				CPI every 5 years	
Rent Floor/Ceiling	Floor @ - 5% & ceiling @ 7.5% of prior rent					
Lessee Expenses				All but taxes	All but taxes	
Assign/Sublet						
Subordination						
Option to Purchase						
Reversion of Improvements						
Condemnation						
Arbitration Clause						
Other						

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

FAIRBANKS AREA

	No. F-6	No. F-7	No. F-8	No. F-9
Lessor/Lessee	Wometco & Lathrop Co./Wendy's	North Star Terminal/ARCO	New State Lands/Northland Hub	Frontier Investors/Fred Meyer
Land Area/Use	25,000 s.f./Fast Food restaurant	20 acres/Open storage	5.5 acres/Discount Grocery store	4.25 acres/retail store
Lease Date	10-82	1983	2-78	1978
Term	30 years	5 years	50 years	30 years
Renewal Option		None	None	Five (5 yrs. ea.)
Annual Rent Effective Date	\$1.44/s.f. 10-82	\$3,000/ac. 1983	\$.21/s.f. 2-78	\$.54/s.f. 1978
Rent Basis	13% FMV (est.)	7% FMV (est.)	5.3% FMV (est.)*	7.7% FMV (est.)
Rent Adjustment		Successive annual increases of 20%, 17%, 14%, & 25%.	Up 56% 2nd yr.; +7.7% 4th yr.; then CPI.	
Rent Floor/Ceiling				
Lessee Expenses	All but taxes	All but taxes	All	
Assign/Sublet				
Subordination				
Option to Purchase			Yes @ scheduled prices	
Reversion of Improvements		N/A		
Condemnation				
Arbitration Clause				
Other		Land not to be built on	*8.1% FMV 2nd year	Sublease

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

JUNEAU AREA

	No. J-1	No. J-2	No. J-3	No. J-4	No. J-5
Lessor/lessee	Fred Meyer/ Wendy/s	Smith/Freeman	Fluke, et al/ Taco Bell	Valley Centre Dev. Co./Howard, et al	Valley Centre Dev. Co./Juneau Motel
Land Area/Use	28,000 s.f./Fast Food restaurant	34,426 s.f./auto- motive svcs.	44,867 s.f./Fast Food restaurant	3.6/ac./Shop- ping mall	69,454 s.f./ Motel
Lease Date	1-86	11-12-85	12-84	9-1-83	7-12-83
Term	25 years	35 years	35 years	55 years	30 years
Renewal Option	Three (5 yrs. ea.)		Three (5 yrs. ea.)	One (10 yrs.)	Two(10 yrs.ea.)
Annual Rent Effective Date	\$1.80/s.f. 1-86	\$1.20/s.f. 11-85	\$1.08/s.f. 12-84	\$.96/s.f. 5-84	\$.72/s.f. 7-83
Rent Basis	12% FMV (est.)	10% FMV (est.)	9% FMV (est.)	10% FMV (est.)	9% FMV (est.)
Rent Adjustment	Fixed 5 yrs. +25% 2nd 5 yrs. +20% @ 5 yr. intervals + 2 1/2% gross	Annually per CPI increase	Annually by CPI	Annually by CPI-Seattle	Annually by CPI-Seattle
Rent Floor/Ceiling		Ceiling @ 5%/yr.			
Lessee Expenses		All		All	All
Assign/Sublet		Requires lessor approval		Requires lessor approval	Requires lessor approval
Subordination		No		No	No
Option to Purchase		No		No	No
Reversion of Improvements		To lessor		To lessor	To lessor
Condemnation		Typical		Award allocated according to law	Award allocated accord. to law
Arbitration Clause		No		No	No
Other				Hamburger rest- aurant prohibited	

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

JUNEAU AREA

	No. J-6	No. J-7	No. J-8	No. J-9	No. J-10
Lessor/Lessee	Smith, et al/ Tathum	Valley Centre Dev. Co./Smith, et al	Erwin Ent./ Winton, et al	Erwin Ent./ Fed Alaska	Valley Centre Dev. Co./Ahlgren, et al.
Land Area/Use	15,200 s.f./mini storage	3.25 ac./office condos	40,426 s.f./ commercial	7,150 s.f./ Branch Bank	19,412 s.f./con- venience store
Lease Date	8-83	9-20-82	11-1-82	1-79	10-1-78
Term	50 years	55 years	50 years	40 years	15 years
Renewal Option		One (10 yrs.)			One (10 yrs.)
Annual Rent Effective Date	\$.84/s.f. 8-83	\$.66/s.f. 9-82	\$.52/s.f. 11-82	\$2.49/s.f. 1-79	\$.30/s.f. 10-78
Rent Basis	10% FMV (est.)	11% FMV (est.)	8% FMV (est.)	11% FMV (est.)	10% FMV (est.)
Rent Adjustment	Annually by CPI-Seattle	Every 3 yrs. by CPI-Seattle	@ 5 yr. intervals CPI-Anch.	@ 5 yr. intervals CPI-Anch.	@ 2 yr. intervals, +6%
Rent Floor/Ceiling			Floor @ orig. rent	Floor @ orig. rent	
Lessee Expenses	All	All	All but land tax	All but land tax	All
Assign/Sublet	Requires lessor approval	Requires lessor approval	Requires lessor approval	Requires lessor approval	Requires lessor approval
Subordination	No		No	No	No
Option to Purchase	No		No	No	Yes @ scheduled prices
Reversion of Improvements	To lessor		To lessor	To lessor	N/A
Condemnation	Award allocated according to law				Lease ends. Award silent
Arbitration Clause	No		Yes	Yes	No
Other					

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

JUNEAU AREA

No. J-11

No. J-12

No.

No.

No.

Lessor/lessee	Erwin Ent./ Vavalis	Smith/Bros./ C.E. Loveless
Land Area/Use	12,000 s.f./ commercial	12 acres/Shop- ping center
Lease Date	9-76	4-24-72
Term	40 years	55 years
Renewal Option		Five (10 yrs. ea.)
Annual Rent	\$2.04/s.f. 9-76	\$.08/s.f. 4-72
Effective Date		
Rent Basis	9% FMV (est.)	8% FMV (est.)
Rent Adjustment	@ 5 yr. intervals CPI-Anchorage	Annually per CPI increase
Rent Floor/Ceiling	Floor @ orig. rent	
Lessee Expenses	All but land tax	All
Assign/Sublet	Requires lessor approval	Requires lessor approval
Subordination	No	No
Option to Purchase	No	Yes
Reversion of Improvements	To lessor	
Condemnation		
Arbitration Clause	No	No
Other		

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

OTHER AREAS

	No. O-1	No. O-2	No. O-3	No. O-4	No. O-5
Lessor/Lessee	Johnson/McLure	Withheld by request	Withheld by request	Kanakanen/Spenard Builders	Cottle/Collins
Land Area/Use	6.53 ac./commercial	1.37 ac./Fishing Lodge	21 acres/commercial	5 acres/Bldg. Supply store	/Retail & office bldg.
Lease Date	10-20-84	11-84	4-12-83	3-83	10-1-83
Term	55 years	5 years	25 years	30 years	22 1/2 years
Renewal Option	One (55 yrs.)	Five (5 yrs. ea.)	One (25 yrs.)	Two (10 yrs. ea.)	One (25 yrs.)
Annual Rent Effective Date	\$.27/s.f. 9-84	\$3,500/11-84	\$.03/s.f. 4-83	— /3-83	\$7,200/10-83
Rent Basis	6.8% FMV (est.)	12% FMV (stated)	10% FMV (est.)	8% FMV (est.)	10% FMV (stated)
Rent Adjustment	@ 5-yr. intervals by CPI-Anch.	@ 5 yr. intervals by appraisal	@ 5 yr. intervals CPI-Anch.	@ 5 yr. intervals by appraisal	@ 4 yr. intervals based on agreed value or by appraisal
Rent Floor/Ceiling	Floor @ prior rent	Floor @ orig. rent	Floor @ orig. rent	Ceiling @ 10% per year increase.	Floor @ previous rent level.
Lessee Expenses	All	All	All		All
Assign/Sublet		Requires lessor & BIA consent	Requires BIA approval		Requires lessor approval
Subordination		No	No		No
Option to Purchase		No	No		No
Reversion of Improvements	@ lessee's option	To lessor	To lessor		Lessor's option to retain or have removed
Condemnation		Award according to interests	Award according to interests		Lessee award limited to improvements-
Arbitration Clause		Yes	Yes		Yes, as to rent dispute
Other	Wasilla	Bristol Bay	Houston area	Eagle River	Wasilla

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

OTHER AREAS

No. 0-6

No. 0-7

	No. 0-6	No. 0-7
Lessor/Lessee	Cottle/Persinger	U.I.C./H.W. Blackstock Co.
Land Area/Use	/Retail & office bldg.	--/commercial
Lease Date	4-1-81	12-8-81
Term	25 years	10 years
Renewal Option	One (25 yrs.)	Four (10 yrs. ea.)
Annual Rent Effective Date	\$12,000/7-81	\$4,800/12-81
Rent Basis	10% FMV (stated)	10% FMV (stated)
Rent Adjustment	@ 4-yr. intervals based on agreed value or by appraisal	@ end of 6 yrs., then @ 3 yr. intervals agreed or appr. value
Rent Floor/Ceiling	Floor @ pre- vious rent level	
Lessee Expenses	All	
Assign/Sublet	Requires lessor approval	
Subordination	No	
Option to Purchase	No	
Reversion of Improvements	Lessor's option to retain or have removed	
Condemnation	Lessee award limited to improvements	
Arbitration Clause	Yes, as to rent dispute	
Other	Wasilla	Barrow

