

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672

5141 HTRA HB 47 (FILE 1) - HB 47 (FILE 2)

INCOME, REVENUE AND EXPENSE STATEMENTS

ALASKA RAILROAD CORPORATION
Revenues By Commodity
1987 Revenue Budget
(000's)

<u>Commodity</u>	<u>1987 Budget</u>	<u>1986 Latest Estimate</u>	<u>Variance</u>	
			<u>Dollar</u>	<u>%</u>
Pipe	1,000	2,125	(1,125)	(52.9)
Coal: Local	4,800	4,575	225	4.9
Export	5,600	5,700	(100)	(1.8)
Petroleum	10,500	10,200	300	2.9
Gravel	3,000	4,050	(1,050)	(25.9)
TOFC/COFC	7,000	6,000	1,000	16.6
Interline	7,000	7,050	(50)	(0.7)
Miscellaneous	1,000	700	300	42.9
TOTAL FREIGHT	39,900	40,400	(500)	(1.2)
Passenger:				
North Bound	3,300	2,700	600	22.2
South Bound	2,200	1,900	300	15.8
Charters, etc	200	200	0	0.0
TOTAL PASSENGER	5,700	4,800	900	18.8
Real Estate	6,000	5,500	500	9.1
Freight Related	662	540	122	22.6
All Other	4,498	5,260	(762)	(14.5)
TOTAL OTHER	11,160	11,300	(140)	(1.2)
TOTAL REVENUE	56,760	56,500	260	0.4

December 18, 1986

ALASKA RAILROAD CORPORATION
 1987 Expense Budget Performance Analysis
 (\$ 000's)

<u>DEPARTMENT</u>	<u>1987 BUDGET</u>	<u>1986 Latest Estimate</u>	<u>Dollar Variance</u>	<u>Percentage</u>
<u>Railroad</u>				
Transportation	13,990	15,200	(1,210)	(8.0)
Motive Power & Equipment	10,390	12,500	(1,610)	(12.9)
Engineering	11,999	12,050	(51)	(0.4)
Operations Staff	2,701	2,774	(73)	(2.6)
TOTAL RAILROAD	<u>39,580</u>	<u>42,524</u>	<u>(2,944)</u>	<u>(6.5)</u>
<u>General & Administrative</u>				
Corporate Office	525	625	(100)	(16.0)
Finance	4,599	5,120	(521)	(10.2)
Marketing	2,704	3,000	(296)	(10.0)
Administration	625	686	(61)	(8.9)
Human Resources	1,203	1,500	(297)	(19.8)
General Counsel	855	919	(64)	(7.0)
TOTAL G & A	<u>10,511</u>	<u>11,850</u>	<u>(1,339)</u>	<u>(11.3)</u>
<u>Corporate Overhead</u>				
Bad Debt Reserve	480	600	(120)	(20.0)
Interest Expense	1,920	726	1,194	164.5
Depreciation	3,600	2,400	1,200	50.0
Miscellaneous	315	(1,600)	1,915	N/A
TOTAL OVERHEAD	<u>6,315</u>	<u>2,126</u>	<u>4,189</u>	<u>197.0</u>
<u>TOTAL</u>	<u>56,406</u>	<u>56,500</u>	<u>(94)</u>	<u>(0.1)</u>

December 13, 1986

MANPOWER BUDGET

ALASKA RAILROAD CORPORATION
MANNING VARIANCE ANALYSIS
1984 - 1987

<u>Division</u>	<u>1984 Average Manning</u>	<u>1985 Average Manning</u>	<u>1986 Average Manning</u>	<u>1987 Average Manning</u>
President & CEO	9	6	4	2
Chief Counsel	4	3	7	6
Operations	586	606	564	483
Administration	7	8	8	8
Human Resources	11	12	19	15
Finance	69	67	64	62
Marketing	14	18	30	34
	—	—	—	—
TOTAL	<u>700</u>	<u>720</u>	<u>696</u>	<u>610</u>

12-2-86

DEPARTMENTAL BUDGETS

ALASKA RAILROAD CORPORATION
 1987 OPERATING BUDGET SUMMARY
 (THOUSANDS OF DOLLARS)

	1987 PROPOSED <u>BUDGET</u>	1986 LATEST ESTIMATE	VARIANCE	
			<u>DOLLARS</u>	<u>%</u>
REVENUE	56,760	56,500	260	0.4
EXPENSE	<u>52,326</u>	<u>53,500</u>	(1,174)	(2.1)
SURPLUS (DEFICIT)	4,434	3,000	1,434	47.8
BAD DEBT RESERVE	480	600	(120)	(20.0)
DEPRECIATION	<u>3,600</u>	<u>2,400</u>	<u>1,200</u>	<u>50.0</u>
NET INCOME (LOSS)	<u>354</u>	<u>0</u>	<u>354</u>	<u>N/A</u>

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ALASKA RAILROAD CORPORATION
1987 SPENDING PLAN
CORPORATE OFFICE
SUMMARY

	<u>1987 PROPOSED BUDGET</u>	<u>1986 LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	264	349	(85)
CONTRACTUAL SERVICES	235	237	(2)
MATERIALS & SUPPLIES	11	11	0
RENTALS, UTILITIES	0	0	0
INSURANCE, CASUALTY	0	0	0
OTHER	<u>15</u>	<u>28</u>	<u>(13)</u>
TOTAL	525	625	(100)
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>525</u>	<u>625</u>	<u>(100)</u>

EXPLANATION OF MAJOR VARIANCES:

- PERSONNEL REDUCTION REFLECTS RE-ASSIGNMENT OF SECRETARIAL SUPPORT FROM CEO TO ADMINISTRATION.
- OTHER EXPENSES REFLECT REDUCED FUNDING FOR CONTRIBUTIONS.

ALASKA RAILROAD CORPORATION
1987 SPENDING PLAN
OPERATIONS
SUMMARY

	<u>1987 PROPOSED BUDGET</u>	<u>1986 LATEST ESTIMATE*</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	26,582	29,013	(2,431)
CONTRACTUAL SERVICES	2,879	3,117	(238)
MATERIALS & SUPPLIES	6,723	6,824	(101)
RENTALS, UTILITIES	1,588	1,584	4
INSURANCE, CASUALTY	1,808	1,986	(178)
OTHER	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	39,580	42,524	(2,944)
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>39,580</u>	<u>42,524</u>	<u>(2,944)</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL REDUCTION REFLECTS REDUCED MANPOWER.
- ° CASUALTY LOSSES ARE EXPECTED TO BE LOWER IN 1987.
- ° MATERIAL AND SUPPLIES REFLECT A SMALLER SUMMER WORK PROGRAM.

* EXPENSES ADJUSTED DOWNWARD TO REFLECT IMPACT OF FLOOD DISASTER.

ALASKA RAILROAD CORPORATION
1987 SPENDING PLAN
FINANCE
SUMMARY

	<u>1987 PROPOSED BUDGET</u>	<u>1986 LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	2,979	3,267	(288)
CONTRACTUAL SERVICES	980	1,224	(244)
MATERIALS & SUPPLIES	640	624	16
RENTALS, UTILITIES	0	0	0
INSURANCE, CASUALTY	0	0	0
OTHER	<u>0</u>	<u>5</u>	<u>(5)</u>
TOTAL	4,599	5,120	(521)
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>4,599</u>	<u>5,120</u>	<u>(521)</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL COST DECREASE REFLECTS FULL YEAR EFFECT OF ELIMINATION OF 3 PROFESSIONAL STAFF POSITIONS AND ASSOCIATED COSTS.
- ° CONTRACTUAL SERVICES REFLECTS WIND DOWN OF MSA ACCOUNTING SYSTEM INSTALLATION AND REMOVAL OF THE BURROUGH'S COMPUTER.

ALASKA RAILROAD CORPORATION
1987 SPENDING PLAN
MARKETING
SUMMARY

	<u>1987 PROPOSED BUDGET</u>	<u>1986 LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	1,230	1,411	(181)
CONTRACTUAL SERVICES	1,352	1,429	(77)
MATERIALS & SUPPLIES	60	60	0
RENTALS, UTILITIES	62	100	(38)
INSURANCE, CASUALTY	0	0	0
OTHER	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	2,704	3,000	(296)
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>2,704</u>	<u>3,000</u>	<u>(296)</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL REDUCTIONS REFLECT VACANT SALES POSITION.
- ° OUTSIDE SERVICES COMPRISED OF COMMISSION TICKET SALES, WHITTIER BUS RENTALS, COACH/CABOOSE CLEANING, CATERING; DECREASE DUE TO REDUCTION OF ADVERTISING CONTRACT.
- ° RENTALS DECREASE IS DUE TO RELOCATION OF THE MARKETING STAFF TO THE VACANT OFFICE SPACE IN THE GENERAL OFFICE BUILDING.

