

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672

5139 HTRA HB 47 (FILE 1)

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SYMBOLS OF LAND LEASES - PRIVATE SECTOR

ANCHORAGE AREA

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

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

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

AMOUNTAGE AREA

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

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

PATERSONS AREA

	No. F-1	No. F-2	No. F-3	No. F-4	No. F-5
Lessor/lessee	Rockstad & Briskie/ Freeman	Bentley Trust/ Linck	Bentley Trust/ Sadco	Sexton/Taco Bell	Alexander/First Nat'l Bank
Land Area/Use	22,707 s.f./auto- motive	41,000 s.f./Fast Food restaurant	34,430 s.f./strip mall	30,001 s.f./Fast Food restaurant	40,000 s.f./Branch Bank
Lease Date	8-84	7-84	8-84	1983	10-82
Term	15 years	20 years	20 years	20 years	55 years
Renewal Option		Two (10 yrs. ea.)	Two (10 yrs. ea.)	Three (5 yrs. ea.)	
Annual Rent Effective Date	\$.90/s.f. 8-84	\$1.20/s.f. 7-84	\$1.20/s.f. 8-84	\$1.20/s.f. 1983	\$1.08/s.f. 10-82
Rent Basis	10% FMV (est.)	10% FMV (est.)	10% FMV (est.)	12% FMV (est.)	9.8% FMV (est.)
Rent Adjustment	Annually per CPI-Anch.				CPI every 5 years
Rent Floor/Ceiling	Floor @ - 5% & ceiling @ 7.5% of prior rent				
Lessee Expenses				All but taxes	All but taxes
Assign/Sublet					
Subordination					
Option to Purchase					
Reversion of Improvements					
Condemnation					
Arbitration Clause					
Other					

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

FALLBANKS AREA

	No. F-6	No. F-7	No. F-8	No. F-9
Lessor/Lessee	Wometco & Lathrop Co./Wendy's	North Star Terminal/ARCO	New State Lands/Northland Hub	Frontier Investors/Fred Meyer
Land Area/Use	25,000 s.f./Fast Food restaurant	20 acres/Open storage	5.5 acres/Discount Grocery store	4.25 acres/retail store
Lease Date	10-82	1983	2-78	1978
Term	30 years	5 years	50 years	30 years
Renewal Option		None	None	Five (5 yrs. ea.)
Annual Rent Effective Date	\$1.44/s.f. 10-82	\$3,000/ac. 1983	\$.21/s.f. 2-78	\$.54/s.f. 1978
Rent Basis	1% FMV (est.)	7% FMV (est.)	5.3% FMV (est.)*	7.7% FMV (est.)
Rent Adjustment		Successive annual increases of 20%, 17%, 14%, & 25%.	Up 56% 2nd yr.; +7.7% 4th yr.; then CPI.	
Rent Floor/Ceiling				
Lessee Expenses	All but taxes	All but taxes	All	
Assign/Sublet				
Subordination				
Option to Purchase			Yes & scheduled prices	
Reversion of Improvements		N/A		
Condemnation				
Arbitration Clause				
Other		Land not to be built on	*0.1% FMV 2nd year	Sublease

SYNOPSIS OF LAND LEASES -- PRIVATE SECTOR

JUNEAU AREA

	No. J-1	No. J-2	No. J-3	No. J-4	No. J-5
Lessor/lessee	Fred Meyer/ Wendy/s	Smith/Freeman	Fluke, et al/ Taco Bell	Valley Centre Dev. Co./Howard, et al	Valley Centre Dev. Co./Juneau Motel
Land Area/Use	28,000 s.f./Fast Food restaurant	34,426 s.f./auto- motive svcs.	44,867 s.f./Fast Food restaurant	3.6/ac./Shop- ping mall	69,454 s.f./ Motel
Lease Date	1-86	11-12-85	12-84	9-1-83	7-12-83
Term	25 years	35 years	35 years	55 years	30 years
Renewal Option	Three (5 yrs. ea.)		Three (5 yrs. ea.)	One (10 yrs.)	Two (10 yrs. ea.)
Annual Rent Effective Date	\$1.80/s.f. 1-86	\$1.20/s.f. 11-85	\$1.00/s.f. 12-84	\$.96/s.f. 5-84	\$.72/s.f. 7-83
Rent Basis	12% FMV (est.)	10% FMV (est.)	9% FMV (est.)	10% FMV (est.)	9% FMV (est.)
Rent Adjustment	Fixed 5 yrs. +25% 2nd 5 yrs. +20% @ 5 yr. intervals + 2 1/2% gross	Annually per CPI increase	Annually by CPI	Annually by CPI-Seattle	Annually by CPI-Seattle
Rent Floor/Ceiling		Ceiling @ 5%/yr.			
Lessee Expenses		All		All	All
Assign/Sublet		Requires lessor approval		Requires lessor approval	Requires lessor approval
Subordination		No		No	No
Option to Purchase		No		No	No
Reversion of Improvements		To lessor		To lessor	To lessor
Condemnation		Typical		Award allocated according to law	Award allocated accord. to law
Arbitration Clause		No		No	No
Other				Hamburger rest- aurant prohibited	

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

JUNEAU AREA

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

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

JUNEAU AREA	No. J-11	No. J-12	No.	No.	No.	21
Lessor/lessee	Erwin Ent./ Vavalis	Smith/Bros./ C.E. Loveless				
Land Area/Use	12,000 s.f./ commercial	12 acres/Shop- ping center				
Lease Date	9-76	4-24-72				
Term	40 years	55 years				
Renewal Option		Five (10 yrs. ea.)				
Annual Rent	\$2.04/s.f. 9-76	\$.08/s.f. 4-72				
Effective Date						
Rent Basis	9% FMV (est.)	8% FMV (est.)				
Rent Adjustment	@ 5 yr. intervals CPI-Anchorage	Annually per CPI increase				
Rent Floor/Ceiling	Floor @ orig. rent					
Lessee Expenses	All but land tax	All				
Assign/Sublet	Requires lessor approval	Requires lessor approval				
Subordination	No	No				
Option to Purchase	No	Yes				
Reversion of Improvements	To lessor					
Condemnation						
Arbitration Clause	No	No				
Other						

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

OTHER AREAS

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

SYNOPSIS OF LAND LEASES - PRIVATE SECTOR

OTHER AREAS

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

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

<u>ADL#</u>	<u>General Location</u>	<u>Type of Property</u>	<u>Lease Rate</u>	<u>Date Set</u>	<u>Rent Adjustment</u>
1318	Seward	Tidelands	9% FMV	6-85	5-yr. intervals
19278	"	Comm. Site	" "	"	" "
32266	Kodiak	Tidelands	8% FMV	"	" "
---	Fairbanks	Rural Rec.	6% FMV	6-82	" "
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103832	Juneau	Tidelands	12% FMV	1-86	Fixed 25 yrs., then @ 10 yr. intervals
203934	Valdez	"	13% FMV	10-85	"
101598	Juneau	Waterfront	15% FMV	9-85	"
410040	Tok	Rural Ac.	10% FMV	7-85	Fixed for 10 yrs
100835	Wrangell	Tidelands	12% FMV	8-85	Fixed 25 yrs., then @ 10 yr. intervals
102826	Ketchikan	"	" "	5-85	"
103824	Craig	"	" "	"	"
74170	Glennallen	Lib. Site	13% FMV*	3-85	"
62472	Fairbanks	Comm. Site	9.5% FMV**	6-84	Fixed for 25 yrs
102934	Juneau	Tidelands	12% FMV	4-84	" " " "
---	"	"	15% FMV	7-82	" " " "
30526	"	"	12.5% FMV	5-81	Fixed 25 yrs., then @ 10 yr. intervals

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

** Reduced rate for remote location.

STATE OF ALASKA LAND LEASES

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

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

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

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

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

Lease Period:

25 to 55 years.