STATE OF ALASKA LAND LEASES (Dept. of Natural Resources)

<u>ADL#</u>	<u>General Location</u>	<u>Type of Property</u>	<u>Lease Rate</u>	<u>Date Set</u>	<u>Rent Adjustment</u>
1318	Seward	Tidelands	9% FMV	6-85	5-yr. intervals
19278	"	Comm. Site	" "	"	" "
32266	Kodiak	Tidelands	8% FMV	"	" "
---	Fairbanks	Rural Rec.	6% FMV	6-82	" "
<hr/>					
103832	Juneau	Tidelands	12% FMV	1-86	Fixed 25 yrs., then @ 10 yr. intervals
203934	Valdez	"	13% FMV	10-85	"
101598	Juneau	Waterfront	15% FMV	9-85	"
410040	Tok	Rural Ac.	10% FMV	7-85	Fixed for 10 yrs
100835	Wrangell	Tidelands	12% FMV	8-85	Fixed 25 yrs., then @ 10 yr. intervals
102826	Ketchikan	"	" "	5-85	"
103824	Craig	"	" "	"	"
74170	Glennallen	Lib. Site	13% FMV*	3-85	"
62472	Fairbanks	Comm. Site	9.5% FMV**	6-84	Fixed for 25 yrs
102934	Juneau	Tidelands	12% FMV	4-84	" " " "
---	"	"	15% FMV	7-82	" " " "
80526	"	"	12.5% FMV	5-81	Fixed 25 yrs., then @ 10 yr. intervals

* Per appraisal. Actual rent administratively set at much lower rate.

** Reduced rate for remote location.

STATE OF ALASKA LAND LEASES

Various State agencies are involved in ground leasing but, in some cases, rents are not at market levels. For example, current land rents at the Anchorage International Airport were administratively-established some 15 years ago. State officials are aware that these rents are less than could be obtained in an open market atmosphere and a rent study was commissioned some time ago. Indications are that there will be an increase in the near future. However, airport officials believe it unlikely that rents will be brought to market levels as such would hamper efforts to promote the aviation industry.

Considered more pertinent are ground leases granted by the Department of Natural Resources (DNR). A tabular summary of data from several DNR leases is on the facing page.

The first four examples are old leases executed in the 1960's wherein annual land rents are adjusted at 5-year intervals based on reappraisals. Recent reappraisals of these and other similar leased properties have established rents at 6% to 9% of market value with residential and recreation land rents typically falling in the lower end of the lease rate range. Most updated rents for commercial and industrial ground are based on rates of 8% and 9%.

The last twelve examples are newer State leases wherein land rents are level for the first 25 years (10 years in one case). Annual rent for each 10-year period thereafter is set at market rent but cannot be greater than a 50% increase in the preceding rent. As would be expected, the rate range of 9.5% to 15% set for these leases is higher than typical rates for the 5-year adjustable DNR leases.

Some other characteristics of the typical DNR lease are briefly noted as follows:

Lease Period:

25 to 55 years.

Rent Adjustments:

Typically based on reappraisal wherein appraiser estimates both current market value of land and the applicable annual rate of return or lease rate.

Rent Floor/Ceiling:

Typically no floor. Ceiling identified in those leases adjustable after 25 years.

Lessee Expenses:

All expenses paid by lessees (rents are net to the State).

Subordination/Assignment/Subleasing:

Subordination of leased fee to lessee financing not permitted.
Assignment and subleasing permissible with lessor approval.

Option to Purchase:

None.

Reversion of Lessee Improvements:

Lessee to remove within 60 days or lessor may dispose of.

Condemnation:

Lessee entitled to award for lessee-owned improvements.

Arbitration:

Not typically provided for in lease.

PORT OF ANCHORAGE INDUSTRIAL LOTS

LEASE DATA

December 31, 1985

<u>Lot No.</u>	<u>Lessee</u>	<u>Area</u>	<u>Current Annual Rent</u>	<u>Rental Rate</u>	<u>Most Recent Adjustment</u>	<u>Lease Date</u>	<u>Term</u>
1D	TOTE	116,067 s.f.	\$.675/s.f.	10%	6-17-85	5-1-77	19 yrs., 3 mos.
2B & 3A	TOTE	374,990 s.f.	\$.600/s.f.	10%	7-24-85	8-1-75	21 yrs.
4A	Columbia Cement	230,497 s.f.	\$.450/s.f. (1)	10%	2-1-84	2-1-69	30 yrs., plus two 10 yr. options
5D-1	Sea-Land	258,263 s.f.	\$.347/s.f.	9.5%	12-10-80	8-1-70	21 yrs., plus 4 yr., 10 yr. option
5F-1	Sea-Land	141,490 s.f.	\$.525/s.f.	9%	10-1-83	9-30-63	10 yrs., plus eight 5 yr. options
6C-1	Sea-Land	422,555 s.f.	\$.405/s.f. (2)	9.5%	10-1-81	10-1-65	31 yrs., plus two 10 yr. options
6D-1	Sea-Land	303,508 s.f.	\$.298/s.f. (2)	8%	2-1-80	2-1-65	31 yrs., plus two 10 yr. options
7B	Texaco	380,559 s.f.	\$.337/s.f.	10%	2-1-82	7-1-64	30 yrs., plus four 5 yrs. options
8B & 8C	Anchorage Fueling & Service Co.	486,033 s.f.	\$.374/s.f. (3)	10%	3-5-82	3-5-62	10 yrs., plus eight 5 yr. options

(1) Based on original unfilled condition.

(2) Includes contribution of paving.

(3) Average amount based on \$.425/s.f. of filled land (9.1 acres) and \$.150/s.f. of unfilled and easement encumbered land (2.06 acres)

MUNICIPALITY OF ANCHORAGE LAND LEASES

Two major areas of municipal land leasing activity are the Merrill Field Airport and the Port of Anchorage. Merrill Field rents are administratively set to fund the operation of the airport and the data from those leases are not of much use in this study.

The Port of Anchorage subdivision is 100% leased and a tabular summary of lease data is presented on the facing page. The leases date back to the early 1960's and, for the most part, are similar in content. Some key characteristics are as follows:

Rental Rate:

Annual land rents are set at 8% to 10% of fair market value by agreement of the parties or by appraisal.

Lease Period:

Typically 50 years including renewal options.

Rent Adjustments:

Annual land rents are typically adjusted at 5-year intervals to fair rental value by mutual agreement or independent reappraisal.

Rent Floor/Ceiling:

Leases do not provide for rent minimums or caps.

Lessee Expenses:

All expenses paid by lessee (ground rents are net to the lessor).

Subordination/Assignment/Subleasing/Purchase Option:

No subordination of leased fee to lessee financing is allowed. Assignment and subleasing is permitted with lessor approval. Option to purchase is not granted.

Reversion of Lessee Improvements:

Newer leases provide that lessor may consent to retain improvements or may require their removal at lessee expense.

Condemnation:

Lessee entitled to award for value of lease and lessee improvements.

Arbitration:

Not provided for in leases but, lessees may appeal rent increases to the Port Commission.

CITY OF CORDOVA LAND LEASES

The City of Cordova has about 15 acres of industrial land under lease. This ground is subdivided into 15,000 to 80,000 s.f.+ lots and leased to various parties. Another 17 acres is expected to be available for lease in 1986. A summary of lease data is as follows:

Rental Rate:

Annual land rents are set at 9% of assessed value as determined by contract assessor. This rate is stated in the leases and has been in effect for many years.

Lease Period:

Typically 20 years with negotiable renewal options.

Rent Adjustments:

Annual land rents are adjusted at 3-year intervals based on "9% of the valuation as determined by a qualified appraiser". In practice, the stated rate is applied to the assessed land value which is normally updated annually.

Rent Floor/Ceiling:

Typically none.

Lessee Expenses:

All expenses paid by lessees (rent is net to the lessor).

Subordination/Assignment/Subleasing:

No subordination of leased fee to lessee financing allowed. Assignment and subleasing permitted with lessor's consent.

Option to Purchase:

Typically none.

Reversion of Lessee Improvements:

Typically the lessee must remove within 90 days or lessor may retain or remove at lessee's expense.

Condemnation & Arbitration Clauses:

Normally not in leases.

FAIRBANKS NORTH STAR BOROUGH LAND LEASE

The FNSB land leasing program is in it's infancy although the land base exceeds 100,000 acres. Most of the acreage is in remote locations but there are 200 acres +- near Fairbanks which will be concentrated on for disposition by leasing. At present, there are two land leases with another two or three expected to be consummated this year. One of the existing leases is 50% below market by assembly approval. The other lease is summarized as follows:

Lessor/Lessee:

FNSB/McKee Meats, Inc.

Rental Rate:

Annual land rent was set at 10% of the appraised value and this rate is stated in the lease.

Lease Period:

30 years beginning 7/23/84 plus two options to renew at 10 years each.

