ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672
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ALASKA RAILROAD CORPORATION

Pouch 7-2111
Anchorage, Alaska 99510-7069

November 27, 1984

The Honorable Bill Sheffield
Governor
State of Alaska
Pouch A
Juneau, AK 99811

Dear Governor Sheffield:

Enclosed for your information and consideration is the budget submittal for the Alaska Railroad Corporation. This document was approved at our November 21 Board meeting and includes our funding requests for the upcoming Legislative session.

In accordance with the authority granted in the Alaska Railroad Corporation Act, we established the calendar year as the Railroad's fiscal year for both its operating and capital budget cycles. This approach avoids placing a burden on the Railroad to perform end-of-year reporting during its busy summer activity, and provides greater ease for capital planning consistent with the Railroad's annual cycle of activity.

The first part of the enclosure contains the Railroad's CY-85 (calendar year) and CY-86 capital budget. The two-year program is for approximately $44.1 million. Projected revenues and available appropriations will be used to fund about $24.4 million. The remaining $19.7 million is being requested as part of the State's FY-86 capital budget.

The second part of this enclosure addresses the question of anticipated operating loss from continued passenger service. It is estimated that approximately $1.7 million in additional revenue in CY-85 and $1.9 million in CY-86 will be needed to cover operating costs for the Railroad's passenger operations. Consistent with the Alaska Railroad Corporation Act, we are submitting a report detailing the costs associated with the continued provision of these services. However, we have decided against requesting any subsidy at this time, but will cover these losses with other available revenues. In addition, it should be noted that about $7.5 million of the CY-86 capital budget includes capital assistance related to the continued provision of passenger service.

Due to our recent decision to switch to a calendar year fiscal year, the necessary material explaining the complete CY-85 and CY-86 operating budgets has not been completed. Another package with the detailed information on the operating budgets for these two years will be forwarded shortly.

Due to time constraints, the Board has not had an ample opportunity to become familiar with all components of the enclosed submittal. We anticipate the need to make some adjustments during the weeks ahead as we become better acquainted with this information and receive greater specificity on transfer-related costs and liabilities. By transmittal of this letter, the Board of Directors of the Alaska Railroad Corporation respectfully requests your concurrence with the capital funding request contained in this material.

If we can be of any further assistance in helping you review this matter, or if you would like us to be available in Juneau to discuss this further, please let us know.

Thank you for your consideration of this matter.

Sincerely,

James O. Campbell
Chairman of the Board

Enclosure

cc:
Frank Chapados, VChairman, ARR Corp. Board of Directors
Gerald Valinske, Member, ARR Corp. Board of Directors
Lewis Dickinson, Member, ARR Corp. Board of Directors
Myron Christy, Member, ARR Corp. Board of Directors
Richard Knapp, Commissioner, State DOT/PF
Richard Lyon, Commissioner, State DCED
Mark Hickey, State Railroad Coordinator
Arnold Polanchek, ARR Actg. General Manager

THE ALASKA RAILROAD
CALENDAR YEAR 1985 AND 1986 CAPITAL PROJECTS
$ IN MILLIONS

	CALENDAR YEAR 1985				CALENDAR YEAR 1986		
	Total CY '85 $18.0	ARR FY '84 $6.4	State FY '85 $6.0	State FY '86 $ 5.6	Total CY '86 $26.1	ARR CY'85 $12.0	State FY '86 $14.1
BUILDINGS							
1. Energy Conservation-Phase IV	1.250	1.250					
2. Warehouses	.110	.110					
3. Computer Air Conditioning	.065	.065					
4. Fuel Station Fairbanks					.100	.100	
	$1.425	$1.425			$ 100	$ .100	
ROADBED, TRACK & OTHER FACILITIES							
5. Ballast Placing	1.250	1.250			1.500	1.500	
6. Bank Widening	.450	.200		.250	.800	.800	
7. Rail Lubricators	060		.060		.060		.060
8. Palmer Branch Rehabilitation	.400	.200		.200			
9. Rail/Tie Fastners	.500	.200		.300	.750	.750	
10. Microwave Radio	.425		.425		.250	.250	
11. Bridges	.800	.500		.300	1.000	1.000	
12. Tunnels	1.500	.325	.115	1.060	1.000	1.000	
13. Utility Systems	.650			.650	.400		.400
14. Fuel Station Additions-Anchorage	.250			.250			
15. Whittier Ramp and TOFC Facilities	.475	.300		.175			
16. Eielson Branch Rehab	2.100	1.000		1.100	1.900		1.900
17. Barge Slip #2-Whittier	.300	.300					
18. Hot Box and Drag Detectors					.500		.500
19. TOFC Terminal Upgrade					1.500	1.500	
	$9.160	$4.275	$ .600	$4.2[illegible]	$9.660	$6.800	$2.860

THE ALASKA RAILROAD
CALENDAR YEAR 1985 AND 1986 CAPITAL PROJECTS
$ IN MILLIONS

		CALENDAR YEAR 1985				CALENDAR YEAR 1986		
		Total CY '85 $18.0	ARR FY '84 $6.4	State FY '85 $6.0	State FY '86 $ 5.6	Total CY '86 $26.1	ARR CY'85 $12.0	State FY '86 $14.1
	EQUIPMENT							
20.	Locomotives	1.500		1.500		.700	.700	
21.	Hopper Cars	1.150		1.150		.490	.490	
22.	YOFC Cars	.920		.920		.385	.385	
23.	Covered Hoppers-Cement	.125		.125		.125	.125	
24.	Passenger Car Upgrade	.300		.300				
25.	Engineer Construction	.950	.415		.535	2.000	1.510	.490
26.	Snow Removal	.900		.900		1.100	1.100	
27.	Locomotive Crane	.800			.800	.800		.800
28.	Material Handling	.085	.085					
29.	Telecommunications Test	.125		.125		.100	.100	
30.	Upgrade Radios	.200	.200					
31.	Locomotive Rebuild					1.600		1.600
32.	Tank Cars					.550	.230	.320
33.	Flat Cars-Chain Tie Down					.400	.160	.240
34.	Axle Lathe					.100	.100	
35.	Wheel Lathe					.200	.200	
36.	Repair Dock Crane (Sew.)					.300		.300
		$7.055	$ .700	$5.020	$1.335	$8.850	$5.100	$3.750
	OTHER PROJECTS							
	Passenger Service							
37.	Glazing, Platforms, Repairs	.380		.380				
	Main Line							
38	-Denali Park					.100		.100
39	-Remanufacture 10 Cars					5.000		5.000
40	Shuttle Improvements					2.400		2.400
		$ .380		$ .380		$7.500		$7.500
	TOTALS	$18.020	$6.400	$6.000	$5.620	$26.110	$12.000	$14.110

THE ALASKA RAILROAD
CALENDAR YEAR 1985 PRIORITY CAPITAL PROGRAM

BUILDINGS

1. Energy Conservation-Phase IV	$1,250,000
2. Warehouses	110,000
3. Computer Air Conditioning	65,000
	$1,425,000

ROADBED, TRACK & OTHER FACILITIES

4. Ballast Placing	1,250,000
5. Bank Widening	450,000
6. Rail Lubricators	60,000
7. Palmer Branch Rehabilitation	400,000
8. Rail/Tie Fastners	500,000
9. Microwave Radio	425,000
10. Bridges	800,000
11. Tunnels	1,500,000
12. Utility Systems	650,000
13. Fuel Station Additions - Anchorage	250,000
14. Whittier Ramp and TOFC Facilities	475,000
15. Eielson Branch Rehabilitation	2,100,000
16. Barge Slip #2 - Whittier	300,000
	$9,160,000

EQUIPMENT

17. Locomotives (5) - Financed	1,500,000
18. Hopper Cars (65) - Financed	1,150,000
19. TOFC Cars (30) - Financed	920,000
20. Covered Hoppers - Cement (5)	125,000
21. Passenger Car Upgrade (17)	300,000
22. Engineer Construction	950,000
23. Snow Removal	900,000
24. Locomotive Crane	800,000
25. Material Handling	85,000
26. Telecommunications Test	125,000
27. Upgrade Radios	200,000
	$7,055,000

OTHER PROJECTS

28. Passenger Service - Glazing, Platforms, Repairs	380,000
	$380,000

TOTAL	$18,020,000

THE ALASKA RAILROAD

CALENDAR YEAR 1985 PRIORITY CAPITAL PROGRAM

BUILDINGS

1. Energy Conservation - Phase IV $1,250,000

Funds requested are part of a larger project approved in 1980. To date, $5.45 million has been obligated for this project. This $1.25 million will complete construction of Anchorage Railroad heating plants and eliminate dependence on the high-cost outmoded Knik Arm Power Plant for heat supply. Chugach Electric Association has stopped electricity generation at this plant and scheduled the shut down of steam production in 1985. This phase will install modern, efficient, and properly sized heating plants that will realize significant energy savings, and improve working conditions. Large sections of the 30-year-old steam distribution system with high heat losses and maintenance cost will be eliminated. The installed system will permit utilization of waste oil burners for shop heat and the processing of steam. The return on investment based on a $3.2 million investment is 27 percent.

2. Anchorage Warehouses $110,000

Provide for the fencing and paving of the Materials Yard in Anchorage. Relocation of the Material Yard will provide critically-needed space in the Anchorage train yard as well as co-locating this activity with the rest of the warehousing operation. Paving and fencing will allow material handling with forklifts instead of rail cranes and provide required security. The return on investment for this project will be 29 percent.

3. Computer Air Conditioning $65,000

Replace computer room air conditioner and upgrade Wang Room air conditioning capacity. The computer room air conditioner is in poor condition and not expected to operate reliably during the 1985 summer season. The Wang computer equipment operation has grown beyond the capacity of the existing air conditioning unit. Adequate air conditioning is essential for the computers to remain operational and to protect the Railroad's contracts and lease agreements with equipment suppliers.

ROADBED, TRACK AND OTHER FACILITIES

4. Ballast Placing $1,250,000

Annual restoration of track surface and alignment with ballast is required to maintain proper track structure in accordance with FRA Track Safety Standards, maintain safe train speeds, and to prevent accelerating maintenance costs due to deteriorating track structure. Distortions of track surface which occur due to frost action, permafrost melt, normal compaction and degradation of ballast require raising and realigning, and placing of new ballast. Additional select crushed ballast is used to improve drainage in order to decrease further distortions as well as prevent lateral displacement of the track structure due to increased train speeds, increased traffic, and thermal stresses.

5. Bank Widening $450,000

Provide 120,000 cubic yards of aggregate which is considered the minimum essential in an annual program to increase the stability of the Railroad's mainline embankment, reduce permafrost melt, and prevent waste of crushed ballast. Bank widening along the main line has been minimal since the earthquake repairs of 1964 and 1965. Approximately 250 miles of main-line subgrade requires widening of shoulders to standard width to maintain the track to line and grade, provide walkways for trainmen and permit maintenance of the track structure to FRA standards. Permafrost melt in past years has created a situation that is self-destructive. Crushed rock in many areas now runs directly to the bottom of the embankment slope. A critical area is the section from Dunbar to Happy (a permafrost region) where restoration of shoulders is a must.

6. Rail Lubricators $60,000

Install five rail lubricators to reduce rail wear and improve locomotive fuel consumption. Tests conducted by AAR, FRA FAST, and some Class I railroads indicate as much as a 40-percent reduction in locomotive fuel consumption as well as reduced wheel hunting and rail wear from selective rail/flange lubrication. The lubricators will extend the life of five miles of rail on curves an estimated two years, from seven to nine years. The return on investment is 59 percent. Payback is 1.8 years.

7. Palmer Branch Rehabilitation $400,000

This critical section of the Railroad requires rehabilitation in 1985 in order to maintain the existing and forecast levels of rail service. During the past year, over 6-1/2 million tons of gravel (79% of the total tonnage) moved over the Palmer Branch. The weight of rail on the Palmer Branch between milepost 3.6 and 4.5 is 70# compared to 115# rail on the main line. The 70# rail is inadequate for the loaded gravel cars. The rail has become surface bent and kinked. Angle bar failure is high and cross level is extremely difficult to maintain. Because the cross ties are in poor condition, 500 per mile must be replaced over the entire branch. Work will include replacing 2400 feet of curve worn 115# rail, shoulder cutting where mud now blocks drainage, and the introduction of standard ballast sections.

8. Elastomeric Rail/Tie Fastners $500,000

To increase rail stability, reduce longitudinal rail movement, and increase rail life on curves. This takes advantage of the "state of the art" fastners, commonly referred to as Pandrol plates and clips to provide a cost effective way of ensuring greater rail safety. Rail rotation on curves in recent years has increased lateral loading of gauge face which results in increased rail wear, rail corrugation, gauge widening, and rail rollover. Wood ties, cut spikes, and standard tie plates are no longer adequate under today's wheel loadings. The Pandrol plates and clips provide a wider base (15-1/2" vs 13") which increases stability, and provides a clamping force of +- 5000 psi per clip between plate and rail base. This clamping force also eliminates the need for rail anchors and, when used out-of-face on hardwood ties, will prevent rail rollover. Derailments caused by rail rollover in recent years probably could have been avoided if Pandrol plates and clips had been installed. Funds will purchase Elastomeric plates, clips, shoulder inserts, "E" clips, anchors, and screws.

9. Microwave Radio $425,000

Provides microwave radio telecommunications between Portage and Moose Pass and Hurricane and Gold Creek. Last year the Railroad completed a microwave system over the entire main line except for those two segments and from Portage to Whittier. This work will complete the replacement of open wire telephone pole lines with microwave except for the 12 miles from Portage to Whittier. The telephone pole line between Portage and Moose Pass is in need of major rebuilding at an estimated cost of $200,000. This line is also subject to outages from adverse winter conditions as well as man-made causes. With the increased traffic to Seward (coal export and TOFC), the pole line will be unable to carry the required data and communication traffic. Improved and reliable train communications will be provided in both areas. The return on investment based on rebuild cost avoidance is 139 percent.

10. Bridge Program $800,000

Funds are required for the cyclic replacement/renewal of bridges and culverts along the railroad trackage. The 1985 program includes major maintenance or renewal of 22 bridges, 23 culverts, and 2 tunnels. Repairs and maintenance are necessary to maintain bridges, culverts, and tunnels in a safe condition for rail traffic. Replacement of bridge timbers, culverts, and timber supports is necessary on a 30-year cycle, depending upon the quality of original materials, local environmental conditions and special circumstances, such as fires and accidents. These expenditures will minimize the requirements for placing slow orders which cause increased running time and operating cost.

11. Tunnel Program $1,500,000

Funds will be used to reconstruct the roadbed and track, replace tunnel timber supports and increase tunnel clearances in the five tunnels south of Portage between milepost 51 and 53. The result will be reduced maintenance costs, increased operating efficiency, and the minimizing of operational hazards. Winter icing problems require constant maintenance and the ever present threat of accidents. Tunnel supports need replacement and extension to prevent rock falls. Overhanging rock slopes which are unstable must be removed and stabilized. Avalanche hazard areas also require structural protective measures. Tunnel clearance will be increased to allow standard clearance in the tunnels. These tunnels are subject to continuous water problems that have deteriorated the track structure, necessitating reconstruction of the roadbed and track. The tonnage increases brought about by TOFC movements and the export of coal require the upgrading of these tunnels to an acceptable level for safe and efficient operating conditions. An engineering design contract was funded in the FY '84 budget.

12. Utility Systems $650,000

This is part of a multi-year program of replacement of 30-plus year old electrical, water, sewer, and heat distribution systems. The $650,000 in 1985 will concentrate on meeting EPA requirements which the Railroad considers as high priority. Utility systems in Anchorage, Fairbanks, and Whittier Yard areas have exceeded expected lives. Corrosion to pipes and valves, breakdown of electrical insulation and related aging problems are causing frequent maintenance efforts, energy waste and dangerous working conditions. Asbestos

pipe insulation, PCB oil in electrical gear, and non-code construction also requires replacement of these systems. This modernization will reduce costs, reduce losses due to outages, and remove health and life safety hazards. Return on investments on projects using these funds ranges from 34 to 68 percent, with an average ROI of 51 percent.

13. Anchorage Fuel Station Additions $250,000

Provides for effective and efficient operational upgrade of Anchorage locomotive fuel station. Includes the installation of lube oil and waterlines, relocation of fuel stanchions, and replacement of eight fuel meters. The lube and water lines are needed to enable full locomotive servicing at the fuel station. The current temporary arrangement is expensive to maintain (as it must be removed in the fall and reinstated in the spring) and serves only one track. Relocated fuel stanchions will eliminate the need for long hoses which are expensive to renew, difficult to handle, present a tripping hazard, and increase damage done to fueling valves from striking the pavement. New fuel meters will be remote readout temperature compensated. The current meters are inadequate due to restricted flow rate and lack of temperature compensation. They do not have the capability of measuring fuel added to the tanks. Return on investment is 36 percent with a payback of 4.3 years based on an estimated 20-year life.

14. Whittier Ramp and TOFC Facilities $475,000

To complete development of Whittier TOFC Yard. Includes construction of a loading ramp, installation of storm drains, lighting, fire protection, and grading. The full development of the TOFC Yard will permit efficient handling of van freight service. Drainage is required to allow a second TOFC track to be installed. With both TOFC tracks, 50 trailer flat cars can be loaded without switching the cars, thus allowing the handling of rail and trailer freight with one train crew. Loading ramp is required to permit handling of heavy equipment and TOFC which cannot be toplifted in Whittier without conflicting with the shuttle operation. Yard maintenance will be reduced by 1/2 of a man year because of better drainage.

15. Eielson Branch Rehabilitation Phase I $2,100,000

Current traffic projections over the portion of the Eielson Branch from Fairbanks to the North Pole Refinery are 575,000 revenue tons in 1985 and 850,000 revenue tons in 1986. This is an increase from 375,000 revenue tons in 1983 and 450,000 revenue tons in 1984. Between MP 6 to MP 18 there are 9.6 track miles of 75# rail with 16" joint bars. 75# non-control cooled rail is inadequate for present loads. Increased traffic and speed requires a heavier section for safety. The subgrade for the entire length is substandard. Certain locations would require additional shoulder material. The spacing is 20 ties per 39' rail. Fixed elevations would require a combination of undercutting and plowing. To be able to maintain this portion of track with the increase tonnage, it is necessary to rehabilitate this line. The work includes relaying 9.6 track miles of 75# rail with 115# rail, insulating subgrade, adding additional material to bring the subgrade up to standard width, sledding (plowing out old pitrun ballast), adding/replacing ties, placing ballast and surfacing track. At North Pole, the only auxillary track the Railroad has for switching cars is the 1,500-foot North Pole siding. For the projected volume of traffic, an additional 4,000-foot siding is needed between North Pole and the refinery. The projected

traffic will require the Railroad to handle one loaded and one empty 50-70 car train at a time near the refinery. The proposed track will reduce the switching time at the refinery.

This work is a two-phased project; the first phase includes the rail relay and the siding at North Pole.

16. Whittier Barge Slip #2 $300,000

To improve the reliability and function of the Railroad's only operational barge slip in Whittier. The slip winches and hoists are 13 years old. The motors, gears, bearings, and electrical gear require major overhaul or replacement. The winches are frequently breaking down and the new double-deck barges introduced in 1984 put increased strain on this equipment beyond its original design. The shifting winches require relocation, new fairleads, and the addition of a consistent-tension feature to enable them to be used again with the current and projected barges.

EQUIPMENT

17. Purchase 5 New 2800HP Locomotives $1,500,000

Acquisition is essential to provide motive power for export coal trains operating between Healy and Seward in 1985 and subsequent years. The Railroad's current fleet of locomotives is not sufficient to provide power for the new export coal service. During the past summer (1984), an average of 90% (approximately 51 units) were dedicated to use in performing the existing business. Of the remaining 10% (6 units), 4% (2 units) were undergoing major repairs, and 6% (4 units) were receiving minor repairs and necessary periodic maintenance and service. During the summer's peak periods, gravel trains were frequently delayed as there were no units available to replace gravel train locomotives that required refueling or servicing. The purchase of 5 new locomotives will provide the minimum proposed consist of 5 units in this export coal service. The alternative of acquiring used locomotives was considered but ruled out in favor of the GP-49 2800 HP locomotives, four of which were purchased in October 1982. The GP-49, first built in 1982, incorporates the latest "state of the art" improvements providing dramatically increased pulling power making them ideal to meet the hill grades the coal train will encounter. The return of investment for these locomotives is 25 percent.

18. Purchase 65 100-ton Hopper Cars $1,150,000

Acquisition is essential to support export coal train service between Healy and Seward. The export coal train will require 65 cars per train. With this one set of cars, the train will operate three times a week. The type of car is compatible to the hopper cars used in North-end coal and Palmer-Anchorage gravel service, thus allowing interchange with present equipment. The existing hopper-car fleet is used to full capacity during the spring-summer-fall seasons. Failure to acquire these additional cars will necessitate allocation of the present fleet between coal and gravel service during the spring-summer-fall season and will endanger the Railroad's largest revenue commodity due to the inability to furnish rolling stock. Nonacquisition of these cars will also result in use of older high-maintenance cars for winter service. Maintenance cost of new cars is estimated as 3.4 cents per mile compared to approximately 8.0 cents for older cars. The return of investment for these hopper cars is 26 percent.

19. Acquire 30 Intermodal Platform Cars $920,000

Acquisition necessary to support increased TOFC service on all major segments of the Railroad's main line. This purchase involves 30 intermodal platform cars, each capable of moving three trailers of 27 to 50 feet and weighing up to 100,000 gross weight pounds per trailer. This will enable the Railroad to market trailers with heavy loads and thus take advantage of the 48' x 102" equipment presently entering the market. Several other benefits will accrue upon acquisition of these cars. The Railroad would return to the owner 13 cars now on daily rental, saving $118,625 annually. An additional 10 cars leased by Alaska Hyd. Train would be released saving $72,885 in annual mileage payments. Acquisition of these new cars would permit the reduction of one train weekly to Whittier and one to Seward saving $699,190 annually. Total annual savings is approximately $900,000. The return on investment for these cars is 24 percent.

20. Acquire 5 Covered Hopper Cars $125,000

Cars are needed to meet current and projected cement traffic. For the past four seasons, the demand for cement movement has consistently been in excess of the Railroad's ability to supply covered hopper cars. The Railroad's need is for 10 cars and this requests the acquisition of 5 used, covered hopper cars in 1985 with a follow up of 5 in 1986. In 1984, the Railroad had to lease 7 additional cars at $20 per day. Kaiser Cement Company also leased 5 cars. These temporary arrangements are more expensive for both parties and there is no assurance they can be leased in future seasons. The revenue loss is at least $285,000 annually due to equipment nonavailability based on 5 cars per week at $3,000 a car over a 19-week season. The return of investment based on a 10-year life is 200% with payback in less than one year.