Rent Adjustments:

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

Rent Floor/Ceiling:

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

Lessee Expenses:

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

Subordination/Assignment/Subleasing:

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

Option to Purchase:

None.

Reversion of Lessee Improvements:

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

Condemnation:

Lessee entitled to award for lessee-owned improvements.

Arbitration:

Not typically provided for in lease.

PORT OF ANCHORAGE INDUSTRIAL LOTS

LEASE DATA

December 31, 1985

<u>Lot No.</u>	<u>Lessee</u>	<u>Area</u>	<u>Current Annual Rent</u>	<u>Rental Rate</u>	<u>Most Recent Adjustment</u>	<u>Lease Date</u>	<u>Term</u>
1D	TOTE	116,067 s.f.	\$.675/s.f.	10%	6-17-85	5-1-77	19 yrs., 3 mos.
2B & 3A	TOTE	374,990 s.f.	\$.600/s.f.	10%	7-24-85	8-1-75	21 yrs.
4A	Columbia Cement	230,497 s.f.	\$.450/s.f. (1)	10%	2-1-84	2-1-69	30 yrs., plus two 10 yr. options
5D-1	Sea-Land	258,263 s.f.	\$.347/s.f.	9.5%	12-10-80	8-1-70	21 yrs., plus 4 yr., 10 yr. option
5F-1	Sea-Land	141,490 s.f.	\$.525/s.f.	9%	10-1-83	9-30-63	10 yrs., plus eight 5 yr. options
6C-1	Sea-Land	422,550 s.f.	\$.405/s.f. (2)	9.5%	10-1-81	10-1-65	31 yrs., plus two 10 yr. options
6D-1	Sea-Land	303,508 s.f.	\$.298/s.f. (2)	8%	2-1-80	2-1-65	31 yrs., plus two 10 yr. options
7B	Texaco	380,559 s.f.	\$.337/s.f.	10%	2-1-82	7-1-64	30 yrs., plus four 5 yrs. options
8B & 8C	Anchorage Fueling & Service Co.	486,033 s.f.	\$.374/s.f. (3)	10%	3-5-82	3-5-62	10 yrs., plus eight 5 yr. options

(1) Based on original unfilled condition.

(2) Includes contribution of paving.

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

01-051P

MUNICIPALITY OF ANCHORAGE LAND LEASES

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

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

Rental Rate:

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

Lease Period:

Typically 50 years including renewal options.

Rent Adjustments:

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

Rent Floor/Ceiling:

Leases do not provide for rent minimums or caps.

Lessee Expenses:

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

Subordination/Assignment/Subleasing/Purchase Option:

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

Reversion of Lessee Improvements:

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

Condemnation:

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

Arbitration:

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

CITY OF CORDOVA LAND LEASES

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

Rental Rate:

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

Lease Period:

Typically 20 years with negotiable renewal options.

Rent Adjustments:

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

Rent Floor/Ceiling:

Typically none.

Lessee Expenses:

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

Subordination/Assignment/Subleasing:

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

Option to Purchase:

Typically none.

Reversion of Lessee Improvements:

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

Condemnation & Arbitration Clauses:

Normally not in leases.

FAIRBANKS NORTH STAR BOROUGH LAND LEASE

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

Lessor/Lessee:

FNSB/McKee Meats, Inc.

Rental Rate:

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

Lease Period:

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

Rent Adjustments:

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

Rent Floor/Ceiling:

None.

Lessee Expenses:

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

Subordination/Assignment/Subleasing:

Lease is silent on these items.

Option to Purchase:

None.

Reversion of Lessee Improvements:

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

Condemnation/Arbitration:

Not addressed in lease instrument.

CITY & BOROUGH OF JUNEAU LAND LEASES

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

Rental Rate:

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

Lease Period:

Varies. Newer leases have maximum terms of 35 years.

Rent Adjustments:

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

Rent Floor/Ceiling:

Not typically provided in leases.

Lessee Expenses:

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

Subordination/Assignment/Subleasing:

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

Option to Purchase:

None.

Reversion of Lessee Improvements:

Typically lessee may remove or title reverts to lessor.

Condemnation:

Varies but lessee is normally entitled to award for improvements.

Arbitration:

Not typically provided for in leases.

CITY OF KENAI LAND LEASES

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

Rental Rate:

Annual land rents are set at 6 $\frac{1}{2}$ % of fair market value and this rate, which is stated in the leases, has been in effect since the inception of the leasing program. City officials acknowledge this is below rates utilized in other areas, but do not anticipate any changes in the foreseeable future. The most recent leases incorporating the 6 $\frac{1}{2}$ % rate were executed in 1985.

Lease Period:

Typically 55 to 99 years.

Rent Adjustments:

Annual land rents are adjusted at 5-year intervals based on 6 $\frac{1}{2}$ % of fair market value which is estimated by a "qualified independent appraiser". Fair market value is based on the condition of the lands on the date of lease plus the value of improvements made by the City subsequent to the date of lease.

Rent Floor/Ceiling:

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

Lessee Expenses:

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

Subordination/Assignment/Subleasing:

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

Option to Purchase:

None.

Reversion of Lessee Improvements:

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

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

Condemnation:

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

Arbitration:

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

CITY OF SEWARD LAND LEASES

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

Rental Rate:

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

Lease Period:

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

Rent Adjustments:

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

Rent Floor/Ceiling:

Typically none.

Lessee Expenses:

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

Subordination/Assignment/Subleasing:

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

Option to Purchase:

None.

Reversion of Lessee Improvements:

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

Condemnation/Arbitration:

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

ALASKA RAILROAD CORPORATION

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



ALASKA RAILROAD CORPORATION

LONG TERM LEASE POLICY

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

1. PURPOSE

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

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

2. PRE-LEASE MATTERS

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

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

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

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

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

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

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

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

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

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

(i) the feasibility of developing the Premises for the purposes intended by Lessee;

(ii) the size and dimensions of the Premises;

(iii) the availability and adequacy of water, sewage and any utilities serving Premises;

(iv) the presence and adequacy of infrastructure or other improvements on, near, or affecting the Premises;

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

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

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

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

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

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

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

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

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

3. TERMS OF LEASES

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

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

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

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

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

3.02 DETERMINATION OF RENT.

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

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

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

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

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

(c) Rent Revision Process.