Rent Adjustments:

Annual land rent is adjusted at 5-year intervals based on 10% of appraised value. Land to be valued at time of reappraisal as if it were in the same state as at the beginning of the lease term excluding any improvements by the tenant.

Rent Floor/Ceiling:

None.

Lessee Expenses:

Rent is reportedly net to lessor (lease is silent on this point).

Subordination/Assignment/Subleasing:

Lease is silent on these items.

Option to Purchase:

None.

Reversion of Lessee Improvements:

Fixtures and structures shall be removed by lessee at end of lease.

Condemnation/Arbitration:

Not addressed in lease instrument.

CITY & BOROUGH OF JUNEAU LAND LEASES

The City & Borough of Juneau leases out some 50 parcels of land to various entities. The leasing program began many years ago and lease provisions have changed over time. A summary of lease data is as follows:

Rental Rate:

In recent years, new and revised leases reflect annual land rents based on 9% to 12% of fair market value. Most current rates are about 10%.

Lease Period:

Varies. Newer leases have maximum terms of 35 years.

Rent Adjustments:

Annual land rents are adjusted annually in some instances and at 3-year intervals in others. In the case of newer leases, adjusted rents are based on the City Assessor's recommendations as to both the market value of the land and the applicable rate of return.

Rent Floor/Ceiling:

Not typically provided in leases.

Lessee Expenses:

All expenses usually paid by lessee (rent is net to lessor).

Subordination/Assignment/Subleasing:

Subordination of leased fee to lessee financing is not permitted. Assignment and subleasing is usually permitted with lessor's approval.

Option to Purchase:

None.

Reversion of Lessee Improvements:

Typically lessee may remove or title reverts to lessor.

Condemnation:

Varies but lessee is normally entitled to award for improvements.

Arbitration:

Not typically provided for in leases.

CITY OF KENAI LAND LEASES

The City of Kenai leases out some 110 parcels of land (mostly city lots) to various private parties. The leasing program began in the mid-1960's and at present there are only 4 or 5 lots and some undeveloped acreage that are not leased. A summary of lease data is as follows:

Rental Rate:

Annual land rents are set at 6% of fair market value and this rate, which is stated in the leases, has been in effect since the inception of the leasing program. City officials acknowledge this is below rates utilized in other areas, but do not anticipate any changes in the foreseeable future. The most recent leases incorporating the 6% rate were executed in 1985.

Lease Period:

Typically 55 to 99 years.

Rent Adjustments:

Annual land rents are adjusted at 5-year intervals based on 6% of fair market value which is estimated by a "qualified independent appraiser". Fair market value is based on the condition of the lands on the date of lease plus the value of improvements made by the City subsequent to the date of lease.

Rent Floor/Ceiling:

City code provides that redetermined annual rent shall be limited to a 50% increase over the prior rent until the 30th anniversary, after which the cap provision shall no longer apply. This rent ceiling provision acknowledges that investors and developers need a reasonable assurance of stability in future rents.

Lessee Expenses:

All expenses paid by lessees (rent is net to the lessor).

Subordination/Assignment/Subleasing:

No subordination of leased fee to lessee financing allowed. Assignment and subleasing permitted with consent of lessor.

Option to Purchase:

None.

Reversion of Lessee Improvements:

Varies. Early leases provide for removal of improvements by lessee within 60 days or sale to succeeding lessee with lessor

approval. Recent leases provide that title to improvements automatically vests in City upon termination.

Condemnation:

Rent abatement and award allocated by agreement or determined by arbitration if disputed.

Arbitration:

Not provided for in leases except in connection with condemnation clause.

CITY OF SEWARD LAND LEASES

The City of Seward leases out some 27 land parcels to private parties. These parcels are in or close to town. Lands still available for lease include 80 acres +- within the Seward Marine Industrial Center and 80 acres +- at the Fourth of July Creek industrial area. A summary of lease data is as follows:

Rental Rate:

Annual land rents are established at 8% of fair market value by appraisal. Although not stated in the leases, this rate has been in effect for the past 10-years and the City's appraiser does not expect any change in the near future. Most recent rents based on this rate were set in 1985. A summary of lease data is as follows:

Lease Period:

Typically 30 years. There are some shorter-term leases and a few in excess of 30 years, e.g. Suneel Alaska Corporation @ 55 years.

Rent Adjustments:

Annual land rents are adjusted at 5-year intervals based on MAI appraisal of fair market rental value exclusive of lessee's improvements.

Rent Floor/Ceiling:

Typically none.

Lessee Expenses:

All expenses paid by lessee (rent is net to lessor).

Subordination/Assignment/Subleasing:

No subordination of leased fee to lessee financing allowed. Approval of lessor required for assignment and subleasing.

Option to Purchase:

None.

Reversion of Lessee Improvements:

Lessee to remove prior to expiration of lease or title to improvements vests in City.

Condemnation/Arbitration:

Award to be allocated as provided by law/Controversies or claims relating to leases to be settled in accordance with Uniform Arbitration Act of Alaska.

THE PRECEDING PAGES WERE TREATED AS
A UNIT IN THE ORIGINAL FILE.

ALASKA RAILROAD CORPORATION



P.O. Box 7-2111 • Anchorage, Alaska 99510-7069

ALASKA RAILROAD CORPORATION

LONG TERM LEASE POLICY

The Alaska Railroad Corporation (referred to below as "Lessor" and "ARRC") will adhere to the following policies and guidelines when leasing real property for terms of five or more years. The policies and guidelines contained in this statement may be changed from time to time when the Alaska Railroad Corporation determines a change is appropriate.

1. PURPOSE

The purpose of this policy statement is to set forth guidelines and principles upon which the Alaska Railroad Corporation's standard long-term lease will generally be based. This statement is intended to give prospective Lessees and other interested persons information about the ARRC's policy with respect to its land lease program. However, this statement is not intended to provide the precise language that will appear in a lease or to substitute for or override any terms of a lease. It is important for prospective Lessees and other persons interested in a particular lease to carefully review the terms of the particular lease itself, because the lease (and not this policy statement) creates the legal relationship between Lessor and Lessee and defines the rights of each of the parties.

This policy governs new leases entered by the Alaska Railroad Corporation. Section 4 of the policy identifies circumstances under which an existing lease will be replaced by a new lease conforming to this policy statement.

2. PRE-LEASE MATTERS

2.01 COMMITMENTS. Long-term lease agreements require formal approval by ARRC Management. Neither letter proposals nor lease drafts will constitute a formal offer from Lessor. Such documents constitute nonfinal negotiating proposals by Lessor's representative and indicate the terms and conditions the representative is willing to recommend to Management. Lessor becomes bound only upon the execution of the typewritten lease by ARRC.

2.02 PUBLIC NOTICE AND RECORDATION OF LEASE. This provision relates to required public notice and public recording with respect to individual leases. It does not govern publication or relate to Lessor's marketing or leasing policies.

(a) Published Notice. Notice will be published in a newspaper of general circulation, serving the community where the property is located, for three (3) consecutive days, ending fifteen (15) days prior to the effective date of the proposed

long-term lease. The notice will only describe the parcel to be leased, the proposed Lessee, date of proposed action, and the name, address, and telephone number of the Alaska Railroad Corporation representative.

(b) Memorandum of Lease. Upon the execution of this Agreement, both parties agree to execute a Memorandum Short Form Lease suitable for recording purposes.

2.03 ADMINISTRATIVE FEE. With Lessee's formal application to lease, Lessee will include payment of an administrative fee of Two Hundred Dollars (\$200.00). The fee will apply to the first month's rental if a lease is executed. If the application is denied, the fee will be retained to defray administrative costs. Lessor may increase the administrative fee from time to time when an increase becomes necessary to cover costs.

2.04 PERFORMANCE OR CONSTRUCTION BONDS. At Lessor's option, Lessee will, before commencing construction of any improvement, including but not limited to subsurface improvements on the premises, deposit with the Lessor a bond or certificate thereof, in a sum not less than the cost of such construction and in form and with surety satisfactory to the Lessors, guaranteeing the completion of such construction free and clear of all mechanics' and materialmen's liens, together with such information and evidence as Lessors may reasonably require to assure that the Lessee is able to and will make all payments required by contract to be made as and when the Lessee is required to do so. The performance assurance, if required, may be in the form of surety, cash, assigned deposit, or irrevocable letter of credit.

2.05 PERMITS. All permits required by municipal, state or federal law are to be secured by and at the expense of Lessee.

2.06 PARCEL MAPS. The Lessor does not require the recording of parcel or subdivision maps. However, if a parcel or subdivision map is required by municipal ordinance, it must be approved by the proper governmental body and recorded by Lessee prior to execution of the lease or option to lease. Preparation of parcel or subdivision maps will be the responsibility of the Lessor; however, a nonrefundable deposit may be required of the Lessee to cover the cost of preparation.