ALASKA RAILROAD CORPORATION
1987 SPENDING PLAN
ADMINISTRATION
SUMMARY

	<u>1987 PROPOSED BUDGET</u>	<u>1986 LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	388	367	21
CONTRACTUAL SERVICES	209	272	(63)
MATERIALS & SUPPLIES	28	47	(19)
RENTALS, UTILITIES	0	0	0
INSURANCE, CASUALTY	0	0	0
OTHER	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	625	686	(61)
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>625</u>	<u>686</u>	<u>(61)</u>

EXPLANATION OF MAJOR VARIANCES:

- ° PERSONNEL COST DECREASE REFLECTS RE-ASSIGNMENT OF SECRETARIAL POSITIONS FROM CEO TO ADMINISTRATION AND PERSONNEL CUTS.
- ° OUTSIDE SERVICES DECREASE REFLECTS MOVING RESPONSIBILITY FOR BUDGETING ALL COMPUTER TYPE EQUIPMENT FROM ADMINISTRATION TO INFORMATION SYSTEMS.
- ° MATERIALS AND SUPPLIES REFLECTS A DECREASE DUE TO A ONE TIME ONLY PROJECT COMPLETED IN 1986.

ALASKA RAILROAD CORPORATION
 1987 SPENDING PLAN
 HUMAN RESOURCES
 SUMMARY

	<u>1987 PROPOSED BUDGET</u>	<u>1986 LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	905	1,147	(242)
CONTRACTUAL SERVICES	212	220	(8)
MATERIALS & SUPPLIES	86	133	(47)
RENTALS, UTILITIES	0	0	0
INSURANCE, CASUALTY	0	0	0
OTHER	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	1,203	1,500	(297)
DEBT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>1,203</u>	<u>1,500</u>	<u>(297)</u>

EXPLANATION OF MAJOR VARIANCES:

- PERSONNEL COST DECREASE REFLECTS ELIMINATION OF 6 POSITIONS.

ALASKA RAILROAD CORPORATION
 1987 SPENDING PLAN
 GENERAL COUNSEL
 SUMMARY

	<u>1987 PROPOSED BUDGET</u>	<u>1986 LATEST ESTIMATE</u>	<u>VARIANCE</u>
SALARIES, WAGES, AND OTHER PERSONNEL EXPENSES	367	414	(47)
CONTRACTUAL SERVICES	484	501	(17)
MATERIALS & SUPPLIES	4	4	0
RENTALS, UTILITIES	0	0	0
INSURANCE, CASUALTY	0	0	0
OTHER	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	855	919	(64)
DI.BT SERVICE	<u>0</u>	<u>0</u>	<u>0</u>
GRAND TOTAL	<u>855</u>	<u>919</u>	<u>(64)</u>

EXPLANATION OF MAJOR VARIANCES:

- PERSONNEL COSTS REFLECTS ELIMINATION OF GENERAL ATTORNEY POSITION.
- CONTRACTUAL SERVICES DECREASE REFLECTS REDUCED OUTSIDE ATTORNEY EXPENSES.

CAPITAL BUDGETS

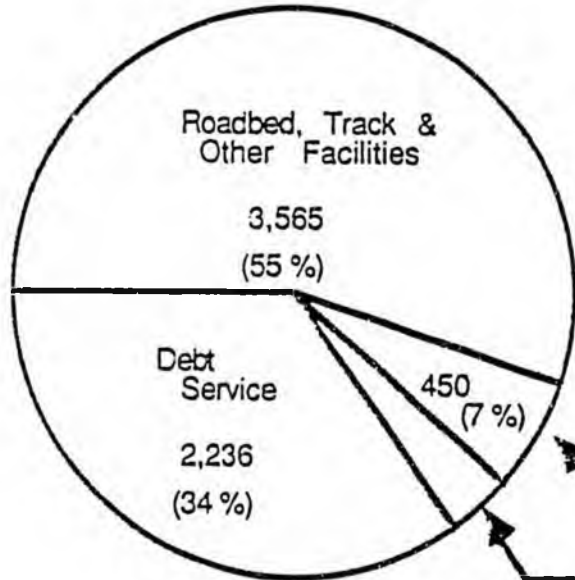
CORRECTION

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CAPITAL BUDGETS

ALASKA RAILROAD CORPORATION 1987 CAPITAL PROGRAM

Thousands of Dollars



BY
CATEGORY

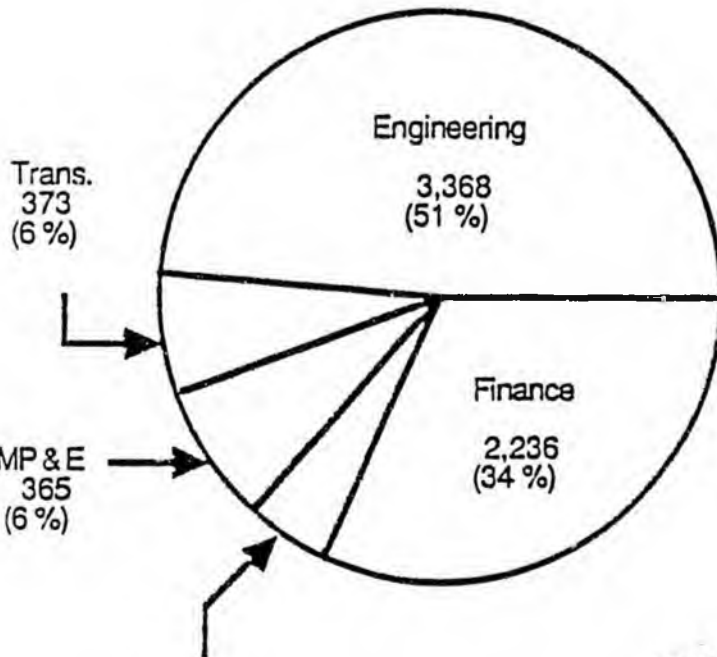
6,529

Other

Vehicles

278

(4%)



BY
DEPARTMENT

6,529

SPENDING

1986	Carryover	548
1987	New Projects	<u>5,981</u>
Total	1987 Spending	<u>6,529</u>

ALASKA RAILROAD CORPORATION
Capital Budget Summary
1987

DEBT SERVICE

<u>INSTITUTION</u>	<u>PRINCIPLE</u>	<u>INTEREST</u>	<u>INTEREST RATE</u>
<u>Chase Manhattan</u>			
Locomotives, GP-49	482,076.00	359,040.00	9.3
Articulated Flats, 30	235,530.00	192,055.00	10.5
Construction Equipment	119,284.00	128,352.00	7.5
Locomotives, GP-38/3 (6)	279,002.00	229,917.00	8.0
Locomotive Cranes (3)	130,868.00	109,455.00	8.0
RDC, 1986 (3)	53,348.00	45,609.00	8.0
Subtotal	1,300,108.00	1,064,428.00	
<u>Citicorp</u>			
Locomotives, Construction Equip	214,278.00	161,821.00	8.3
Articulated Flats (15)	126,427.00	102,734.00	6.011
Subtotal	340,705.00	264,555.00	
<u>Alaska Pacific Bank</u>			
RDC, 1985 Upgrade	183,182.00	61,008.00	8.15
Subtotal	183,182.00	61,008.00	
<u>Miscellaneous</u>			
IBM (small equipment)	98,599.00	11,663.00	
IBM (mainframe)	221,727.00	71,937.00	
US Leasing (Wang Equip)	91,550.00	9,115.00	
Subtotal	411,876.00	92,715.00	
 TOTAL DEBT SERVICE	 2,235,871.00	 1,482,706.00	

December 18, 1986

(Cont)

	<u>\$ THOUSANDS</u>	
	<u>TOTAL VALUE</u>	<u>1987 SPENDING</u>
1987 PROPOSED CAPITAL PROGRAM (CONT)		
<u>Security</u>		
Light Vehicles, (2)	32	32
Fencing, West Anchorage ROW	26	26
TOTAL	<u>58</u>	<u>58</u>
TOTAL OPERATIONAL PROJECTS	<u>6.291</u>	<u>4.106</u>
 <u>PASSENGER SERVICES UPGRADE</u>		
Containerized Baggage	72	72
Denali Depot Upgrade	15	15
Whittier Flatcars	100	100
TOTAL PASSENGER SERVICES	<u>187</u>	<u>187</u>
 <u>TOTAL OPERATION AND PASSENGER SERVICES</u>	 <u>6.478</u>	 <u>4.293</u>

December 18, 1986

OPERATIONS DEPARTMENT CAPITAL PROPOSAL

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: LIGHT VEHICLE REPLACEMENT PROGRAM
- B. LOCATION: OPERATIONS DIVISION
- C. ESTIMATED COST: \$278
- D. ACCURACY OF COST ESTIMATE: CLASS 111 (+ OR - 15%)
- E. STATUS OF ENGINEERING DESIGN
& COST ESTIMATE: N/A
- F. PROJECT DESCRIPTION: PURCHASE 16 LIGHT VEHICLES
- G. PROJECT JUSTIFICATION:

The present vehicles scheduled for replacement have body and rust damage, high mileage, and experience high maintenance costs. The vehicles' average age is eight years and mileage over 80,000. These vehicles have met or exceeded their forecasted economic life of five years or 70,000 miles.