21. Upgrade 17 Passenger Cars $300,000

To provide reliable air conditioning and essential passenger amenities to passenger cars used between Anchorage and Whittier to service cruise ships. This upgrade proposal will install 3 transformers and a train line in each car to service air conditioning, repair floors, repaint, repair upholstery and other deficiencies as necessary. The Railroad faces the real possibility that rail service provided the past two years to cruise ships docking at Whittier will be canceled with resultant loss of revenue unless the relatively poor passenger comfort from using these cars can be improved. This has created a serious public relations image for the Railroad. The cars rely on generators driven by the car wheels that also charge the batteries. The capacity of the batteries is such that the air conditioning can operate only about 30 minutes when the car is standing. The nature of the service provided necessitates the cars standing at Anchorage for approximately 6 hours between trips to Whittier. Because the cars are exposed to the sun during this period, the interior heat causes extreme discomfort to passengers on the return trip to Whittier. Based on loss of revenue if cruise ship service is cancelled, the return on investment is 167 percent.

22. Engineer Construction Equipment $950,000

Replace and modernize construction equipment used by the Engineering Department. The existing Engineering Department equipment fleet is inadequate to conduct maintenance and construction programs. Much of the equipment has been in service so long that frequent breakdowns occur which,

along with the unavailability of parts, results in high maintenance costs. Safety is a paramount concern and would be substantially enhanced with the replacement of older equipment. The $950,000 requested will replace 32 items which constitutes the highest priority needs and represents only 2 percent of the construction equipment inventory. Included are generators, compressors, rail saws, bull dozers, spike drivers, push cars, a tamper, a regulator, and other items--most of which are over 20 years old and some over 35. Return on investment varies with the piece of equipment ranging between 12 and 165 percent with an average ROI of 46 percent and payback in 2.3 year.

23. Snow Removal Equipment $900,000

Increased rail traffic and the expansion of van yards at Seward and Whittier and the new coal transload facility at Seward necessitates the acquisition of snow removal equipment to ensure prompt clearance and avoid any disruption in terminal service. The Railroad is confronted with a serious support problem in this area. Three snow blowers recently had to be retired, and the remaining fleet is old, unreliable and subject to frequent failures. Of the 18 graders, loaders, and snow blowers available, 5 were built in the 60's, 12 in the 70's, and 1 in 1981. The existing snow blowers are single-use machines which are idle most of the year. This proposes two major items--loaders, incorporating quick disconnects, snow blowers and buckets to provide versatility in order that they can be utilized throughout the year in a planned maintenance system. Return on investment is 40 percent.

24. Purchase One Locomotive Crane $800,000

To replace one of three 1950-era locomotive cranes. All three cranes (LC-103, 104, and 105) are over 30 years old and in very poor condition and are past due for heavy overhaul. Virtually all mechanical parts are worn beyond reclamation and wiring insulation is seriously deteriorated. Parts are no longer available for these cranes. Due to the advanced state of deterioration of these units, it is becoming impractical to continue them in a safe, serviceable condition much longer. The ditcher cranes are required to maintain track drainage ditches, remove slides, and improve unstable hillsides. The geological nature of the area through which the Railroad passes is very unstable, requiring constant clearing of drainage ditches, removal of rocks and mud from tracks and removing ice glaciers. The Railroad is vulnerable in three widely separate areas (Healy Canyon, Chase Bluffs, and the Spencer-Grandview). At times slides occur at all three locations. Serious subgrade and ballast saturation occurred during 1984 when two ditchers were clearing slides and one was in the shop for repairs. This condition necessitates the purchase of one replacement crane in 1985. Return on investment is 40 percent.

25. Material Handling Equipment $85,000

Purchase two truck-yard hostlers to replace two yard hostlers on lease at $16,800 per annum. The Railroad has expanded TOFC/COFC traffic, most notably SeaWay Express service into Seward and Alaska Hydro-Train roll on/roll off service into Whittier in 1984. In order to handle this traffic with cost-effective and reliable yard hostlers, replacement of the two leased vehicles, which are nearly 12 years old and in poor condition, with two new yard hostlers is advisable. Under terms of the lease agreement, the Railroad is responsible for cost of repairs and maintenance of the leased yard hostlers. Due

to age of these vehicles, downtime for repairs was as high as 20 percent. Parts are becoming obsolete, necessitating substitute parts to keep them operating. Return on investment is 19 percent.

26. Telecommunications Test Equipment $125,000

Purchase of telecommunications test equipment is required to be able to maintain the Railroad's communication systems within FCC and industry standards. Radio lab test equipment will provide a second radio lab position to service and maintain base, mobile, and portable radios as well as pagers. This will eliminate the summer backlog of radio repairs which has necessitated an extra man on train crews because of unrepaired radios. The Railroad has a very limited amount of microwave test equipment. As the microwave systems age, outages and reduced performance will result unless an adequate check program is enforced. Data systems test equipment is needed to isolate problems with software, hardware, and transmission systems. Estimated annual savings resulting from crew costs, microwave, and data system savings is $30,000.The average rate of return on investment for this equipment is 26 percent.

27. Upgrade Radio System $200,000

To improve dispatcher radio communications and install a communication capability within the Whittier tunnels. The current radio system is severely congested. This condition can be corrected by adding multi-channel capacity to the dispatcher radio system. Trains can then operate on alternate radio channels. The addition of communications in the Whittier tunnels will enable train crews to talk to the dispatcher while inside the tunnels. No communication from within the tunnel (3-1/2 miles) is possible now.

OTHER PROJECTS

28. Passenger Service-Glazing, Platforms, Repair $380,000

To provide improved passenger amenities by upgrading deficiencies that are principal causes of frequent tourist passenger complaints received by the Railroad and the State. Specifically these funds will be used to replace window glazing in six Amtrak dome cars ($240,000), improve by constructing or lengthening passenger platforms at Whittier and Anchorage to accomodate cruise ship passengers, and selected repair of seating and carpeting.

THE ALASKA RAILROAD
CALENDAR YEAR 1986 PRIORITY CAPITAL PROGRAM

BUILDINGS

1. Fuel Station - Fairbanks	$100,000
	$100,000

ROADBED, TRACK & OTHER FACILITIES

2. Ballast Placing	1,500,000
3. Bank Widening	800,000
4. Rail Lubricators	60,000
5. Rail/Tie Fastners	750,000
6. Microwave Radio	250,000
7. Bridges	1,000,000
8. Tunnels	1,000,000
9. Utility Systems	400,000
10. Eielson Branch Rehabilitation	1,900,000
11. Hot Box and Drag Detectors	500,000
12. TOFC Terminal Update	1,500,000
	$9,660,000

EQUIPMENT

13. Locomotives (5) - Financing Payment	700,000
14. Hopper Cars (65) - Financing Payment	490,000
15. TOFC Cars (30) - Financing Payment	385,000
16. Covered Hoppers - Cement (5)	125,000
17. Engineer Construction	2,000,000
18. Snow Removal	1,100 000
19. Locomotive Crane	800,000
20. Telecommunications Test	100,000
21. Locomotive Rebuild (4)	1,600,000
22. Tank Cars (25) - Financed	550,000
23. Flat Cars - Chain Tie Down (20) Financed	400,000
24. Axle Lathe	100,000
25. Wheel Lathe	200,000
26. Repair One Dock Crane - Seward	300,000
	$8,850,000

OTHER PROJECTS

Passenger Service Projects:

27. Denali Park Station	100,000
28. Remanufacture Ten Cars	5,000,000
29. Shuttle Improvements	2,400,000
	$7,500,000

TOTAL	$26,110,000

THE ALASKA RAILROAD

CALENDAR YEAR 1986 CAPITAL PROGRAM

BUILDINGS

1. Warehouses $100,000

This represents a much needed but fractional part of the start of a multi-year program to replace or upgrade warehouses. To adequately plan and budget for the Railroad's warehouse needs, a $90,000 study will be initiated in 1985. This study, which will include a facilities plan and preliminary design for replacing warehouses, will form a basis of future capital budget items. Two of the existing Anchorage warehouses have exceeded their expected service lives and have serious deficiencies. This $100,000 will be used to fund the highest priority and most pressing immediate needs commensurate with traffic projection support in 1986.

ROADBED, TRACK AND OTHER FACILITIES

2. Ballast Placing $1,500,000

Annual restoration of track surface and alignment with ballast is required to maintain proper track structure in accordance with FRA Track Safety Standards, maintain safe train speeds, and to prevent accelerating maintenance costs due to deteriorating track structure. Distortions of track surface which occur due to frost action, permafrost melt, normal compaction and degradation of ballast require raising and realigning, and placing of new ballast. Additional select crushed ballast is used to improve drainage in order to decrease further distortions as well as prevent lateral displacement of the track structure due to increased train speeds, increased traffic, and thermal stresses.

3. Bank Widening $800,000

Provide 250,000 cubic yards of aggregate to increase the stability of the Railroad's mainline embankment, reduce permafrost melt, and prevent waste of crushed ballast. Bank widening along the main line has been minimal since the earthquake repairs of 1964 and 1965. Approximately 250 miles of main-line subgrade requires widening of shoulders to standard width to maintain the track to line and grade, provide walkways for trainmen and permit maintenance of the track structure to FRA standards. Permafrost melt in past years has created a situation that is self-destructive. Crushed rock in many areas now runs directly to the bottom of the embankment slope. A critical area is the section from Dunbar to Happy (a permafrost region) where restoration of shoulders is a must.

4. Rail Lubricators $60,000

Install five rail lubricators to reduce rail wear and improve locomotive fuel consumption. Tests conducted by AAR, FRA FAST, and some Class I railroads indicate as much as a 40-percent reduction in locomotive fuel consumption as well as reduced wheel hunting and rail wear from selective rail/flange lubrication. The lubricators will extend the life of five miles of rail on curves an estimated two years, from seven to nine years. The return on investment is 59 percent.

5. Elastomeric Rail/Tie Fastners $750,000

To increase rail stability, reduce longitudinal rail movement, and increase rail life on curves. This takes advantage of the "state of the art" fastners, commonly referred to as Pandrol plates and clips to provide a cost effective way of ensuring greater rail safety. Rail rotation on curves in recent years has increased lateral loading of gauge face which results in increased rail wear, rail corrugation, gauge widening, and rail rollover. Wood ties, cut spikes, and standard tie plates are no longer adequate under today's wheel loadings. The Pandrol plates and clips provide a wider base (15-1/2" vs 13") which increases stability, and provides a clamping force of +- 5000 psi per clip between plate and rail base. This clamping force also eliminates the need for rail anchors and, when used out-of-face on hardwood ties, will prevent rail rollover. Derailments caused by rail rollover in recent years probably could have been avoided if Pandrol plates and clips had been installed. Funds will purchase Elastomeric plates, clips, shoulder inserts, "E" clips, anchors, and screws.

6. Microwave Radio $250,000

Provides microwave radio telecommunications between Portage and Whittier. This will complete the replacement of open wire telephone pole lines with microwave over the entire main line. Besides removing the need for a pole line from Portage to the tunnels, it eliminates the marine cable in the tunnels and beyond to Whlittier which were placed in the 40's and about reached the end of their useful life. This microwave will avoid replacement of the pole line and marine cable at a cost of $200,000. The microwave will provide a higher capacity, more reliable and secure system. The return on investment is 140 percent with a payback in 1.25 years.

7. Bridge Program $1,000,000

Funds are required for the cyclic replacement/renewal of bridges and culverts along the railroad trackage. The 1986 program includes major maintenance or renewal of 16 bridges and 30 culverts. Included is major pier work on Bridge 264.1 (Susitna River at Gold Creek) and Bridge 86.6 (Bird Creek). Repairs and maintenance are necessary to maintain bridges, culverts, and tunnels in a safe condition for rail traffic. Replacement of bridge timbers, culverts, and timber supports is necessary on a 30-year cycle, depending upon the quality of original materials, local environmental conditions and special circumstances, such as fires and accidents. These expenditures will minimize the requirements for placing slow orders which cause increased running time and operating cost.

8. Tunnel Program $1,000,000

This is phase three of a multi-year program to rehabilitate the tunnels south of Portage between milepost 51 and 53. The completed project will result in reduced maintenance costs, increased operating efficiency, and the minimizing of operational hazards. Winter icing problems require constant maintenance and the ever present threat of accidents. Tunnel supports need replacement and extension to prevent rock falls. Overhanging rock slopes which are unstable must be removed and stabilized. Avalanche hazard areas also require structural protective measures. Tunnel clearance will be increased to allow standard clearance in the tunnels. These tunnels are subject to continuous water problems that have deteriorated the track structure, necessitating reconstruction of the roadbed and track. The tonnage increases brought about by TOFC movements

and the export of coal require the upgrading of these tunnels to an acceptable level for safe and efficient operating conditions. An engineering design contract was funded in the FY '84 budget, and phase two was funded in CY '85 budget.

9. Utility Systems $400,000

This is part of a multi-year program of replacement of 30-plus year old electrical, water, sewer, and heat distribution systems. The $400,000 in 1986 will concentrate on meeting EPA and OSHA requirements which the Railroad considers as high priority. Utility systems in Anchorage, Fairbanks, and Whittier Yard areas have exceeded expected lives. Corrosion to pipes and valves, breakdown of electrical insulation and related aging problems are causing frequent maintenance efforts, energy waste and dangerous working conditions. Asbestos pipe insulation, PCB oil in electrical gear, and non-code construction also requires replacement of these systems. This modernization will reduce costs, reduce losses due to outages, and remove health and life safety hazards. The return on investment is 34 percent.

10. Eielson Branch Rehabilitation Phase II $1,900,000

Current traffic projections over the portion of the Eielson Branch from Fairbanks to the North Pole Refinery are 575,000 revenue tons in 1985 and 850,000 revenue tons in 1986. This is an increase from 375,000 revenue tons in 1983 and 450,000 revenue tons in 1984. Between MP 6 to MP 18 there are 9.6 track miles of 75# rail with 16" joint bars. 75# non-control cooled rail is inadequate for present loads. Increased traffic and speed requires a heavier section for safety. The subgrade for the entire length is substandard. Certain locations would require additional shoulder material. The spacing is 20 ties per 39' rail. Fixed elevations would require a combination of undercutting and plowing. To be able to maintain this portion of track with the increase tonnage, it is necessary to rehabilitate this line. The work includes relaying 9.6 track miles of 75# rail with 115# rail, insulating subgrade, adding additional material to bring the subgrade up to standard width, sledding (plowing out old pitrun ballast), adding/replacing ties, placing ballast and surfacing track. At North Pole, the only auxillary track the Railroad has for switching cars is the 1,500-foot North Pole siding. For the projected volume of traffic, an additional 4,000-foot siding is needed between North Pole and the refinery. The projected traffic will require the Railroad to handle one loaded and one empty 50-70 car train at a time near the refinery. The proposed track will reduce the switching time at the refinery.

This work is a two-phased project; the first phase included the rail relay and the siding at North Pole, this second phase includes placing shoulder material, sledding, tie renewal, placing ballast and surfacing the track.

11. Hot Box and Drag Detectors $500,000

This funds 5 of 12 hot-box and drag detectors the Railroad proposes to install in 1986, 1987 and 1988. The State sponsored SVERDRUP ARR engineering evaluation conducted in 1984 also recommended 12 be installed. The purpose of these detectors is to warn of wheel and bearing overheating and of equipment dragging on a moving train. By pinpointing the source of the defect in the train consist, the problem car can be set out before it causes a derailment. On the basis of preventing only one major derailment over a two-year period

costing $750,000 and equating to the total capital cost of 12 detectors, the return on investment is 85 percent.

12. TOFC Terminal Upgrade $1,500,000

The substantial increase in roll-on roll-off trailer traffic through Seward and Whittier in 1984 and anticipated greater level of this traffic in 1985 and in the future dictates an upgrading of TOFC terminal facilities, especially at Seward and Whittier. These finds will be used for paving, van packer storage facilites, and upgrading of the Railroads terminal facilities at Whittier, Seward, Fairbanks and Anchorage, with priority to Seward and Whittier. It is essential that the Railroad upgrade these terminals in order to retain this important traffic, increase safety, and improve the level of effectiveness and efficiency. Specifically the paving and upgrading will:

1) Increase productivity and efficiency in the operation of the van terminal;

2) Reduce damage to trailers and ladding resulting from soft surface causing loads to tip over;

3) Reduce damage to landing gear because of sinking into the ground;

4) Increase life of equipment (van packer, jockey trucks, forklifts) because dust will be minimal;

5) Provide a smooth operating surface thus minimizing vibration and resistant force in travel thereby increasing the life of equipment;

6) Increase handling capacity of van packer because of hard surface;

7) Increase safety in operation on hard surface as opposed to uneven gravel surface;

8) Reduce possibility of dropping trailers or containers attributed to uneven surface;

9) Reduce surface maintenance cost of grading.

EQUIPMENT

13. Purchase 5 New 2800HP Locomotives $700,000

Acquisition is essential to provide motive power for export coal trains operating between Healy and Seward in 1985 and subsequent years. The Railroad's current fleet of locomotives is not sufficient to provide power for the new export coal service. During the past summer (1984), an average of 90% (approximately 51 units) were dedicated to use in performing the existing business. Of the remaining 10% (6 units), 4% (2 units) were undergoing major repairs, and 6% (4 units) were receiving minor repairs and necessary periodic maintenance and service. During the summer's peak periods, gravel trains were frequently delayed as there were no units available to replace gravel train locomotives that required refueling or servicing. The purchase of 5 new locomotives will provide the minimum proposed consist of 5 units in this export

coal service. The alternative of acquiring used locomotives was considered but ruled out in favor of the GP-49 2800 HP locomotives, four of which were purchased in October 1982. The GP-49, first built in 1982, incorporates the latest "state of the art" improvements providing dramatically increased pulling power making them ideal to meet the hill grades the coal train will encounter. Return on investment is 25 percent. Locomotives will be purchased in 1985; this constitutes the annual payment of principal plus interest.

14. Purchase 65 100-ton Hopper Cars $490,000

Acquisition is essential to support export coal train service between Healy and Seward. The export coal train will require 65 cars per train. With this one set of cars, the train will operate three times a week. The type of car is compatible to the hopper cars used in North-end coal and Palmer-Anchorage gravel service, thus allowing interchange with present equipment. The existing hopper-car fleet is used to full capacity during the spring-summer-fall seasons. Failure to acquire these additional cars will necessitate allocation of the present fleet between coal and gravel service during the spring-summer-fall season and will endanger the Railroad's largest revenue commodity due to the inability to furnish rolling stock. Nonacquisition of these cars will also result in use of older high-maintenance cars for winter service. Maintenance cost of new cars is estimated as 3.4 cents per mile compared to approximately 8.0 cents for older cars. Return on investment is 26 percent. Hopper cars will be acquired in 1985; this constitutes the annual payment including principal and interest.

15. Acquire 30 Intermodal Platform Cars $385,000

Acquisition necessary to support increased TOFC service on all major segments of the Railroad's main line. This purchase involves 30 intermodal platform cars, each capable of moving three trailers of 27 to 50 feet and weighing up to 100,000 gross weight pounds per trailer. This will enable the Railroad to market trailers with heavy loads and thus take advantage of the 48' x 102" equipment presently entering the market. Several other benefits will accrue upon acquisition of these cars. The Railroad would return to the owner 13 cars now on daily rental, saving $118,625 annually. An additional 10 cars leased by Alaska Hydro-Train would be released saving $72,885 in annual mileage payments. Acquisition of these new cars would permit the reduction of one train weekly to Whittier and one to Seward saving $699,190 annually. Total annual savings is approximately $900,000. Return on investment is 24 percent. Cars will be acquired in 1985; this constitutes annual payment including principal and interest.

16. Acquire 5 Covered Hopper Cars $125,000

Cars are needed to meet current and projected cement traffic. For the past four seasons, the demand for cement movement has consistently been in excess of the Railroad's ability to supply covered hopper cars. The Railroad's need is for 10 cars of which 5 will be acquired in 1985 and this requests 5 in 1986. In 1984, the Railroad had to lease 7 additional cars at $20 per day. Kaiser Cement Company also leased 5 cars. These temporary arrangements are more expensive for both parties and there is no assurance they can be leased in future seasons. The revenue loss is at least $285,000 annually due to equipment nonavailability based on 5 cars per week at $3,000 a car over a 19-week season. Return on investment is 200 percent.

17. Engineer Construction Equipment $2,000,000

Replace and modernize construction equipment used by the Engineering Department. The existing Engineering Department equipment fleet is inadequate to conduct maintenance and construction programs. Much of the equipment has been in service so long that frequent breakdowns occur which, along with the unavailability of parts, results in high maintenance costs. Safety is a paramount concern and would be substantially enhanced with the replacement of older equipment. The $2,000,000 requested will replace 37 items which constitutes the highest priority needs and represents about 2 percent of the construction equipment inventory. Included are generators, compressors, rail saws, bull dozers, spike drivers, push cars, a tamper, a regulator, tie machines and other items--most of which are over 20 years old and some over 35. The average return on investment is 46 percent.

18. Snow Removal Equipment $1,100,000

Increased rail traffic and the expansion of van yards at Seward and Whittier and the new coal transload facility at Seward necessitates the acquisition of snow removal equipment to ensure prompt clearance and avoid any disruption in terminal service. The Railroad is confronted with a serious support problem in this area. Three snow blowers recently had to be retired, and the remaining fleet is old, unreliable and subject to frequent failures. Of the 18 graders, loaders, and snow blowers available, 5 were built in the 60's, 12 in the 70's, and 1 in 1981. The existing snow blowers are single-use machines which are idle most of the year. This purchase includes two graders, two all terrain haulers with 27 cubic yard capacity and one self-contained quick disconnect snow blower to be attached to an existing loader. Return on investment is 40 percent.

19. Purchase One Locomotive Crane $800,000

To replace one of three 1950-era locomotive cranes. All three cranes (LC-103, 104, and 105) are over 30 years old and in very poor condition and are past due for heavy overhaul. Virtually all mechanical parts are worn beyond reclamation and wiring insulation is seriously deteriorated. Parts are no longer available for these cranes. Due to the advanced state of deterioration of these units, it is becoming impractical to continue them in a safe, serviceable condition much longer. The ditcher cranes are required to maintain track drainage ditches, remove slides, and improve unstable hillsides. The geological nature of the area through which the Railroad passes is very unstable, requiring constant clearing of drainage ditches, removal of rocks and mud from tracks and removing ice glaciers. The Railroad is vulnerable in three widely separate areas (Healy Canyon, Chase Bluffs, and the Spencer-Grandview). At times slides occur at all three locations. Serious subgrade and ballast saturation occurred during 1984 when two ditchers were clearing slides and one was in the shop for repairs. This condition necessitates the purchase of one replacement crane in 1985, and one in 1986. Return on investment is 40 percent.

20. Telecommunications Test Equipment $100,000

Purchase of telecommunications test equipment is required to be able to maintain the Railroad's communication systems within FCC and industry standards. Radio lab test equipment will provide portable field equipment to service and maintain base, mobile, and portable radios as well as pagers. The Railroad has a very limited amount of microwave test equipment. As the

microwave systems age, outages and reduced performance will result unless an adequate check program is enforced. Data systems test equipment is needed to isolate problems with software, hardware, and transmission systems. Estimated annual savings resulting from crew costs, microwave, and data system savings is $18,100. Return on investment is 26 percent.

21. Rebuild Four Locomotives $1,600,000

Rebuild and upgrade four obsolescent locomotives to modern standards. The current locomotive fleet is capable of supporting planned service only if all units are serviceable at least 90% of the time. The oldest "second generation" power is the five GP-40's purchased from Conrail. These units will be 19 years old in 1986. One has already been virtually destroyed by fire and the wiring on the other four is in such bad condition that electrical fires are a constant probability. These units must either be replaced or rebuilt and upgraded. Our choices are:

1) Rebuild and upgrade all four units now at $400,000 each and then replace them in 10 years or,

2) Replace these four units as they self destruct, estimated to be one per year for the next four years.