2.07 CONDITION OF PROPERTY. Lessor will lease property "as is, with all faults", and without any representations or warranties by Lessor as to the characteristics or suitability of the Premises. Prior to execution of the Lease, Lessee will be given an opportunity to independently investigate the Premises, and to assess:

- (i) the feasibility of developing the Premises for the purposes intended by Lessee;
- (ii) the size and dimensions of the Premises;
- (iii) the availability and adequacy of water, sewage and any utilities serving Premises;
- (iv) the presence and adequacy of infrastructure or other improvements on, near, or affecting the Premises;

(v) the extent and condition of any grading or other site work already performed or hereafter required for Lessee's possible development of the Premises;

(vi) any surface, soil, subsoil or other physical conditions of or affecting the Premises, such as climate, geological, drainage, air, water or mineral conditions;

(vii) easements and reservations of record affecting the title;

(viii) the existence of governmental laws, regulations, ordinances, restrictions or requirements concerning the use density, location or suitability of the Premises for any existing or proposed development including such matters as zoning, building, subdivision, environmental and other regulations;

(ix) the necessity or availability of any rezoning, zoning variances, conditional use permits, building permits, environmental impact reports, parcel or subdivision maps, public reports and any other governmental approval;

(x) the necessity or existence of any dedications, taxes, fees, charges, costs or assessments that may be imposed in connection with any regulation or authorization or the obtaining of any required Permits; and

(xi) all matters concerning the condition, use and development of the Premises.

2.08 RELOCATION OF FACILITIES. Any necessary or desired relocation of Lessor's facilities will be made at the sole expense of Lessee. Lessee must communicate any request for relocation of Lessor's facilities before the lease is entered.

2.09 STORAGE OF HAZARDOUS MATERIALS. No leases will be granted for storage of hazardous materials (including gasoline and diesel fuel) unless Lessee first exhibits full compliance with municipal, state, and federal environmental laws and regulations, produces proof of satisfactory liability insurance naming Lessor as co-insured, and agrees to indemnify and save Lessor harmless from claims related to storage of such materials. Lessee is required to advise Lessor of intended storage of such materials before a lease is entered or extended. Lessee will schedule a pre-lease conference with Lessor to discuss the proposed storage, safety questions and compatibility of the proposed storage with adjoining land use; Lessee must furnish to Lessor copies of all permit applications, permits issued, denials of permits, and other actions on permit applications. Lessee whose use or storage of small quantities of hazardous materials is only incidental to business operations will be required to indemnify and save Lessor harmless from claims related to storage of such materials.

3. TERMS OF LEASES

3.01 PRINCIPLES GOVERNING RENT DETERMINATION. The following general principles govern rent determination by Lessor.

(a) Rent at Fair Market Value. Rent will be established at fair market value as agreed to by Lessor/Lessee and determined by a qualified appraiser or by competitive bid.

(b) Protection Against Inflation. Lessor will be protected against inflation by periodic revision of rent. Lessee will be protected against unforeseeable inflation by maximum rent revision limits.

(c) Predictability of Rent. Rent revision should be accomplished in a manner that permits Lessee to engage in reasonable business planning and provides sufficient predictability to facilitate financing of Lessee's activities.

(d) Recognition of Value Contributed by Lessee. Permanent value contributed by Lessee to Lessor's ownership interest (such as nondepreciable improvements) should be recognized through appropriate amortization methods, including but not limited to credits against rent. Depreciable structures ordinarily will not represent such value, as the Lessee will be expected to amortize the full value of such structures over the Lease Term.

3.02 DETERMINATION OF RENT.

(a) Establishment of Initial Rent. Initial rent will be established at fair market value as agreed to by Lessor/Lessee and determined by a qualified appraiser, or by competitive bid, at Lessor's option. The initial rent will be adjusted during the term of the lease in the manner specified and prenegotiated in the lease. The standard long-term ground lease is for a period of thirty-five (35) years. However, lease terms that extend beyond the thirty-five (35) year period may be negotiated.

(b) Rent Revision Parameters. The long-term master lease will incorporate the following parameters establishing upper and lower limits for revision of rent.

(i) Minimum Revised Rent ("Rent Floor"). The new rent established by the rent revision procedure for a particular period will not be less than the prior period rent period.

(ii) Maximum Revision Rate ("Rent Cap"). A percentage rate establishing a maximum rate of rent revision (rent cap) to apply at the time of each revision will be predetermined and incorporated in the long-term lease.

(iii) Rental Rate and Rent Caps. ARRC's Board of Directors will periodically review the rental rate and rent caps. The rental rate will remain constant throughout the original Lease Term and will be stated in the lease.

(c) Rent Revision Process.

(i) Appraisal. The rent will be revised at a minimum every five (5) years or as otherwise negotiated in the lease. Lessor shall obtain a fair market value appraisal from an independent qualified appraiser. Appraisal instructions for each reopen period will be defined in the master lease document. At the end of the original Lease Term, the property is to be appraised at the highest and best use compared with similar properties within the community.

(ii) Arbitration. An arbitration clause will be incorporated into the lease to provide an equitable means of resolving disputes concerning the appraised value of the premises. The arbitrator's decision with respect to a rent revision shall be final.

(iii) Determination of Fair Market Value Rent By Use of Fixed Rental Rate. The rental rate used for rent revision under a lease will remain fixed during the term of the lease and the same rate will be employed in connection with all revisions. The rental rate will be based on an independent study of relevant Alaska markets to be periodically commissioned by ARRC and reviewed by the ARRC Board of Directors. The revised rent will be determined by applying to the appraised value a percentage representing the general return or rental rate in effect for ARRC properties on the date the lease is executed.

3.03 RENT CREDITS. Rent credits or rental offsets may be negotiated PRIOR to the installation of certain nondepreciable improvements. Upon installation, these improvements immediately become the property of the Lessor and are to be considered in any future rent modification. Examples of nondepreciable improvements include, but are not limited to, excavation, backfill, and gravel.

3.04 EFFECTIVE DATE OF RENT ADJUSTMENTS. Until any increase in the original rent rate (called the "Base Rent") is determined, Lessee shall pay the same Base Rent as was applicable the previous year. When an adjustment of Base Rent has been determined and Lessee notified, such adjusted Base Rent as so determined shall be due and payable to Lessor, retroactive to the commencement of the lease year for which such rental adjustment is made, and any deficiency resulting from such rent adjustment shall be payable within thirty (30) days after the giving of such notice to Lessee. Lessee will be responsible for NO MORE THAN NINETY (90) days of unbilled retroactive rent at the increased level.

3.05 PUBLIC ENTITIES. As a public corporation, the Alaska Railroad Corporation is exempt from taxation by local governments. In recognition of the Alaska Railroad Corporation's position as a participating member within each host community, the Alaska Railroad Corporation may lease its lands to the State and its political subdivisions at less than fair market value. Specific requests will be negotiated on a case-by-case basis. (The Alaska Railroad Corporation will also institute a fee-use permit system for municipalities for various kinds of land use that do not require leases. This program is not covered by this policy.)

3.06 TAXES AND ASSESSMENTS. Lessee will (a) pay all taxes on Lessee's improvements directly to the taxing authority, and (b) all assessments agreed to in the lease. The benefits of assessments not agreed to in the lease for public improvements levied against the property shall be paid for by Lessor.

3.07 INDEMNIFICATION AND LIABILITY INSURANCE.

(a) Indemnification. Lessee will be required to defend, and hold Lessor harmless against all liability, damages, costs, losses, and expenses arising out of Lessee's use or occupancy of the Premises.

(b) Liability Insurance. Lessee will, at his own expense, obtain and maintain in effect, during the whole of the Lease Term, comprehensive general liability insurance in respect to the leased premises, under policies naming Lessor as additional assureds, issued by an insurance company authorized to do business in Alaska with minimum limits of not less than the amounts specified by Lessor.

Satisfactory evidence of insurance will be furnished to the Lessor prior to the execution of the lease. This evidence will provide for thirty (30) days prior notice to Lessor of any written cancellation, nonrenewal, or material change in the policy.

3.08 TRACKAGE.

(a) Use of Lessee-Owned Trackage. A separate, standard form of track agreement will cover the installation, maintenance, and operation of trackage.

(b) Use of Lessor-Owned Trackage. Where Lessee desires use of Lessor-owned trackage, the lease form will provide such rights. Use of Lessor-owned trackage may be restricted to the extent Lessor deems necessary. The rental rate will be a standard, system-wide charge which may be revised by Lessor, from time to time. The current charge is \$6.00 per track foot, per annum.

3.09 ENVIRONMENTAL AND OTHER LAWS AND REGULATIONS. Lessee, at its own expense, will comply with all laws, regulations, rules and orders applicable to its property and operations, regardless of when they become or became effective, including, without limitation, those relating to health, safety, noise, environmental protection, waste disposal, and water and air quality.

Should any discharge, leakage, spillage, emission, and pollution of any type occur upon or from the premises due to Lessee's own use and occupancy including subleasing and uses by others, Lessee, at its expense, will be obligated to clean the premises to the satisfaction of Lessor and any governmental body having jurisdiction thereover.

(Note: Lessor's ENVIRONMENTAL POLICY prohibits new leases for gasoline service stations or assignment of existing service station leases from the present Lessee to a third party having a substantially lesser net worth. Use of underground storage tanks for any purpose requires Lessor's specific approval. Oil and gasoline bulk plant leases will be written with Lessor's commercial lease indemnity and insurance provisions.)

3.10 USE OF PREMISES. Lessee's failure to commence use of the premises for the purposes specified in the Lease, or discontinuance of such use for a period to be specified in the lease, will constitute an event of default.