Older vehicles with high mileage are difficult to maintain to ensure reliable operating status. An annual replacement program will result in lower vehicle maintenance cost, increase availability resulting in increased productivity, and a higher quality vehicle fleet.

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: UPGRADE ANCHORAGE TOFC
YARD
- B. LOCATION: SHIP CREEK
- C. ESTIMATED COST: \$65
- D. ACCURACY OF COST ESTIMATE: CLASS 111 (+ OR - 15%)
- E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: N/A

F. PROJECT DESCRIPTION:

Resurface the existing TOFC Yard. The project will consist of fill, grading, compaction, and surfacing with D-1 or equivalent.

G. PROJECT JUSTIFICATION:

The current TOFC Yard has not received any major improvements since 1984. Over the last three years of constant use and exposure to weather conditions, the yard has deteriorated to an uneven, wash-board surface resulting in slower operations and potential safety hazards. In August, two employees claimed on-the-job back injuries from operating yard hostlers over this rough terrain for extended periods of time.

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: HEAD END POWER PLANT
B. LOCATION: ANCHORAGE
C. ESTIMATED COST: \$75
D. ACCURACY OF COST ESTIMATE: CLASS 11 (+ OR - 10%)
E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: COMPLETE

F. PROJECT DESCRIPTION:

Purchase and install a 315 KW head end power plant in locomotive 3010. This project was initiated in fourth quarter 1986 with \$28 forecasted as a work in process carryover. The estimated 1987 expenditures is \$75.

G. PROJECT JUSTIFICATION:

The modification of locomotive 3010 with a head end power unit provides the most utility to railroad operations. This modified locomotive will be used in passenger service and winter freight service. The winter utilization will consist of keep from freezing freight service.

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: MATERIAL HANDLING
EQUIPMENT
- B. LOCATION: ANCHORAGE
- C. ESTIMATED COST: \$20
- D. ACCURACY OF COST ESTIMATE: CLASS III (+ OR - 15%)
- E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: N/A

F. PROJECT DESCRIPTION:

Purchase and install miscellaneous shop equipment

G. PROJECT JUSTIFICATION:

This investment pool represents an equipment replacement program established to update our shop equipment. The shop equipment will be replaced with new more efficient equipment when the old equipment breaks down beyond economic repair.

PROPOSED 1987 BASLINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: OVERHEAD CRANE IMPROVEMENTS
- B. LOCATION: ANCHORAGE
- C. ESTIMATED COST: \$50
- D. ACCURACY OF COST ESTIMATE: CLASS 11 (+ OR - 10%)
- E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: N/A
- F. PROJECT DESCRIPTION:

Purchase and install new power supply for the General Repair Shop DC cranes.

G. PROJECT JUSTIFICATION:

The proposed new power supply will enable the crane to be operated from floor level controls versus from a cab on the crane. The new floor level controls will reduce labor requirements and improve shop safety. Additionally, noise levels will be reduced and improving the working conditions.

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: RAIL PROGRAM
- B. LOCATION: SYSTEM WIDE
- C. ESTIMATED COST: \$319
- D. ACCURACY OF COST ESTIMATE: CLASS III (+ OR - 15%)
- E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: COMPLETE

F. PROJECT DESCRIPTION:

Install 14,400 feet of alloy rail.

G. PROJECT JUSTIFICATION:

This is an annual major maintenance program designed to replace rail that has exceeded its useful life for mainline operations. The used rail will be cascaded to sidings and or yard tracks where re-required. The replacement rail will come from existing inventories and will not require a capital outlay.

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: BALLAST PROGRAM
- B. LOCATION: SYSTEM WIDE
- C. ESTIMATED COST: \$658
- D. ACCURACY OF COST ESTIMATE: CLASS III (+ OR - 15%)
- E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE COMPLETE

F. PROJECT DESCRIPTION:

Replace 60,000 cubic yards of ballast and resurface 300 miles of track.

G. PROJECT JUSTIFICATION:

This is an annual major maintenace program designed to replace ballast that has exceeded its useful life. The replacement ballast will come from existing inventories and will not require a capital outlay.

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

A. PROJECT TITLE: BRIDGE PROGRAM
B. LOCATION: SYSTEM WIDE
C. ESTIMATED COST: \$575
D. ACCURACY OF COST ESTIMATE: CLASS III (+ OR - 15%)
E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: COMPLETE

F. PROJECT DESCRIPTION:

This is an annual program of major maintenance on steel bridges, timber trestles, and culverts. Deteriorated ties, piling, bridge timbers, and culverts are replaced on a programmed basis.

G. PROJECT JUSTIFICATION:

Timber bridge components have an average service life of 30 years. Major rehabilitation work in the 1952 - 1956 period resulted in a significant amount of 30+ year old timber in service. This program is required to replace these bridge members to reduce the risk of failure. Culvert replacements are required to maintain drainage and keep roadbed maintenance costs from increasing. Renewed bridges also reduces the cost of track maintenance at the bridge ends. The replacement and/or upgrade of the substructure of the bridges is required to ensure the load carrying capabilities of the bridge and maintain a safe operating railroad.

The material cost is estimated at \$200 with the majority of the materials coming from existing inventory.

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

A. PROJECT TITLE: RAIL TIE FASTNERS
B. LOCATION: SYSTEM WIDE
C. ESTIMATED COST: \$100
D. ACCURACY OF COST ESTIMATE: CLASS III (+ OR - 15%)
E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: COMPLETE

F. PROJECT DESCRIPTION:

Install 150 gage plates and 300 Pandrol tie plates on curves of 6 degrees or greater. This is a carryover project approved in the 1986 Capital Budget.

G. PROJECT JUSTIFICATION:

These devices prevent spreading track gage. Spreading of gage on sharp curves as well as rail rotation under severe lateral loading is a very serious concern for the Railroad. Constant regaging on wooden ties reduces tie service life by an estimated 15%.

The gage plates and Pandrol tie plates are in our current inventory minimizing any capital outlay for materials.

PROPOSED 1987 BASE. NE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: FIBER OPTIC CABLE TERMINALS
- B. LOCATION: ANCHORAGE, PORTAGE, & WHITTIER
- C. ESTIMATED COST: \$112
- D. ACCURACY OF COST ESTIMATE: CLASS III (+ OR - 15%)
- E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: COMPLETE
- F. PROJECT DESCRIPTION:

Install digital fiber optical terminals to replace open wire pole line and marine cable system between Portage and Whittier. This is a carryover project approved in the 1986 Capital Budget.

G. PROJECT JUSTIFICATION:

The pole line cable system to Whittier was built in 1940 and is in need of major overhaul and replacement. The system received major damage during the 1964 earthquake and four sections have been replaced with temporary cable. In the last six years most of the lead splices have badly corroded and are close to failure. A replacement system will cost \$325,000, but an agreement between Anchorage Telephone Utility and the Railroad has enabled us to utilize the fiber optic system between Anchorage and Whittier. This agreement will eliminate the need for replacement of the pole line. Purchasing the fiber optic terminals and connecting them to ATU's fiber optic system will give us full data and telephone service to the Whittier Terminal.

PROPOSED 1987 BASELINE CAPITAL BUDGET
SUPPLEMENTAL PROJECT INFORMATION SHEET
(\$000)

- A. PROJECT TITLE: WHITTIER ELECTRIC
- B. LOCATION: WHITTIER TERMINAL
- C. ESTIMATED COST: \$200
- D. ACCURACY OF COST ESTIMATE: CLASS III (+ OR - 15%)
- E. STATUS OF ENGINEERING DESIGN & COST ESTIMATE: REVIEW STATUS

F. PROJECT DESCRIPTION:

Replacement of existing high voltage distribution system in the Whittier Yard.

G. PROJECT JUSTIFICATION:

The railroad has incurred a PCB contamination problem in the Whittier electrical distribution system. The current system is a non-standard distribution network which is contaminated with PCB's. A replacement system is necessary to eliminate future PCB problems and to minimize clean up costs of the current contaminated system.