Based on the present value (as of 1986) of the ten-year costs of the two options, option once costs #3.21 million and option two is $3.87 million, therefore, the best option is one which realizes a savings of $666,000 by rebuilding four units in 1986.

22. Purchase 25 Tank Cars $550,000

Acquisition is necessary to support steadily increasing petroleum traffic from the refinery at North Pole to Nenana, Anchorage and Seward. Volume is expected to double in 1986 and increase by 50% in 1987. Also, in addition, expansion of the refinery at North Pole, the Railroad needs to replace 10,000 gallon equipment which has exceeded the economic age limit for tank cars. Failure to acquire this equipment will result in loss of revenue due to the inability to handle additional traffic and the increased cost of handling the additional traffic because of movement in smaller 10,000 gallon units. Additional revenue expected from acquisition from this equipment will be $1,600,000 annually. This funding covers down payment and first year's payment plus financing charges and freight.

23. Purchase 20 Chain Tie-Down Cars $400,000

Cars are required to support additional roll-on roll-off business which is a result of the initiation of this type service by SeaWay Express and Alaska Hydro-Train. Need for cars has been further increased by markets developed since 1983 using present chain tie-down equipment. These cars eliminate approximately 80% of labor used to place machinery or vehicles on these railcars as compared to existing equipment and this results in savings for both the Railroad and the customer. Heavy duty features on these cars will also make the Railroad more competetive in the oilfield products market. Additional revenue expected from acquisition of this equipment is $720,000 annually. This finding covers down payment and first year's payment plus financing charges.

24. Axle Lathe $100,000

To increase axle machining capacity. Due to increased car and locomotive mileage, the Railroad is unable to keep up with the demand for new axles using the existing machine. The only practical alternate to buying an additional machine is to ship in completed wheel/axle sets. Mounted axles take up a lot of space and only 24 can be shipped on a 50 foot car at $66/foot on the barge. Axles can be shipped 140 to a car for the same price. Thus the shipping savings are enough to pay for the machine within three years. Return on investment based on a 25 year life of the machine is 62 percent.

25. Wheel Lathe $200,000

To maintain compliance with Association of American Railroad's regulations, an adequate wheel lathe is necessary. The existing Niles wheel lathe is worn to the point that the Railroad will not be able to continue to produce acceptable wheels (per AAR standards). The Railroad can buy a new lathe, rebuild the old, or send the work out. Sending out is not practical because barge costs alone would be $300 per wheel set. A new lathe will cost about one million dollars and require a new foundation. Rebuilding the present machine (and updating it with numerical control) will cost from $200,000 to $600,000. The rebuild can be done on a unit exchange basis keeping down time to an absolute minimum. The rebuilt machine will use the same foundation as the old machine - an additional advantage. Return on investment is 54 percent.

26. Repair One Dock Crane $300,000

The Railroad has two 45-ton Gantry cranes on the Railroad dock at Seward. One was built in 1941 (Colby) and one in 1942 (Washington). The Colby crane was recently moved to the west side while the Washington crane serves the east side. While not used extensively, both must be operable, since they are not mutually supporting each other. The options, on the older crane (Colby) are to replace it or rebuild it. However, to retain these options for future consideration, action is required in 1986 by repairing the crane housing in order to protect the machinery and perform a careful inspection. A complete rebuilding is estimated to cost about 40 percent of replacement cost. These funds are to protect the crane, perform a thorough inspection, and repair or rebuild to the extent funding will permit.

OTHER PROJECTS

PASSENGER SERVICE PROJECTS:

27. Denali National Park Station $100,000

To improve efficiency and safety of handling passengers and baggage at Denali National Park Station, to reduce train stopover time for loading, and to improve employee productivity. The station at Denali Park has been in operation for several decades without major improvement or upgrading. As many as 750 persons may utilize the station and its plaforms within a 30-minute period. In addition the movement of their baggage is a major commitment. This program will allow for design and construction of improvements to:

a) facilitate baggage handling in shorter time in a more efficient manner,

b) provide safety barriers and "cue-up" lines for patrons to utilize while waiting for train arrivals,

c) pave and otherwise improve the loading ramps and platforms used by the public.

Completion of these tasks will greatly reduce or eliminate a major safety hazard.

28. Remanufacture Ten Passenger Cars $5,000,000

Upgrade and improve service by remanufacturing ten passenger cars used in the provision of public transportation, thus reducing public discomfort, deminishing equipment failures, lowering operating costs, and extending the fleet life by 10-15 years of additional service. The Corportation will remanufacture ten passenger cars to modern specifications and standards intended to assure a service life into the 21st Century. A contract will be sought with a major Outside manufacturer for this service. Present equipment averages 35 years of age and is worn-out. Unless remanufactured or replaced public convenience and safety will require its retirement by 1987. The seasonal nature of Alaska rail service demands, and the reduced cost (by 60%) as compared to purchasing new passenger cars make this approach feasible. The remanufactured cars will be compatible with ten other cars similarly overhauled in 1981. In future years, the remaining cars in the fleet will be remanufactured.

29. Shuttle Improvements $2,400,000

Improve stationary and equipment facilities on Whittier-Portage Shuttle to acommodate public demand and improve basic acommodations to a level of minimal comfort. The project will provide paved assembly and parking areas, security fencing to eliminate theft and vandalism to vehicles, improvement of loading ramps, installation and improvement of area lighting, provision of small covered shelters for foot passengers waiting on trains, installation of "cue lines" for vehicles awaiting trainsportation to/from Marine Highway System, purchase of one modern shuttle coach, rebuilding of two shuttle baggage and power generator cars, and addition of updated safety lighting and power hookups to 14 flatcars used for movement of vehicles on Shuttle trains.

The very basic facilities in use in Portage reflect an era when only 20% of the present public business was carried. Whittier ground facilities are non-existent. During the next 5-10 years this service is expected to grow by about 100% and provides the only public land access to Whittier and the Marine Highway. These requested improvements, long overdue by most evaluations, are the result of user requests and analysis of the needs in order to provide the minimum level of decent public service by the Shuttle trains.

THE ALASKA RAILROAD CORPORATION

Operating Loss from provision of Passenger Train Service
Calendar Years 1985 and 1986

State Oversight Report information
as required by the
Alaska Railroad Corporation Act

November 27, 1984

Under the terms of AS 42.40.280 a State Oversight Report must be provided before undertaking an application for an appropriation to be used for providing any service that is not self-sustaining.

The Corporation has determined that the provision of the present level of passenger train services to the general public is not self-sustaining and that approximately $1.7 million in CY-85 and $1.9 million in CY-86 will be needed to cover the total operating costs for this service.

To comply with the Alaska Railroad Corporation Act, this report addresses the requirements of AS 42.40.280. The Corporation, however, is deferring any actual request for a subsidy for later action. A separate explanatory statement is being submitted detailing the capital budget request for $7.5 million in the CY-86 Corporation budget related to the continued provision of passenger service.

Sec. 42.40.280 (b)

"The report....shall be in writing, describe the proposed undertaking in detail, and specify"

THE ALASKA RAILROAD CORPORATION
PASSENGER SERVICES

General Description of Passenger Program

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Two classes of service are presently provided:

1. Scheduled passenger service and charter trains.

2. The Anchorage-Portage-Whittier "Shuttle".

THE WHITTIER SHUTTLE

Since 1967, the Shuttle has been supported in part by a contract with the State of Alaska which provides for payment of operating losses, and--to a very minor degree--equipment costs. This became a full service contract about 1978.

Since about 1980, the state has limited payments to $150,000 annually by requesting that amount of appropriation or limiting the budget item to that amount. The program is under contract with the Department of Transportation and Public Facilities (DOT&PF). The present contract will expire April 30, 1985. Because the Corporation is a state entity, this contract will be combined into the overall passenger service program of the Railroad after January 5, 1985.

Due to increased service frequency requested by the State in recent years, and increased internal costs to the Railroad, the operating subsidy amount is substantially inadequate. Our estimate is that the present $150,000 will be exhausted by February 1985.

This service earns a considerable surplus during the period from mid-May to early September, when tourism and recreational uses of Prince William Sound are at their peak. At other times it is very lightly patronized, primarily by those having business in Whittier or who reside there.

The 1984 Legislature was requested by the D /&PF to provide $1 million for use in improving the worn out equipment on the Shuttle. $600,000 was appropriated. This money is now available and the department and the Railroad are jointly working to seek appropriate equipment improvements which can be accomplished for this amount. These funds will be expended on shuttle improvements, and their expenditure has been considered in conjunction with the Corporation's capital request for passenger improvments in CY-86.

The estimated amount of subsidy funds for operating assistance to the Shuttle in CY-85, based on FY84 service levels and no expansion of them, is $225,000.

SCHEDULED PASSENGER SERVICE AND CHARTER TRAINS

Passenger trains operate year-round from Anchorage to Fairbanks. From mid September until early May (about seven months) these trains are operated on a round trip basis once a week. During the remaining five months the trains operate daily between these cities.

One out of every five visitors to Denali National Park arrives or departs by an Alaska Railroad train. The demand for train seats outstrips our capacity on many days each summer. Listings in major tour publications and an active role in the State's tourist industry groups is maintained.

While summer tourist service does operate at a loss and returns no capital reserve funds, the amount of losses are small compared with those of other world railways. Well over 70% of the operating costs of this service are returned in fares, while the U.S. standards for Amtrak are presently 52% revenue generated and in Canada about 40% fare incomes.

Excluding capital and equipment replacement costs, the trains suffer operating losses of varying intensity:

------ During 1984, the loss by the Railroad for each passenger in summer months was about $4.79.

------ During 1984, the loss by the Railroad for each passenger carried in the other months, when once-weekly service is operated, approximated $294.85.

WHO RIDES ALASKA RAILROAD ANCHORAGE-FAIRBANKS TRAINS?

The summer daily trains cater almost exclusively (over 90%+ of the ridership) to visitors to Alaska, part of the second largest cash industry of the State. They also serve, as an adjunct, rural and remote area citizens of Alaska who have no other means of access to their homes. This service is under extreme pressure for increased capacity, and improved comfort levels. The Railroad presently has only a limited ability to meet that demand. Despite this limited capability to expand and absolutely no promotion by the ARR, the ridership

increased 16.8% · 1984 (nearly 23% if the privately owned Tour Alaska Inc. luxury car· are included).

Winter service, conversely, serves almost totally (98%) the rural and remote area residents of Alaska who live near the tracks. These residents travel only an average of 20-30 miles by rail from the closest road. Yet they are dependent on the railroad.

As few as 269 passengers rode these trains in an entire month during the winter of 1983-84 for a total of about 35 passengers on each one way train, which travels a route of 356 miles! It is no surprise that the per passenger out-of-pocket loss in operating this service is $294.85. In seven months of FY84 a grand total of 2772 passengers rode the trains north of Anchorage!

CRUISE SHIP SERVICE FOR THE TOURIST INDUSTRY

In 1982 a few test dockings at the Railroad's Port of Whittier proved the popularity of cruise ships bringing their passengers to Interior Alaska. This was the first breakthrough from the tradition of operating cruise ships only as far north as Skagway or Juneau.

In 1983, about 10,000 new passengers--all cruise ship patrons--rode chartered trains to Anchorage from Whittier. An equal group departed from Whittier, providing nearly double the tourism impact of round-trip tourists.

In 1984, this business improved again, with several dozen cruise ships representing two major tour operators using Whittier. Over 20,000 visitors shared the spectacular trip to or from Whittier by train to access their ship.

For 1985, a third company has scheduled arrivals in Whittier and an additional 10-12 thousand passengers are expected from this service. A spinoff of the popular business is a number of arrivals by Cunard Lines' "Sagafjord" at the Port of Anchorage in 1985. Approximately 40% of these passengers are expected to book passage on the Alaska Railroad trains to Denali Park and Fairbanks.

This service returns most of the railroad's out-of-pocket costs, and is serving as a major catalyst for the tourist industry in the heart of southcentral and interior Alaska.

A major problem is that the equipment used for special and charter service is old and must either be replaced soon or subjected to a major rebuilding by a shop outside Alaska.

The Railroad is at the point where a "GO" or "NO GO" decision must be made to either withdraw from this service soon or to invest substantial capital in equipment improvements.

OTHER SPECIAL TRAINS

A number of other special trains, mainly patronized by Alaskans, are operated in charter for groups or individuals, or operated as a "railroad" special train.

These include several trains a year to the Seward area--Salmon Derby, 4th of July; the State Fair of Alaska (2-3 trains); Nordic Ski Club, to the Kenai Mountains (4 trains with 700 passengers each); Railroad Week to the Palmer Transportation Museum; corporate charters for employees or VIP's; special party trains by groups to Whittier, Seward, and to the north; etc.

These trains are priced and marketed at a profit to the Railroad in operating costs, but not to return capital costs.

Occasional official trains are operated, such as for the 60th Anniversary of the Railroad, an anticipated special program for the State on January 5-6, 1985, or for promotion of Alaska or the railroad as a transportation carrier.

SPECIFIC REQUIREMENTS OF A STATE OVERSIGHT REPORT

Sec. 42.40.280 (b) (1)

The financial impact on the corporation is detailed in the attached statement of estimated income and expenses from our passenger service program in Calendar Years 1985 and 1986.

Losses of $1.7 million and $1.9 million are projected by operation of the same level of service as that which was offered in 1984.

Sec. 42.40.280 (b) (2)

The nature and level of the services provided passenger patrons of the corporation will not be affected if the corporation undertakes commitment of funds in the amounts stated above.

Sec. 42.40.280 (b) (3)

The action of providing an operating subsidy for passenger services is necessary and desirable because:

a. Services have been publicized and announced throughout the World for 1985 in conformance with the needs and practices of the tourism industry.

b. Elimination and/or reduction of passenger services below their present level would be a major blow to the total Alaska tourist industry.

c. Elimination and/or reduction of passenger services to Alaska citizens residing in remote or "bush" locations served only by the corporation would result in extreme hardship for these persons, in some cases of a life-threatening nature.

d. The provision of land access to Whittier would be severely restricted and reduced, and fares would rise substantially, during seven months each year when most of the traffic on the Shuttle trains is by Whittier residents.

Sec. 42.40.280 (b) (4)

The passenger services provided by the corporation are not expected to become self-sustaining financially during the next five years. Passenger service worldwide is operated basically as a public and/or social service. The present level of corporation service requires a much lower ratio of subsidy funding versus income from the service than elsewhere in North American and the World generally. The corporation's goal in continuing this service is to provide quality services at a realistic public cost to support essential access for Alaska citizens, and as a catalyst to the fast-growing statewide tourist industry.

Sec. 42.40.280 (b) (5)

While the corporation is presently not requesting an appropriation for the purpose of providing passenger service that is not financially self-sustaining, the likelihood of future application is strong.

The Act requires that the amount of any appropriation be calculated in accordance with United States Interstate Commerce Commission (ICC) standards for determining rail service subsidies.

Such standards do not presently exist. At one time, prior to the Staggers Rail Reform Act of 1980, the ICC did have certain regulations in effect which dealt with passenger subdidy computation. These were, however, designed for metropolitan area commuter rail service which is not directly comparable to Alaska services. These standards were repealed in their entirety in 1980.

In addition, the ICC standards provided for full cost recovery by rail carriers, plus management fees and profits. The corporation's computation of its passenger costs do not claim recovery of general overhead costs, costs for use of capital, or management/profit fees. Therefore, the corporation's level of subsidy is significantly below any which would result from using the old ICC standards.

Because no standards do exist, the corporation believes that this provision of the Act does not apply to the passenger services which it provides within Alaska.

THE ALASKA RAILROAD CORPORATION

Capital Budget Request CY-85 & CY-86
Passenger Services

November 27, 1984

The Corporation is requesting an appropriation for capital improvements during Calendar Years 1985 and 1986 which includes $7.5 million for projects within the passenger services functions of the Railroad.

Summarized, these funds will be expended as follows:

a. $100,000 for improvements to the station facilities at Denali National Park.

b. $2.4 million for station and terminal improvements, and rolling stock improvements, to the Whittier to Portage "Shuttle" service.

c. $5 million for remanufacture of ten (10) passenger cars from 1950-era equipment which is essentially worn out.

These improvements are the first phase of a general upgrading of the passenger service facilities and equipment on the Alaska Railroad. Except for a $4 million investment by the Congress in 1981, the railroad has never invested in a major upgrading of their passenger facilities. The 1950-era car fleet was acquired used in 1971 and is essentially intact, as-built, in service.

Unless investment is made in the above projects, public safety and comfort will be jeopardized and the corporation's ability to provide service at its present level will be significantly reduced.

THE ALASKA RAILROAD CORPORATION

PASSENGER SERVICES ESTIMATED DATA
INCOME & EXPENSE

($ 000)

	CALENDAR YEAR 1985	CALENDAR YEAR 1986
EXPENSES BY DEPARTMENT		
TRANSPORTATION	3450	3950
MOTIVE POWER/EQPT.	1785	2040
MARKETING	180	205
CATERING	375	425
ACCOUNTING	50	58
TRACK MAINT.	405	450
TOTAL OP.COSTS	6245	7128
TOTAL REVENUE *	4520	5215
SERVICE LOSSES	1725	1913

* - ESTIMATED REVENUE AS OF 11/21/84 BEC

NOTE: THIS STATEMENT INCLUDES A.A.R. OPERATING COSTS ONLY. CORPORATE OVERHEAD AND CAPITAL INVESTMENT COSTS ARE NOT INCLUDED.

ALL PASSENGER SERVICE INCLUDED...MAINLINE, SHUTTLE, SPECIAL & CHARTER.

ANNUAL REPORT

ALASKA RAILROAD CORPORATION

1985

PRESIDENT'S LETTER

Unlike New Year's resolutions, business goals and objectives are made with the thought in mind that they will be met; not broken. I am happy to report that after one year of operation as a state-owned corporation, the Alaska Railroad has an impressive scorecard based on the goals we set out to achieve. And it is a trend we expect to continue in the coming years.

Of course, none of this would be possible without the hard work of the corporation employees. Their dedication to the Alaska Railroad makes it possible for the corporation to achieve its objectives.

The overall goal of the Alaska Railroad Corporation is to foster and promote long-term economic growth and development in Alaska by providing transportation services on a self-sustaining basis, at competitive rates, and at the same time generate sufficient funds to upgrade and maintain the physical integrity of the railroad.

To achieve that overall goal, a three-year plan was developed that includes an extensive marketing program to increase our revenues coupled with an intense effort to streamline our operations to reduce our expenses. The result, we believe, will be ample funds to reinvest in modernizing the railroad including purchasing new equipment, upgrading the track and roadbed, and improving our physical plant.

The marketing objectives of our plan include increasing our revenue from petroleum products and our piggyback trailer service. In 1985 we added two new trains that give priority service to these customers, increasing petroleum revenues by 15 percent and piggyback revenues by 20 percent.

In addition, we plan over three years to reduce our losses from passenger service. No railroad makes money on passenger service and the Alaska Railroad is no exception, recording losses of $1.8 million in 1985. With the purchase of two new rail diesel cars in late 1986, we expect to cut those losses by $500,000 in 1986 alone.

While we were attempting to boost our revenues, a major plan was underway to cut expenses by implementing new computerized accounting, personnel, procurement, supply, rail car distribution and preventive maintenance programs. Most of the work had been completed by year end. The remainder of the effort should be complete in 1986.

Two significant cutbacks outlined in our three-year plan are reduction of our vehicle fleet by 25 percent and reduction of our expendable inventory by 30 percent. By the close of the first year we had cut our vehicle fleet by 22 percent and whittled our expendable inventory, including track material, by 18 percent. Most of these items were sold at public auction, adding over $1 million to our cash revenue.

Our most ambitious objectives in the three-year plan are capital expenditures needed to modernize equipment, improve efficiency, and maintain the physical integrity of the railroad.

Equipment purchases planned are 13 new locomotives and 115 new rail cars. In 1985 we bought five locomotives and 15 new rail cars for a total of $9 million. We also plan to replace our old, inefficient construction equipment. In 1985 we spent $600,000 and will purchase another $3 million worth in 1986.

All of these efforts would be fruitless if we did not pledge to devote significant time and money to maintaining our track and roadbed. We spent more on track upkeep in 1985 than at any time in the railroad's recent history. For instance, more miles of rail were replaced this year than following the 1964 earthquake which caused $30 million in damage to the railroad.

With our impressive scorecard of goals set and then achieved, the Alaska Railroad Corporation is well on it's way to fulfilling the dream that inspired so many Alaskans to push for its purchase from the federal government. There were, as expected, a few trials and false starts in 1985, and 1986 promises to hold its share of challenges. But I am confident they can all be met.

Frank G. Turpin
President and
Chief Executive Officer

Alaska Railroad Yard in Fairbanks at sunset

YEAR IN REVIEW

For the Alaska Railroad Corporation, 1985 was a year of changes.

Change is inevitable in any business. It is a natural part of growth. However, for the Alaska Railroad Corporation, 1985 was a year of changes unlike any the Alaska Railroad had ever experienced.

The first and most dramatic change came within the first week of 1985, when on January 5 ownership of the Alaska Railroad was officially transferred from the federal government to the state of Alaska.

That transfer of ownership set the stage for many, many more changes, from management and personnel to policies and procedures. And with those changes a foundation was laid for the prosperous development of the newly formed Alaska Railroad Corporation.

Alaska paid the federal government $22.3 million for the Alaska Railroad. That purchase price included 655 miles of track, 38,000 acres of land including all rights-of-way, 1,545 units of rolling stock including locomotives, freight cars and passenger coaches, and four terminal facilities, one each in Seward, Whittier, Anchorage and Fairbanks.

A NEW CORPORATION

Transfer of railroad ownership to Alaska was made possible by the Alaska Railroad Transfer Act (ARTA), enacted by Congress in 1982. In 1984 the Alaska legislature adopted the Alaska Railroad Corporation Act (ARCA), establishing it as a public corporation of the state that would act as a separate, profit-making entity.

On January 5, 1985, as a result of the transfer, the federal railroad's financial books were closed. On January 6 the new state corporation technically began business with no operating funds. To meet the railroad's immediate money needs, the state legislature allocated, in addition to the sale price, a one-time startup fund of $10.9 million. The money was used to meet the corporation's first month's payroll and to continue several capital improvement projects that had been initiated under the federal system.

Within its first month of operation the new Alaska Railroad Corporation showed a profit, and continued to do so through the end of the year. In its first year of operation under state ownership, the Alaska Railroad Corporation netted $7.1 million, among the largest gains recorded by the railroad in its 62-year history.

John Riley, Federal Railroad Administrator, and Bill Sheffield, Governor of Alaska, signed an agreement January 5, 1985 to transfer the Alaska Railroad from federal to state ownership.

ARCA provided for the stewardship of the new corporation by a seven-member board of directors appointed by the Governor of Alaska.

The board is responsible for management of the corporation but has delegated certain powers and duties to Frank G. Turpin whom the board selected to serve as the railroad's president to guide the day-to-day operations of the corporation. He joined the railroad immediately upon transfer.