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

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

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

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

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

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

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

3.0 INDEMNIFICATION AND LIABILITY INSURANCE.

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

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

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

3.08 TRACKAGE.

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

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

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

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

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

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

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

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

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

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

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

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

4. REPLACEMENT OF CERTAIN EXISTING LEASES

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

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

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

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

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

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

5. RENEWAL OF LEASES

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

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

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

6. REGULATORY AUTHORITY OF ALASKA RAILROAD CORPORATION

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

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

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

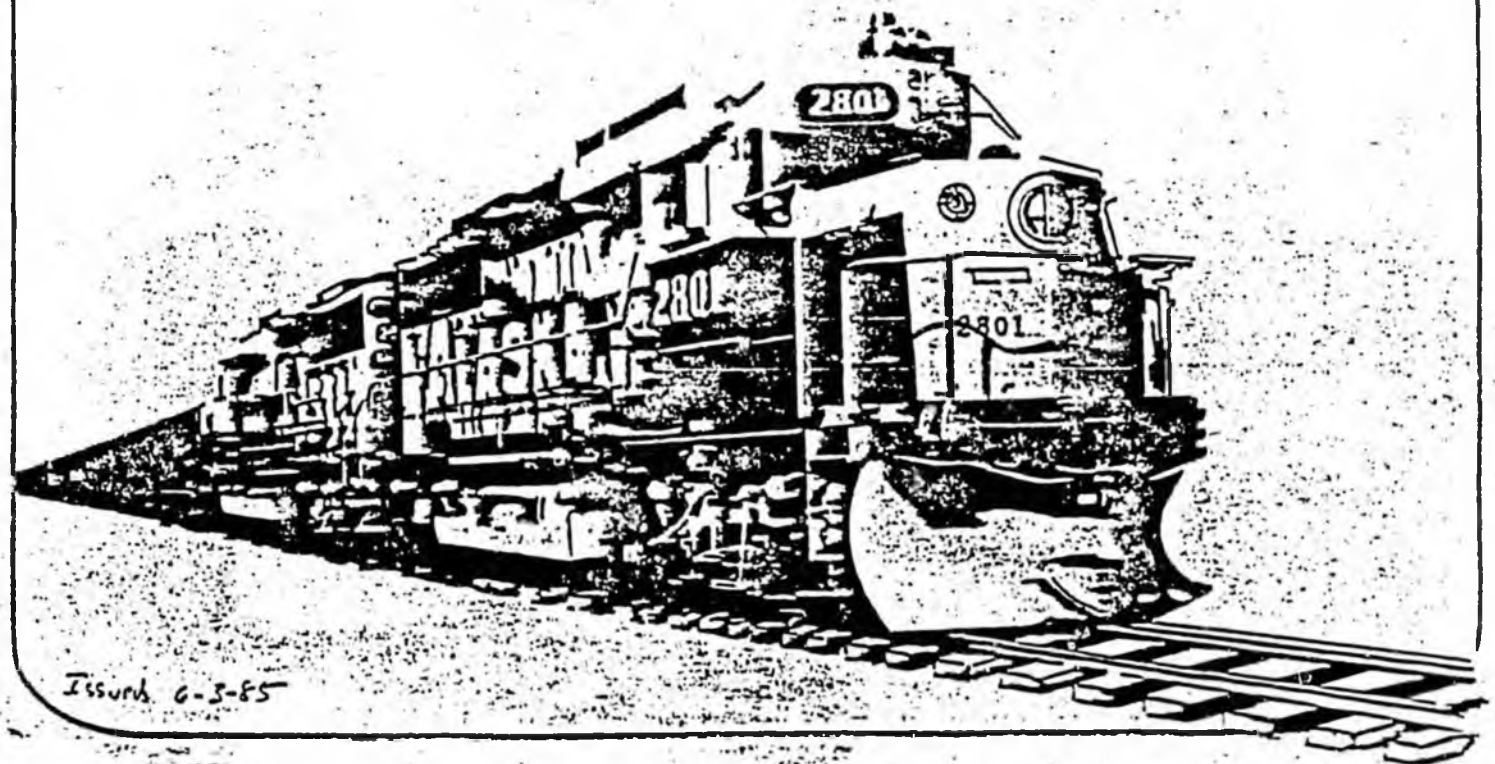
ARRC Board Approved 09/30/88

ALASKA RAILROAD CORPORATION



APPROVAL AUTHORITY GUIDE

MAY 1985



Issued 6-3-85

Management

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

Department Managers

	Superintendent, Transportation	Chief Engineer	Chief Mechanical Officer	Chief, Security	Manager, Sales	Manager, Marketing	Manager, Passenger Services	Director, Real Estate	Manager, Financial Services	Manager, Procurement	Manager, Supply	Manager, Administrative Services	Manager, Accounting	Manager, Information Systems
Authorization for Expenditures														
Capital AFE (Approved Budget) (1)	100k	100k	100k	10k	10k	10k	10k	10k	25k	10k	10k	10k	10k/E	10k
Expense AFE (Approved Budget)	250k	250k	250k	100k	100k	100k	100k	100k	100k	100k	100k	100k	100k	100k
Contracts & Letters of Agreement (3)	25k	25k	25k	10k	5k	5k	5k	5k	5k	5k/E(2)	5k	5k	5k	5k
Request for Contract														
Request for Sole Source Contract (Approved Budget)	10k	10k	10k	10k	2k	2k	2k	2k	2k	2k/E	2k	2k	2k	2k
Request for Personal Services Contract	5k	5k	5k	5k	5k	5k	5k	5k	5k	5k	5k	5k	5k	5k
Approve Contractor Time Sheets for Reimbursement	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Execution of Contracts (4)														
Issue ARRC Equid to others for less than one year														
Purchasing (Approved Budget) (5)														
Material Requisition	25k	25k	25k	10k	5k	5k	5k	5k	5k	5k/E(2)	5k	5k	5k	10k
EPD Establishment	1k	1k	1k	1k	5k	5k	5k	5k	5k	5k	5k	5k	5k	10k
Establish PPO Releaseor (17)	A	A	A	A	A	A	A	A	A	A	A	A	A	A
P.O.'s and Amendments (4)														
Transportation (Approved Budget) Authorized Transportation - Business and Traveling (8)														
Interstate (May Approve Own Travel Authorization)	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Approve Use of Charter Aircraft (Emergency)	A	A	A	A	A	A	A	A	A	A	A	A	A	A
Rail Trip Pass	A	A	A	A	A	A	A	A				A		
Disbursements														
Invoices														
Covered by Contracts	50k(15)	50k	50k	20k	5k	5k	25k	10k	10k	5k	5k	10k	10k(7)	10k
Transportation - MTL5														
Charter Aircraft	5k	5k	5k	5k				75k	50k/E					
Property Damage & Injury Claim														
All Other (Including Check Requests Without Invoice)	1k	1k	1k	1k	1k	1k	1k	1k	1k	1k	1k	1k(9)	1k	1k
Payroll (Replacement Checks)													2,500	
Expense Accounts														
Regular Travel, Training Travel & Business Expense	1,500	1,500	1,500	1k	2k	1k	1k	1k	500	500	500	500	500	500
Expense Advances														
Regular Travel, Training Travel, & Business Expense	1k	1k	1k	1k	1k	1k	1k	1k	500	500	500	500	500	500
Utility Bills														
Party Cash Reimbursement														
Manual Checks														
Journal of Material & Equipment Declare Excess to Department (Book Value)	10k	10k	10k	5k	A	A	A	A	A	A	A	A	A	A
Declare MTL5 & Equipment Surplus to the ARRC														
Approve Sales														
Execute Sales Agreement														
Sign Title Certificate														
Savings and Finance														
Transfer Funds														
Establish Petty Cash Funds														
Request to Borrow Funds														
Procure/Reconcile/Execute Loan Contracts														
Execute Master Loan Agreements														
Litigation, Claims, & Insurance														
Claims Against Vendors, Suppliers, Contractors, Common Carriers														
Send Customer Credit/Reduce Invoices Write off Bad Debt														

RULE NO. 4 - PUBLIC DISCLOSURE OF INFORMATION

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

A. Public Information:

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

B. Restrictions on Disclosure:

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

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

For employees who transferred to the Corporation pursuant to P.L. 97-468, personnel records shall include the employee's Official Personnel Folder, Emergency Medical Folder, and any copies thereof. Disclosure of information contained in the Official Personnel Folder and Emergency Medical Folder shall be governed by applicable Federal law and regulation;
- 3.) communications with and work product of counsel;
- 4.) all other records, documents, data or information of a privileged or proprietary nature, including but not limited to proprietary information associated with specific shippers, divisions and contract rate agreements, and specifically including all information that may be withheld or protected from discovery in proceedings before the Interstate Commerce Commission consistent with the Commission's standards and practices;
- 5.) other information the subject of which could be discussed in executive session under AS 42.40.170;
- 6.) any other information or records required to be kept confidential by Federal or State law or regulations.