PASSENGER SERVICES CAPITAL PROPOSAL

HB

47

(FILE 2)

STATE OF ALASKA
THE LEGISLATURE

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May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

House Labor & Commerce

1/28/87

Alaska State Legislature
House of Representatives



Labor and Commerce Committee

January 26, 1987

To: Members, House Labor and Commerce Committee
From: Representative Dave Donley, Chair
House Labor and Commerce Committee
Re: Proposed Committee Substitute - HB 47

On the prime sponsor's request, I have instructed my staff to prepare a committee substitute for HB 47, an act relating to the Alaska Railroad Corporation, for your review on Wednesday, January 28, at our 4:30 p.m. meeting.

The CS makes minor technical changes to language on Page 2, line 29, Page 3, line 22, Page 4, line 7, and on Page 6, line 4, to make the language consistent throughout the bill and with existing statute.

Further, the CS changes Page 3, line 22 to reinsert the phrase "in a major way", so that the language is consistent with current law.

Finally, there are two substantive changes in the CS. The first is Page 2, line 9 where the placement of a comma has been changed, thus changing the meaning of the sentence. The second is on Page 6, line 8, where language has been added to require that a public hearing be held at least 30 days before taking final action.

The bill's prime sponsor, Representative Kay Brown, will be present at the Wednesday meeting to explain both the intent of HB 47, and the changes presented in the CS.

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

REQUEST: _____

Bill Version : CS HB 47 (L & C)

Publish Date : _____

Revision Date: 2-18-87

Agency Affected: Alaska Railroad Corporation

Title: An Act relating to the
Alaska Railroad Corporation

BRU: _____

Sponsor: Rep. Kay Brown

Components: _____

Requestor: Labor & Commerce Committee

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES		50.0	50.0	50.0	50.0	50.0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	50.0	50.0	50.0	50.0	50.0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		50.0	50.0	50.0	50.0	50.0
TOTAL	0	50.0	50.0	50.0	50.0	50.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

See attached.

and ally

Prepared by: Rep. Kay Brown / House Labor & Commerce Phone: 465-4998

Division: _____ Date: 2-18-87

Approved by Commissioner: _____ Date: _____

Agency: _____

Distribution (by preparer):

- Legislative Finance
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- (Impacted Agencies)
- Senate Secretary

Analysis of fiscal impact of CSHB 47 (L&C)

New administrative requirements for public notice, hearing and written findings prior to significant land use actions could increase the railroad's costs of operation. The bill's requirement to salvage the meat of big game animals for human consumption also could require additional expenditures by the railroad. However, there would be no increase in costs borne by the state or the General Fund. Based on information provided by the railroad, I estimate that the increased costs to the railroad resulting from CSHB47 (L&C) should be no more than about \$50,000 a year.

ALASKA RAILROAD CORPORATION



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

February 26, 1987

MAR 02 1987

Honorable Dave Donley, Chairman
Labor & Commerce Committee
House of Representatives
P.O. Box V
Juneau, Alaska 99811

Re: Committee Substitute for HB 47, An Act Relating to the
Alaska Railroad Corporation

Dear Dave,

Thank you again for the opportunity to express our comments on House Bill 47 and a committee substitute at the Juneau hearing last week.

We've carefully reviewed the substitute and enclose our position paper and amended fiscal information. I understand that the bill has been passed to Bette's committee and will send her a courtesy copy of all of our written comments.

Despite the changes in the committee substitute which mitigate the impact of earlier proposals, we do remain adamantly opposed to the legislation. CSHB 47 recommends significant detrimental changes to the legislature's earlier vision of a financially independent, but publicly accountable, Alaska Railroad Corporation. We are especially hopeful that House leaders will not support the bill.

If you have questions about our additional statements, please feel free to contact me or our general counsel, Larry Wood.

Sincerely,

F.G. Turpin
President & CEO

cc: ~~Honorable Bette Cato, Chairman~~
House Transportation Committee

James O. Campbell
Chairman, ARRC

3859L

COMMITTEE SUBSTITUTE FOR
HOUSE BILL 47

An Act Relating to the
Alaska Railroad Corporation

I. Introduction. As the Committee is aware, the Alaska Railroad Corporation ("ARRC") voiced strong objections to the provisions of House Bill 47 as originally introduced. The revisions contained in the Labor and Commerce Committee Substitute for House Bill 47 have alleviated several of the concerns previously expressed by ARRC. The Corporation applauds the committee's response to its concerns but remains opposed to enactment of the bill for the reasons set forth in the following discussion and in its previous position paper.

II. Provisions of Bill/Impact on ARRC.

A. Operations. The original provisions of HB 47 imposed unrealistic requirements on the ARRC Board to maintain passenger and freight service at 1985 levels. The Committee Substitute acknowledges economic reality and directs the Board to maintain (as well as expand) those service levels only when practicable in light of financial resources. In addition, unlike original HB 47, the Committee Substitute retains the present language of the Alaska Railroad Corporation Act ("ARCA") requiring Board approval only when management reduces or expands service "in a major way." ARRC agrees with the thrust of these changes in the bill. However, we continue to believe that there is no magic in the level of service provided by the federal government at the time of transfer and that this provision is superfluous. Board responsibility for adequate service to the people of Alaska is already sufficiently assured by the mandate in AS 42.40.100(5) that it "provide for safe, efficient, and economical transportation to meet the overall needs of the state". As previously noted, a legislative oversight report is presently required before a significant reduction or increase in service occurs. AS 42.40.280(a).

B. Moose Kills. The Committee Substitute retains the previous bill's language regarding salvage of big game meat and compulsory consultation with the Alaska Department of Fish & Game to minimize adverse effects of railroad operations on wildlife. As pointed out in ARRC's previous position paper and in other information and testimony furnished to the Labor and Commerce Committee, the Corporation already works closely with Game representatives and salvages moose meat. This portion of the bill continues to be duplicative and unnecessary.

C. Confidentiality. ARRC appreciates the Committee's efforts to accomodate the confidentiality requirements of federal law in this area. The original bill proposed to allow public disclosure of ARRC's contract rate agreements and freight divisions; the Committee Substitute restores these two items to the list of matters which may be considered at ARRC's executive Board sessions and designated as confidential by Board rule.

However, the Committee Substitute continues to limit the items which may be made confidential by Board rule to only those listed in the legislation. This unreasonably restricts the Board's ability to preserve confidentiality as to other matters, including those which it may consider at executive session. Creating such an inconsistency between the two statutes is unwarranted and unwise. The present law lists examples of confidential items in recognition of the fact that the Legislature cannot reasonably anticipate all those instances where privacy is warranted. The ARRC Board needs the flexibility to identify and protect proprietary and competition sensitive information furnished to it or generated within the Corporation.

Finally, the Committee injected a new requirement into the revised bill requiring ARRC to furnish to the Attorney General upon request any information withheld under the Board confidentiality rule. ARRC believes that this requirement would destroy the confidentiality of the material, inasmuch as Department of Law records are public documents unless some privilege attaches to them. The Department of Law does not represent ARRC. The Corporation retains independent legal counsel. No attorney-client privilege would protect the information furnished which could include commercial information protected by federal law. The State already has access to the targeted information through two State commissioner/ARRC Board members and through a legislative audit process where confidentiality requirements are preserved.

The Committee Substitute continues to require public Board discussions of proposed land acquisitions or disposals. ARRC strongly believes that such an approach will have a chilling effect on market opportunities. The public interest is sufficiently protected by current law which requires all disposals of land to be acted upon and approved by the Board and Legislature in public session.

D. Land Issues. In apparent response to the administrative burdens implicit in HB 47, the Committee Substitute now requires Board hearings and written findings only with regard to agreements involving "resource development, resource exploration, capital improvements, or other significant change in the use of rail land." Although this provision eases the financial and logistic burden presented by

the original language, such limitations do remain inappropriate if ARRC is to meaningfully compete in a commercial setting. The opportunity for public review of significant changes in land use is guaranteed by the legislative oversight and approval provisions which already exist in ARCA.

In addition, the new provision is vague and ambiguous. Rail land, to the extent it is the subject of third-party agreements, is commercially leased land. ARRC is ground lessor or permittor. It is unclear whether the hearing and written finding provision would apply to a lease which contemplates substantial capital improvements to the property--not an uncommon feature of a long-term ground lease. It is also unclear whether the provision would apply when property is to be leased or assigned to a new lessee who would use rail land for a different purpose than predecessor lessees. Would this amount to a "significant change in the use of rail land?" To the extent that the 60-day notice/written "best interest" determination and 30-day hearing process is triggered by ordinary commercial leasing practices, it will significantly inhibit the Corporation's ability to effectively compete in the real estate market environment. ARRC must have the flexibility to quickly, but responsibly, adjust to market needs.