Five new locomotives were purchased by the Alaska Railroad Corporation in 1985.

Two self-propelled rail diesel cars, purchased in late 1985, will upgrade passenger service on the Alaska Railroad.

GOALS FOR 1985

As chief executive officer, Turpin set three goals for the new corporation: earn a profit without seeking state subsidies, broaden management emphasis from a concentration on operations to include marketing and finance, and modernize the railroad's rolling stock, equipment and physical plant.

Giant steps forward were accomplished in 1985 in all three areas. Each step meant changes as the railroad moved away from federal procedures and began operating more like a private business.

The first goal of earning a profit without state subsidies was accomplished in the first year. To control future spending and to get the best value from its revenue, the corporation developed a three-year capital spending program. The plan includes replacement or addition of several units of rolling stock and heavy equipment. The net result will be lower maintenance costs and improved service to customers.

MODERNIZING THE RAILROAD

The three-year plan also tied in with the corporation's goal to modernize the railroad. To improve freight hauling capabilities, 45 new intermodal flatcars called "articulated" cars were purchased for $4.5 million. The first step toward upgrading the aging locomotive fleet was the purchase of five new state-of-the-art diesel locomotives valued at $1 million each. The cars and locomotives arrived in the spring of 1985 and were placed in service immediately. At the close of the year the first of two 48-seat, self-propelled rail diesel cars (RDCs) arrived. The rebuilt cars were purchased to improve and reduce the cost of the winter passenger service and to augment summer and charter services.

Doug Engebretson is a carman for the Alaska Railroad in Fairbanks. An average of 600 employees worked at the railroad in 1985.

The new cars and engines were obtained through a lease/purchase program that allowed the corporation to avoid seeking state subsidies. While the railroad had not been able to take advantage of the lease/purchase option under federal ownership, the corporation's unique position as a quasi-public enterprise enabled the railroad to make the best use of its revenue by leveraging its cash and buying on credit.

NEW MANAGEMENT EMPHASIS

Other changes occurred within the railroad's Finance Department as steps were taken to equalize the emphasis on the three key departments in the railroad: operations, marketing and finance. A computerized accounting system was implemented to improve what had previously been manual procedures. Generally Accepted Accounting Principles (GAAP) were adopted as the railroad's accounting standards, which more closely matched revenue to expenses.

The Marketing Department took a more aggressive stance in seeking business for the railroad. The freight sales division was expanded by the addition of a freight sales manager with responsibility for the sales force in Anchorage and Seattle. Marketing developed and promoted two new unit trains, one for overnight trailer traffic and one for bulk petroleum products, to better meet the needs of Alaska shippers.

The Operations Department, responsible for all train movements and the upkeep on all rolling stock, equipment and track, in 1985 conducted the largest overall roadbed maintenance program in recent years. There were 81,000 linear feet of rail replaced, 26,000 new ties laid and about 200 miles of main line track resurfaced.

OUR EMPLOYEES

With all the changes that occurred at the Alaska Railroad Corporation, it is natural that employees would feel the impact. Steps were taken to streamline some departments while others added personnel. An average of 600 employees worked throughout the year, with peak employment topping the 900 mark during the busy summer construction season.

A significant change occurred in the personnel office when it was tied to the labor relations and the compensation and benefits divisions under the corporate umbrella title of Human Resources Department.

All but about 120 of the corporation's employees are represented by unions. There are seven bargaining units representing five unions: American Federation of Government Employees (blue collar and white collar units), American Train Dispatchers Association, Agents/Operators Unit; American Train Dispatchers Association, Train Dispatchers Unit; Brotherhood of Railway Carmen of the U.S. and Canada, International Association of Machinists and Aerospace Workers, and the United Transportation Union.

Under federal and state law the union contracts in existence at the time of transfer are to be renegotiated by the corporation within the first two years of operation under state ownership. Beginning in August 1985, for the first time in the history of the Alaska Railroad, all seven bargaining units and management met at the bargaining table to begin hammering out new contracts. Negotiations will continue in 1986.

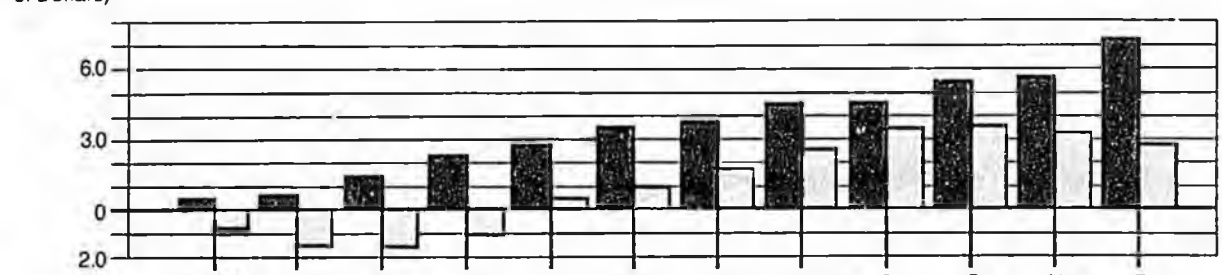
THE FUTURE

Despite all the changes and reorganization it experienced in 1985, the Alaska Railroad Corporation is looking to 1986 as another year of challenges. An ambitious program is planned to continue to upgrade and improve the railroad's track and roadbed, its rolling stock and its physical plant. A $66 million operating budget was approved by the Board of Directors for 1986 plus $13.3 million in capital improvements.

The Marketing Department will continue its aggressive stance in seeking business for the railroad while providing new, more improved services to meet the customers' needs.

While 1985 was a year of transition for the Alaska Railroad, 1986 is expected to be a year of fine-tuning that will bring the corporation into the forefront of the transportation industry in Alaska.

ALASKA RAILROAD CORPORATION
1985 Income (Loss)



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Budget	(.8)	(1.3)	(1.6)	(1.0)	.3	1.0	1.9	2.7	3.5	3.6	3.2	2.9
Actual	.3	.5	1.3	2.1	2.9	3.5	3.9	4.5	4.5	5.5	5.8	7.1

OPERATIONS

The Operations Department is the part of the railroad most people are familiar with because it is most visible. Operations has three major divisions: Transportation, Motive Power and Equipment, and Engineering. Together these three divisions are responsible for all train movements, for the upkeep of all rolling stock and equipment, and for construction and maintenance of the track and roadbed and all railroad buildings.

Other divisions in Operations are less known, such as Security and Claims, Operating Rules and Hazardous Materials. Security and Claims is responsible for the security of the line including preventing trespassing and for investigating train and train-related accidents. This department also processes all claims for lost or damaged freight and equipment.

The Operating Rules Department administers the railroad's rules program for operating trains and equipment. To ensure understanding and compliance of the operating rules and special instructions, periodic training and testing is provided for operating personnel by this department.

The Hazardous Materials Office is responsible for inspecting equipment, rolling stock and buildings for compliance with corporate rules and regulations regarding the use and transportation of hazardous materials.

ENGINEERING

In 1985 crews replaced about 26,000 crossties, relaid 81,000 linear feet of mainline rail using premium alloy rail, and turned another 40,500 feet of rail on curves. More than one-third of the rail system, or about 200 miles, was surfaced.

Bridge crews repaired and upgraded 23 steel and timber bridges, including the repair or installation of timber stringers, bulkheads, pilings, guard rails and bridge ties.

Maintenance workers installed a new, high technology material at railroad crossings that will provide a better crossing surface for the traveling public.

The single largest maintenance expenditure totalled about $2 million for rehabilitation of five tunnels between mile 51 and 53 of the main line. The two-year, $4 million project, about 50 miles north of Seward, will decrease maintenance of the tunnels and improve operations through that section of track. Work completed by the project contractor in 1985 included rock bolting of all the tunnels, ditching to improve drainage, and pouring four of 10 new reinforced concrete tunnel portals.

The Engineering Department coordinated with the state Department of Transportation and the Municipality of Anchorage in construction of two grade-separated crossings in the Anchorage area. The work included three new railroad bridges at Dimond Boulevard, 76th Avenue, and Campbell Creek, plus 1.6 miles of new mainline track. Work was begun also on the Municipality's West Northern Lights Boulevard project in Anchorage. When completed in 1986 it will be similar to the grade-separated crossing at Dimond Boulevard.

Engineering also coordinated with the Department of Transportation in Fairbanks in making track changes to the Fairbanks Yard to provide space for construction of a highway nearby and an overpass across the Fairbanks Yard. The work included construction of a balloon track to replace the wye and will eliminate a crossing in the middle of the yard.

Most of the work completed by the Engineering Department was designed to improve or enhance other areas of the Operations Department. For instance, electrical service was installed at the Anchorage and Fairbanks van terminals to provide "keep from freezing" (KFF) trailer service. KFF provides shippers with electrical power for heating and preserving goods shipped during the winter in trailers on flat cars.

Increased truck-trailer traffic on the Alaska Railroad led to the construction of a 4,000-foot van track in Whittier to improve trailer-on-flatcar (TOFC) service. Other van terminal improvements were made both at Whittier and Seward including new trackage, lighting and drainage.

Upgrade of 12 miles of the Eielson Branch was begun with the replacement of 4.6 miles of 75-lb. rail with secondhand 115-lb. rail that was replaced on the main line. The branch line serves Ft. Wainwright, North Pole and Eielson Air Force Base. It is used for delivery of coal to fuel the military's power plants. A 4,100-foot siding was constructed on the branch line at North Pole to accommodate increased traffic expected to result from the expansion of the nearby oil refinery.

Throughout the year Engineering employees worked to upgrade and improve the railroad's physical plant. Facilities at Fairbanks, Denali Park, Anchorage and Seward were painted or remodeled; water, heating and sewage systems were improved; and roofs were replaced or insulated to reduce maintenance, repair defects, reduce heat loss and improve appearance and operation.

The single largest physical improvement was construction of boiler plants in several Anchorage facilities as part of the final phase of a three-step utility modernization program that eliminates the railroad's dependence on a nearby high-cost, outmoded, commercial heating plant. The results are significant energy savings and improved working conditions.

The project included installation of five boilers, including three 400-horsepower steam boilers in the old blacksmith shop, which when constructed in the early 1920s was the original railroad boiler plant, and two 125-horsepower hot water boilers in a new building constructed near the Anchorage warehouse area. Three smaller plants were installed to heat the general office building, which houses the Anchorage Passenger

Rehabilitation of five tunnels between Seward and Portage was the single largest track maintenance expenditure in 1985. The $4 million, two-year project will be completed in 1986.

Depot; the annex, which includes the accounting and computer personnel; and the Anchorage freight house, which includes the procurement offices.

This project will be completed in 1986 with installation of an energy management and control system, some minor renovations to buildings, and relocation of the car cleaning facility.

MOTIVE POWER AND EQUIPMENT

While the Engineering Department was working in 1985 to improve the condition of the railroad tracks, roadbed and physical plant, the Motive Power and Equipment (MP&E) Department acquired new rolling stock and equipment or overhauled much of what was already on hand.

Major purchases included five new state-of-the-art GP49 diesel locomotives manufactured by the Electro Motive Division of General Motors. The 2,800-horsepower locomotives have an anti-wheel-slip system that improves train performance and fuel consumption.

In an effort to improve the reliability of the existing locomotive fleet and to reduce maintenance costs, MP&E completed a major overhaul of the electrical components and trucks on two locomotives and completed the rewire and electrical upgrade to control circuits on a third. A fourth locomotive was repowered with new pistons, cylinder liners and heads.

Several locomotives were judged beyond economical repair and were retired, including No. 1500. An F-7 engine that had a glamorous history with the Alaska Railroad, No. 1500 provided the power for many ceremonial trains including two trains used during transfer ceremonies in January. No. 1500 also was featured in a motion picture filmed on the Alaska Railroad in 1985 called "Runaway Train." It was the grand old lady's last official duty before being retired and donated to a local transportation museum.

To improve freight-hauling capabilities, 45 articulated intermodal cars were purchased for TOFC service. Each car is hinged, or articulated, in three sections to allow for easier train movement. There is space on each car for three trailers. The cars are used primarily for hauling trailers between Anchorage and Fairbanks.

At far left, the railroad yard in Fairbanks includes about 440 acres in the heart of the city. A row of articulated flat cars shown at center awaits trailers for shipment to Anchorage.

Left, the Alaska Railroad owns about 660 acres near downtown Anchorage, most of which is at the mouth of Ship Creek. In the background is the roundhouse where all equipment maintenance and repairs are done.

MP&E began construction of two power cars and wired 15 of the new articulated cars to provide electricity for trailers carrying perishable goods and other commodities that might freeze.

Two self-propelled passenger cars were purchased in 1985 also. The cars, known as rail diesel cars or RDCs, were rebuilt with the installation of twin 347-horsepower Cummins engines and twin-disc transmissions. The first of the two cars was received in December 1985 and was placed in winter passenger service at the start of the new year.

For the first time MP&E placed an employee in the railroad's Seattle office to work exclusively with shippers in solving technical problems related to equipment use and loading requirements. A program establishing new rules for open-top loads was initiated to reduce the cost to shippers for improperly secured or heavy loads.

TRANSPORTATION

Train movements increased dramatically in 1985 and the Transportation Department worked to ensure those movements were made safely and efficiently. Gross trailing ton miles, a measurement for the movement of one ton over one mile, were up 25 percent in 1985 over 1984. Freight traffic accounted for the major portion of this increase, but passenger traffic also rose. Ridership surpassed the quarter-million mark for the first time in the railroad's history.

The first full year of export coal service by the railroad was completed in 1985. A steady source of revenue was derived from the three-unit-trains-a-week movement of coal from the Usibelli mine at Healy to Seward for export to Korea. The contract for hauling export coal began in December 1984 and since its inception 132 coal trains have hauled 671,000 tons of export coal.

In addition, 562,000 tons of coal were moved from Healy to the Fairbanks area to provide fuel for five power plants in Interior Alaska and the military bases at Wainwright, Clear and Eielson.

In May 1985, a new intermodal freight service was inaugurated called the Arctic FOX, or Freight Overnight Express. This service is a unit trailer train that provides six-days-a-week overnight delivery of trailers and containers between Anchorage and Fairbanks. The Arctic FOX operates with an average of 10 articulated flat cars that provide space for about 30 trailers or containers. The FOX hauled 5,832 trailers in its seven months of operation in 1985.

The FOX is the first cabooseless train service operated on the Alaska Railroad and the first service operated with a two-member crew. This was made possible by the addition of train rear-end devices. These end-of-train monitors provide vital information to locomotive engineers operating cabooseless trains. Each device consists of two units, a receiver in the locomotive cab and a transmitter on the rear car of the train. Together these units allow crews to monitor air brake pressure, detect motion in the last car of the train and measure train distances traveled. The units also provide the rear-end car with an FRA-required amber light that automatically turns on at dark.

During the same time the Arctic FOX service was initiated, the Anchorage freight house operations were discontinued. All services for loading and unloading railcars, consolidation of freight, and rubber-tire delivery were contracted to local businesses in an effort to divest from some less profitable, labor-intensive operations. Because of the railroad's rapid growth in the intermodal business, all Anchorage freight house employees were transferred to Intermodal Services, which was established as a separate division within the Transportation Department.

In October, the railroad-owned and operated Healy Hotel was closed and the building sold at public auction. The hotel had been in operation since 1946 and provided lodging and meals for railroad employees.

Jim Trueblood, a locomotive electrician in Anchorage, installs a new bearing on a locomotive engine alternator. ►

Chris Brooks, a machinist in the Anchorage wheel shop, uses a caliper to measure the axle bore of a wheel.

Larry Newsham, ► *technical services manager, inspects loaded rail cars before shipment from Seattle to Anchorage.*

Fairbanks carman Kirby Roundtree ◄ *welds the undercarriage of a rail car.*

► *Melvin Hills inspects the assembly of a wheel mounted onto a rail car axle. Hills is a carman in the Fairbanks wheel shop.*

Because of its high operating and maintenance costs, the hotel was closed in favor of a more economical means of providing these services by contracting with a local motel and cafe at Healy.

In December the second new freight service for 1985 began operating. A daily unit tank train service between Fairbanks and Anchorage, called the Oil Worker Limited or OWL, transports petroleum products from the local oil refinery southbound to Anchorage and gasoline northbound to Fairbanks from storage yards in Anchorage. This daily service greatly improved freight delivery service for these commodities and turnaround time on empty tank cars.

OPERATING RULES

In late 1985, after extensive review and consultation with railroads operating in the Lower 48, the Operating Rules Department began training operating personnel on an innovative new system known as Track Warrant Control. This system is used on many other U.S. railroads and is designed to expedite the movement of trains while providing a safe and efficient operation. It will replace the complicated and time-consuming train order method in use at the Alaska Railroad for decades. Target date for railroad-wide implementation of the Track Warrant Control system is set for February 1986.

SECURITY AND RISK MANAGEMENT

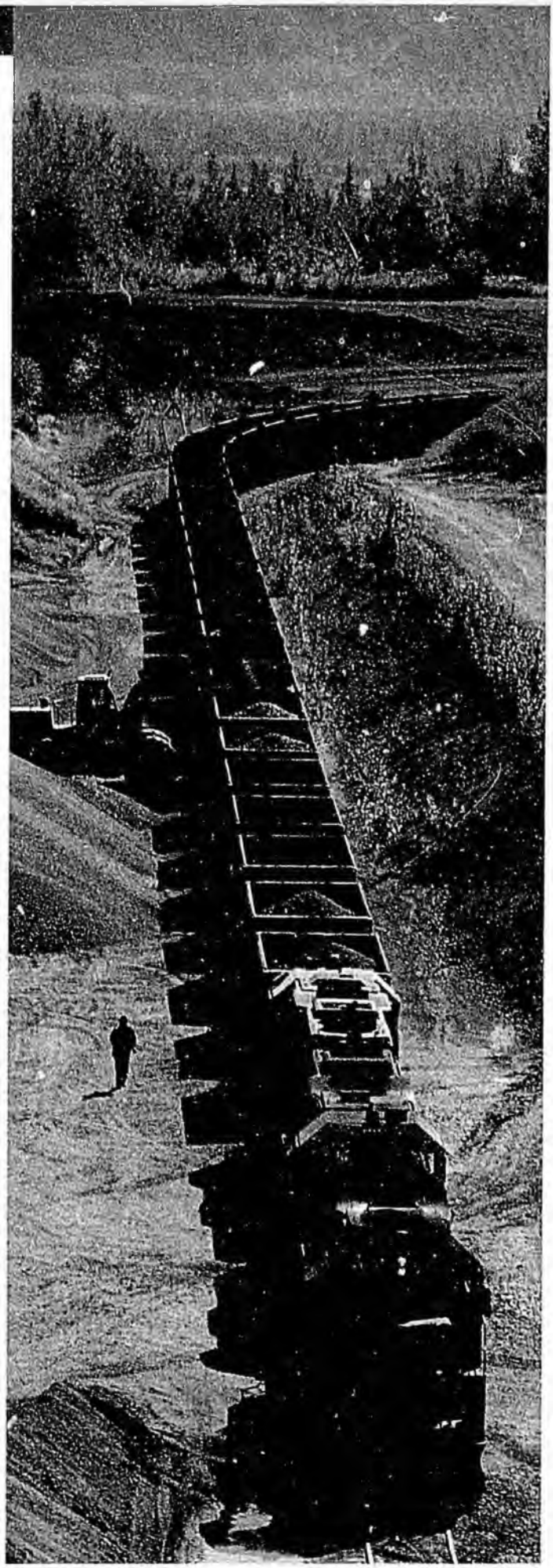
With the transfer of the Alaska Railroad to state ownership, the new corporation was required to organize a risk management program to provide insurance for property damage or loss, theft, fire, vandalism and other potential liabilities. For the first six months of 1985 the railroad operated on an interim program with coverage provided under the state of Alaska's risk management program.

During this interim period a review of the railroad's insurance needs was conducted and a risk management program developed that was marketed to domestic and foreign underwriters.

With the first year of experience as a reference, the risk management program is being assessed and modifications being made as the insurance markets dictate and as the corporation also continues to define and refine its specialized insurance needs.

HAZARDOUS MATERIALS

As part of its continuing safety program, the Alaska Railroad provided training and information regarding the loading and movement of hazardous materials to shippers as well as local fire fighting and emergency services personnel along the railbelt. The Hazardous Materials Specialist provides assistance to customers to ensure that materials shipped on the Alaska Railroad are loaded and placarded in compliance with federal regulations. Examples of materials shipped in 1985 include petroleum products such as gasoline and jet fuel, and chemicals for use in manufacturing.



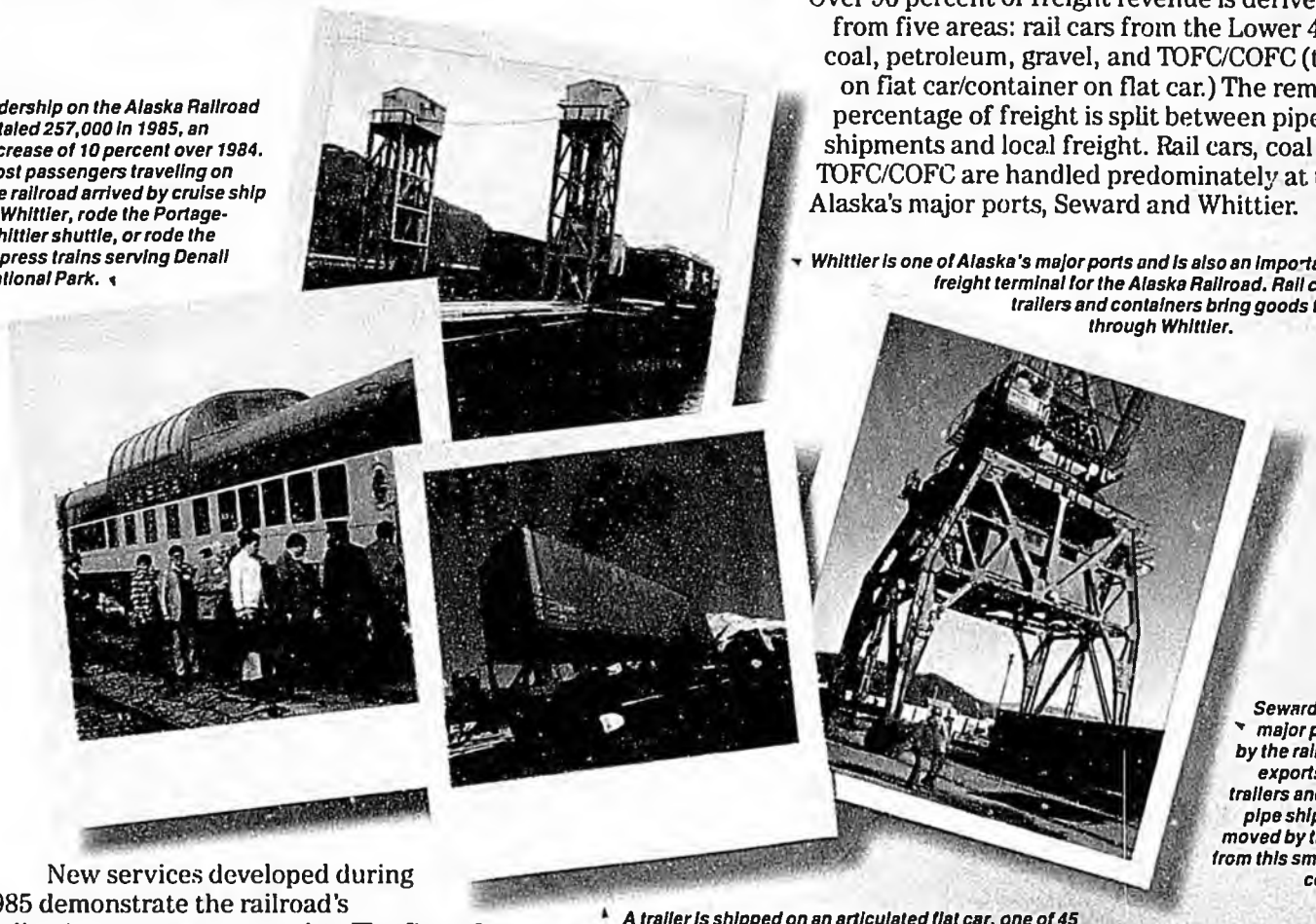
Gravel unit trains are loaded near Palmer, in the Matanuska Valley, 40 miles north of Anchorage.