ALASKA RAILROAD CORPORATION
TRANSPORTATION/ENGINEERING

January 14, 1987

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

To: All Concerned

From: Supt. of Transportation
Chief Engineer

Subject: Policy for Moose That Have Been Struck by Trains

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

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

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

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

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

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

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

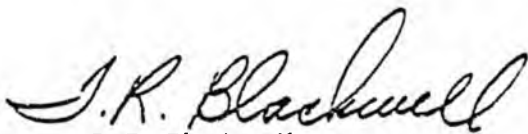
<u>ARRC LOCATION</u>	<u>ALASKA STATE TROOPER DISPATCHER</u>	
Seward to Portage	262-4453	Soldotna
Whittier Branch	269-5711	Anchorage
Portage to Matanuska	269-5711	Anchorage
Matanuska to Cantwell	745-4247	Palmer
(7:30 a.m. - 4:30 p.m. Monday through Friday; after hours call Anchorage)		
Cantwell to Eielson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

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

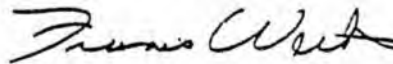
No employee may utilize any portion of a train killed moose nor give any part to any person except as designated by FWP.

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

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



T. R. Blackwell
Supt. of Transportation



F. C. Weeks
Chief Engineer

Distribution B, D, & F

DATE AND TIME POSTED _____

POSTED BY _____

ALASKA RAILROAD CORPORATION

TIME TABLE NO. 120

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

F.G. TURPIN
President
and
Chief Executive Officer

A.T. POLANCHEK
Vice President, Operations

T.R. Blackwell
Superintendent of Transportation



GILF of ALASKA

SPECIAL INSTRUCTIONS

4. HANDLING OF CARS CONTAINING HAZARDOUS MATERIALS:

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

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

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

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

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

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

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

5. BLOCKING WYES/SIDINGS:

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

6. GAME ANIMALS/LIVESTOCK:

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

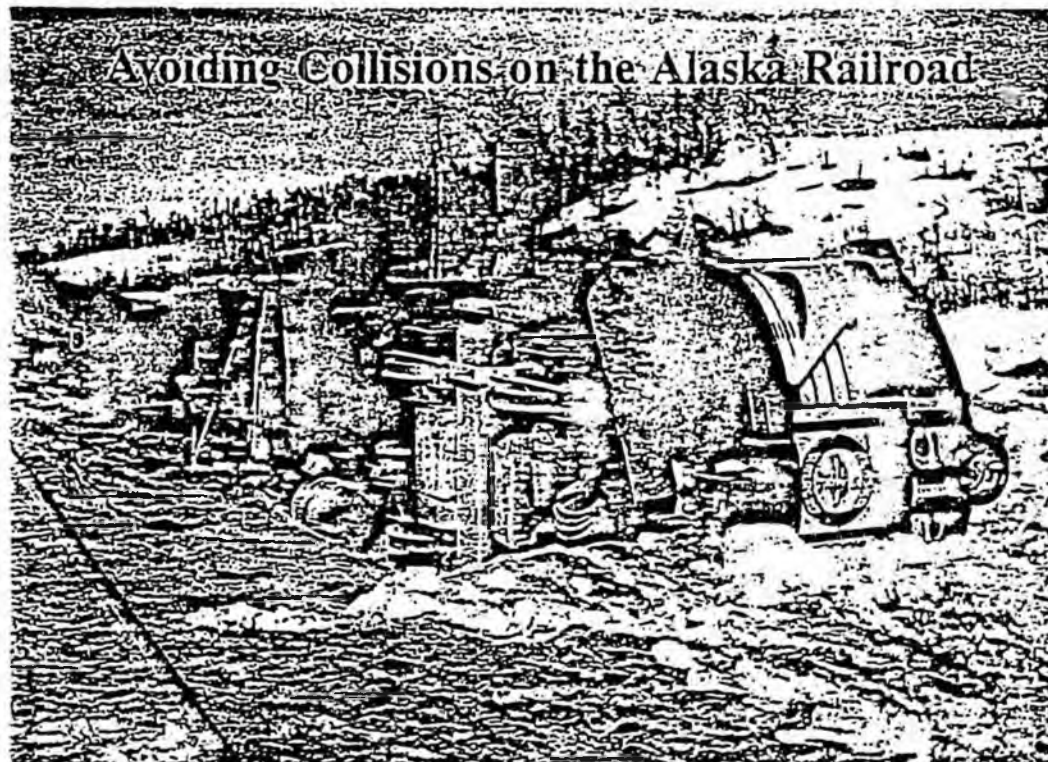
Whenever any animals are struck or killed by trains, a report must be made to the Train Dispatcher immediately.

7. LOADING AND HANDLING HEAVY EQUIPMENT:

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

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

When Moose and Train Meet:



by Jack C. Didrickson and Raymond J. Kramer

EXHIBIT F

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

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

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

Initially, both ADF&G and the Alaska Railroad presumed

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

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

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

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

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

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

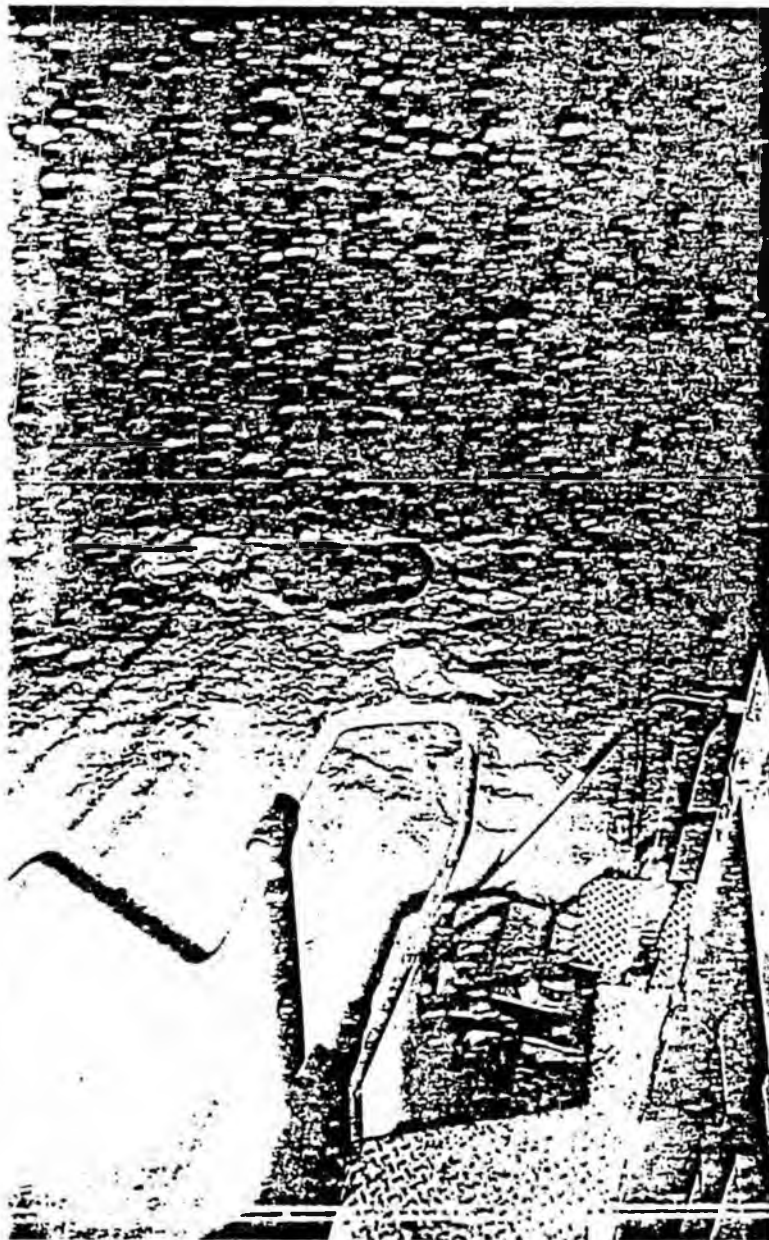
There are certain realities which must be faced where "compromise" simply won't work. The trains must run and they must run on or near schedule; too many people and businesses are dependent on the products delivered to interrupt service. Closing down the railroad in winter is no solution. Scheduling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