3.11 SUBORDINATION. Lessor will not agree to subordinate its legal title to land; however, Lessee may assign the lease to an institutional lender as security for a loan to finance development, subject to the provisions of Paragraph 3.14.

3.12 ASSIGNMENT. Assignment of the Leased Premises for any reason will require Lessor's prior written consent. Lessor will consent to an assignment only when Lessor is satisfied that Lessor's interests will not be adversely affected. Requests for consent to assignment of the Lease are to include the proposed assignee's current and complete financial statement as prepared by a certified public accountant in accordance with generally accepted accounting principles or the prior two (2) years' tax returns. An administrative fee will be charged by the ARRC to cover the cost of processing a request for assignment. The financial considerations of the assignment need not be disclosed to the ARRC. Approval of assignment will not be unreasonably withheld by the ARRC.

3.13 SUBLEASING. Lessor's written consent to a sublease is required before the Lessee enters the sublease. Copies of any sublease approved must be filed with Lessor and will be subject to the terms of the Master Lease relating to the terms and subleases. Any financial considerations can be "blocked out" by the Lessee and is not required to be disclosed to the ARRC.

3.14 OWNERSHIP OF SUBSURFACE IMPROVEMENTS. Tenant improvements to the subsurface estate, including excavation and backfill, become the property of Lessor upon installation and will be considered in all future rental modifications. Rental credits or offsets may be negotiated for certain nondepreciable improvements in accordance with Paragraph 3.03, above. Means and methods of construction must be of mutual benefit to Lessee and Lessor; for example, the economics of excavation and fill may be weighed against the economics of alternative piling construction methods. The type of improvement and method of installation must be approved by Lessor in advance.

3.15 REMOVAL AND OWNERSHIP OF ABOVE-SURFACE IMPROVEMENTS. Ownership of such above-surface improvements at the end of the Lease Term will be governed by the terms of the lease. The appropriate disposition of above-surface improvements as specified in the lease at the end of the Lease Term will depend on the circumstances surrounding a particular lease, including the length of the lease, the nature and value of the improvement contributed by the Lessee, the likelihood that the Lease will be renewed, and Lessor's assessment of the best use of the property following the expiration of the Lease.

3.16 LESSEE'S OBLIGATIONS WITH RESPECT TO IMPROVEMENTS. The Lessee will agree not to remove, destroy, waste or substantially modify improvements on the Premises without Lessor's prior written authorization. This policy is intended to protect the Lessor's security interest in the improvements on the Premises and to enhance land-use planning. Approval of improvements will not be unreasonably withheld by ARRC.

4. REPLACEMENT OF CERTAIN EXISTING LEASES

The Alaska Railroad Corporation will honor the binding terms of existing leases it acquired from the Federal Government. However, it is the policy of the Alaska Railroad Corporation, to the extent feasible, to bring existing leaseholds under the new standard long-term lease reflecting the principles set forth in this statement. This policy is adopted to implement the legislature's determination that fair market value should be obtained for leases, to make the administration of the leasing program more efficient and equitable as a whole, to promote uniformity, and to eliminate unnecessary controversy and uncertainty concerning the terms of leases issued by the Federal Government before the sale of The Alaska Railroad to the State of Alaska. To implement this policy, the following actions, among others, will be taken:

(a) If a Lessee desires extension of a Lease Term, and Lessor is agreeable to such extension, the existing lease will be terminated and a new lease consistent with this policy statement will be issued.

(b) If Lessee desires to change the area under lease by increasing or decreasing acreage, and Lessor is agreeable to such change, the existing lease will be terminated and a new lease consistent with this policy statement will be issued.

(c) All existing leases containing a provision allowing Lessor to terminate a lease upon ninety (90) days notice will be terminated after providing the required notice to the Lessee, and, at the time notice of termination is given, Lessor will offer Lessee an opportunity to enter a new lease consistent with this policy statement.

(d) Existing Lessees, at their option, will be given the opportunity to terminate their current leases and enter into the new Alaska Railroad Corporation long-term lease contract.

In appropriate cases, as determined by Lessor, an existing lease may be amended and restated, rather than replaced, by substitution of terms consistent with this policy statement. For example, Lessor will offer Lessee an amended lease in lieu of a new lease in cases where termination of the existing lease would cause the Lessee's note to become due and payable at the time of termination.

5. RENEWAL OF LEASES

It is the policy of the Alaska Railroad Corporation to approve a Lessee's request for renewal of a lease made no less than six (6) months prior to the end of the Lease Term when:

- (a) The Lessee has faithfully complied with the requirements of the existing Lease;
- (b) The Lessee's continuing use of the property is consistent with surrounding land use, any relevant land-use or development plans of Lessor, and the highest and best use of the property; and
- (c) Lessor does not require the property for Railroad purposes.

The rental terms and renewed leases will be adjusted to incorporate the then-prevailing fair market rental value and will include rent revision requirements, in accordance with the lease policy and relevant provisions of law in effect at the time of renewal. To the extent terms of the existing lease are inconsistent with policy or law in effect at the end of the Lease Term, or are otherwise obsolete, the renewed lease will be modified to eliminate such inconsistent obsolete provisions.

6. REGULATORY AUTHORITY OF ALASKA RAILROAD CORPORATION

Under Section 390 of the Alaska Railroad Corporation Act (AS 42.40-390), the Board of Directors of the Alaska Railroad Corporation is given governmental authority to adopt exclusive rules governing use of Railroad lands by Lessees and others having interest in such lands. The terms of leases issued by the Alaska Railroad Corporation do not limit the Board's authority to adopt land-use rules governing activities on the leaseholds. Lessees will be given reasonable advance notice of any rule proposed to or under consideration by the Board that might affect activities on leasehold property or impose an obligation on Lessees.

The foregoing terms and conditions constitute, in part, guidelines and standards on which Lessor's long-term industrial lease is based. Many terms are not negotiable, and applicants are urged to study them very carefully. Please address all questions to Lessor's representative at the outset of negotiations:

Director, Real Estate
Alaska Railroad Corporation
P.O. Box 7-2111
421 West First Avenue
Anchorage, AK 99510-7069
(907) 265-2465 (telephone)
(907) 276-4495 (telecopy)