In addition, to require the Board's written "best interest" determination to be made at least 60 days before taking action, yet requiring a public hearing at least 30 days in advance, appears illogical. Information of use to the Board's finding will likely be presented at the public hearing.

The Committee Substitute still requires the ARRC Board to determine that the people's best interest is served by any lease, permit or other land use authorization. While this determination is no longer expected to be made in writing or 60 days prior to action, it still injects inappropriate delays to commercial transactions. CSHB 47 lists various matters which must be considered by the Board as it formulates its "best interest" finding. However, the economic best interests of a self-sustaining railroad are not always identical with standards which are pertinent to the "best interest" determinations applied to State-owned land. The primary focus of State land decisions may not be projected financial benefits. Since ARRC depends heavily upon sensible and profitable development of its land resources to honor the Legislature's mandate for railroad economic viability, its focus fixes on careful, but decisive and aggressive, marketing of its leased lands. The ARCA requirement that leases be made at fair market value is a sufficient assurance that transactions will promote the State's ownership interest and achieve a fair return to ARRC. Substitution of a best interests standard is not consistent with ARRC's mission of economic independence.

The revised bill also requires Board approval of leases of more than one year's duration and legislative approval of leases with terms of greater than 35 years. As noted above, CSHB 47 also rejects confidential Board discussions of land acquisitions or disposals and requires an extensive and expensive inventory of natural resources and land uses on an annual basis. ARRC reiterates its objections to these provisions for the reasons expressed in its earlier submissions to this Committee.

III. Conclusion. Despite some improvements to the bill, the Committee Substitute for House Bill 47 threatens to seriously hamper the Corporation's ability to survive in present freight and real estate markets. For these reasons, we oppose CSHB 47 and request that the proposed amendments to ARCA be rejected.

3827L

Anchorage, Alaska
February 26, 1987

ALASKA RAILROAD CORPORATION 1987 LEGISLATIVE SESSION
SUPPLEMENTAL FISCAL INFORMATION

Committee Substitute for House
Bill 47 (Labor & Commerce): An Act Relating
to the Alaska Railroad Corporation
Publish date: 2/17/87

Like its predecessor, the Committee Substitute for House Bill 47 proposes substantial changes to the Alaska Railroad Corporation Act ("ARCA"). As a result of its revisions, however, several of the adverse financial impacts of the original version of HB 47 have been reduced. The differences are outlined below; otherwise, the position expressed in the Alaska Railroad Corporation's previous fiscal information (attached) is still valid and applicable to this proposed legislation.

Passenger Services Losses. The changes in CSHB 47 allow ARRC to maintain levels of passenger service within those financial resources available. Hence, the \$1.5 million loss earlier projected would not be required by law.

Real Estate Costs and Losses. The additional costs arising from real estate transactions have been lessened but not eliminated by the changes in CSHB 47. ARRC now estimates that an additional \$30,000.00 will be expended to satisfy procedural requirements relating to land use agreements. While less commercial leasing will be affected, ARRC continues to project a \$150,000.00 annual loss in real estate business. In addition, the detailed inventory of land, resources, actual and projected uses and plans, and development potential is estimated to cost \$150,000.00 the first year and \$35,000.00 to update annually thereafter.

Confidentiality of Marketing and Business Data. Inasmuch as the requirement to furnish confidential/proprietary business information to the Attorney General upon request opens that vital data to potential public scrutiny, ARRC continues to estimate freight losses as a result of CSHB 47 of \$4.6 million annually.

Total Annual Fiscal Impact

Real Estate	\$ 365,000 (first year)
General Freight Revenues	<u>4,600,000</u>
Total	<u>\$4,965,000</u>

3833L

Office of General Counsel
February 25, 1987

CS HB 47
Changes from HB 47

I. Operations.

1. Makes the phrase "to the extent practicable within financial resources" apply to both expansion and maintaining 1985 levels of service. Formerly, because of placement of a comma, it applied only to the expansion of service.
2. Restores the phrase "in a major way" to the level of service change requiring Board approval. This provision now reads as originally enacted in ARTA.
3. Effect is still to specifically impose on the Board the responsibility to maintain or expand service at transfer levels to the extent financially practicable.

II. Wildlife.

1. No change from original HB 47.

III. Land Issues.

1. Still requires Board approval of leases over 1 year in length and Legislative approval of those over 35 years. Adds any options to renew into the computation of years involved.
2. Also still requires annual inventory of land and resources and for any natural resource disposal to be at competitive bid; still authorizes disposals to municipalities at less than fair market.
3. Changes the requirement that all leases, permits, etc. be preceded by Board written "best interest" finding and public hearing. Present proposal still requires Board to make such a finding for all leases, etc. but not in writing and not at any particular time. Best interest is still defined elsewhere in the bill to require consideration of adjacent land uses, municipal land use plans and ordinances, etc.

4. Adds a new section requiring written "best interest" finding by Board and public notice 60 days before final action on any "agreement that involves resource development, resource exploration, capital improvements, or other significant change in the use of rail land." Board must hold public hearing in affected municipality at least 30 days before taking final action.

IV. Confidentiality.

1. Restores "divisions and contract rate agreements" as items which may be considered by the Board in executive session. Continues to remove "land acquisition or disposal" from such status.
2. Restores "divisions and contract rate agreements" to the listing of items which can be made confidential by Board rule but still makes the list all inclusive and thus more limited than present Board rule categories.
3. Adds requirement that any information kept confidential under Board rule must be provided to the Attorney General upon request. Applies to personnel records, attorney communications and work product, and ICC-protected information such as divisions and contract rate agreements.

3834L

PRESIDENT'S OFFICE
FEB 25 '87

RECEIVED
FEB 26 1987

ACTION	INFO	ACTION	INFO
MJY	_____	ATP	_____
JB	_____	DAR	_____
LDW	_____	FCW	_____
VMH	_____	LH	_____
JDW	_____		_____
Circ	_____	Copy	_____
Call Up	_____	File	_____

Dear Legislator:

Office of the
General Counsel

I was distressed to read in the February 19, 1987, Anchorage Times article of Representative Kay Brown's House Bill 47.

The provision requiring board approval for any leasehold conveyances would severely hinder the Alaska Railroad's ability to operate and bargain in the real estate marketplace. The Alaska Railroad has a fiduciary responsibility to all Alaskans to maximize income from it's lands, and enhance it's profitability.

I had the opportunity to serve on an ad-hoc citizen/industry committee last year which advised the Alaska Railroad on revisions to it's leasing policy. This policy review aided the new management in bringing it's real estate management practices into the twentieth century.

The proposed legislation is a step backwards, and is typical of governmental over regulation.

Brown's bill steps backward

Dear Editor:

I was distressed to read in the Feb. 19 Anchorage Times article of Rep. Kay Brown's House Bill 47.

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The proposed legislation is a step backwards, and is typical of governmental over regulation.

H. Norman Rokeberg
Jack White Company
3201 C St.

Sincerely,

H. Norman Rokeberg
Jack White Company

2-24-87 ADJ

I. ARRC'S ESTIMATED FISCAL IMPACT

ARRC estimated that HB 47 would have a fiscal impact of \$6,400,000 annually. ARRC did not submit any factual data or meaningful analysis to support this estimate. The estimate appears to be based on a misunderstanding of the requirements of HB 47 or on concerns which are largely eliminated by the proposed CSHB 47.

For example, ARRC claims that since CSHB 47 requires maintenance of services to the level existing at the time of transfer, ARRC will be required to provide the precise service which existed at the time of transfer, including using certain types of RR equipment (which are no longer available) at a cost of 1.5 million annually. It is clear that such unreasonable, technical compliance would not be required. ARRC would only be required to provide the LEVEL OF SERVICE (not the precise same service) which existed at the time of transfer. Additionally, as the proposed CSHB 47 makes clear, such service would only required "to the extent PRACTICABLE WITHIN FINANCIAL RESOURCES AVAILABLE".

Next, ARRC simply asserts, without identifying a factual basis, that requiring public notice and competitive bidding in leasing railroad land and natural resources will result in all lease payments being REDUCED BY 50%.

Finally, ARRC states, again without benefit of any factual data, that if it cannot keep its rate documents confidential it will not be able to compete with truckers and shippers and it will lose 4.6 million dollars annually. While the soundness of this claim may be disputed, CSHB 47 allows ARRC to keep its rate documents confidential.

Thus, the fiscal on the ARRC should be greatly reduced under the CSHB 47 (L & C).

1. Explain the basis for ARRC's estimated fiscal impact.

II. THE VALUE OF RAILROAD LAND, INCLUDING RESOURCES

(Reference: questions 5-7, 17, 18))

ARRC stated that it had a total of 40,600 acres, of which 13,800 were utility corridors and 26,800 were non-right-of-way. ARRC identified 1,923 of these acres as being in the heart of Alaska's cities (Anchorage, Seward, Valdez, Fairbanks, Whittier, and Nenana).