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

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

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

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



M. Penn
Anchorage Daily News

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

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

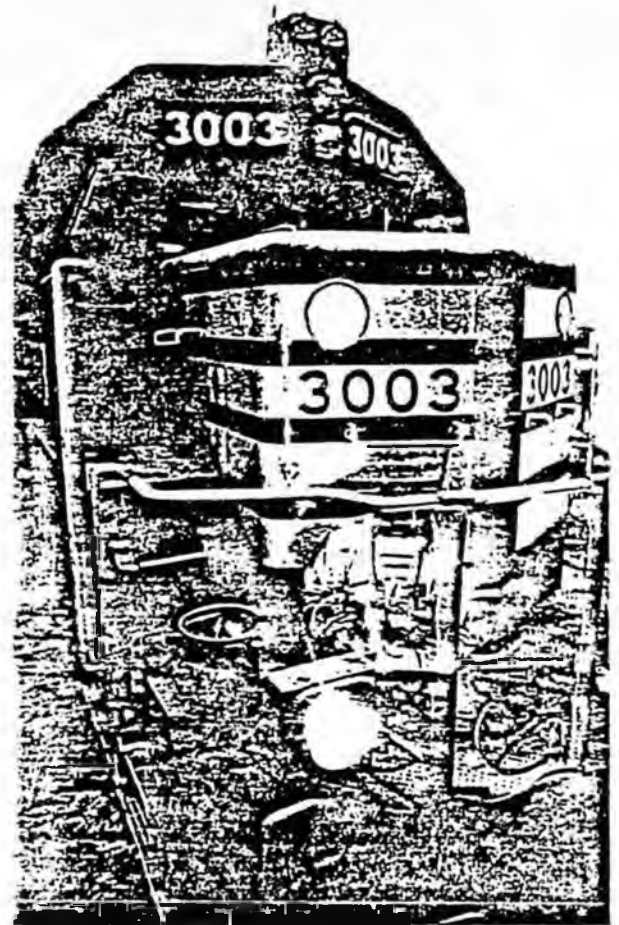
One of the major problems in deep snow is that of the "tunnel" effect which trains create with their own snow plow on the front. In this situation, once a moose is on the track, after struggling in deep snow, it won't leave even with a train bearing down on it. There is little room between the train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

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

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

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

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



Al Tamm
Anchorage Daily News

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

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

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

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

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

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

Adopted July 18, 1985

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

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

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

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

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

BEC/CASHFLOW
C:BUDGET86The Alaska Railroad Corporation
Cash Flow Analysis
1985

	January	February	March	April	May	June	July	August	September	October	November	December	Total
Income													
Freight	\$3,445	\$3,993	\$4,150	\$5,157	\$5,363	\$6,257	\$6,178	\$6,113	\$5,643	\$4,784	\$4,294	\$4,294	\$59,671
Passenger	30	30	30	40	290	1,100	1,200	1,100	540	50	50	60	4,520
Real Estate	340	340	340	340	340	340	340	340	340	340	340	340	4,080
Other	418	418	418	418	418	418	418	418	418	418	418	418	4,920
Total Income	\$4,225	\$4,773	\$4,938	\$5,947	\$7,083	\$7,907	\$8,128	\$7,963	\$6,933	\$5,584	\$4,894	\$4,904	73,191
Expenditures													
Freight	\$4,220	\$4,445	\$4,520	\$4,450	\$4,515	\$4,915	\$4,915	\$4,915	\$4,615	\$4,565	\$4,350	\$4,350	\$54,775
Passenger	60	60	60	150	450	1,515	1,535	1,505	655	150	150	150	6,640
Real Estate	24	25	25	30	30	30	30	30	30	30	30	30	344
Other	310	310	310	310	310	310	310	310	310	310	310	310	3,720
Total Expenditures	\$4,614	\$4,840	\$4,915	\$4,940	\$5,305	\$6,770	\$6,790	\$6,760	\$5,510	\$5,055	\$4,840	\$4,840	65,479
Net Income													
Freight	(\$775)	(\$452)	(\$370)	\$707	\$1,448	\$1,142	\$1,263	\$1,198	\$1,028	\$219	(\$256)	(\$256)	\$4,396
Passenger	(30)	(30)	(30)	(110)	(160)	(415)	(335)	(405)	(315)	(100)	(100)	(50)	(2,120)
Real Estate	316	315	315	310	310	310	310	310	310	310	310	310	3,736
Other	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Cash Flow	(\$389)	(\$67)	\$15	\$1,307	\$1,698	\$1,137	\$1,338	\$1,203	\$1,123	\$529	\$54	\$64	\$7,712
preciation	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$4,800
Net Income (Loss)	(\$789)	(\$467)	(\$385)	\$687	\$1,298	\$737	\$938	\$883	\$723	\$129	(\$346)	(\$336)	\$2,912
Accumulated Cash Flow	\$4,511	\$4,444	\$4,459	\$5,466	\$7,164	\$8,301	\$9,639	\$10,842	\$11,565	\$12,494	\$12,548	\$12,612	\$12,612

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

ALASKA RAILROAD CORPORATION

4

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.

The Honorable Bill Sheffield
November 27, 1984


2.

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	ARR	State	State	Total	ARR	State
	CY '85	FY '84	FY '85	FY '86	CY '86	CY '85	FY '86
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	
	<u>\$1.425</u>	<u>\$1.425</u>			<u>\$.100</u>	<u>\$.100</u>	
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 Fasteners	.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	
	<u>\$9.160</u>	<u>\$4.275</u>	<u>\$.600</u>	<u>\$4.285</u>	<u>\$9.660</u>	<u>\$6.800</u>	<u>\$2.860</u>

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

	CALENDAR YEAR 1985				CALENDAR YEAR 1986		
	Total CY '85	ARR FY '84	State FY '85	State FY '86	Total CY '86	ARR CY '85	State FY '86
	<u>\$18.0</u>	<u>\$6.4</u>	<u>\$6.0</u>	<u>\$ 5.6</u>	<u>\$26.1</u>	<u>\$12.0</u>	<u>\$14.1</u>
EQUIPMENT							
20. Locomotives	1.500		1.500		.700	.700	
21. Hopper Cars	1.150		1.150		.490	.490	
22. TWC 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
	<u>\$7.055</u>	<u>\$.700</u>	<u>\$5.020</u>	<u>\$1.335</u>	<u>\$8.850</u>	<u>\$5.100</u>	<u>\$3.750</u>
OTHER PROJECTS							
37. Passenger Service Glazing, Platforms, Repairs Main Line	.300		.300				
38 -Denali Park					.100		.100
39 -Remanufacture 10 Cars					5.000		5.000
40 Shuttle Improvements					2.400		2.400
	<u>\$.300</u>		<u>\$.300</u>		<u>\$7.500</u>		<u>\$7.500</u>
TOTALS	<u>\$18.020</u>	<u>\$6.400</u>	<u>\$6.000</u>	<u>\$5.620</u>	<u>\$26.110</u>	<u>\$12.000</u>	<u>\$14.110</u>

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	<u>65,000</u>
	\$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	<u>300,000</u>
	\$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	<u>200,000</u>
	\$7,055,000

OTHER PROJECTS

28. Passenger Service - Glazing, Platforms, Repairs	<u>380,000</u>
	\$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 1.3 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 auxiliary 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 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. 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 accommodate cruise ship passengers, and selected repair of seating and carpeting.