ARRC Board Approved 09/30/86

ALASKA RAILROAD CORPORATION



APPROVAL AUTHORITY GUIDE

MAY 1985

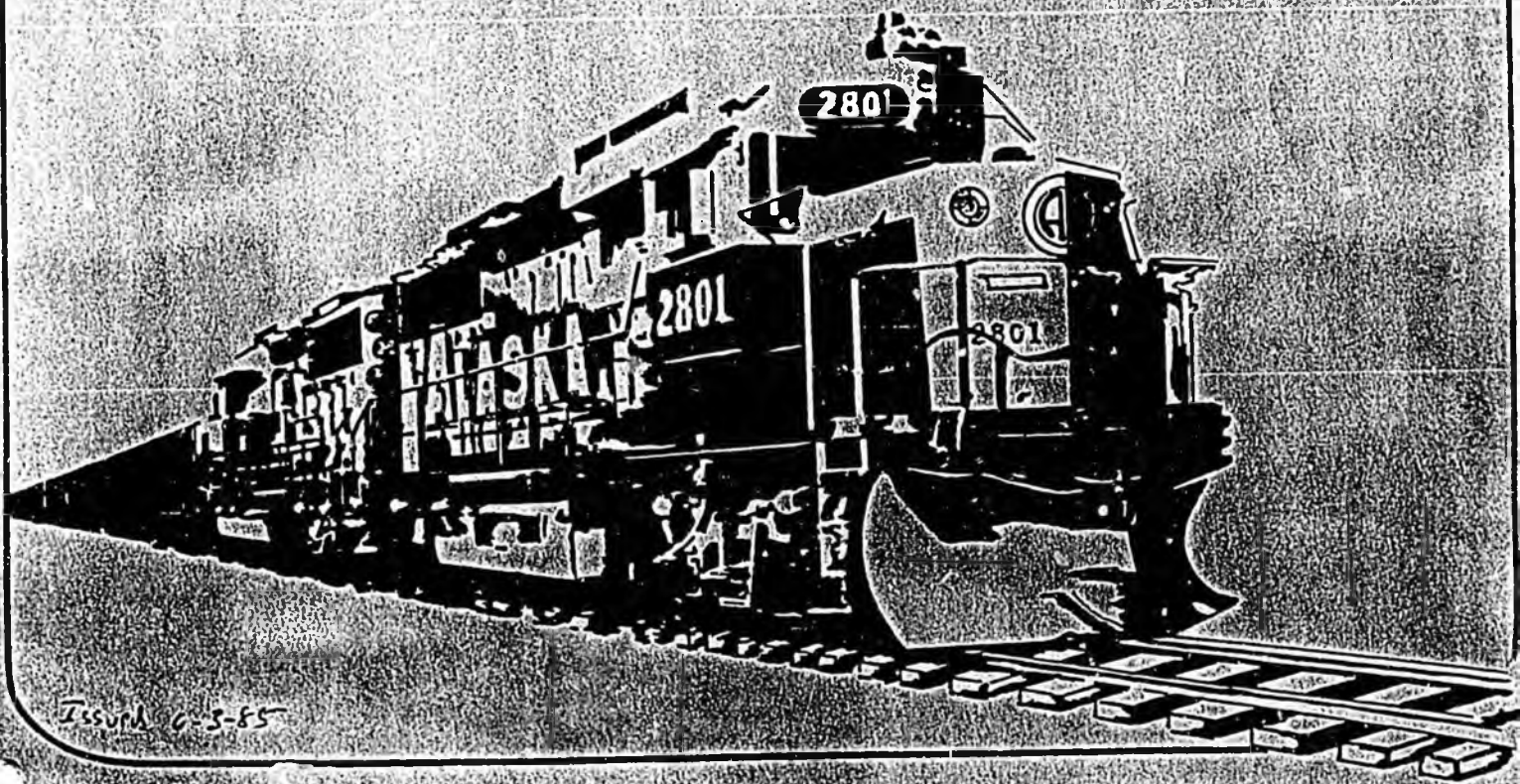


EXHIBIT C

Management

	Board of Directors	President & CEO	V.P., Finance	V.P., Operations	V.P., Marketing	Director, Administration	Director, Human Resources	Chief Counsel	Manager, Corporate Communications	Manager, Internal Control
Salary Actions - continued										
All Employees										
Approve Termination by ARR for Any Reason (9) (16)	A	A	A	A	A	A	A/E	A		
Approve Promotion (9) (16)	A	A	A	A	A	A	A/E	A		
Approve Leave Without Pay	A	A	A	A	A	A	A	A	15 days	5 days
Approve Suspension for Any Reason (9) (16)	A	A	A	A	A	A	A/E	A		
Approve Memberships, Attendance at Professional Meetings, Seminars and Reimbursable Course of Study	A	A	A	A	A	A	A	A	A	
Represented Employees										
Labor Agreements										
Negotiable with Unions (9)			E		E			E(17)		
Sign Labor Agreements (9) F	E			E			E(17)	E		
Public Relations										
Speeches, Publications, Press Releases, Advertising										
Having Significant Financial or Public Affairs Implications on the Railroad	A		E	E	E	E	E	E	A	
All Others	A		A	A	A	A	A	E	A	
Approve Company Position and Technical Papers on Internal Operations for Use by Company Personnel in Making Public Speeches, Answering Inquiries, Granting Press Interviews, Etc.	A		A	A	A	A	A	E	E	
Presentation of Company Position to Government and Other Agencies in Proceedings, Hearings or Pending Court Actions	A		A	A	A	A	A	A	E	
Miscellaneous										
Assign Company Vehicle	A		A	A	A	A				
Assign Company Take Home Vehicle	A									
Approve Issue of Firearms	A									
Approve Destruction of Corporate Records	A			E		A		E		
Approve Tours of Railroad Facilities	A		A	A	A	A	A			E
Operational Changes										
Extend Railroad Lines (22)	E	E	E	E						
Tariffs - Freight Rates (12)										
Establishing Tariffs			E		A					
Exempt Rates			E		A			E		
Contract Rates			E		A			E		
General Rate Increase			E		A					
Real Estate										
Approve Lease of Corporation Property										
Less than 3 yrs		A	E	E						
Over 3 yrs	A	E	E	E						
Over 35 yrs (23)	E	E	E	E				E		
Exercise Eminent Domain (24)	E	E	E	E				E		
Execute the Contract										
Less than 10 yrs			A					E		
Over 10 yrs		A	E					E		E

Department Managers

	Superintendent, Transportation	Chief Engineer	Chief Mechanical Officer	Chief, Security	Manager, Sales	Manager, Marketing	Manager, Passenger Services	Director, Real Estate	Manager, Financial Services	Manager, Procurement	Manager, Supply	Manager, Administrative Services	Manager, Accounting	Manager, Information Systems
Authorization for Expenditures														
Capital AFE (Approved Budget) (1)	100k	100k	100k	10k	10k	10k	10k	10k	25k	10k	10k	10k	10k/E	10k
Expense AFE (Approved Budget)	250k	250k	250k	100k	100k	100k	100k	100k	100k	100k	100k	100k	100k	100k
Contracts & Letters of Agreement(5)														
Request for Contract	25k	25k	25k	10k	5k	5k	5k	5k	5k	5k/E(2)	5k	5k	5k	5k
Request for Sole Source Contract (Approved Budget)	10k	10k	10k	10k	2k	2k	2k	5k	2k	2k/E	2k	2k	2k	2k
Request for Personal Services Contract	3k	3k	3k	3k	3k	3k	3k	3k	3k	3k	3k	3k	3k	3k
Approve Contractor Time Sheets for Reimbursement	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Execution of Contracts (4)									250k	100k/E				
Lease ARRC Equip to others for less than one year			E						A	A				
Purchasing (Approved Budget) (3)														
Material Requisition	25k	25k	25k	10k	5k	5k	5k	5k	5k	5k	5k(5)	5k	5k	10k
BPO Establishment	1k	1k	1k	1k	5k	5k	5k	5k	5k	5k	5k	5k	5k	10k
Establish FPO Releaser (17) P.O.'s and Amendments (4)	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Transportation (Approved Budget)														
Authorized Transportation - Business and Training (8)														
Intrastate (May Approve Own Travel Authorization)	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Approve Use of Charter Aircraft (Emergency)	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Rail Trip Pass	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Disbursements														
Invoices														
Covered by Contracts	50k(15)	50k	50k	20k	5k	5k	25k	10k	10k	5k	5k	10k	10k(7)	10k
Covered by P.O.'s (6)								75k	50k/E					
Transportation - MTLs														
Charter Aircraft	5k	5k	5k	5k								1k		
Property Damage & Injury Claim			10k(13)	10k(16)										
All Other (Including Check Requests Without Invoice)	1k	1k	1k	1k	1k	1k	1k	1k	1k	1k	1k	1k(9)	1k	1k
Payroll (Replacement Checks)													2,500	
Expense Accounts														
Regular Travel, Training Travel, & Business Expense	1,500	1,500	1,500	1k	2k	1k	1k	1k	500	500	500	500	500	500
Expense Advances														
Regular Travel, Training Travel, & Business Expense	1k	1k	1k	1k	1k	1k	1k	1k	500	500	500	500	500	500
Utility Bills		A												
Petty Cash Replenishment													1k	
Manual Checks													5k(11)	
Disposal of Material & Equipment														
Declare Excess to Department (Book Value)	10k	10k	10k	5k	A	A	A	A	A	A	A	A	A	A
Declare MTLs & Equipment Surplus to the ARRC									100k			50k		
Approve Sales									100k			50k		
Execute Sales Agreement									100k			50k		
Sign Title Certificate									A			A		
Banking and Finance														
Transfer Funds														A
Establish Petty Cash Funds														2k
Request to Borrow Funds									E					E
Procure/Negotiate/ Execute Loan Contracts									A					
Execute Master Loan Agreements									E					
Litigation, Claims, & Insurance														
Claims Against Vendors, Suppliers, Contractors, Common Carriers				E					E				E	
Issue Customer Credits/Reduce Invoices													5k	
Write off Bad Debts														1k

RULE NO. 4 - PUBLIC DISCLOSURE OF INFORMATION

(Adopted 12-17-84
Amended 7-18-85)

A. Public Information:

As provided in AS 42.40.220, information in the possession of the Corporation is public and available to public inspection at reasonable times.

B. Restrictions on Disclosure:

As further provided under such provision and as required by the Alaska Railroad Transfer Act of 1982 (ARTA) (45 U.S.C. 1204), the following information is hereby designated to be of a privileged or proprietary nature and shall be withheld from public inspection:

- 1.) As required under Sec. 605(b) (ARTA), certain information of the Federal Alaska Railroad available to the Corporation, including, "proprietary business data, personnel records, and other information, the public disclosure of which is prohibited by law;"
- 2.) personnel records of the Corporation including but not limited to each employee's original application for employment and employment memorandum, resume, any and all salary information, reports of other employment investigations, tests, any letters of recommendation, reports of work performance, reports of the employee's progress, disciplinary actions, and such other records as may be created in the employee's initial employment and continued service to the Alaska Railroad Corporation. Personnel records may be released upon receipt of written authorization from the employee, former employee, or applicant whose records are requested. Such authorization shall specifically identify the information authorized for release.

For employees who transferred to the Corporation pursuant to P.L. 97-468, personnel records shall include the employee's Official Personnel Folder, Emergency Medical Folder, and any copies thereof. Disclosure of information contained in the Official Personnel Folder and Emergency Medical Folder shall be governed by applicable Federal law and regulation;

- 3.) communications with and work product of counsel;
- 4.) all other records, documents, data or information of a privileged or proprietary nature, including but not limited to proprietary information associated with specific shippers, divisions and contract rate agreements, and specifically including all information that may be withheld or protected from discovery in proceedings before the Interstate Commerce Commission consistent with the Commission's standards and practices;
- 5.) other information the subject of which could be discussed in executive session under AS 42.40.170;
- 6.) any other information or records required to be kept confidential by Federal or State law or regulations.

ALASKA RAILROAD CORPORATION
TRANSPORTATION/ENGINEERING

January 14, 1987

OPERATING CIRCULAR NO. 37
ENGINEERING BULLETIN NO. 87-01

To: All Concerned

From: Supt. of Transportation
Chief Engineer

Subject: Policy for Moose That Have Been Struck by Trains

In addition to Special Instruction No. 6 of Timetable No. 120, the following will apply.