MARKETING

To achieve the business goals of the new railroad, the Marketing Department expanded the activities of the department, placing greater emphasis on developing new markets for the railroad's services.

Marketing's role within the corporation includes selling, pricing, rate and service contracting, cost of service analysis, market planning, market research, market development, customer service, advertising and promotion of both freight and passenger service. It also includes management and development of the real estate holdings of the corporation.

Ridership on the Alaska Railroad totaled 257,000 in 1985, an increase of 10 percent over 1984. Most passengers traveling on the railroad arrived by cruise ship in Whittier, rode the Portage-Whittier shuttle, or rode the express trains serving Denali National Park.



Whittier is one of Alaska's major ports and is also an important freight terminal for the Alaska Railroad. Rail cars, truck trailers and containers bring goods to Alaska through Whittier.

Seward is another major port served by the railroad. Coal exports, rail cars, trailers and imported pipe shipments are moved by the railroad from this small seaport community.

A trailer is shipped on an articulated flat car, one of 45 specially designed cars bought by the railroad in 1985. Each flat car can carry three trailers.

New services developed during 1985 demonstrate the railroad's dedication to customer service. The first of these specialized services was initiated only four months after the railroad transfer. Named the Arctic FOX (Freight Overnight Express), the service provides overnight delivery of high priority, highway trailers between Anchorage and Fairbanks using specially designed articulated flat cars, the first equipment purchased by the railroad in 1985. The efficiency of the FOX operation permits the railroad to compete with motor carriers in this market and pass the cost saving along to the Alaska consumer. Since its inception in May, the popularity of the FOX has steadily increased. By the end of the year it was operating regularly at over 90 percent capacity.

Another priority service begun in 1985 was the OWL (Oil Worker Limited). This daily train transports jet fuel from the petroleum refinery at North Pole to Anchorage, returning to the Fairbanks area with gasoline and other petroleum products. The efficiency of this service has made it possible for the customer to double the shipping volume without increasing the number of tank cars it leases.

FREIGHT SERVICE

Freight service is the most important source of income for the railroad. In 1985 it resulted in three-quarters of the corporation's $67 million in revenue. Passenger service and real estate revenues accounted for another 13 percent of the total.

Over 90 percent of freight revenue is derived from five areas: rail cars from the Lower 48, coal, petroleum, gravel, and TOFC/COFC (trailer on flat car/container on flat car.) The remaining percentage of freight is split between pipe shipments and local freight. Rail cars, coal and TOFC/COFC are handled predominately at two of Alaska's major ports, Seward and Whittier.

One-fifth of the freight revenue is derived from coal shipments, either export or local delivery. Alaska coal is exported to Korea through a major coal transloading facility built at the Port of Seward in 1984. The coal export contract with the Koreans runs through 1992. During the first year of the contract (actually 13 months, including December 1984) 671,000 tons of coal were moved to Seward. That is about 20 percent below the volume projected because of lower consumption by the customer, Korea Electric Power Company.

Coal shipments within Alaska were also lower than expected. Warmer than usual temperatures in

Interior Alaska resulted in reduced consumption by the five power plants in the Fairbanks area and the nearby military bases that use coal for fuel. About 562,000 tons were shipped locally in 1985.

Gravel and sand shipments, which move in unit trains between the Matanuska Valley and Anchorage, were the fifth largest revenue producers among all commodities shipped by rail. These shipments are tied to the cyclical rise and fall of the Anchorage area construction industry, which began to decline in 1985. Although lower activity in highway and building construction is anticipated again in 1986, a high volume of gravel is expected to move via the Alaska Railroad.

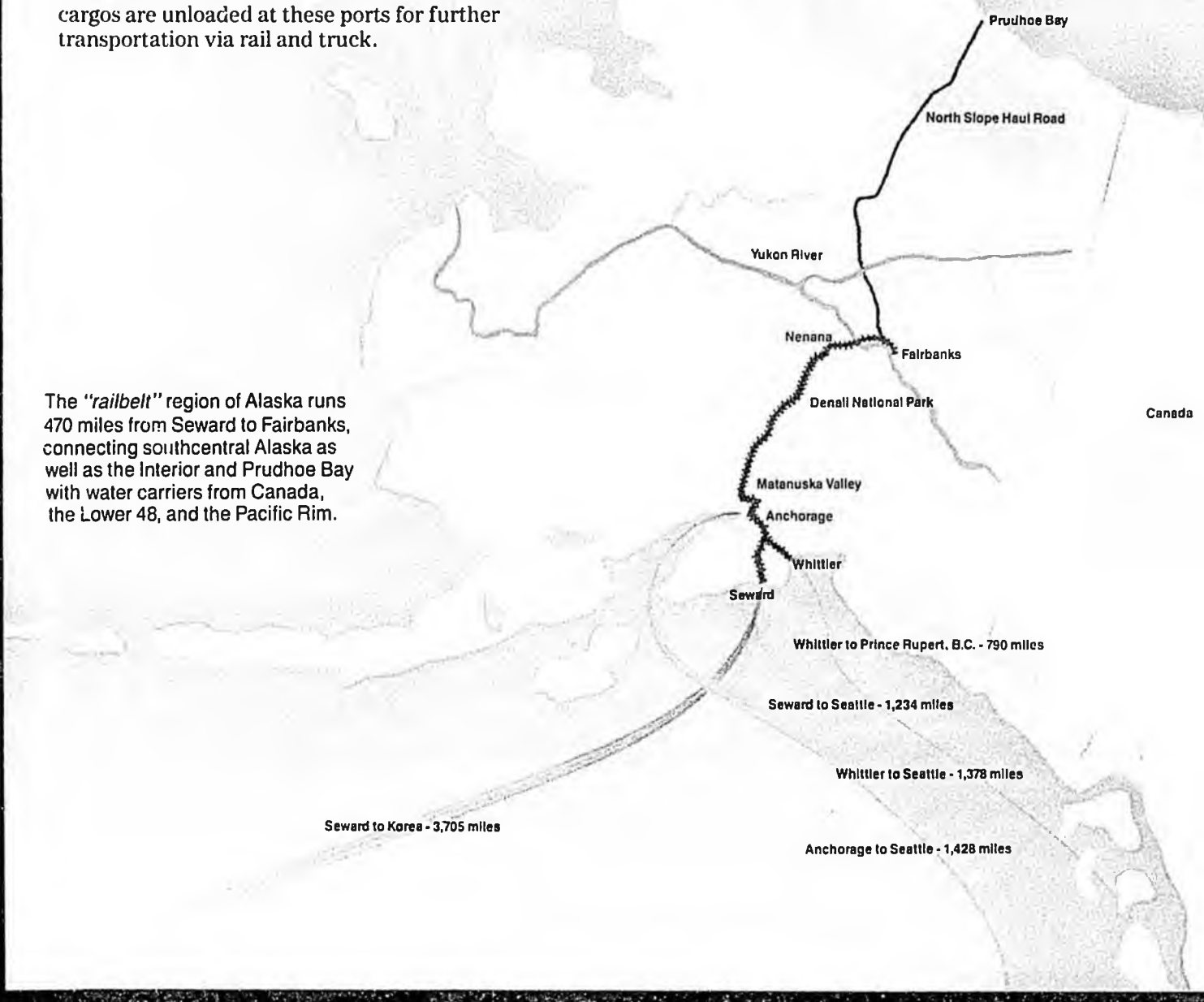
The Alaska Railroad connects with a number of water carriers providing a variety of excellent services from the Lower 48 to Alaska ports of Whittier, Seward, and Anchorage. Major rail carriers and truck lines connect with these water carriers at Seattle, Tacoma, and Prince Rupert, British Columbia. The water carriers provide frequent rail car barge, trailer, and container service.

Among the extensive railroad properties are the modern facilities at the ice-free ports of Whittier and Seward. Bulk and container cargos are unloaded at these ports for further transportation via rail and truck.

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

Freight is transferred at Nenana to river barges which provide through routes and rates in connection with the railroad. This river freight service extends along the Tanana and Yukon rivers to Fort Yukon, and even to Marshall, just 150 miles from the Bering Sea. The railroad has for decades provided this essential service to the Bush, and is continuing to upgrade transportation facilities and services.

The railroad competes actively for the transportation of imported steel pipe products, which move into Alaska principally through the ports of Seward, Anchorage, and Valdez. The railroad moved 74,000 tons of pipe in 1985.



The *"railbelt"* region of Alaska runs 470 miles from Seward to Fairbanks, connecting southcentral Alaska as well as the Interior and Prudhoe Bay with water carriers from Canada, the Lower 48, and the Pacific Rim.

An aggressive marketing effort and improved service by rail led to a strong recovery in this business in December. Ship traffic through Seward resumed late in the year, discharging pipe for movement to the North Slope oil fields through the railroad's terminal in Fairbanks.

The Alaska Railroad Corporation is a major supplier of transportation services for the petroleum industry. Steel pipe, drilling compounds, machinery, and supplies routinely move over the railroad to Fairbanks for further movement by motor carrier to the North Slope. Massive drilling rigs are fabricated by an Anchorage firm then disassembled for transportation to the oil fields.

PASSENGER SERVICE

The majority of the 257,000 passengers who chose the Alaska Railroad for travel in 1985 arrived on cruise ships through the railroad's port of Whittier, rode the Portage-Whittier shuttle, or rode the express trains serving Denali National Park. Ridership rose by almost 10 percent over 1984, making the year a record for the railroad's passenger train service.

The purchase of two specially rebuilt rail diesel cars (RDCs) received in late 1985 is expected to reduce significantly the cost of wintertime rail service to rural areas, where the greater part of passenger service losses are incurred. These self-propelled passenger cars are available for charter and excursion trains and to supplement other passenger services where necessary.

The Alaska Railroad offers several types of passenger services, depending on season and destination. These services include the Denali express, the rural local service, Whittier shuttle, Seward excursion, and winter service.

The Denali express is the summer service on the Anchorage - Denali Park - Fairbanks route. Trains leave Anchorage and Fairbanks daily from late May to mid-September and serve Denali National Park each way. The Denali express is the last traditional intercity passenger train in the United States and provides spectacular views of Mt. McKinley, the tallest mountain in North America.

The rural, or Bush, service which moves people and their belongings (such as animals, supplies, and food) to remote areas not served by highway or air, is a major public service of the railroad. Bush passengers flag the train at almost any point for personalized service. Wintertime essential Bush and shuttle services during the eight-month season result in about 7 percent of the railroad's annual passenger business. The railroad also provides weekly small freight shipment service to these remote homesites.

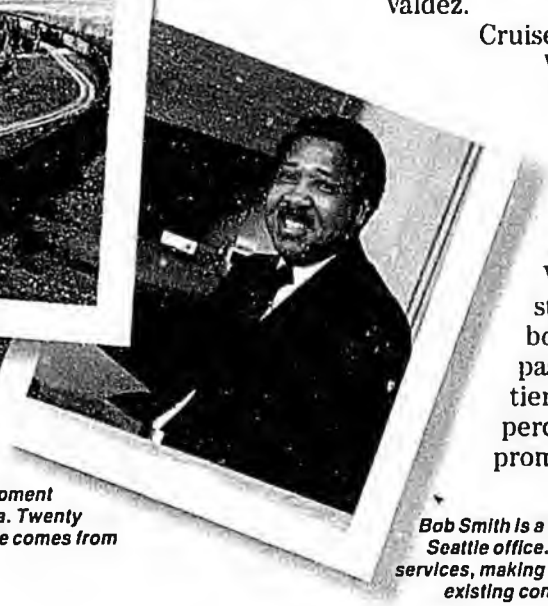
The 12-mile trip from Portage to the community of Whittier is traveled by what is familiarly known as the Whittier shuttle. The shuttle provides the only land access to this small but major seaport town. Passengers may ride the train or in their vehicles that are loaded onto flat cars at Portage. Much of the trip is through tunnels because of the many rugged mountains encountered between Portage and Whittier. The train makes several round trips daily between the two stops in the summer. Connections and reservations are available with the Alaska Marine Highway ferry service from Whittier to Valdez.

Cruise ship service to Whittier and significant increases in recreational use of the Prince William Sound region, coupled with a banner tourist year on the Valdez to Whittier state ferry route, boosted the number of passengers on the Whittier shuttle by over 20 percent. Ridership in 1986 promises to exceed 1985.

This 20,000-gallon tank car is part of the OWL (Oil Worker Limited), a new, daily unit train that brings jet fuel from North Pole to Anchorage, and returns to Fairbanks with gasoline and other petroleum products.

Phil Hibdon, left, and Dennis Smith, railroad marketing representatives, provide pricing information for freight service.

Coal is loaded at the Usibelli coal mine near Healy for shipment to Seward and then Korea. Twenty percent of freight revenue comes from local and export coal.



Bob Smith is a freight salesman in the railroad's Seattle office. His duties include selling freight services, making customer contacts and servicing existing contracts between the Lower 48 and Alaska.

A van loader sets a trailer onto an articulated flat car, which is part of the Arctic FOX (Freight Overnight Express), a service initiated in May 1985. The FOX provides overnight delivery of trailers containing perishables and other priority freight.

Passenger trains to Seward will begin regular service in 1986 after a 30-year absence. The Railroad was the original link between Anchorage and Seward but service was discontinued when highway travel became more popular. During the summer the railroad will offer a weekly day-long excursion from Anchorage to Seward. Passengers will see glistening glaciers, experience the view from high rocky ledges and wind along canyon streams on this 230-mile round trip through some of Alaska's most beautiful mountain territory.

Winter passenger service is provided on a reduced scale during the shoulder season of September to May. Passenger trains travel between Anchorage and Fairbanks twice each month and to Hurricane twice each weekend.

REAL ESTATE

The Alaska Railroad Corporation controls approximately 38,000 acres of land from the ports of Seward, Whittier and Anchorage to the interior city of Fairbanks. Approximately 40 percent of the land is a transportation corridor or railroad rights-of-way. The remaining real estate includes operational and nonoperational parcels within railbelt communities.

Since transfer of the railroad to state ownership, the scope and duties of the Real Estate Department have expanded to include a greater involvement in land-use planning. Coordinated efforts between Operations and Real Estate departments have been initiated to identify surplus lands available for long term lease. This would result in a more efficient use of undeveloped railroad properties. Leasing policies and practices have been written and implemented to create a more equitable and consistent approach to land management. Innovative ground lease techniques such as rent credits for certain non-depreciable lessee improvements and rent caps that create predictable and financially attractive lease documents will be made available under this new policy. Real estate revenues for 1985 were approximately $4.3 million.

During 1985, a study was initiated to analyze and recommend for the department an office automation system to catalog and create a database to store some 1,200 real estate lease and permit contracts. The recommendation will be implemented in 1986.

Positive steps are being taken to develop a closer working relationship within railbelt communities. The Real Estate Department recognizes the need for a more cooperative approach between the Alaska Railroad Corporation and its host municipalities and boroughs.

THE FUTURE

To implement the Marketing Department's diverse role within the railroad, a formal marketing plan was developed by the department and in late 1985 was approved by the Alaska Railroad Corporation Board of Directors. A key element of the plan calls for new, aggressive marketing programs to establish the identity of the Alaska Railroad throughout the Northwest as well as in the Alaska shipping community.

CHIEF COUNSEL'S OFFICE

The Chief Counsel and his staff were kept very busy in 1985 with the myriad legal issues facing the new railroad corporation.

Topics reviewed during the year by the legal staff included real estate, regulatory review of the rail industry and the railroad's rate structure, personnel and labor relations, commercial financing, and risk management.

The State Transfer Team, which was created prior to transfer of ownership of the railroad to coordinate that process, passed responsibility for many legal tasks to the Chief Counsel in the first quarter of 1985. Foremost among these assignments was continuing oversight of the conveyancing of 38,000 acres of railroad parcels and right-of-way from the federal government to the corporation. Survey, description, and procedural issues continue to be overshadowed by Native corporation claims to valuable railroad parcels. The railroad was involved in negotiations with Ahtna, Eklutna and Toghetthele native corporations. An agreement was reached with Ahtna Inc. in 1985. Negotiations will continue in 1986 to resolve the remaining claims.

The interpretation and application of both old and new railroad leases required considerable legal support. Corporate attorneys assisted in development of a new leasing policy and new master lease. The legal office also participated in the development of corporate relations with many state, federal, and military agencies regarding mutual land ownership and management concerns.

The legal staff was instrumental in the financing of millions of dollars in new equipment purchases in 1985 by preparing and negotiating necessary commercial documents. Procurement of equipment and materials also required legal review of solicitation packages and legal assistance in the resolution of bid disputes.

Competitor challenges to the corporation's pricing of piggyback traffic (truck trailers on flat cars) led the Chief Counsel to retain transportation and accounting experts to review the corporation's rate costing practice. The studies confirmed that the corporation's pricing was appropriate.

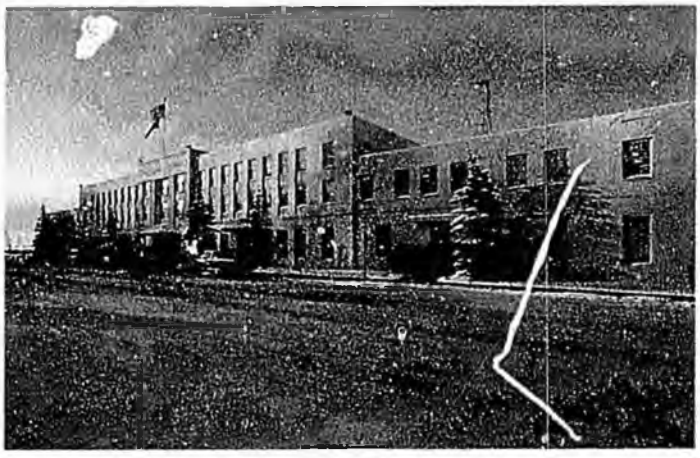
Competing water carriers fought unsuccessfully to deny the corporation any participation in the Interstate Commerce Commission's exemption of boxcar traffic from regulation. The exemption will permit more freedom in the marketing of transportation services.

Through the first year of state ownership, the corporation received relatively few claims for personal injury and property damage related to railroad operations. Corporate counsel participated in resolution of several of the claims and in review of the corporation's risk management procedures.

Given the breadth of 1985 corporate legal affairs, the Office of the Chief Counsel will be challenged by these and new assignments in 1986.

Terry Tur
specialist

Cathie McLeod is a clerk-typist in the Fairbanks freight house.



The Alaska Railroad General Office building in Anchorage was constructed in 1942. It houses most of the corporation's administrative employees.

HUMAN RESOURCES

eson and Tim Reed, foreground, are bearing
the Anchorage bearing rebuild shop.

Chris Muniz, a truck driver for the railroad, assists in loading and unloading trailers on flat cars in the Anchorage yard.

An administrative assistant, Shirley Tobin is employed in the railroad's Seattle office.

Betty Elge is the dock agent, and Beverly Clausen, foreground, a clerk-typist, in Seward.

As a federal agency, the Alaska Railroad had adhered to federal hiring practices and personnel procedures. With transfer of ownership to the state, the railroad began to develop and implement policies and procedures that more closely responded to the needs of the new Alaska Railroad Corporation.

In the process, several personnel and employee relations functions were consolidated into one department. The Human Resources Department was created from the old Personnel Office. Added to it were Organization, Compensation and Benefits, Labor Relations, and Health, Safety and Environment. This reorganized department provides a full range of employee relations services for both management and employees. Affirmative action and the streamlining of recruiting and hiring practices are a top priority in better utilization of the work force.

Among the major Human Resources projects in 1985 was conversion of all personnel and payroll records to a fully automated, computerized system. Complete conversion to the new records system was expected by February 1986. This change will allow ready access to employee data and will insure an accurate employee record system.

Human Resources played a significant role in labor negotiations in 1985. According to both the federal transfer and state corporation acts, union contracts in existence at the time of transfer to state ownership are to be renegotiated by the corporation within the first two years of state operation. Beginning in August 1985, for the first time in the history of the Alaska Railroad, representatives from all seven bargaining units and management met at the bargaining table. This unique process called for bargaining with all the unions at once on items common to all the units. By year's end significant steps had been made toward reaching a mutually agreeable master contract.

Negotiations will continue in 1986 to finalize the master agreement after which each bargaining unit will have an opportunity to negotiate an addendum specifically for each union.

UNIONS REPRESENTING RAILROAD EMPLOYEES

(As of December 31, 1985)

Union	Employees
United Transportation Union	128
Brotherhood of Railway Carmen	40
International Association of Machinists and Aerospace Workers	69
American Federation of Government Employees*	288
American Train Dispatchers Association, Agents/Operators	13
American Train Dispatchers Association, Train Dispatchers Unit	5

*Blue collar and white collar units

Administration of all benefits programs for railroad employees is managed by the Organization, Compensation and Benefits Department in Human Resources. This department administers the new life insurance and medical care programs for employees, including vision, hearing and dental care. This new program is designed to cover new employees and transferred employees and was implemented in February 1985.

This department also implemented a pension plan and a tax-deferred savings plan for non-represented employees. These plans allow employees to contribute a portion of their pre-tax earnings to a retirement and investment program. The deferred savings plan allows employees to build funds for their retirement while reducing their current taxes. Employees who participated in the Civil Service Retirement program prior to transfer remain in that system.

A safe workplace and working conditions have always been a priority at the Alaska Railroad. Corporation-wide training programs in first aid and cardiopulmonary resuscitation were provided several times throughout the year by the Safety Office. Safety meetings were held throughout the railroad on a regular basis to keep safety in the forefront of employees' minds while at work and at home.

The result was a reduction in accidents and serious on-the-job injuries. At the close of the year the Alaska Railroad Corporation was in contention with other railroads of similar size for a second place Harriman Award. The Harriman is a national safety award presented by the Federal Railroad Administration. The railroad received a fourth place Harriman in 1984 and a third place in 1983.