THE ALASKA RAILROAD
CALENDAR YEAR 1986 PRIORITY CAPITAL PROGRAM

BUILDINGS

1. Fuel Station - Fairbanks	<u>\$100,000</u>
	<u>\$100,000</u>

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	1,050,000
9. Utility Systems	400,000
10. Eielson Branch Rehabilitation	1,900,000
11. Hot Box and Drag Detectors	500,000
12. TOFC Terminal Update	<u>1,500,000</u>
	<u>\$9,660,000</u>

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	<u>300,000</u>
	<u>\$8,950,000</u>

OTHER PROJECTS

Passenger Service Projects:

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

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 Whittier 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 funds will be used for paving, van packer storage facilities, 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 lading 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 one 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 competitive in the oilfield products market. Additional revenue expected from acquisition of this equipment is \$720,000 annually. This funding 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 platforms 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 Corporation 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 accommodate public demand and improve basic accommodations 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 transportation 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

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 DOT&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 improvements 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% in 1984 (nearly 23% if the privately owned Tour Alaska Inc. luxury cars 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 subsidy 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	405
ACCOUNTING	50	58
TRAC: MAINT.	405	450
TOTAL OP. COSTS	6245	7128
TOTAL REVENUE *	4520	5215
SERVICE LOSSES	1725	1917

* - 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.

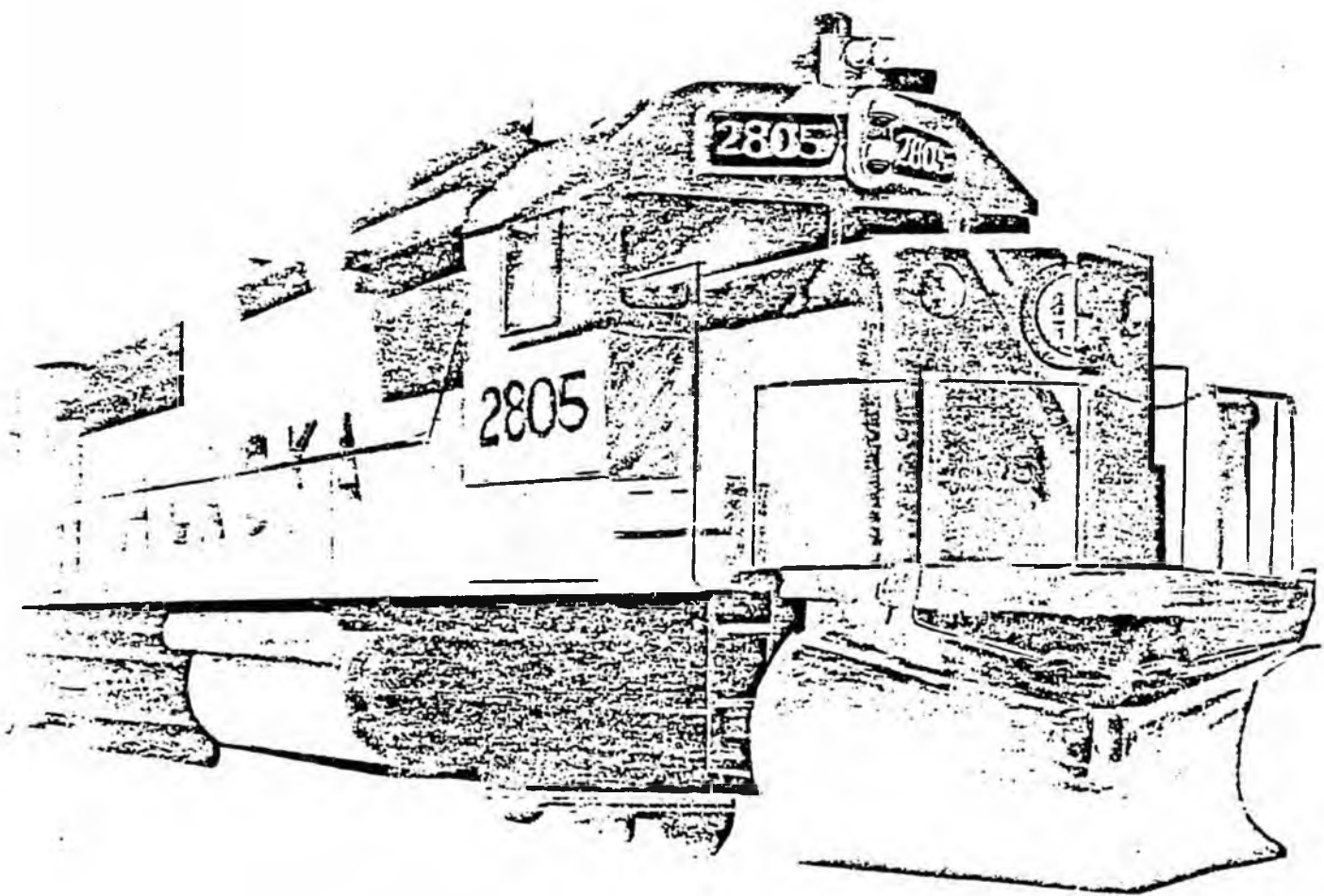
ALL PASSENGER SERVICE INCLUDED...MAINLINE, SHUTTLE, SPECIAL & CHARTER.

A N N U A L

R E P O R T



1925



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.

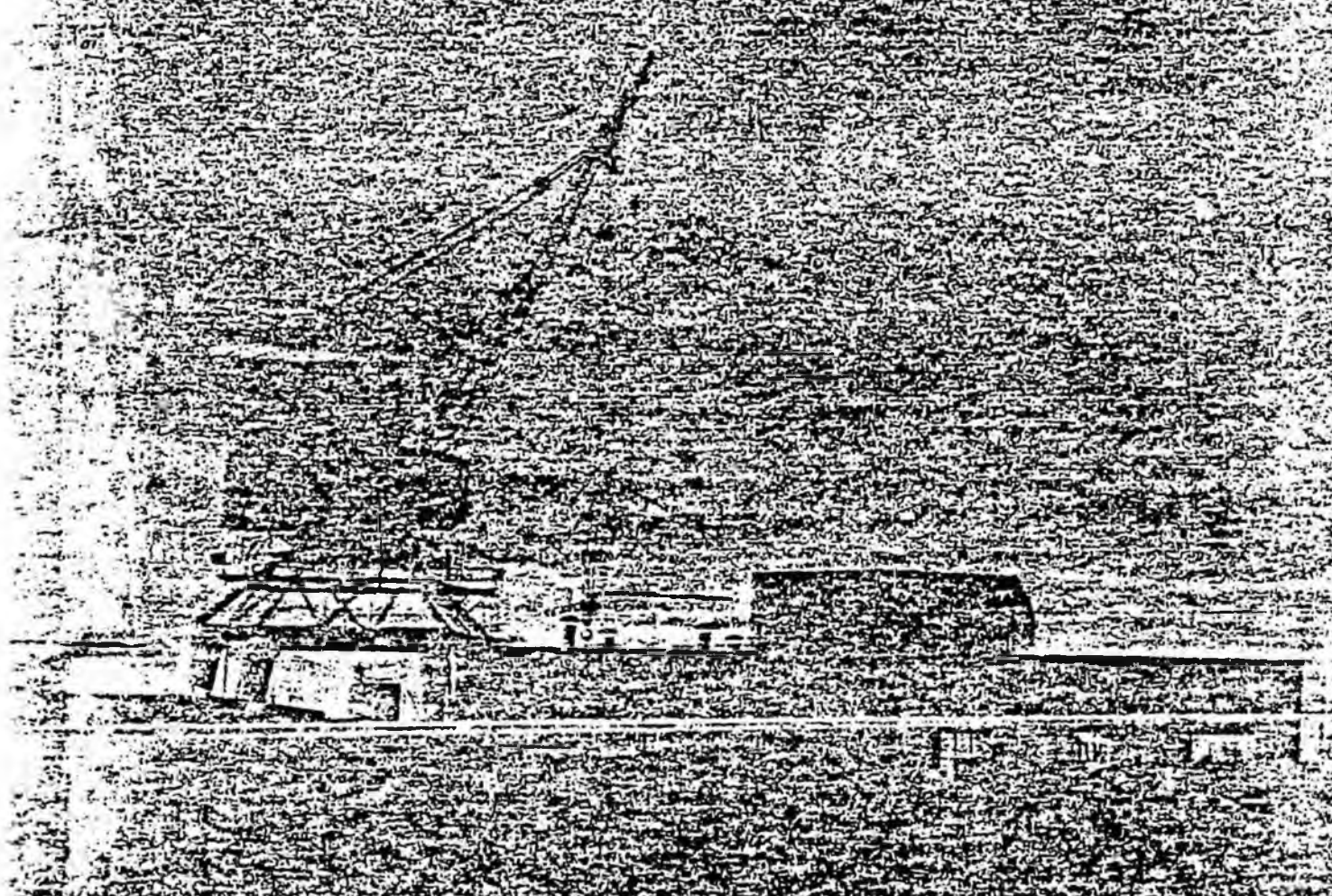
To achieve that overall goal, a three-year plan was developed that includes an extensive marketing program to increase our revenue coupled with an intense effort to streamline our operations to reduce our expenses. The result, we believe, will be ample funds to reinvest in