1. Where are the other 24,877 acres of rail lands?
2. Describe the location and existing improvements.

3. Estimate the value of these lands outside the municipalities.

4 . Regarding the estimates of fair market value for rail land in Alaskan cities, do ARRC's estimates include improvements? Is ARRC taking the position that the estimates are high? Does ARRC use these values as a basis for its leasing?

5. Describe known or suspected natural resources on rail land.

6. Describe the agreement with Usibelli. What rights were given? How much was paid? What are the terms, particularly regarding future developments?

III. LEASING PRACTICES (Reference: Questions 1-10)

ARRC acknowledges that there should be public involvement in leasing rail lands. See ARRC's letter to Rep. Donley, dated January 28, 1987, pp. 3 and 7. ARRC states that its long-term leasing policy is sufficient to ensure such public input occurs. However, the ARRC leasing policy requires only newspaper publication by legal description after a lease has been executed and is about to go into effect.

1. Under this policy, how is public input on long-term leasing decisions solicited or obtained?

2. ARRC appears to have dramatically increased its revenue from real estate (40% increase from 1985 to 1986) and has stated that it plans to place increasing emphasis on development of real estate. If this is true, it would appear that the clash between the public and the railroad has just begun and will dramatically increase as development continues. Does ARRC intend to pursue further development of rail lands?

3. Regarding question no. 57, what is the difference between "income" and "revenue" (real estate accounts for 57.4% of "income" but only 6.4% of "revenue").

IV. WILDLIFE PROTECTION/MEAT SALVAGE (Reference: questions 36-39)

Testimony from the moose federation will be presented. They have first-hand information on this issue.

Committee members may wish to question the ARRC regarding various devices which could lessen the moose kill, including:

-reducing speed on the Anchorage-Fairbanks freight run to

30 m.p.h. during periods of high snow and between the hours of twilight and 8:00 p.m.;

-installing a third headlight aimed higher than the existing two headlights;

-installing plywood between the rails on bridge areas so that moose are not tripped, trapped and run over.

V. CROWNPOINT (Reference: questions 42-46)

1. ARRC was not clear whether it or the state paid \$650,000 for the Crown Point accident or who will pay the additional necessary monies. Who paid? Who's going to pay the rest? If the state, does ARRC intend to repay the state? Isn't this money a state subsidy?

2. How much did Borden Chemical, Alaska Oilfield Services or Unocal pay for Crown Point damages? Will those companies attempt to recover money from ARRC?

3. ARRC stated damage was the result of the shipper's bad advice. Is this generally agreed upon? Is ARRC seeking to recover money from the shipper?

4. Since Crown Point, ARRC has again improperly heated urea-formaldehyde. When did the subsequent accident(s) take place? What procedures has ARRC implemented since LAST accident?

5. What is status of the lawsuit brought by Crown Point residents? How many of the 18 families are plaintiffs in that lawsuit?

VI. SALARIES (Reference: question 55)

1. Do the salary figures include the value of benefits? If not, describe the benefits, additional compensation and allowances for each salary range, including travel and entertainment allowances.

2. In 1986 the ARRC spent \$450,000 on travel. Who went where and what was the purpose?

3. What is the standard percentage of budget paid by other railroads for administrative expenses, executive salaries and benefits, and overhead?

VII. PROFITS AND LOSS; ACCOUNTING (Reference: questions 52-59)

1. ARRC estimates a \$1,500,000 loss for 1986. What is the reason for this loss? Does this amount include any money paid or reserved for Crown Point damages?

2. What is represented by the \$484,000 item for contractual services to the legal department? Does ARRC have a legal staff? Why is so much spent on outside counsel?

VII. FREIGHT AND PASSENGER SERVICE

1. Does the ARRC plan to haul tour buses to McKinley this summer? What will be the effect on the local economies if the tour buses no longer stop in the smaller communities?

2. May ARRC legally subsidize freight rates by using income earned from real estate to pay railroad expenses or overhead? What percentage of ARRC's overhead is allocated to real estate operations?

IX. MISCELLANEOUS

3. Section 3 of Ch 153 SLA 84 requires a special report on the long term operations of ARRC and alternatives be submitted to the legislature by February 1, 1987. What is the status of that report?

STATE OF ALASKA
THE LEGISLATURE

POUCH Y. STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

February 18, 1987

SUBJECT: Section by section analysis of draft
CSHB 47(L&C), An Act relating to the
Alaska Railroad Corporation

TO: Representative Kay Brown

FROM: George Utermohle *GU*
Legislative Counsel

The following is the section-by-section analysis of the draft CSHB 47(L&C) which you requested.

Section 1 amends AS 42.40.100 by expanding the duties of the board of the Alaska Railroad Corporation to include:

(1) maintenance or expansion of passenger and freight operations at or above the level that existed when the railroad was transferred from federal to state ownership, if the funding is available;

(2) management of real property interests and natural resources owned by the corporation in the best interest of the people of the state; among the information which the board must consider in making its determination of what is in the best interests of the people of the state are land use ordinances and plans of cities and boroughs affected by railroad land management decisions, adjacent land uses, the development and revenue potential of the land, and public comment on land management decisions proposed by the board;

(3) consultation with the Alaska Department of Fish and Game on ways that the railroad can reduce the adverse effects of railroad operations on wildlife.

Section 2 amends AS 42.40.120(b) to require the board of the Alaska Railroad Corporation to delegate authority to the executive officers of the railroad to grant leases, easements, permits, or other interests in railroad land for a total term of less than one year. The term of a lease,

easement, permit, or other interest in railroad land subject to this section includes the initial term plus any options to renew. A grant of a lease, easement, permit, or other interest in land for a total term of a year or more must be approved by the board of the corporation under Section 8 of the bill. Current law allows the executive officers of the railroad, through delegated authority, to enter into long term leases (up to 35 years under any conditions and exceeding 35 years if the lease is subject to termination by the railroad).

Section 3 amends AS 42.40.120(c) to require specific approval by the board of the Alaska Railroad Corporation before the corporation can lease, grant easements or permits, or allow use of railroad land for a term, including any options to renew the agreement, of one year or more.

Section 4 amends AS 42.40.170(b) to remove the authority of the board of the Alaska Railroad Corporation to discuss land disposal or acquisition issues in executive session.

Section 5 amends AS 42.40.220(b) by limiting the kinds of information which the Alaska Railroad Corporation may withhold from public disclosure to the following items:

- (a) personnel records
- (b) communications with and work product of legal counsel
- (c) information consistent with the standards and practices of the U.S. Interstate Commerce Commission for the protection of proprietary information associated with specific shippers, divisions, and contract rate agreements.

The Alaska Railroad Corporation shall provide any information kept confidential under these provisions to the Department of Law if the Attorney General requests to see the information.

Section 6 amends AS 42.40.260 by requiring that the annual report prepared by the Alaska Railroad Corporation and provided to the governor and legislature include information on the land and natural resources held by the corporation. Pending proposals for the lease or disposal of land or natural resources must also be disclosed in the annual report.

Section 7 amends AS 42.40.285 by requiring that any lease of land by the Alaska Railroad Corporation for a total period, including any options to renew, exceeding 35 years be approved by the legislature. The former exemption is repealed.

Section 8 amends AS 42.40.350(c) by permitting the Alaska Railroad Corporation to lease, grant easements in or permits for rail land for a total term, including options to renew, of one year or more only if the board of the corporation determines that the transaction is in the best interests of the people of the state. Rail land is that land owned by the corporation that is not included in the railroad utility corridor along the main or branch lines of the railroad. If the board does not make a determination that the lease, easement, permit, or other authorization to use rail land is in the best interests of the people of the state, then the transaction is void.

Section 9 amends AS 42.40.350(d) by requiring that any lease or other disposal of land by the Alaska Railroad Corporation be at fair market value as determined by appraisal or by competitive bid unless the lease or disposal is to the state, a city, or a borough.

Section 10 adds new language to AS 42.40.350. The disposal of natural resources from the land of the Alaska Railroad Corporation must be by competitive bid unless the disposal is to the state, a city, or borough.

At least 60 days before taking final action on any agreement that involves resource exploration or development, capital improvements, or other significant change in the use of rail land the board shall prepare a written finding of fact and a determination that the agreement is in the best interest of the people of the state. The board must publish a notice that it has prepared the finding of fact and the determination. At least 30 days before taking final action on the agreement the board must hold a public hearing in a city or borough affected by the agreement. Any agreement that is subject to these requirements is void if the requirements are not satisfied.