BENEFIT PROGRAMS
(As of December 31, 1985)

PENSION PLAN	Federal Retirement System*	Corporation Program	Total
Employee Contributions	$1,338,311.56	$41,634.28	$1,379,945.84
Employer Contributions	$1,338,311.56	$35,389.00**	$1,373,700.56
TOTAL	$2,676,623.12	$77,023.28	$2,753,646.40

* Employees who participated prior to transfer remained in this program after state ownership.

** Employer contributions are based on projected cash payouts, reflecting information received from the trust administrator.

TAX DEFERRED SAVINGS

Employee Contributions***	$232,697.29

***The present plan covers permanent, non-union employees. Union employees may become eligible depending upon the outcome of contract negotiations.

CORPORATION PAID LEAVES
(In hours)

	Earned	Used
Annual Leave	91,533	71,975
Sick Leave	58,547	35,247
Administrative Leave*	—	6,209
Jury Duty	—	1,457
Military Leave	—	312

*Paid leave is granted for such activities as voter registration and voting, representing employee organizations, and attending conferences or conventions that would benefit the corporation.

NUMBER OF EMPLOYEES BY DEPARTMENT

CEO Staff	10
Operations	532
Administration/Human Resources	25
Finance	65
Marketing	27
TOTAL	659

EMPLOYEE YEARS OF SERVICE

Years	Employees	Years	Employees
32	1	14	26
30	1	13	16
29	2	12	13
28	2	11	63
27	2	10	46
25	1	9	19
24	3	8	9
23	5	7	12
22	4	6	32
21	4	5	29
20	8	4	24
19	8	3	33
18	8	2	25
17	10	1	65
16	10	Less than 1	164
15	14		

FINANCE

When the Alaska Railroad changed hands from federal to state government, the Finance Department was a primary recipient for dramatic alterations. The changes were part of a corporate three-year plan generated in early 1985. The Finance Department as well as the corporation met or exceeded its goals for the first year.

The financial reorganization began with a management-oriented focus on the department. Accordingly, the position of Vice President of Finance was created, with all finance, information systems, procurement and supply departments reporting to this position. Formerly, under federal administration, those departments reported to the Department of Administration.

An important objective outlined in the three-year plan was the purchase of new equipment. Under federal administration all major purchases were paid by cash appropriated by Congress as part of the federal Department of Transportation budget. The new Finance Department was able to prepare a financial package that emphasized lease/purchase agreements for equipment and also established a credit line for the new corporation. The package resulted in the purchase of approximately $12 million in new equipment such as flat cars, locomotives, rail diesel cars and computers. The corporation spent an additional $10 million for improvements to the mainline track, tunnels and other areas.

Installation of an on-line accounting and financial system was another giant step taken by Finance. A new IBM 4361 computer was added which handles accounts payable/receivable, general ledger, inventory, purchasing, payroll and personnel management. The new system uses modern on-line capabilities as the standard for its operations, which prior to transfer had depended on a manual accounting system. In addition to updating the railroad's finance and record keeping capabilities, the Finance Department was responsible for expanding the use of personal computers in several work areas. The new PCs generate a huge time and cost savings in every department in which they are used.

A major activity of the new corporation in 1985 was wrapping up all accounts receivables and payables left behind by the federal government. The Federal Railroad Administration (FRA) contracted with the Alaska Railroad Corporation to collect outstanding accounts receivable and make payments for outstanding federal debts. Over $12 million of federal accounts receivable was collected by the corporation, much of which was more than six months past due. The corporation received a collection fee based on its contract with the FRA.

Another major activity specifically involved the corporation's surplus inventories. The Finance Department streamlined the warehouse and supply operations by eliminating excess inventories through public auctions held throughout 1985, generating approximately $1 million in revenue. A more efficient supply operation has resulted from the reductions.

New computers help Dave Brazell, computer operator, to streamline the financial and record keeping process for the railroad.

The accounting department in Anchorage was substantially updated with the addition of a new computer which handles accounts payable and receivable, general ledger, inventory, purchasing, payroll and personnel management.

The corporation began divesting itself of the gift shop business in 1985. Though not finalized at the close of the year, sale of the Passenger Depot gift shops to the private sector is in progress.

BOARD OF DIRECTORS

When reflecting on 1985 I consider the major accomplishment of the Alaska Railroad Board of Directors was effectively setting the stage under state ownership for the future successful management of the Alaska Railroad.

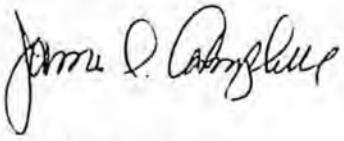
As directors we fully realize that our first responsibility is to the citizens of Alaska. We also see a need to establish an arena of cooperation and accountability with the Governor and the state legislature. Thanks to the positive response of Governor Bill Sheffield and the oversight committees of the legislature, we were able to establish this bond of trust and were given the latitude to function in a free enterprise environment. This certainly contributed to our success in 1985 and provided a platform on which those who follow in our footsteps may build.

At our regular board meetings, in order to be more responsive to the needs of the communities we serve, as well as our customers, an opportunity is provided at each forum for public comment. It is this exchange that has given the board of directors an opportunity to receive input on such issues as leasing policies, bidding procedures, needs of our employees, and the public response to our services.

This ability to communicate on a local level with management, as well as the board of directors, has provided a vehicle for public communication that was practically nonexistent under federal ownership. I am sure this was the intent of Senator Ted Stevens and the many others who worked so long and hard for state ownership of the Alaska Railroad.

In 1985 we were able to benefit from the momentum of the prior year's economy, a stable work force and some creative management innovations by the railroad management. The result was increased earnings and a profit at the bottom line. However, 1986 will present new concerns. The Alaska Railroad, like any other business in Alaska, is not exempt from the predicted slowdown in the economy. It will take a concerted effort on the part of each of us to continue our first year's success.

The board of directors would be remiss if each member did not thank you for your patience and support during this first year. We are making history with this railroad and it is exciting.



James O. Campbell
Chairman of the Board of Directors

Prior to the transfer of the Alaska Railroad to state ownership in January 1985, a seven-member board of directors for the Alaska Railroad Corporation was appointed by Governor Bill Sheffield. Appointment of the board fulfilled a requirement outlined in the 1983 Alaska Railroad Corporation Act, which established the corporation.

The Alaska Railroad Corporation board is responsible for the management of the corporation but has delegated certain powers and duties to the Chief Executive Officer, Railroad President Frank Turpin.

James O. Campbell is chairman of the board of directors. He was president and general manager of Spenard Builders Supply when his retirement was announced in late 1985. Campbell has worked and served on numerous special committees and community service projects. A resident of Alaska since 1959 he has been an Anchorage assemblyman and president of the Anchorage Chamber of Commerce.

Board vice chairman is **Frank X. Chapados** of Fairbanks. He has been an Alaska resident since his birth in Juneau in 1914, and has worked most of his life in southeastern and interior Alaska. Currently, he is president and general manager of H & S Forwarders, Inc., in Fairbanks. Chapados was elected to the state House of Representatives in 1958, re-elected in 1961, and served as chairman of the Joint House & Senate Finance Committee. He has been active in many civic and community programs including being past president of the Fairbanks Chamber of Commerce. He has worked as an enforcement agent for the U.S. Fish and Wildlife Service and was also a U.S. Marshal in Fairbanks.

Myron M. Christy is the railroad board member from out of state. He resides in San Francisco and fulfills the directive of the legislature that one board member have at least 10 years of management experience in the railroad industry outside Alaska. Christy worked with the Western Pacific Railroad Company from 1950 to 1973 in many positions including president and CEO. Currently he is consultant and director for U.S. Leasing International, Inc.

The Board of Directors, seated from left: Commissioner Loren H. Lounsbury; Board Chairman James O. Campbell; and Lewis E. Dickinson. Standing from left are Gerald D. Valinske; Board Vice Chairman Frances X. Chapados; and Commissioner Richard J. Knapp. Shown separately below left is Myron M. Christy.

Lewis E. Dickinson is a founding partner of DOWL Engineers, a professional engineer and a registered land surveyor. As a railroad board member, he brings with him over 30 years of engineering experience and almost 25 years of business management experience. Prior to founding DOWL Engineers, he worked for the City of Anchorage in the city engineer's office.

Richard J. Knapp is one of the two state commissioners who serve on the railroad board. As commissioner for the Department of Transportation and Public Facilities, Knapp represents the transportation interests of the state. Knapp is a retired rear admiral of the U.S. Coast Guard, one of six appointed by President Carter in 1978. A graduate of the U.S. Coast Guard Academy, he served as district commander of the Coast Guard in Alaska from 1980 to 1984, and has a master's degree in business administration from George Washington University in Washington, D.C.

The second commissioner representing the state of Alaska is **Loren H. Lounsbury,** Commissioner of Commerce and Economic Development. Lounsbury is a 40-year Alaska resident, and graduated from Anchorage High School in 1952. He is a professional engineer and a registered land surveyor. Until his appointment as commissioner in January 1985, he was president of Lounsbury and Associates, Inc. Lounsbury has served on numerous community service boards and is the former Honorary Consul of the Republic of Korea for Anchorage.

Gerald D. Valinske serves on the railroad board as a member of the United Transportation Union, Local 1626. He has been a conductor with the Alaska Railroad since 1975. A 12-year Alaska resident, Valinske worked with the Milwaukee Railroad as a brakeman prior to moving to Alaska. In 1984, he was a lobbyist for the United Transportation Union, American Federation of Government Employees, and the Brotherhood of Railway Carmen.

FINANCIAL REVIEW

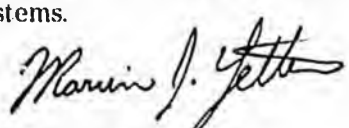
Management is responsible for the preparation, integrity and objectivity of the corporation's financial statements. Financial statements are prepared in conformity with generally accepted accounting principles and include amounts based on management's best estimates and judgment.

During 1985 the corporation maintained a system of internal accounting controls and procedures which will be continually reviewed and supported by written policies and guidelines and supplemented by a corporate internal auditor. The system provides reasonable assurance that assets are safeguarded against loss from unauthorized use and that the books and records reflect the transactions of the corporation and are reliable for the preparation of financial statements. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

The corporation's financial statements are examined by Ernst and Whinney, independent certified public accountants. Their examination is conducted in accordance with generally accepted auditing standards which includes a study and evaluation of the corporation's system of internal accounting controls. The Auditors' Report appears on the following pages.

The Board of Directors pursues its oversight responsibilities for the financial statements and corporate conduct through its Audit Committee. The Audit Committee is composed of directors who are not officers or employees of the Alaska Railroad Corporation. It meets regularly with members of management, the internal auditors and the independent accountants to discuss the adequacy of the Alaska Railroad's internal controls and financial statements.

In 1985 there were many major changes to the accounting controls and procedures. All financial reporting moved from old software systems on a Burroughs computer or manual calculation to new MSA software on an IBM computer with on-line data access. The accounting methods changed from government accounting to corporate accounting, which follows generally accepted accounting principles. A new cost coding structure was developed to meet these new corporate needs. An extensive cash management process was implemented along with a new capital funding control process. The Audit Committee was established and hired the External Auditor. The Internal Control Function was established to oversee the extensive changes and ensures numerous procedures are being developed to control these new systems.



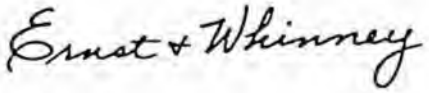
Marvin J. Yetter
Vice President, Finance

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors
Alaska Railroad Corporation
Anchorage, Alaska

We have examined the balance sheets of Alaska Railroad Corporation as of December 31, 1985 and January 6, 1985, and the related statements of income, equity, and changes in financial position for the period from January 6, 1985 to December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Alaska Railroad Corporation at December 31, 1985 and January 6, 1985, and the results of its operations and the changes in its financial position for the period from January 6, 1985 to December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.



Anchorage, Alaska
March 21, 1986

BALANCE SHEET

	December 31, 1985	January 6, 1985
	(In Thousands)	
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	$ 1,911	$10,978
Accounts receivable (less allowance for doubtful accounts of $912,000 at December 31, 1985)	11,275	2,152
Operating materials and supplies — Note C	2,174	1,747
Other current assets	662	
TOTAL CURRENT ASSETS	16,022	14,877
PROPERTIES		
Transportation — Notes C and E:		
Road	10,623	3,847
Equipment	12,765	2,281
Road materials and supplies	3,444	2,319
Construction in progress	3,133	
	29,965	8,447
Less accumulated depreciation	(1,455)	
	28,510	8,447
Nontransportation — Note D:		
Land	13,850	13,850
	42,360	22,297
OTHER ASSETS		
Restricted funds — Note F	600	
Restricted lease proceeds — Note E	220	
	$59,202	$37,174
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 2,781	
Accrued wages and vacation	4,343	$ 1,266
Notes payable	1,000	
Current portion of capital lease obligations — Note E	1,978	168
Deferred revenues	1,126	2,152
TOTAL CURRENT LIABILITIES	11,228	3,586
CAPITAL LEASE OBLIGATIONS, less current portions — Note E	6,992	339
	18,220	3,925
EQUITY		
Contributed capital — Notes C and F	33,849	33,249
Retained earnings	7,133	
	40,982	33,249
	$59,202	$37,174

See notes to financial statements.

STATEMENT OF INCOME

	Period from January 6, 1985 to December 31, 1985
	(In Thousands)
OPERATING REVENUE:	
Freight — Note H	$51,978
Passenger	4,344
Other	4,670
	60,992
OPERATING EXPENSE:	
Salaries and fringe benefits	35,219
Fuel	5,047
Depreciation	1,455
Provision for doubtful accounts	912
Other	16,680
	59,313
INCOME FROM OPERATIONS	1,679
OTHER INCOME:	
Real estate, less direct expenses of $227,000	4,095
Temporary investments	653
Gain on sale of assets	1,267
	6,015
OTHER EXPENSE:	
Interest	561
NET INCOME	$ 7,133

STATEMENT OF EQUITY

	Contributed Capital	Retained Earnings
	(In Thousands)	
Balance at January 6, 1985	$33,249	
Additional contributed capital	600	
Net income for the period from January 6, 1985 to December 31, 1985		$7,133
Balance at December 31, 1985	$33,849	$7,133

See notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Period from January 6, 1985 to December 31, 1985
	(In Thousands)
SOURCE OF FUNDS	
Net income	$ 7,133
Expenses not requiring outlay of funds:	
Depreciation	1,455
TOTAL FROM OPERATIONS	8,588
Increase in accounts payable and accrued liabilities	2,781
Increase in accrued wages and vacation	3,077
Increase in notes payable	1,000
Increase in capital lease obligations	9,321
Contributions of additional capital	600
	25,367
APPLICATION OF FUNDS	
Increase in accounts receivable	9,123
Increase in operating materials and supplies	427
Increase in other current assets	662
Additions to property accounts	21,518
Increase in restricted funds	600
Increase in restricted lease proceeds	220
Decrease in deferred revenues	1,026
Reduction of capital lease obligations	858
	34,434
DECREASE IN CASH	(9,067)
Cash and temporary investments at beginning of period	10,978
CASH AND TEMPORARY INVESTMENTS AT END OF PERIOD	$ 1,911

See notes to financial statements.

NOTE A — ORGANIZATION AND OPERATIONS

The Alaska Railroad Corporation (Corporation) is a public corporation created by the State of Alaska legislature to own and operate the Alaska Railroad (Railroad) and manage the Railroad's rail, industrial, port, and other properties. The effective date of the legislation creating the Corporation was July 6, 1984. The Corporation commenced operations on January 6, 1985 and adopted the accounting policies of a commercial enterprise.

Congress authorized construction of the Railroad in 1914 and operations began in 1923. The federal government operated the Railroad until its sale to the State of Alaska. The Railroad operates 525 route miles, providing both freight and passenger services. The Railroad serves the Alaska cities of Anchorage and Fairbanks as well as the ports of Whittier, Seward, and Anchorage; Denali National Park; and military installations. Vessel and rail barge connections are provided from Seattle, Washington, and Prince Rupert, British Columbia.

NOTE B — SIGNIFICANT ACCOUNTING POLICIES

Temporary Investments: Temporary investments are carried at cost which approximates market value.

Materials and Supplies Inventories: Materials and supplies inventories are carried at the lower of cost (average cost) or market. Road materials and supplies include rail, ties, ballast, and other track materials. It is anticipated that the significant portion of these items will be capitalized when placed into service and, as a result, they are included in transportation properties.

Properties: Properties are stated on the basis of cost. Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the related assets. Preacquisition depreciable property is being depreciated on a straight-line basis over five years, which represents its estimated remaining life.

Income Taxes: As a public corporation, the Railroad is exempt from Federal and State income taxes.

Intragovernmental Funds: Funds received from the State of Alaska General Fund for operating purposes or that may be used for either operating expenses or capital expenditures at the discretion of the Railroad are recorded as revenues (approximately $280,000 in 1985). Funds received that are restricted to the construction or acquisition of fixed assets or other capital projects are recorded as contributed capital.

Reclassification: Certain January 6, 1985 balance sheet amounts have been reclassified to conform with the December 31, 1985 presentation.

NOTE C — ACQUISITION

On January 6, 1985, the Corporation acquired certain Railroad assets and assumed certain liabilities from the federal government. The sale of the Railroad to the Corporation was authorized under the Alaska Railroad Transfer Act of 1982 (ARTA), which was signed into law on January 14, 1983. ARTA requires the Corporation to operate the Railroad for a period of 10 years from the acquisition date and if this requirement is not met, title to all of the Railroad's assets reverts to the federal government. The purchase price, established under the terms of ARTA, was $22,271,000.

The State of Alaska funded the purchase through a capital contribution to the Corporation. In addition to the purchase price, the State of Alaska contributed $10,978,000 for initial working capital and capital expenditures.

The acquisition has been accounted for as a purchase and accordingly, the purchase price was allocated to assets and liabilities based on their estimated fair market value as determined by independent appraisal. As required by the purchase method of accounting, the excess of estimated fair market value of net assets acquired over the purchase price was applied as a reduction of the amount assigned to noncurrent assets. However, certain new rail and related materials were included in road materials and supplies at their estimated cost - new of $2,077,000. Operating materials and supplies were included in current assets at their allocated purchase basis cost.

The allocation of the purchase price is summarized as follows (in thousands):

Assets acquired:	
Operating materials and supplies	$ 1,747
Transportation properties	8,447
Nontransportation properties	13,850
	24,044
Less assumed liabilities:	
Accrued vacation	1,266
Capitalized lease obligations	507
	1,773
PURCHASE PRICE	$22,271

NOTE D — NONTRANSPORTATION PROPERTIES

Nontransportation properties consist of land not used in Railroad operations. Certain parcels of the land are leased under agreements which are cancellable upon 90 days notice by the lessee. The lease terms vary from two to fifty-five years. Annual rentals on the leases are approximately $4,320,000.

NOTE E — LEASES

The Railroad leases certain locomotives, freight cars, data processing equipment and other property under capital leases. Future minimum lease payments for capital leases as of December 31, 1985 are summarized as follows (in thousands):

Year Ending December 31, 1986	$ 1,978
1987	1,849
1988	1,735
1989	1,498
1990	1,498
Thereafter	3,742
	12,300
Amount representing interest	3,330
Present value of net minimum lease payments (including $1,978 classified as current)	$ 8,970

Leased assets under capital leases included in equipment on the accompanying balance sheet of $9,396,085 and $507,000 at December 31, 1985 and January 6, 1985, respectively. The related accumulated depreciation was $344,873 at December 31, 1985.

In accordance with the terms of a lease for freight cars, $220,000 must be kept on deposit with a financial institution for the term of the lease agreement.

NOTE F — CONTRIBUTED CAPITAL

During 1985, the Railroad received $600,000 from the State of Alaska General Fund. These funds are available for and restricted to the purchase of certain equipment. The funds, which had not been spent as of December 31, 1985, are classified as restricted funds in the accompanying balance sheet.

NOTE G — PENSION PLAN

On September 1, 1985, the Railroad adopted a defined benefit pension plan covering permanent non-union employees hired since January 6, 1985. Union members hired since January 6, 1985, may become eligible for participation in the Plan depending upon the outcome of contract negotiations currently in progress. Pension expense is actuarially determined using the projected unit credit method. Pension expense for the period from September 1, 1985 to December 31, 1985 is $45,320. The Railroad's policy is to fund pension costs accrued. Disclosures regarding accumulated plan benefits and plan net assets are not presented as they are not available for the plan's first period ended December 31, 1985.

Federal employees who transferred to the Corporation will continue participation in the Civil Service Retirement System and the contribution required of the Corporation is 7 percent of the transferred employees' payroll.

NOTE H — MAJOR CUSTOMERS

Two Railroad customers accounted for 11 percent and 10 percent of freight revenue in the period ended December 31, 1985.

NOTE I — CONTINGENCIES

The Railroad from time to time may be a defendant in legal proceedings related to the conduct of its business. In the opinion of management, the financial position of the Railroad will not be affected materially by the outcome of any present legal proceedings.