Crews of trains that strike moose will evaluate the condition of the moose and report to the train dispatcher, i.e. is it dead, crippled, or has it run away?

When the train crew reports the moose dead, the train dispatcher will notify the appropriate on duty section foreman. If after section work hours, the train dispatcher will arrange to have the foreman notified at morning lineup.

If the moose was reported as crippled, the train dispatcher will notify the appropriate section foreman so that the wounded animal may be humanely dispatched. Overtime is authorized for this purpose. If unable to reach the appropriate section foreman, the train dispatcher will try to contact an adjacent section foreman, Engineering Department supervisor, or call a District Roadmaster as applicable.

The section foreman will evaluate the carcass. If salvageable, the carcass will be field dressed. The foreman will advise the train dispatcher the road crossing the carcass will be delivered or that the carcass is not salvageable.

The train dispatcher will call the appropriate number below to advise that a moose was struck by a train and that a carcass is available for a charity to pick up at a particular crossing or that the carcass was not salvageable.

The disposal of salvageable moose meat is directed by the Division of Fish and Wildlife Protection of the State of Alaska Department of Public Safety (FWP). They will arrange for the carcass to be picked up at the applicable road crossing.

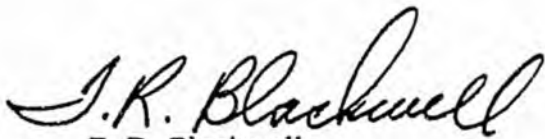
<u>ARRC LOCATION</u>	<u>ALASKA STATE TROOPER DISPATCHER</u>	
Seward to Portage	262-4453	Soldotna
Whittier Branch	269-5711	Anchorage
Portage to Matanuska	269-5711	Anchorage
Matanuska to Cantwell	745-4247	Palmer
(7:30 a.m. - 4:30 p.m. Monday through Friday; after hours call Anchorage)		
Cantwell to Eielson	452-2114	Fairbanks

Neither FWP nor any employee of the ARRC may authorize any non-employee to enter upon Railroad property except at road crossings.

No employee may utilize any portion of a train killed moose nor give any part to any person except as designated by FWP.

When the salvaged carcass is taken into Whittier, the train dispatcher will contact Whittier Chief of Police who will arrange for the disposal of the carcass. FWP will be advised of the kill and disposition of the moose. The number for the Chief of Police is 474-2340.

If the initial report from the train crew was that the moose ran off, only a report to the designated telephone number is required.



T. R. Blackwell
Supt. of Transportation



F. C. Weeks
Chief Engineer

Distribution B, D, & F

DATE AND TIME POSTED _____

POSTED BY _____

ALASKA RAILROAD CORPORATION

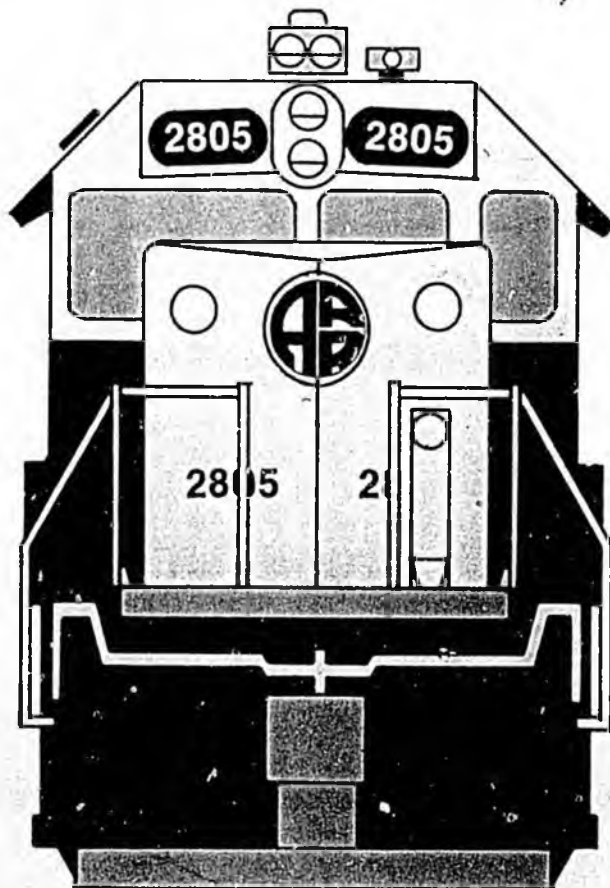
TIME TABLE NO. 120

In Effect at 12:01 A.M.
Alaska Daylight Savings Time
Sunday, July 20, 1986

F.G. TURPIN
President
and
Chief Executive Officer

A.T. POLANCHEK
Vice President, Operations

T.R. Blackwell
Superintendent of Transportation



SPECIAL INSTRUCTIONS

4. HANDLING OF CARS CONTAINING HAZARDOUS MATERIALS:

For train placement, switching restrictions, emergency actions by train crews, shipping paper information and inspection requirements, refer to the Hazardous Materials chart in the back of this timetable.

Switching restrictions for cars placarded with Flammable Gas placard and Poison Gas placard apply to empty as well as loaded cars. Switching restrictions for TOFC/COFC also apply to flat cars with any placarded lading.

It will be the yard conductor's responsibility to know if any placarded cars are on a track before releasing any other cars into that track.

Conductors will review train consist for proper placement of all placarded cars. Cars improperly placed will be switched out to obtain proper placement prior to train movement.

The Emergency Response Identification number located in the center of each placard or on each waybill, switch ticket, or other document used to move hazardous materials, provides information and actions to be taken in the event of an accident or unintentional release of hazardous materials.

Should an accident occur, locate the waybills for cars involved or refer to the number on the placard. This four digit number is referenced in DOT Publication P.5800.3 or subsequent issues, Emergency Response Guidebook. The book, utilizing the four digit number, will provide vital information, the most significant potential hazards and gives guidance for initial actions to be taken by personnel involved or engaged in the initial response to an accident. Yardmasters, Chief Dispatcher and Trainmasters can provide the necessary response information from the guide book.

Emergency Response Personnel, police, fire, and/or medical, will be assisted and allowed access to accidents and/or incidents involving hazardous materials.

5. BLOCKING WYES/SIDINGS:

No siding or wye will be blocked with cars, engines, or on-track equipment unless authorized by the Train Dispatcher.

6. GAME ANIMALS/LIVESTOCK:

When trains hit any large animals, train will come to a complete stop and train inspection will be made except when it is known animal is clear of track and will cause no danger to movement of trains.

Whenever any animals are struck or killed by trains, a report must be made to the Train Dispatcher immediately.

7. LOADING AND HANDLING HEAVY EQUIPMENT:

Trains handling cranes, draglines, shovels, and similar equipment set up with or without boom attached, must be handled under special arrangement.

Yardmasters or agents will insure proper placement of steel underframe flat cars of not less than 100,000 pounds capacity for loading of equipment specified above. It will be the responsibility of the Mechanical Department to inspect and accept such loads, advising the Yardmaster or Agent of acceptance, giving car number and maximum speed at which car may be moved. It will be the responsibility of the Yardmaster or Agent to see that no loads such as specified above will be placed in trains for movement until they have been accepted by the Mechanical Department and the Dispatcher has been notified of speed restrictions. Dispatcher will issue instructions covering restrictions. Equipment with boom attached must be loaded with boom trailing unless approval from Dispatcher is obtained for movement in forward position. Conductors handling loads with boom in forward position, except on work trains, will be authorized to do so by message from Dispatcher.

When Moose and Train Meet:



by Jack C. Didrickson and Raymond J. Kramer

EXHIBIT F

On the last day of February 1985, Alaska Railroad Locomotive Number 3006N chugged its way out of the Anchorage railroad yards bound for Fairbanks. None of its crew realized that an unwanted record would be set before it arrived at its destination the next morning. Nineteen moose would die that trip, crushed by the locomotive, while the helpless crew watched, unable to save the victims. And, as the winter snows continued, more moose died on almost every run until the annual total for the entire length of the railroad came to 385.

Fortunately, not every year is a duplicate of the winter of 1984-85. This past winter (1985-86), 17 moose were killed along the entire length of the Alaska Railroad.

What causes these mortalities, and what can be done to lessen or prevent them? These are questions of primary importance to not only game biologists and railroad employees, but also to the public, some of whom see this as a shameful situation that could be easily remedied. Although many ideas have been proposed and tried, there is no one good solution.

Initially, both ADF&G and the Alaska Railroad presumed

that the high mortality in some years occurred simply because the moose population periodically fluctuated, with most kills occurring when the population was high. We now know this is not the case. By correlating the Alaska Railroad's daily records over the years with weather patterns which coincided with the chronology of high moose losses, we could see a pattern. In years of deep snow depth (three to five feet) for long periods of time, moose losses along the tracks drastically increased. Conversely, in winter periods of little snow, or when spring thaws decreased the snow depths, moose-train incidents significantly declined.

A majority of the 1984-85 mortalities occurred on the tracks between Willow and Talkeetna, in an area known as Game Management Unit (GMU) 14B. This is an area with a large moose population, most of which remains in the high reaches of the Talkeetna Mountains throughout the summer and fall. In winter, as snow and winds increase in these highlands, a large number of the moose move down the mountain slopes to their critical winter food supply of willows along the Susitna River.