Section 11 adds new language to AS 42.40.420 to allow the Alaska Railroad Corporation to issue permits to individuals for temporary, short term, or emergency use of railroad land.

Representative Brown
February 17, 1987
Page 4

Section 12 adds a new section, AS 42.40.460, requiring the Alaska Railroad Corporation to salvage for human consumption the meat of big game animals killed by operations of the railroad.

GU:mkr
m9/025

Kay Brown

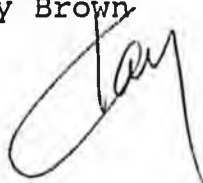
Alaska State Legislature House of Representatives

MAR 02 1987

M E M O R A N D U M

TO: Rep. Bette Cato, Chairman DATE: March 2, 1987
Transportation Committee

FROM: Rep. Kay Brown RE: CSHB 147; Request for
Assistance in
Obtaining Documents



CSHB 47 has passed from the Labor and Commerce Committee to the Transportation Committee. While CSHB 47 was before the Labor and Commerce Committee, the Railroad stated that it would provide the legislature with a computerized summary of 300 leases if this information would be helpful. (See: Document submitted to L&C Committee, entitled Alaska Railroad Corporation 1987 Legislative Session, Fiscal Information, dated February 6, 1987, p. 3.) In that same document, the Railroad stated it had completed appraisals for some parcels of Railroad land and indicated that the Railroad had begun or completed a "fee-use permit system" for leasing to political subdivisions. (See: Response to 7, p. 3 and Exhibit B, section 3.05.)

Because the primary focus of CSHB 47 involves legislative and public oversight of Railroad management of state lands, I believe this information may be helpful to the Transportation Committee in evaluating CSHB 47. Therefore, I respectfully request that the Transportation Committee request this information from the Railroad.

For your convenience, I have attached a letter which may be used to request this information.

Thank you very much for your consideration. I look forward to working with you on this issue.

P. O. Box 20-2661
Anchorage, AK 99520-2661
(907) 272-0207

During Session:
P. O. Box V
Juneau, AK 99811
(907) 465-4998

March 2, 1987

Mr. F. G Turpin
President and CEO
Alaska Railroad Corporation
P.O. Box 7-2111
Anchorage, Alaska 99510-7069

Dear Mr. Turpin

Re: CSHB 47, an act relating to the Alaska Railroad Corporation

On behalf of the House Transportation Committee, I would like to thank you for the information the Alaska Railroad Corporation submitted to this Committee and to the Labor and Commerce Committee.

In the document submitted to the Labor and Commerce Committee on February 6, 1987, entitled Alaska Railroad Corporation 1987 Legislative Session, Fiscal Information, the Alaska Railroad Corporation indicated that it could submit a computerized summary of 300 leases, certain completed appraisals and information regarding a "fee-use permit system." The Transportation Committee has received a request for this information and would appreciate your providing this information at the earliest convenience.

Thank you for your help and cooperation.

Sincerely,

Representative Bette Cato, Chair
House Transportation Committee

Kay Brown

Alaska State Legislature House of Representatives

M E M O R A N D U M

MAR 15 1987

TO: Rep. Bette Cato, Chair
House Transportation
Committee

DATE: March 16, 1987

FROM: Rep. Kay Brown

RE: Response to ARRC's
Opposition to
CS HB 47

I. Introduction

The Alaska Railroad Corporation (ARRC) acknowledges that the Labor and Commerce Committee Substitute for HB 47 addresses many of ARRC's concerns. However, ARRC still opposes CS HB 47 and submits a fiscal note of \$4,965,000.

For your convenience, this response to ARRC's opposition to CS HB 47 follows the format used in the opposition statement.

II. Provisions of CS HB 47

A. Operations: HB 47 required ARRC to maintain or expand services at the level existing at the time of transfer; CS HB 47 limits this to the extent financially practicable. ARRC acknowledges that the CS eliminates the fiscal impact in this area. ARRC still objects, arguing that current law requiring ARRC to meet the needs of the people provides adequate safeguards in this area.

The new language is justified and needed to strengthen the presumption that the ARRC will meet the needs of the state by maintaining or expanding service levels.

B. Moose Kills: ARRC restates its objection; it feels these provisions are unnecessary because ARRC already complies with the provisions of the bill through administrative practice.

It is well established that the legislature may turn voluntary administrative practice into statutory obligations. Furthermore, there is disagreement as to whether the railroad is currently doing all that it can in this area. (See statement of the Alaska Outdoor Council, attached).

P. O. Box 20-2661
Anchorage, AK 99520-2661
(907) 272-0207

During Session:
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Juneau, AK 99811
(907) 465-4998

C. Confidentiality: The response of ARRC to this issue does not appear to be based on a good faith analysis of CS HB 47. HB 47 required ARRC to make certain rate-making documents public. ARRC responded that this would destroy ARRC's ability to be competitive, at a cost of 4.6 million dollars annually. ARRC did not provide any back-up for this assertion. Nonetheless, CS HB 47 deleted this provision. However, CS HB 47 would allow the attorney general to have access to the confidential documents, and thereby allow to conduct an in-state investigation of rate-making. ARRC responded by speculating that this would destroy confidentiality as thoroughly as making the records public. Thus, ARRC maintains that the annual fiscal impact will be \$4.6 million. ARRC did not provide any analysis to support this estimated fiscal impact.

Legal Services states it is clear that the Attorney General will be required to keep this information confidential. Thus, there will not be a \$4.6 million impact.

ARRC additionally states this provision is unnecessary because ARRC provides certain financial information to its auditor.

D. Land Issues: HB 47 required public hearings and written findings before ARRC could enter into any land agreements for terms exceeding one year. CS HB 47 requires hearings and findings only for agreements exceeding one year which involve natural resources, capital improvements, or substantial changes in the use of rail land. Both versions require ARRC to manage rail lands in the best interests of the people and to determine fair market value based on competitive bidding or appraisals.

While ARRC agrees that public involvement in the management of public land is necessary, ARRC says CS HB 47 is inappropriate. Land management is the crux of the bill and needs to be addressed. Over 40,000 acres of state land have been transferred to the railroad, and it appears there is nearly a total lack of oversight and public influence or knowledge about management of that land. The Transportation Committee estimated rail assets were worth \$500 million to \$1 billion. The Municipality of Anchorage estimated that the 1,500 acres of land in Anchorage and Portage alone had a value in excess of \$250 million. Yet, under current law, a single person has the authority to lease such assets for up to 99 years without any competitive bidding, public notice, or public input. ARRC continually asserts that current law provides for fair market value transactions, public notice and legislative oversight. These assertions are not correct.

The railroad itself acknowledges the need for public input but states that its the recently implemented procedures of publishing a notice of intent to lease in the classified ads and placing a sign on the property are sufficient. Neither of

these procedures actually creates any appreciable level of public awareness (for example, placing a sign in an undeveloped area to advertise a natural resources agreement would not lead to significant public awareness). Worse, these procedures are followed only when the railroad has decided that it will try to complete a particular transaction. CS HB 47 attempts to include the public at the inception--when the decision is being made to plan an industrial park, develop condominiums, or develop natural resources. Involving the public at this stage will not complicate commercial negotiations. Subject to fair market value considerations, the railroad would be free to negotiate the details of land leases after the public had the opportunity to influence the basic decision of whether to develop public lands. The bill requires competitive bidding to lease or sell natural resources such as oil, gas, coal and gravel.

The provisions of CS HB 47 are not vague. They would apply to all new leases and to extensions, assignments, subleasing, or grants of permission to lessees under existing leases which contemplate natural resource development, capital improvements, or changes in land use patterns. There is nothing illogical about requiring the Board to make written findings regarding development of a particular piece of property available to the public before a public meeting so that the public can investigate the findings and policy premise on which the decision was based.

Thank you for considering my views.

Attachment

cc: Members, House Transportation Committee
Rep. Donley
Rep. Ellis
Rep. Boyer
Sen. Josephson
Sen. Uehling



ALASKA OUTDOOR COUNCIL, INC.

3780 MCGINNIS DR. JUNEAU, AK 99801
(907) 789-3450

March 7, 1987

Representative Kay Brown
Pouch U
Juneau, AK. 99811

Dear Representative Brown:

I would like to submit this letter as the official position of the Alaska Outdoor Council regarding House Bill 47.

For the record, the Alaska Outdoor Council is a federation of 45 Alaskan sportsmen and outdoor organizations with a membership of over 10,000. We would request that this testimony be entered on behalf of our statewide membership.

We have reviewed HB 47 and wish to support a portion of this legislation which is extremely important to our membership. Although the Alaska Outdoor Council would not take a position on much of this legislation, we do support that portion which would require the Alaska Railroad Corporation to salvage wild animals killed by the railroad which are utilized for human consumption. We would also support legislative requirements which would minimize railroad kills through greater safety precautions.