modernizing the railroad including purchasing new equipment, upgrading the track and yarded, and improving our physical plants.

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 a quarter 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 \$1.6 million in 1985. With the purchase of two new rail diesel cars in late 1985, we expect to cut those losses by \$500,000 in 1986 alone.

While we were attempting to boost our revenues, a major plan was made to reduce our 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 completed in 1986.



No significant contracts nullified in our three-year plan are reduction of our vehicle fleet by 25 percent and reduction of our expendable inventory by 10 percent. By the close of the first year we had our vehicle fleet by 22 percent and our expendable inventory by 15 percent. Including track materials by 15 percent. Most of these items were sold at public auction, yielding over \$5 million to our cash reserves.

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 15 new locomotives and 15 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 1986 we spent \$600,000 and will purchase another \$5 million worth in 1987.

All of these efforts would be futile if we did not pledge to create significant time and money to maintain our track and facilities. We spend more on track maintenance in 1986 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 \$100 million in damages to the railroads.

With our impressive record of sales and then achieved, the Alaska Railroad Corporation is well on its 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 C. Turner

Frank C. Turner
President and CEO
Alaska Railroad Corporation

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 5 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.

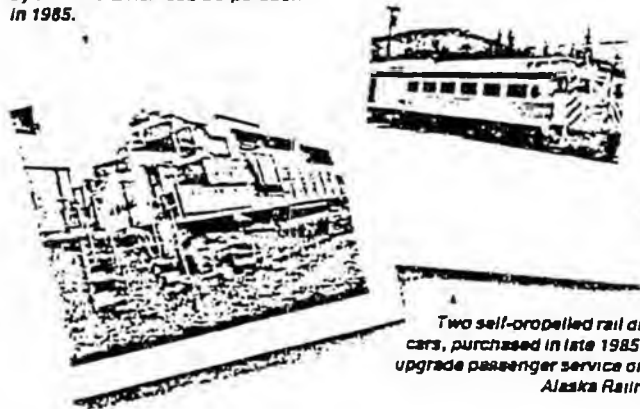


John Riley, Federal Railroad Administrator, and Bill Sheffield, Governor of Alaska, signed an agreement January 5, 1985 to transfer the Alaska Railroad from federal to state ownership.

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.

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 31,000 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



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

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.

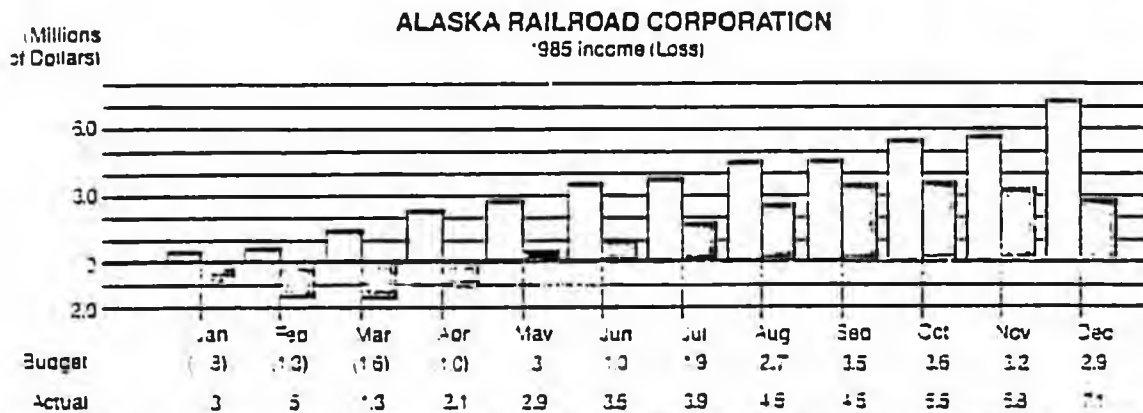
Under federal and state law the union contracts in existence at the time of transfer are to be renegotiated by the corporation within the first two years of operation under state ownership. Beginning in August 1985, for the first time in the history of the Alaska Railroad, all seven bargaining units 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.



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

Five crews replaced about 26,000 cross-ties, 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 affected.

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.

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, Fern Avenue, and Campbell Creek, plus 1.0 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 4.5 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

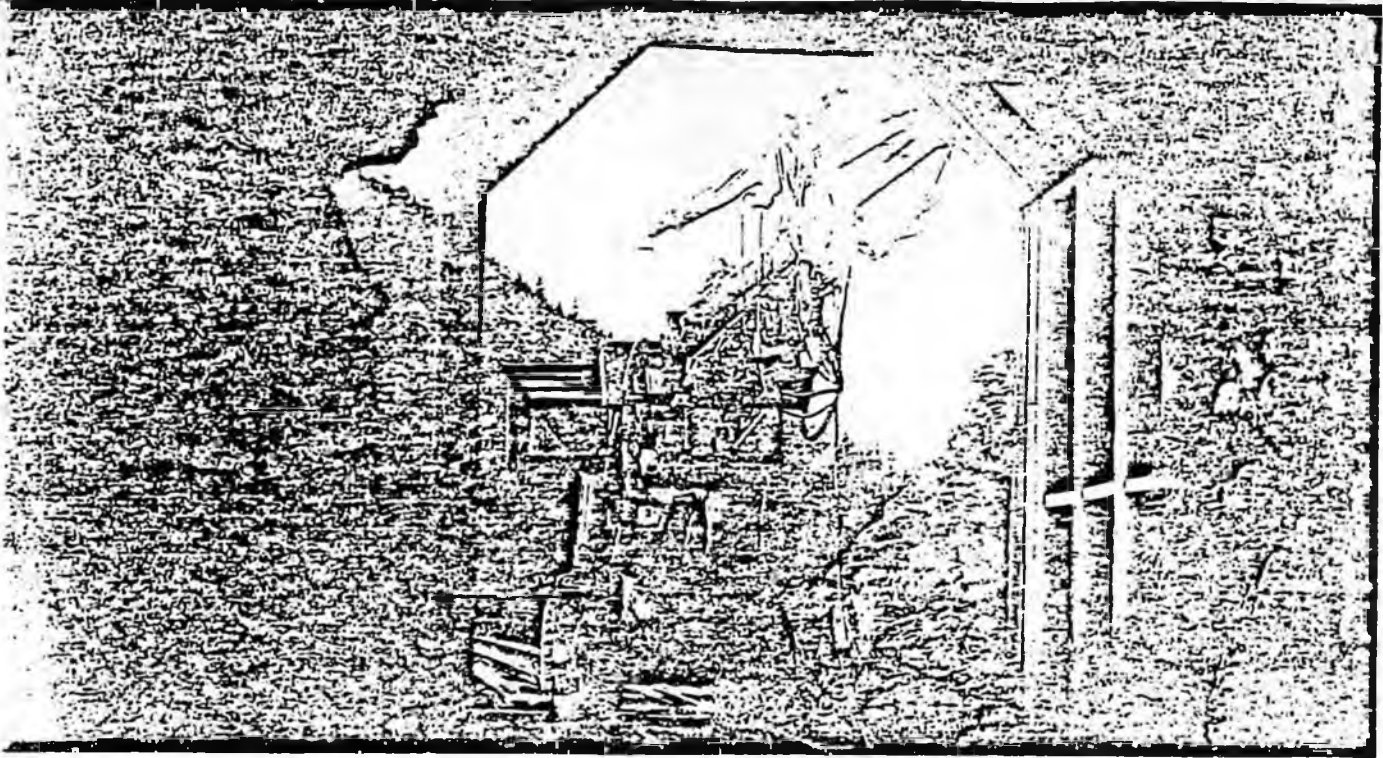
roofs were replaced or insulated to reduce maintenance, repair defects, reduce heat loss and improve appearance and operation.