Unfortunately, both the railroad and the main highway from Anchorage to Fairbanks bisect their migration path.

When snows exceed three feet, the moose find these man-made "trails" a convenient place to walk or rest, and therein lies the cause of the mortality. Moose are somewhat reluctant to leave these cleared areas and they have not, for the most part, learned to fear trains or autos. As a result, an additional 77 animals were killed by highway vehicles during the 1985 season. Also, many become stressed by deep snow and the lack of nearby browse. In residential areas along the highway, stressed moose belligerently chased dogs, children, and adults, with the result that another 40 were killed in defense of life and property, bringing the total loss of moose in GMU 14B to 502. Hunters, on the other hand, took only 216 animals in the following 20-day September season, before the deep snows set in.

Although a large percentage of mortalities for all years occurs between Willow and Hurricane, with a few other "hot spots," mortalities are otherwise fairly uniformly distributed along the entire length of the tracks; therefore, the problem is not merely a local one. A solution must be provided that works along the entire railroad corridor from Seward to Whittier to Fairbanks.

Meetings have been held between the Alaska Railroad personnel and ADF&G game biologists to seek answers and actions, and members of the public have enthusiastically offered innovative ideas, but no single, concrete solution has been found.

There are certain realities which must be faced where "compromise" simply won't work. The trains must run and they must run on or near schedule; too many people and businesses are dependent on the products delivered to interrupt service. Closing down the railroad in winter is no solution. Scheduling the trains to run only in daylight hours won't work, with only four to five hours of daylight present during the critical months. Accurately predicting where and when deep snows will occur is beyond human technology. We must look to the tracks and trains themselves for solutions.

Perhaps the most "far-out" solution offered so far was that of a giant cushioned rubber bumper attached to the front of the locomotive. Here, laws of physics and elasticity come to bear, causing visions of a moose being hit at 40 mph, sinking into this giant cushion, and then being sprung out in front of the train again, only to be picked up and thrust again, endlessly bouncing down the tracks.

Another more realistic attempt was to mount sonic whistles on the locomotive which might alert the animals. The experiment failed, however. When the train moved comparatively slowly, the whistles didn't whistle, and when it was very cold they froze into silence.

Slowing the train from 40 to 20 mph in "hot spot" areas was another idea. Not only did scheduling dif-

In times of heavy snow, moose make use of the cleared areas on the tracks of the Alaska Railroad for walking and resting. Here, a train has stopped for a moose bedded down on the tracks during a snowstorm in the winter of 1985.



M. Penn
Anchorage Daily News

difficulties make this impossible, but the trains couldn't climb certain grades on the icy tracks if momentum was lost.

Decking or covering the ties on trestle bridges to permit moose to safely cross was suggested, but this idea was denied because speed sensors on the train wheels reportedly will not work properly in the presence of the coverings.

One of the major problems in deep snow is that of the "tunnel" effect which trains create with their own snow plow on the front. In this situation, once a moose is on the track, after struggling in deep snow, it won't leave even with a train bearing down on it. There is little room between the train and the wall of snow and the moose are often sideswiped. "Wing plowing," where special equipment plows 20 feet on either side of the tracks seems to have merit in certain areas where topography permits, but this is not the complete answer. When the railroad bed is significantly higher than surrounding terrain, moose still prefer the track bed to jumping down into deep snow.

The best, but perhaps most complicated, scheme offered so far is to allow permit hunters to harvest moose along the railway corridor, at times when heavy snowfall occurs. Logistically, this would prove difficult. First, permits would have to be fairly allocated and there would be no guarantee in any particular year that a hunt would be held. The hunt would occur only in areas determined to be "hot spots" and then only within a narrow corridor along the tracks. When snows are deep, snowmachines bog down and would prove worthless. Furthermore, hunters riding snowmachines, or even walking down the railroad right-of-way, simply would not be safe; eventually someone would be hit by a train.

The only apparent method of getting hunters afield would be to run a "hunter train" which could stop in designated areas, let hunters off for a period of time, and pick them up later, with their harvested moose. This plan, too, offers tremendous logistical problems and would require a great deal of common sense and wintercraft knowledge on the part of each hunter. If regular train schedules were to continue, each hunter would have to be back at his designated pickup point precisely on time, as the train could not delay its schedule. A hunter who took an animal too far away would perhaps have to leave all or part of his moose behind; this is a violation of wanton waste laws and would defeat the purpose of obtaining the meat.

Based on random permit drawing, there is a chance that some inexperienced hunters might be drawn who would have no idea of the severity of camping out in -40° weather. To leave them out in these conditions overnight could prove disastrous, particularly if a storm occurred. Inevitably, someone would get lost, frostbitten, or hypothermic.

For lack of a workable solution, the problem is far from resolved. We would all like to see a harvest shift from trains to hunters. In Canada, Sweden, Norway, and Russia, game managers are also seeking answers to this problem, but as yet no economically feasible solution has been found. Fencing both sides of the railway would not only be exorbitantly expensive, but would also cut the moose off from their winter habitat. Overpasses or underpasses, with wing fences to funnel the animals onto these routes, have shown promise in Europe, but



Frank Box, boilermaker for the Alaska Railroad, welds one of two lights that were attached to the locomotives to chase moose off the tracks.

because of the great mileage involved would require literally millions of dollars to accomplish effectively in Alaska. Just such an underpass has been proposed outside Anchorage under the Glenn Highway; the results of this experiment will tell us much over the next few years.

Can our railbelt moose populations sustain these losses? The answer is a cautious "yes," with the adjustment of seasons and bag limits, but game managers would prefer to see a better use for the tons of meat that are spoiled by a train's crushing impact.

As Alaska moves into the 21st century, answers to this vexing problem may be found. In the meantime, game biologists must continue to obtain basic biological information to justify attempts at possible solutions.

Jack C. Didrickson, who has been with the department since 1959, serves as Area Game Biologist with the Division of Game, ADF&G, Palmer.

Raymond J. Kramer serves as Game Biologist, Division of Game, ADF&G, Anchorage.

Resolution No. 85-5:
Relating to the policy of
Hiring Alaska Residents

WHEREAS the Board of Directors of the Alaska Railroad Corporation has examined corporate statistics to determine the ratio of Alaska residents hired to non-residents; and

WHEREAS this examination reveals that nearly all new employees were Alaskans at the time of employment; and

WHEREAS sound justification existed for the employment of those non-residents;

NOW, THEREFORE, BE IT RESOLVED that management of the Corporation continue this performance in hiring Alaska residents to develop and to maintain a viable and stable workforce for both the Corporation and the State of Alaska.

BEC/CASHFLOW
C:BUDGET85The Alaska Railroad Corporation
Cash Flow Analysis
1985

	January	February	March	April	May	June	July	August	September	October	November	December	Total
Income													
Freight	\$3,445	\$3,993	\$4,150	\$5,157	\$5,963	\$6,057	\$6,178	\$6,113	\$5,643	\$4,784	\$4,094	\$4,094	\$59,671
Passenger	30	30	30	40	290	1,100	1,200	1,100	540	50	50	50	4,520
Real Estate	340	340	340	340	340	340	340	340	340	340	340	340	4,080
Other	410	410	410	410	410	410	410	410	410	410	410	410	4,920
Total Income	\$4,225	\$4,773	\$4,930	\$5,947	\$7,003	\$7,907	\$8,128	\$7,963	\$6,933	\$5,584	\$4,894	\$4,904	73,191
Expenditures													
Freight	\$4,220	\$4,445	\$4,520	\$4,450	\$4,515	\$4,915	\$4,915	\$4,915	\$4,615	\$4,565	\$4,350	\$4,350	\$54,775
Passenger	60	60	60	150	450	1,515	1,535	1,505	855	150	150	150	6,640
Real Estate	24	25	25	30	30	30	30	30	30	30	30	30	344
Other	310	310	310	310	310	310	310	310	310	310	310	310	3,720
Total Expenditures	\$4,614	\$4,740	\$4,915	\$4,940	\$5,305	\$6,770	\$6,790	\$6,760	\$5,810	\$5,055	\$4,840	\$4,840	65,479
Net Income													
Freight	(\$775)	(\$452)	(\$370)	\$707	\$1,448	\$1,142	\$1,263	\$1,198	\$1,028	\$219	(\$256)	(\$256)	\$4,896
Passenger	(30)	(30)	(30)	(110)	(160)	(415)	(335)	(405)	(315)	(100)	(100)	(90)	(2,120)
Real Estate	316	315	315	310	310	310	310	310	310	310	310	310	3,736
Other	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Cash Flow	(\$389)	(\$67)	\$15	\$1,007	\$1,698	\$1,137	\$1,338	\$1,203	\$1,123	\$529	\$54	\$64	\$7,712
Depreciation	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$4,800
Net Income (Loss)	(\$789)	(\$467)	(\$385)	\$607	\$1,298	\$737	\$938	\$803	\$723	\$129	(\$346)	(\$336)	\$2,912
Accumulated Cash Flow	\$4,511	\$4,444	\$4,459	\$5,466	\$7,164	\$8,301	\$9,639	\$10,842	\$11,965	\$12,494	\$12,548	\$12,612	\$12,612

NOTE: Assumes Starting January balance of \$4,900,000 working capital fund provided by state.
Does not include interest earned on cash flow