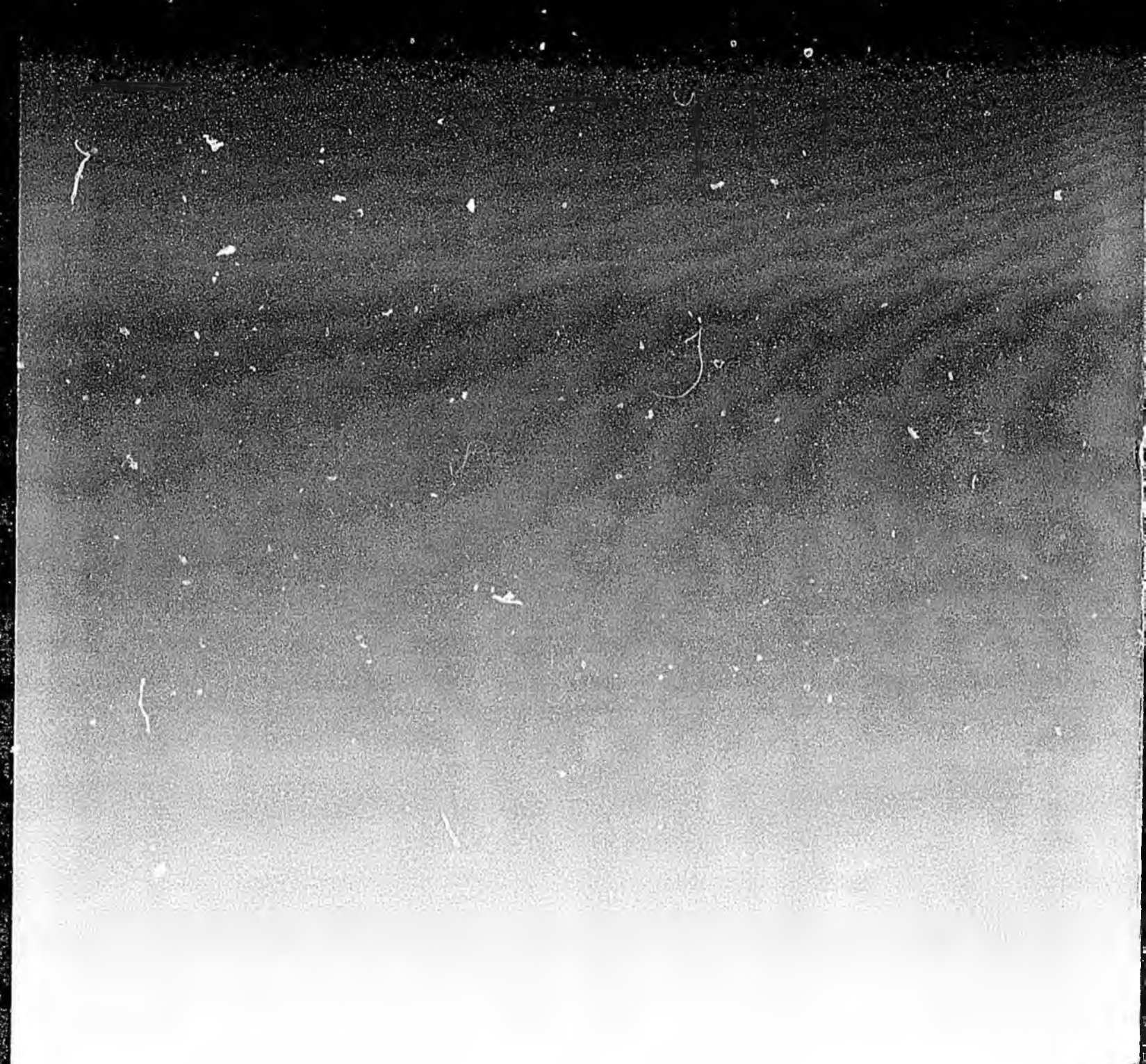
OFFICERS OF TFE ALASKA RAILROAD CORPORATION

Frank G. Turpin	President and Chief Executive Officer
Arnold T. Polanchek	Vice President, Operations
Marvin J. Yetter	Vice President, Finance
Dennis A. Robertson	Vice President, Marketing
James B. Blasingame	Director, Administration
J.D. Wood	Director, Human Resources
Larry D. Wood	Chief Counsel
Terry R. Blackwell	Superintendent of Transportation
Francis C. Weeks	Chief Engineer
Michael J. Sudol	Chief Mechanical Officer

PHOTO CREDITS:

Chris Arend Photography: Pages 4, 6, 8, 9, 12, 13, 15, 17, 18, 19
Charles Backus Photography: Pages 5, 7, 8, 12, 14
Bill Coghill, Manager, Planning, Alaska Railroad Corporation: Page 10
Danny Daniels: Pages 4, 14, 15
Malcolm Lockwood: Page 12
Richard Mackowiak, Supervisor, Locomotive Department, Alaska Railroad Corporation: Inside front cover, inside back cover.
Tom Scotese, Shannon & Wilson, Inc.: Page 7
Third Eye Photography: Pages 1, 7, 10
Jack Wolff, Milkie Studio: Pages 8, 12, 15

This locomotive is one of five purchased by the railroad in 1985.



ALASKA RAILROAD CORPORATION

421 W. 1st Avenue
Box 7-2111
Anchorage, Alaska 99510-7069
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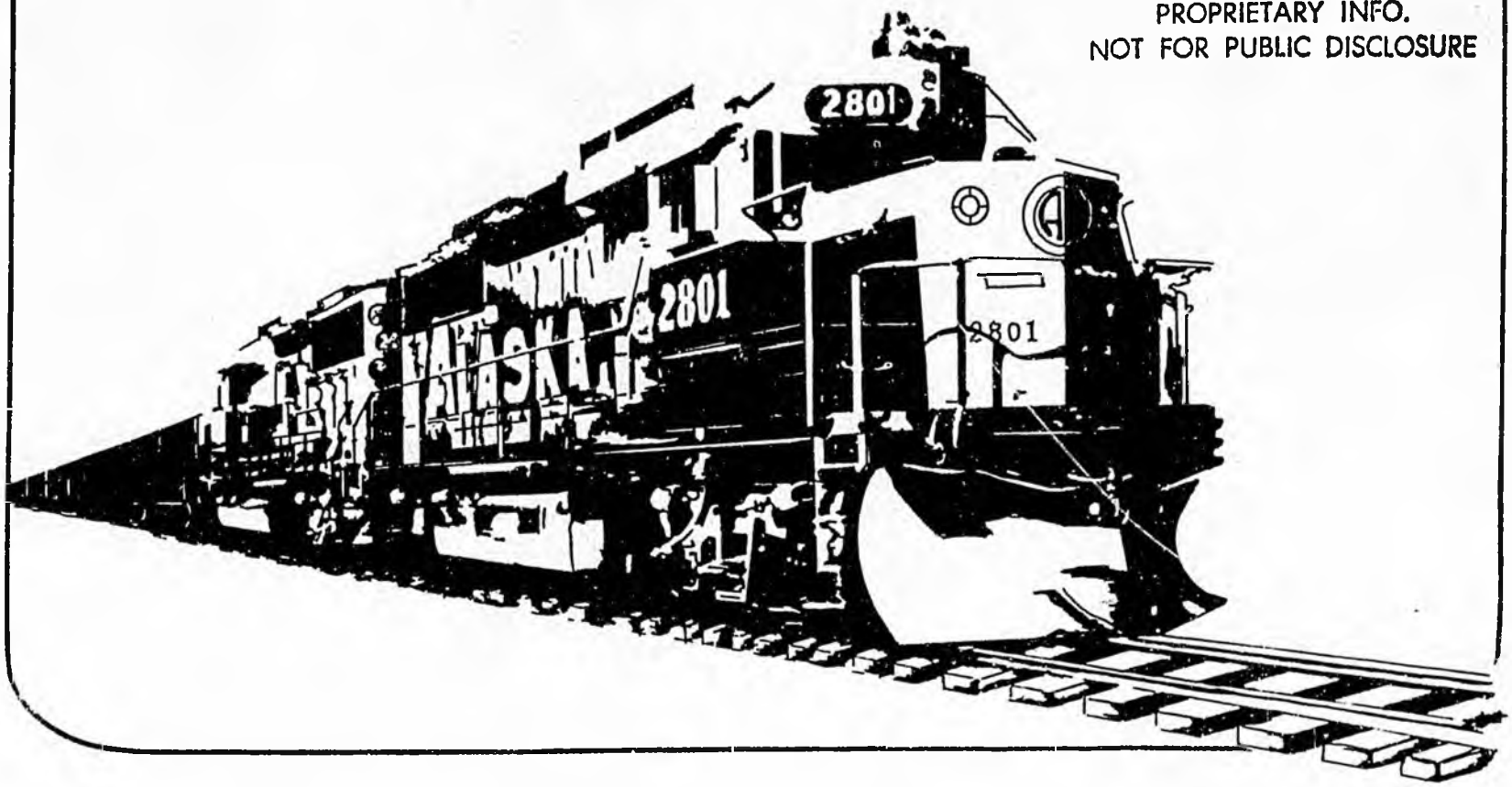
ALASKA RAILROAD CORPORATION

Financial Statements

December, 1985

PROPRIETARY INFO.
NOT FOR PUBLIC DISCLOSURE



ALASKA RAILROAD CORPORATION
Financial Statements
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ALASKA RAILROAD CORPORATION
Summary Balance Sheet
Through the Period Ending December 31, 1985
(In Thousands of Dollars)

	Dec. 31, 1985
Assets	
Current Assets	16,022
Properties	28,510
Land	13,850
Other	820
Total Assets	59,202
Liabilities and Owners Equity	
Liabilities	
Current Liabilities	11,228
Capital Lease Obligations	6,992
Total Liabilities	18,220
Owners Equity	
Investment by State of Alaska	33,849
Retained Earnings	7,133
Total Owners Equity	40,982
Total Liabilities and Owners Equity	59,202
Annualized Return on Investment	21.1%

ALASKA RAILROAD CORPORATION
1985 OPERATING PERFORMANCE ANALYSIS
Through the Period Ending December 31, 1985
(In Thousands of Dollars)

	December*			Year-To-Date			Latest Annual Estimate		
	Actual	Budget	Variance	Actual	Budget	Variance	Estimate	Budget	Variance
Revenues									
Railroad	3,210	4,154	(944)	56,322	64,191	(7,869)	56,322	64,191	(7,869)
Other	521	750	(229)	10,912	9,000	1,912	10,912	9,000	1,912
TOTAL	3,731	4,904	(1,173)	67,234	73,191	(5,957)	67,234	73,191	(5,957)
Cost and Expenses									
Railroad	3,570	3,452	118	45,437	50,334	(4,897)	45,437	50,334	(4,897)
Other	(1,447)	1,388	(2,835)	13,209	15,145	(1,936)	13,209	15,145	(1,936)
Depreciation	267	400	(133)	1,455	4,800	(3,345)	1,455	4,800	(3,345)
TOTAL	2,390	5,240	(2,850)	60,101	70,279	(10,178)	60,101	70,279	(10,178)
NET INCOME (LOSS)	1,340	(336)	1,676	7,133	2,912	4,221	7,133	2,912	4,221
CASH FLOW	1,607	64	1,543	8,588	7,712	876	8,588	7,712	876

EXPLANATION OF VARIANCES - YEAR-TO-DATE

- Revenues are lower due primarily to reduced coal shipments, gravel, TOFC/COFC, and miscellaneous shipments; Increased revenues have been obtained in petroleum products, real estate, and reimbursable work for State road crossing projects, etc.

- Expenses are down primarily due to early reduction in summer work force, reduced car hire costs, better fleet utilization, and accounting adjustments for inventories/depreciation due to Purchase Accounting Allocation Method, and reclassification of Summer Track Improvement Program from expense to capital in accordance with unit of property definition.

* Minor difference due to rounding

** The month of December, 1985, reflects adjustments to accruals/estimates for both revenue and expense.

ALASKA RAILROAD CORPORATION
PROJECT-TO-DATE CAPITAL PERFORMANCE SUMMARY
Budget vs Actual
Through the Period Ending December 31, 1985
(In Thousands of Dollars)

	Approved Budget	Amount Approp.	Latest Estimate	1985 YTD Expend.	1986
1984 Carryover	2,063	2,063	1,928	1,877	76
1985 Projects	13,187	8,207	14,203	7,170	8,128
TOTAL	15,250	10,270	16,131	9,047	8,204
State Funded (Cap. & Exp.)					
Transfer Funds	268	268	268	268	0
Shuttle Equipment - 528	925	0	925	0	925
Records Management - 529	15	15	15	5	10
Total State Funded	1,208	283	1,208	273	935

ALASKA RAILROAD CORPORATION
Balance Sheet
Through the Period Ending December 31, 1985
(In Thousands of Dollars)

	Jan. 6 1985	March 31 1985	June 30 1985	Sept. 30 1985	Dec. 31* 1985
ASSETS					
Current Assets					
Cash and Short-Term Investments	10,978	7,717	8,756	3,932	1,911
Accounts Receivable	710	10,187	13,920	16,756	11,275
Materials and Supplies	4,067	5,040	7,200	4,367	5,618
Total	15,755	22,944	29,876	25,055	18,804
Properties					
Transportation					
Road and Roadway Structures	0	0	91	91	10,623
Equipment	1,375	3,869	8,948	12,173	12,765
Non-Transportation	3,187	3,324	3,187	3,187	3,133
Total	4,562	7,193	12,226	15,451	26,521
Accumulated Depreciation and Amortization (Note A)	0	(230)	(568)	(940)	(1,455)
Properties - Net	4,562	6,963	11,658	14,511	25,066
Land	15,414	15,414	15,414	15,414	13,850
Other Assets	1,443	2,850	2,180	6,214	1,482
TOTAL ASSETS	37,174	48,171	59,128	61,194	59,202
LIABILITIES AND OWNERS EQUITY					
Liabilities					
Current Liabilities					
Accounts and Wages Payable	0	4,797	8,025	9,087	7,124
Notes Payable	0	0	0	0	1,000
Other Current Liabilities	1,263	1,942	2,222	1,382	1,126
Current Portion of Long-Term Leases (Note B)	237	424	750	384	1,978
Total	1,500	7,163	10,997	10,853	11,228
Long-Term Leases (Note B)	272	2,489	7,128	8,770	6,992
Other Liabilities and Deferred Credits	2,153	3,973	3,642	2,923	0
Total Liabilities	3,925	13,625	21,767	22,546	18,220
Owners Equity					
Investment by State of Alaska (Note C)	33,249	33,249	33,849	34,131	33,849
Retained Earnings	0	1,297	3,512	4,517	7,133
Total Owners Equity	33,429	34,546	37,361	38,648	40,982
TOTAL LIABILITIES AND OWNERS EQUITY	37,174	48,171	59,128	61,194	59,202
RETURN ON EQUITY (ANNUALIZED)		15.6%	20.7%	17.6%	21.1%

* Certain balance sheet items have been reclassified to conform with auditors YE 1985 financial statements.

ALASKA RAILROAD CORPORATION
Notes
To
Financial Statements

SEE AUDITOR'S YEAR END AUDITED FINANCIAL STATEMENTS

ALASKA RAILROAD CORPORATION
NOTE B
LEASE DISCLOSURE SCHEDULE

December 31, 1985

SEE AUDITOR'S YEAR END AUDITED FINANCIAL STATEMENTS

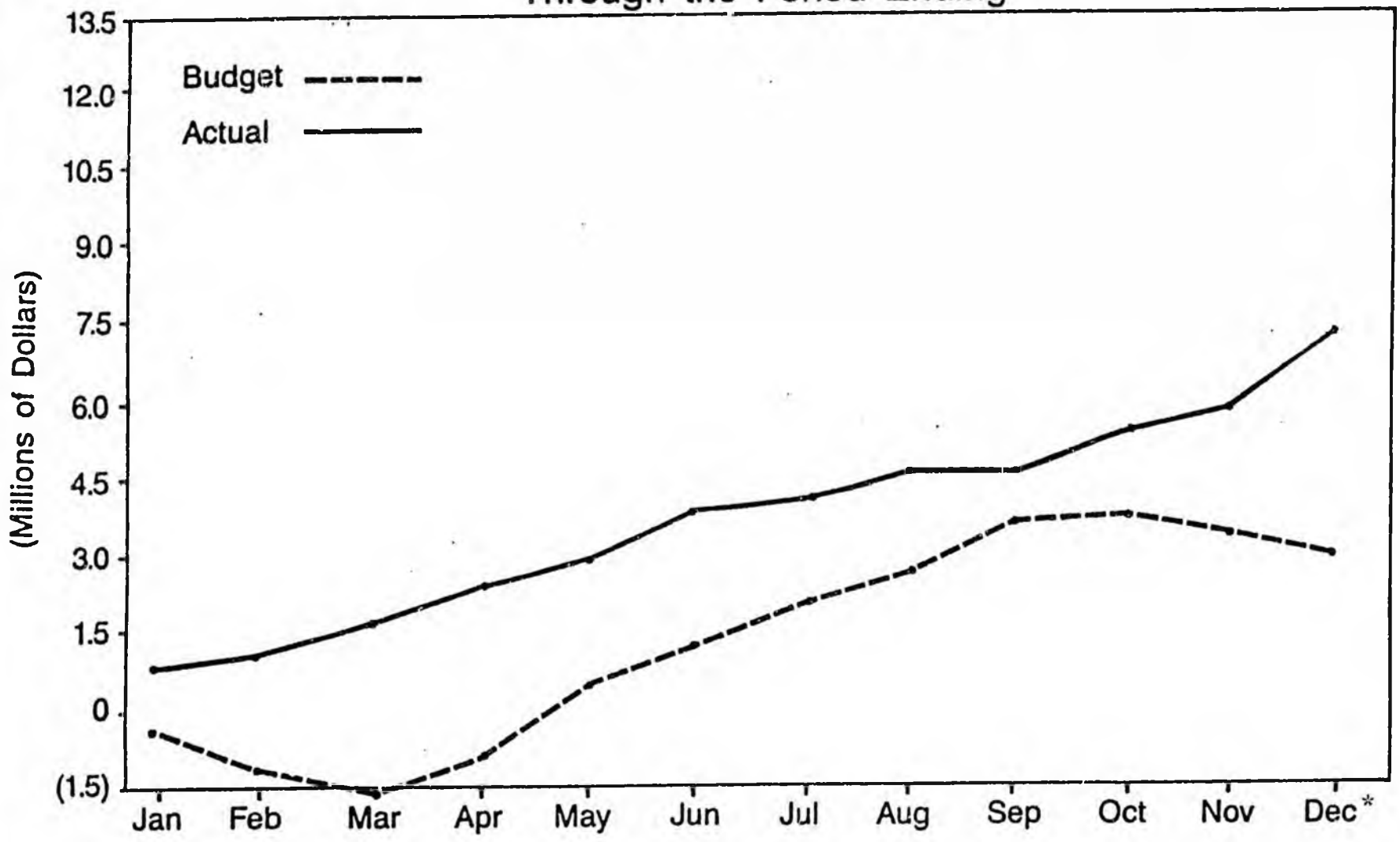
ALASKA RAILROAD CORPORATION
Statement of Retained Earnings
(In Thousands of Dollars)

	Actual Dec 31 1985	Budget Dec 31 1985
Retained Earnings, Beginning of Year	0	0
Net Income	7,133	2,912
Balance, End of Period	7,133	2,912

Alaska Railroad Corporation

1985 Income (Loss)

Through the Period Ending



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec*
Budget	(.8)	(1.3)	(1.6)	(1.0)	.3	1.0	1.9	2.7	3.5	3.6	3.2	2.9
Actual	.3	.5	1.3	2.1	2.9	3.5	3.9	4.5	4.5	5.5	5.8	7.1

* DECEMBER, 1985 REFLECTS ACCRUAL ADJUSTMENTS TO CONFORM WITH AUDITED FINANCIAL STATEMENTS.

ALASKA RAILROAD CORPORATION
Statement of Income
Through the Period Ending December 31, 1985
(In Thousands of Dollars)

	December			Year-To-Date		
	Actual	Budget	Variance	Actual	Budget	Variance
Revenues						
Railroad	3,210	4,154	(944)	56,322	64,191	(7,869)
Other	521	750	(229)	10,912	9,000	1,912
Total	3,731	4,904	(1,173)	67,234	73,191	(5,957)
Cost and Expenses						
Railroad						
Transportation	1,471	1,666	(195)	20,556	25,566	(5,010)
Ways and Structures	1,114	861	253	12,310	12,810	(500)
Equipment	1,703	925	778	12,571	11,958	613
General and Administrative*	(2,199)	1,220	(3,419)	10,418	13,293	(2,875)
Total	2,089	4,672	(2,583)	55,855	63,627	(7,772)
Operating Surplus	1,642	232	1,410	11,379	9,564	(1,815)
Interest Expense	154	0	154	561	0	561
Corporate Expense	(119)	168	(287)	2,230	1,852	378
Net Surplus	1,607	64	1,543	8,588	7,712	876
Depreciation	267	400	(133)	1,455	[illegible]0	(3,345)
Net Income (Loss)	1,340	(336)	1,676	7,133	2,912	4,221

* Adjustments due to inventory re-evaluation in accordance with purchase accounting allocation method.

ALASKA RAILROAD CORPORATION
Revenues by Commodity
Through the Period Ending December 31, 1985
(In Thousands of Dollars)

Commodity	December*			Year To Date			Latest Annual Estimate		
	Actual	Budget	Variance	Actual	Budget	Variance	Estimate	Budget	Variance
Pipe	269	310	(41)	3,253	3,780	(527)	3,253	3,780	(527)
Coal: Local	356	630	(274)	4,255	6,170	(1,915)	4,255	6,170	(1,915)
Export	402	551	(149)	5,179	6,612	(1,433)	5,179	6,612	(1,433)
Petroleum	1,030	687	343	11,833	9,681	2,152	11,833	9,681	2,152
Gravel	0	0	0	7,819	8,930	(1,111)	7,819	8,930	(1,111)
TOFC/COFC	358	814	(456)	7,008	10,548	(3,540)	7,008	10,548	(3,540)
Interline	574	861	(287)	10,530	10,513	17	10,530	10,513	17
Miscellaneous Local	(168)	241	(409)	2,101	3,437	(1,336)	2,101	3,437	(1,336)
Total Freight	2,821	4,094	(1,273)	51,978	59,671	(7,693)	51,978	59,671	(7,693)
Passenger: North	239	10	229	2,959	3,300	(341)	2,959	3,300	(341)
South	81	30	51	1,102	645	457	1,102	645	457
Other	69	20	49	283	575	(292)	283	575	(292)
Total Passenger	389	60	329	4,344	4,520	(176)	4,344	4,520	(176)
Real Estate	(141)	340	(481)	4,322	4,080	242	4,322	4,080	242
All Other	662	410	252	6,590	4,920	1,670	6,590	4,920	1,670
Total Other	521	750	(229)	10,912	9,000	1,912	10,912	9,000	1,912
TOTAL	3,731	4,904	(1,173)	67,234	73,191	(5,957)	67,234	73,191	(5,957)

* The month of December, 1985, reflects accrual adjustments to conform with the audited year-end financial statements.

ALASKA RAILROAD CORPORATION
EXPENSE PERFORMANCE ANALYSIS
Through the Period Ending December 31, 1985

Department	Month			Year To Date		
	Actual*	Budget	Variance	Actual	Budget	Variance
Transportation[1]	1,471	1,666	(195)	20,556	25,566	(5,010)
Motive Power & Equipment	1,703	925	778	12,571	11,958	613
Ways & Structures[2]	1,114	861	253	12,310	12,810	(500)
Marketing	90	182	(92)	1,229	1,921	(692)
Overheads[3]	(2,255)	1,206	(3,461)	11,980	13,224	(1,244)
Depreciation[4]	267	400	(133)	1,455	4,800	(3,345)
Total	2,390	5,240	(2,850)	60,101	70,279	(10,178)

Explanation of Variances - Year-to-Date

(1) Decrease due to freight movements, primarily TOFC/COFC, gravel, and reduced coal traffic.

(2) Reduction results from accounting adjustment for Summer Track Improvement Program from expense to capital in accordance with ICC unit of property definitions offset by higher than budgeted personnel costs.