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



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



Renovation 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

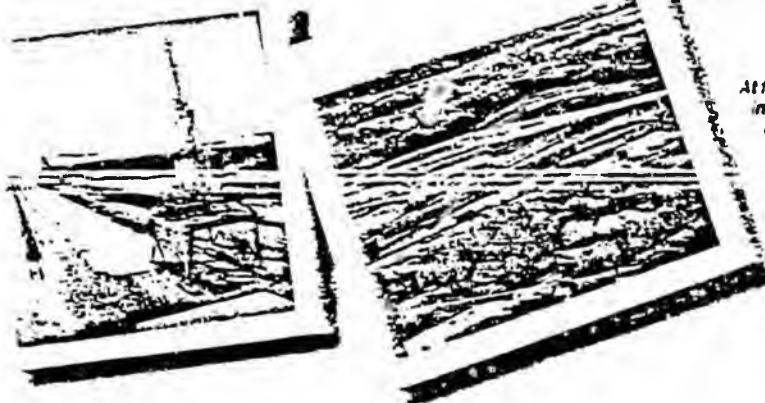
While the Engineering Department was working in 1985 to improve the condition of the railroad tracks, roadbed and physical plant, the Motive Power and Equipment (MP&E) Department acquired new rolling stock and equipment or overhauled much of what was already on hand.

Major purchases included five new state-of-the-art GP49 diesel locomotives manufactured by the Electro Motive Division of General Motors. The 2,300-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 140 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 571,000 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 5,332 trailers in its seven months of operation in 1985.

The FOX is the first caboosless 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 caboosless 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.

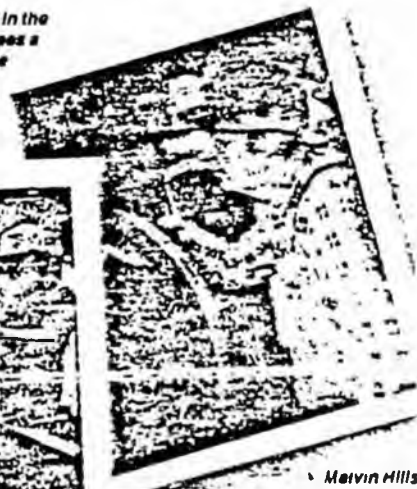
During the same time the Arctic FOX service was initiated, the Anchorage freight house operations were discontinued. All services for loading and unloading railcars, consolidation of freight, and rubber-tire delivery were contracted to local businesses in an effort to divest from some less profitable, 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.



China 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.



Mevin 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

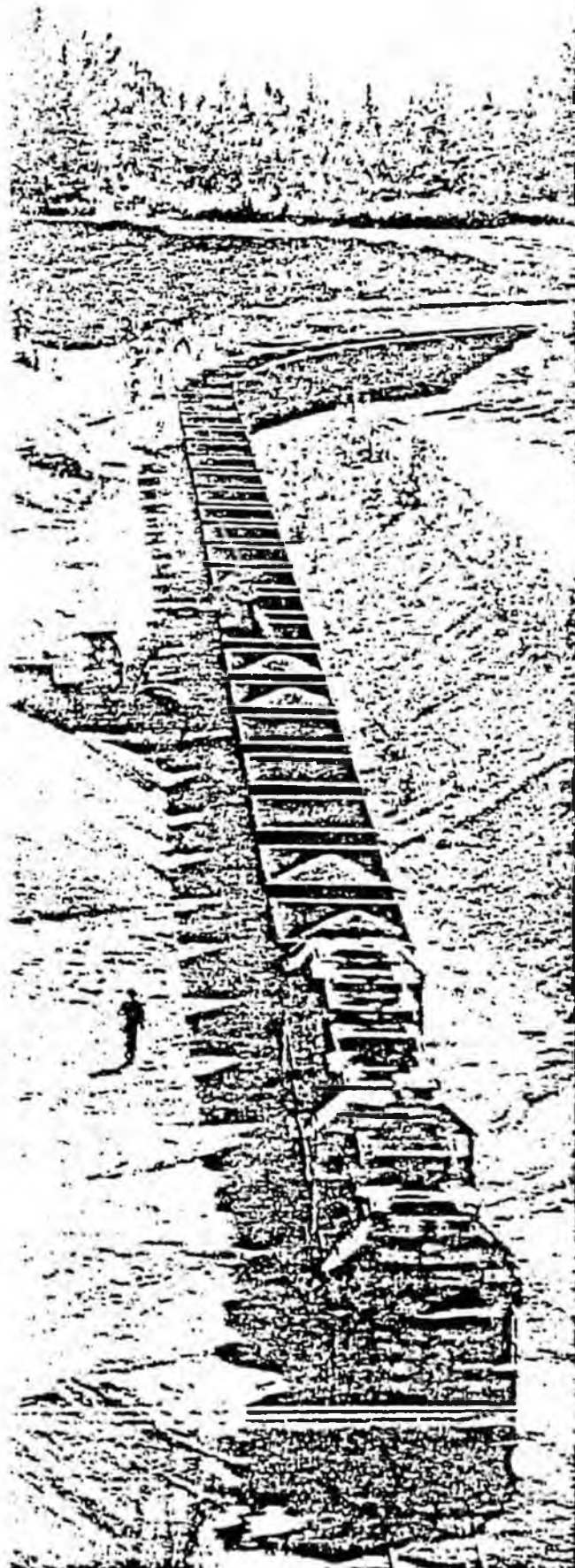
With the transfer of the Alaska Railroad to state ownership, the new corporation was required to organize a risk management program to provide insurance for property damage or loss, theft, fire, vandalism and other potential liabilities. For the first six months of 1985 the railroad operated on an interim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



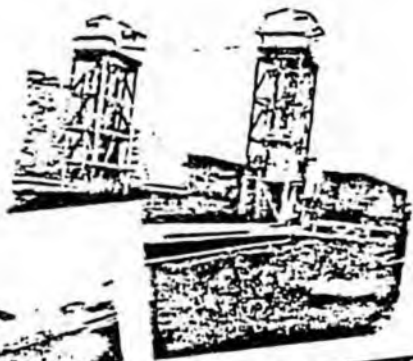
Gravel unit trains are loaded near Palmer, in the Matanuska Valley, 40 miles north of Anchorage.

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.



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 began 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.

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 seacoast 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.

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