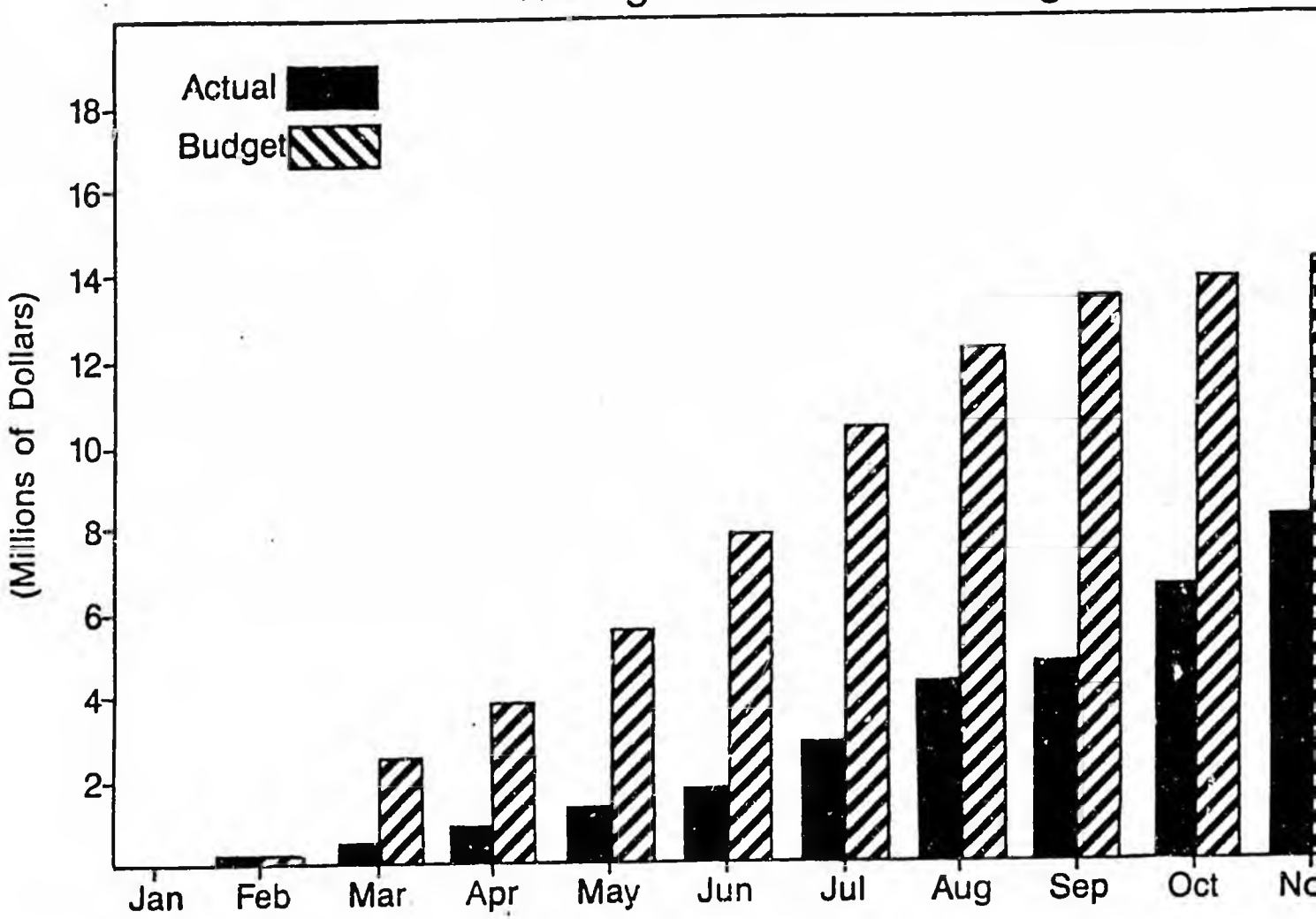
(3) Underrun due to inventory re-evaluation partially offset by increased insurance costs, reorganization costs and other miscellaneous costs.

(4) Depreciation lower due to restatement of assets according to purchase accounting allocation method.

* December, 1985, reflects accrual adjustments to conform with audited year end financial statements.

Alaska Railroad Corporation

1985 Capital Expenditures
Through the Period Ending



Budget	0	.2	2.4	3.9	5.8	7.9	10.3	12.1	13.6	13.9	14
Actual	0	.2	.5	.7	1.2	1.7	3.0	4.2	4.8	6.8	8

ALASKA RAILROAD CORPORATION
PROJECT-TO-DATE CAPITAL PERFORMANCE SUMMARY
Budget vs Actual
Through the Period Ending December 31, 1985
(In Thousands of Dollars)

	Approved Budget	Amount Approp.	Latest Estimate	1985 YTD Expend.	1986
1984 Carryover	2,063	2,063	1,928	1,877	76
1985 Projects	13,187	8,207	14,203	7,170	8,128
TOTAL	15,250	10,270	16,131	9,047	8,204
State Funded (Cap. & Exp.)					
Transfer Funds	268	268	268	268	0
Shuttle Equipment - 528	925	0	925	0	925
Records Management - 529	15	15	15	5	10
Total State Funded	1,208	283	1,208	273	935

ALASKA RAILROAD CORPORATION
PROJECT-TO-DATE CAPITAL PERFORMANCE ANALYSIS
Budget vs Actual
Through the period ending December 31, 1985
In Thousands of Dollars

Projects	AFE No.	Approved Budget	Amount Appropriated	Latest Estimate	1985 YTD Expend.	Remainder of 1985	1986	Performance: Physical Completion %	Performance: Start Date	Performance: End Date	Status
1984 CARRYOVER:											
Seward TOFC Yard	606/107	31	31	21	21	-0-		100	9-85	10-85	C
Weigh-in-motion Scale	632/106	250	250	201	201	-0-	25	90	12-84	6-86	To Certify
Potter Hill Drainage	636	20	20	6	6	-0-		100	7-85	8-85	C
Auto Coupiers	633	26	26	20	20	-0-		100		7-85	C
Loco. Plow Pilots	634/151	51	51	51	-0-	-0-	51	20	8-84	3-86	
TOFC Term. Imp. - Anch.	600	37	37	37	37	-0-		100		4-85	C See 85
Anch. Eng. Supply - (Ph. III)	501	871	871	871	871	-0-					C See 85
1984 Tunnel Program	511	431	431	431	431	-0-					C See 85
1984 Track Program	---	89	89	75	75	-0-		100		3-85	C
Other Misc. Projects	999	257	257	215	215	-0-					
TOTAL 1984		2,063	2,063	1,928	1,877	-0-	76				
1985 PROJECTS:											
Energy Conservation-(Ph IV)	501/101	1,250	1,250	1,250	514	-0-	746	80	6-85	5-86	
Warehouse Improvements	502/102	110	110	160	135	-0-	25	85	9-85	6-86	
Fencing - Security	503/102	65	65	-0-	-0-	-0-		-0-			Merged
Computer Air Conditioning	504/104	65	65	61	2	-0-	59	-0-			Rebid-86
Bank Widening	505/105	300	300	108	108	-0-		100	6-85	8-85	C
Rail Lubricators	506/141	60	24	25	25	-0-		100	8-85	11-85	C
Palmer Branch Rehab.	507	100	-0-	-0-	-0-	-0-					Deleted
Rail/Tie Fasteners	508/131	300	-0-	157	157	-0-		100	7-85	12-85	C
Microwave Radio (Ph I)	509	425	-0-	286	-0-	-0-	286	-0-	2-86	12-86	
Bridges	510/110	800	580	561	561	-0-		100	3-85	9-85	C
Tunnels (Ph II)	511/111	1,500	1,300	4,250	2,286	-0-	1,964	55	7-85	9-86	

Status Codes

A - AFE Preparation
B - Bid Process
C - Complete
D - Design
E - Evaluation
H - On Hold
M - Materials Ordered
R - Received
L - Lease/Purchase

PROJECT-TO-DATE CAPITAL PERFORMANCE ANALYSIS

Budget vs Actual

Through the period ending December 31, 1985

In Thousands of Dollars

Projects	AFE No.	Approved Budget	Amount Appropriated	Latest Estimate	1985 YTD Expend.	Remainder of 1985	1986	Performance: Physical Completion %	Performance: Start Date	Performance: End Date	Status
1985 PROJECTS:											
Utility Systems	512/112	650	291	550	24	-0-	536	-0-	8-85	10-86	D (20%)
Fuel Station Add.-Anch.	513/113	250	250	186	57	-0-	129	35	7-85	6-86	D (85%)
Whittier Ramp & TOFC Fac.	514/114	475	100	476	356	-0-	120	75	7-85	6-86	
Eielson Branch Rehab.	515/115	2,100	-0-	2,060	585	-0-	1,475	25	7-85	10-86	
Barge Slip #2-Whittier	516/116	300	158	175	-0-	-0-	175	-0-	5-86	7-86	D (10%)
Locomotives (5)	517/117	600	600	339	339	-0-	439	100		5-85	C,L
TOFC Cars (30)	518/118	422	400	473	473	-0-	214	100		5-85	C,L
Covered Cement Hoppers (5)	519	125	-0-	-0-	-0-	-0-					H
Passenger Car Upgrade (17)	520/120	300	42	48	48	-0-		100	6-85	10-85	C
Engineer Const. Equip. (021)	521/121	950	642	692	593	-0-	99	95	3-85	4-86	
Snow Removal Equipment	- -	450	Deleted	Deleted	-0-	-0-					
Locomotive Crane	523	800	-0-	460	-0-	-0-	460				L
Material Handling Equip.	524/108	85	24	24	24	-0-		80	8-85	1-86	
Telecom. Test Equip.	525/012	125	125	125	56	-0-	69	-0-	9-85	5-86	M
Upgrade Radios	526	200	-0-	300	-0-	-0-	300	-0-	4-86	12-86	
Passenger Services	527	380	-0-	380	-0-	-0-		-0-			H
NPR Projects - See page 3	999	-0-	334	323	269	-0-	54				See page 3
Flat Cars (15)	119	-0-	255	235	235	-0-	116	100	7-85	8-85	C,L
Const. Work Equip./Snow Rem.	531	-0-	-0-	-0-	-0-		300	-0-	1-86	3-86	B,L
TOFC Term. Imp. - Anch.	600	-0-	35	49	49	-0-		100	1-85	7-85	C
RDC Car Upgrade	144	-0-	-0-	-0-	-0-	-0-	150	75	9-85	1-86	L
32V Electric 4 Cabooses	153	-0-	100	100	46	-0-	54	35	9-85	11-86	
Electrify 15 TOFC	140	-0-	265	247	125	-0-	122	40	10-85	8-86	
MSA Term Dev.	006	-0-	172	18	18	-0-	10	100	9-85	10-85	C,L
PC Terminals	007	-0-	71	7	7	-0-	22	100	8-85	9-85	C,L
IBM Remotes	008	-0-	350	64	64	-0-	111	100	8-85	9-85	C,L
IBM Line Printer	016	-0-	24	1	1	-0-	7	100	10-85	11-85	C,L
Wang Equipment	027	-0-	275	13	13	-0-	86	100	12-85	12-85	C,L
TOTAL 1985		13,187	8,207	14,203	7,170	-0-	8,128				
GRAND TOTAL-ALL PROJECTS		15,250	10,270	16,131	9,047	-0-	8,204				

PROJECT-TO-DATE CAPITAL PERFORMANCE ANALYSIS

Budget vs Actual

Through the period ending December 31, 1985

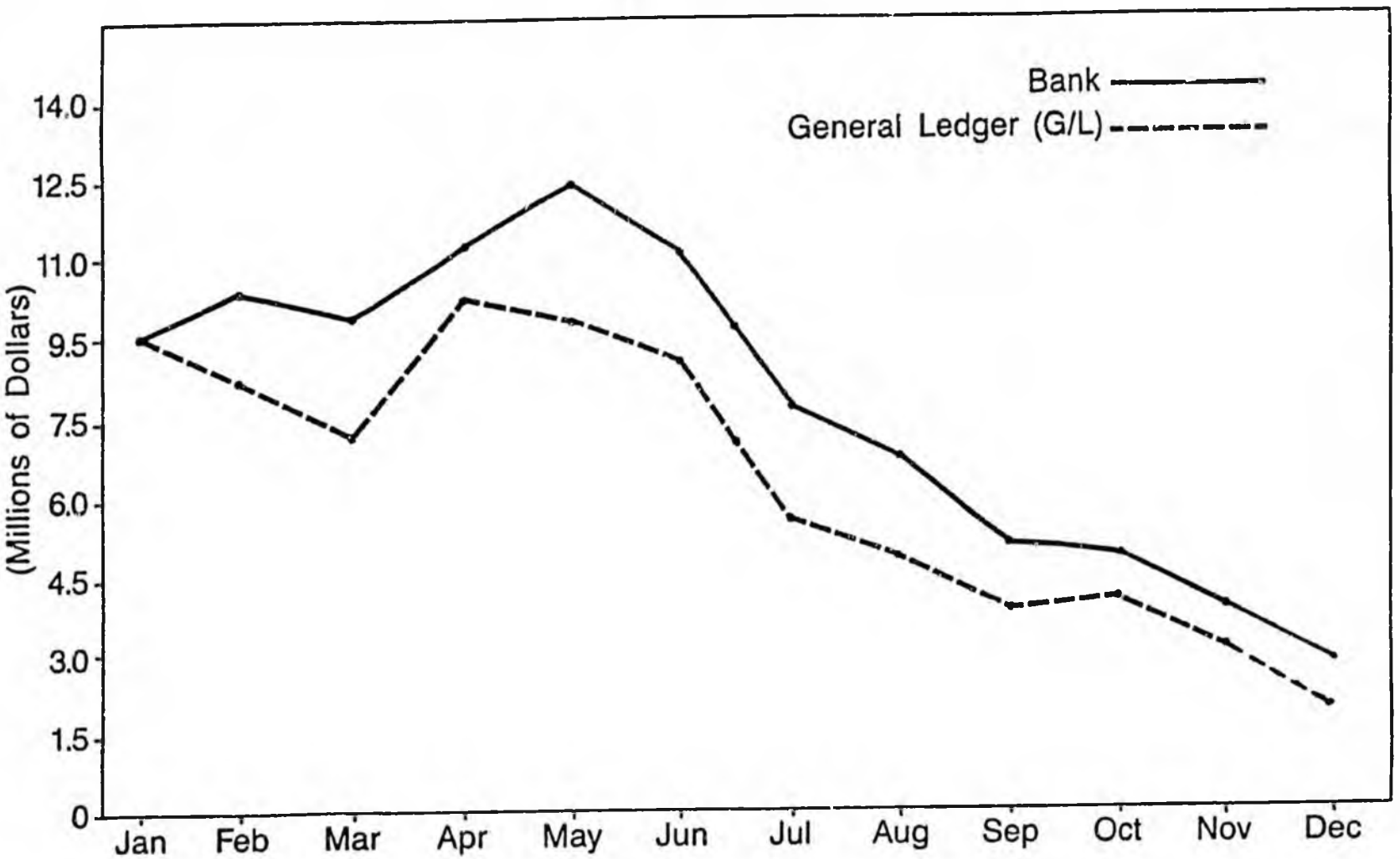
In Thousands of Dollars

Projects	AFE No.	Approved Budget	Amount Appropriated	Latest Estimate	1985 YTD Expend.	Remainder of 1985	1986	Performance: Physical Completion %	Performance: Start Date	Performance: End Date	Performance: Status
1985 Non Prog. Res. (NPR)											
Rerailing Bridge	25001		12	12	12	-0-		100	10-84	4-85	C
Telex	75001		2	2	2	-0-		100	10-84	1-85	C
Dock Boards	65001		4	4	4	-0-		100	12-84	2-85	C
Computer, Mac	75003		5	5	5	-0-		100	12-84	2-85	C
Dishwasher	45001		3	2	2	-0-		100	1-85	2-85	C
Word Proc W/Printer (4)	65050		14	11	11	-0-		100	1-85	3-85	C
Plow on 5 GP 49's	150		51	51	16	-0-	35	40	11-85	3-86	
Radios (5)	25004		6	6	6	-0-		100	3-85	7-85	C
Chart Recorder	25006		2	2	2	-0-		100	5-85	6-85	C
Computer & Telex	75005		3	3	3	-0-		100	5-85	7-85	C
Copier - 3M	75006		2	2	2	-0-		100	5-85	5-85	C
Computer - Mac	75008		3	3	3	-0-		100	4-85	4-85	C
Telephone Sys.	75009		13	12	12	-0-		100	4-85	7-85	C
Vans, Pass. (2)	15025		29	29	29	-0-		100	6-85	6-85	C
Budd-RDC(2)	142		60	60	41	-0-	19	90	6-85	1-86	Accept.
Mobile Radio	25010		2	2	2	-0-		100	6-85	12-85	C
Copier, Xerox	75010		10	10	10	-0-		100	6-85	6-85	C
Computer - Mac	75012		9	10	10	-0-		100	8-85	8-85	C
Camera & Accessories	75013		1	1	1	-0-		100	8-85	8-85	C
Logging Recorder	013		27	20	20	-0-		50	10-85	1-86	M
Remodel Procurement Office	143		6	8	8	-0-		100	12-85	12-85	C
Rad.-Tele. (Trans-2)	010		5	5	5	-0-		50	11-85	2-86	M
Rad.-Tele. (Safety)	011		1	1	1	-0-		50	11-85	2-86	M
Comp. Mac (NIKT)	015		4	3	3	-0-		100	11-85	12-85	C
Furniture (Legal)	017		5	4	4	-0-		100	10-85	12-85	C
Computer - IBM (Oldham)	022		13	13	13	-0-		100	11-85	12-85	C
Rapicon Facsimile (3)	023		17	17	17	-0-		100	12-85	12-85	C
Furniture (Procurement)	024		4	4	4	-0-		100	12-85	12-85	C
Furniture (Marketing)	025		10	10	10	-0-		100	11-85	12-85	C
Telephones (Marketing)	026	___	11	11	11	-0-	___	100	11-85	12-85	C
Total 1985 NPR		-0-	334	323	269	-0-	54				

Alaska Railroad Corporation

Monthly Bank Balance

1985

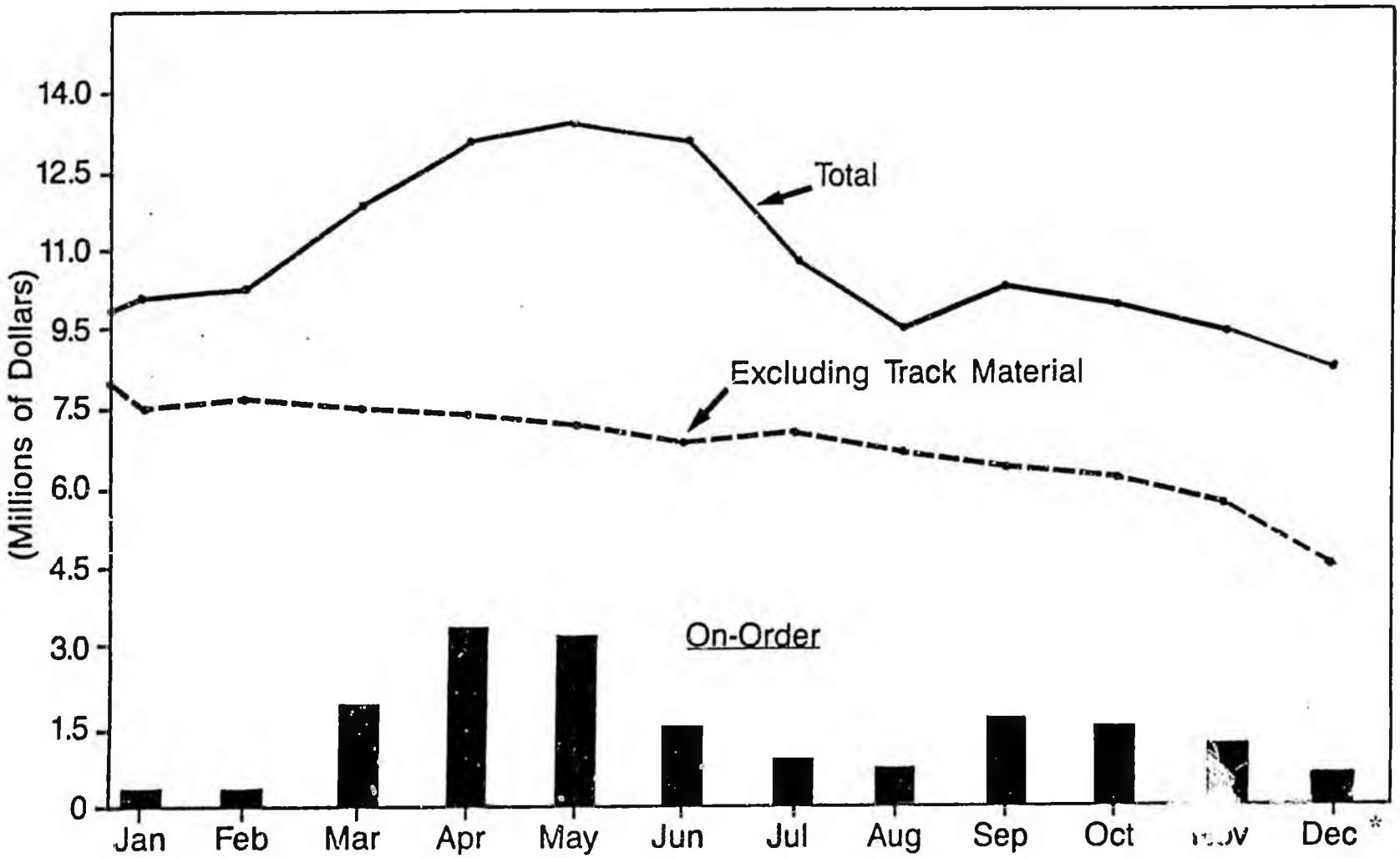


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Bank	9.5	10.5	9.9	11.1	12.2	11.0	7.6	7.0	5.2	4.9	4.1	2.9
G/L	9.5	8.1	7.1	10.1	9.7	8.8	5.6	4.7	3.9	4.0	3.0	1.9

Alaska Railroad Corporation

Inventory Level

1985



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total	10.0	10.2	11.9	12.8	13.2	12.8	10.5	9.5	10.1	9.8	9.4	8.2
On-Order	.4	.4	2.2	3.2	3.1	1.4	1.0	.9	1.6	1.4	1.2	.6
Exclud. Track Material	7.5	7.6	7.5	7.3	7.1	6.8	6.9	6.5	6.2	5.9	5.7	4.6

* INVENTORY VALUE AT YEAR END 1985 WAS REVALUED DOWNWARD TO $5.6 MILLION TO CONFORM WITH THE APPRAISAL METHOD USED TO COMPLY WITH THE PURCHASE ALLOCATION ACCOUNTING METHOD.

ALASKA RAILROAD CORPORATION
Accounts Receivable Status
Through the Period Ending December 31, 1985

Type	Balance	AGING (DAYS) 0-15	16-30	31-45	46-60	over 60
Trade	8,002	2,437	1,339	1,496	627	2,103
%	100	30	17	19	8	26
Reimbursable	377	269	4	0	0	104
%	100	71	1	0	0	28
Real Estate	1,200	471	13	147	0	569
%	100	39	1	12	0	48
Estimated	1,696	1,696	0	0	0	
%	100	100	0	0	0	
Total	11,275	4,873	1,356	1,643	627	2,776
%	100	43	12	14	6	25

ALASKA RAILROAD CORPORATION
Current Investment Report
As of December 31, 1985

Principal Amount	Maturity Date	Length of Investment	Type of Investment	Interest Rate	Estimate Int. Income
515,343	Open	Open	Money Mkt	9.80%	2,104
100,000	01/21/86	182 day	CD	8.50%	4,061
100,000	01/21/86	182 day	CD	8.50%	4,061
100,000	05/09/87	540 day	CD	8.50%	1,275
815,343					11,501

1986

ALASKA RAILROAD CORPORATION
1986 BUDGET SUMMARY
REVISED FOR SALES TARGETS
(THOUSANDS OF DOLLARS)

	1986 BUDGET	1986 SALES TARGETS	VARIANCE DOLLARS	VARIANCE %
REVENUE	71,057	78,900	7,843	10
EXPENSE	63,166	69,440	6,274	9
SURPLUS (DEFICIT)	7,891	9,460	1,569	17
DEPRECIATION	1,800	1,800	0	0
NET INCOME (LOSS)	6,091	7,660	1,569	17

EXHIBIT I