The past record of the Alaska Railroad has been less than satisfactory in dealing with railroad kills of wildlife, especially moose. Lack of salvage means a loss of hundreds of thousands of dollars annually in salvageable meat which could be utilized by many Alaskans.

The Alaska Outdoor Council appreciates the support of the legislature on this issue and we pledge our assistance and support.

Sincerely,

Ron Somerville
Executive Director

STATE OF ALASKA THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 13, 1987

SUBJECT: Confidentiality of proprietary information associated with specific shippers, divisions and contract rate agreements under CSHB 47(L&C)

TO: Representative Kay Brown

FROM: George Utermohle *GU*
Legislative Counsel

Peg Mentele of your staff has asked whether the release of proprietary information associated with specific shippers, divisions, and contract rate agreements to the Department of Law under AS 42.40.220(b), as amended by sec. 5 of CSHB 47(L&C), would cause this information to be a public record available for public inspection.

The right to inspect public records is contained in AS 09.25.120. A person has the right to inspect records held by state agencies and instrumentalities of the state, including the Department of Law and the Alaska Railroad Corporation, unless the records are required to be kept confidential by a federal law or regulation or by state law. (AS 09.25.120(4)). Since the confidentiality of proprietary information associated with specific shippers, divisions, and contract rate agreements is maintained by the Alaska Railroad in order to conform with the standards and practices of the Interstate Commerce Commission on these matters, this information is exempt from public disclosure under AS 09.25.120. The release of this information to the Department of Law will not cause this information to become public because those provisions of federal law and regulation and state law that allowed the information to be confidential while in the possession of the Alaska Railroad Corporation also apply to the Department of Law.

Thus proprietary information associated with specific shippers, divisions, and contract rate agreements that is confidential under AS 09.25.120 and AS 42.40.220(b) retains its confidential status even when the information is in the possession of the Department of Law.

GU:mkr
m9/140

STATE OF ALASKA

DEPARTMENT OF FISH AND GAME

OFFICE OF THE COMMISSIONER

file
STEVE COWPER, GOVERNOR

P.O. BOX 3-2000
JUNEAU, ALASKA 99802-2000
PHONE: (907) 465-4100

February 2, 1987

The Honorable Kay Brown
Alaska State Legislature
P. O. Box V
Juneau, AK 99811

Dear Representative Brown:

You recently requested information about moose mortality on the Alaska Railroad (ARR) and the guiding industry. In your discussion with Regional Game Supervisor Dan Timm he said that the department would provide more information on these subjects. This letter responds to your letter to Dan Timm of January 19 regarding the issue of moose mortality. I will follow-up with a letter on the guiding industry shortly.

With respect to moose mortality on the ARR, I have enclosed several documents which summarize the problem, actions we have suggested that the railroad take to help reduce mortality, and the railroad's response. I have also included information about road kills in the Matanuska/Susitna Valley.

Prior to state ownership of the ARR, moose mortality was notably under reported. As you can see from the enclosures, July 1, 1984 - June 30, 1985, was the worst year on record with 382 moose killed. The great majority of animals were killed between Houston and Chase between late-January and late-March. When the packed snow depth is 30 to 35 inches, the mortality rate increases markedly. At that point, moose are primarily looking for areas of minimal snow depth to conserve energy; because they are plowed, railroad and highway rights-of-way are highly attractive.

Many moose-railroad collisions result in unsalvageable meat. However, moose meat fit for human consumption is taken by ARR personnel to the nearest crossing and the location is reported to Fish and Wildlife Protection (FWP) officers. A list of needy families in the Matanuska/Susitna Valley is maintained by FWP, and when salvageable moose meat becomes available, a family is called. Other animals probably are picked up and used by residents living near the track. When

animals are unfit for salvage, the ARR removes the carcasses from the immediate right-of-way and puts them in heavy brush, ravines, or similar locations. Although we do not have records on the proportion of moose salvaged in prior years, as of January 3, 44 moose had been killed by train this winter and 10 were reported for salvage to FWP.

It is possible that some of the 34 unreported animals were utilized by local residents, but most were unfit for salvage. As of January 3, 60 moose have been killed by cars in the same area, and nearly all of these animals were salvaged.

Our interpretation of current regulations is that the ARR is not required to notify FWP when an animal is killed. You asked whether legislation should be introduced to require salvage. In our view the ARR, under state ownership, is being sufficiently cooperative in the salvage of most moose fit for human consumption, particularly considering the remoteness of the area, winter weather conditions, the relatively few workers on the line during winter months, and the relatively high cost of salvaging meat. With continuing public interest and concern for train-caused moose mortality, the ARR should remain very cooperative.

You also asked if the ARR has been cooperative in trying to reduce moose collisions. As you will see from the enclosed letters, the department has made a number of suggestions to reduce collisions, and we will make additional suggestions to the ARR after we have analyzed currently available data. Unlike the situation which existed when the railroad was federally owned, ARR officials have been very cooperative in letting us see their daily records and in openly discussing the problem.

Some of our suggestions have been adopted and likely reduced moose mortality in the latter part of the 1984-85 winter. Others have not been adopted because of federal regulations governing railroad operations, high monetary cost, or other reasons.

Nothing short of complete fencing on both sides of at least 65 miles of track with over- or underpasses to facilitate moose movements will reduce moose mortality to a bare minimum. However, fencing and maintenance of moose passage structures would cost several million dollars and even then would not eliminate mortality. Sweden, British Columbia, and other areas have problems such as ours, but they too have not found an adequate solution.

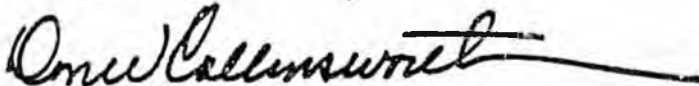
Following the high moose mortality in the winter of 1984-85 on the railroad and highways, the Board of Game acted to reduce hunter harvest in the affected area. The moose population has responded well. It is preferable that

February 2, 1987

hunters take moose during severe winters than for trains to kill them. However, hunting along the ARR right-of-way can also create problems because the ARR has concerns with people being on or near the right-of-way, or using the railroad right-of-way for access.

Thank you for the opportunity to provide you with background information and suggestions regarding moose mortality. If you have any questions on this material, please do not hesitate to contact us. Best wishes for success in your new role as state representative.

Sincerely,



Don W. Collinsworth
Commissioner

Enclosures

cc: William Nix, Acting Commissioner
Department of Public Safety

Lew Pamplin, Director
Game Division, Department of Fish and Game

ALASKA RAILROAD CORPORATION



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

February 17, 1987

James O. Campbell, Chairman
Board of Directors
Alaska Railroad Corporation
c/o 826 Overlook Place
Anchorage, Alaska 99501

Re: Sale or Lease of the Assets of the Alaska Railroad Corporation

Dear Jim:

You have asked that I point out and discuss the parameters of a sale or lease of the assets of the Alaska Railroad Corporation ("ARRC"). I am pleased to do so.

I.

EXECUTIVE SUMMARY

Sale of the Alaska Railroad

When the State of Alaska purchased the Alaska Railroad in January, 1985, it agreed to many sale terms. These terms include a provision in the federal Alaska Railroad Transfer Act ("ARTA") that requires the State to turn over any profits of a subsequent sale or transfer of the railroad to the United States, if the sale occurs within the first five years of State ownership.

In the face of this restriction the Alaska Railroad Corporation Act ("ARCA") requires the Alaska Railroad Corporation ("ARRC") to include in its annual report an analysis of potential arrangements to sell the railroad every five years, including documentation of at least three offers to sell the railroad. These must be bona fide attempts by the State-owned railroad to sell all or part of its assets and operations.

The combination of ARTA's requirement that the State turn over any sale profits to the federal government if the railroad is sold before January 5, 1990, and the huge cost of researching, preparing, soliciting, and negotiating meaningful sale or transfer alternatives justify repeal of ARCA's direction that sale offers be solicited by ARRC. This is very simply accomodated by repealing the second sentence of AS 42.40.260(b):

James O. Campbell, Chairman
February 17, 1987
Page 2

The analysis shall include documentation of at least three offers to sell the corporation initiated by the corporation during the last five years.

Of course, the requirement that ARRC offer to sell the railroad three times every five years could be simply modified to begin in 1990. However, complete repeal of this sentence does not eliminate the legislature's original desire that ARRC pursue a disposal of its assets. The first sentence of AS 42.40.260(b) would remain:

Every five years the annual report shall include an analysis of potential sale arrangements whereby the corporation may be transferred into private ownership.

Total repeal of the "three offers" requirement seems preferable to continuing an artificial stimulus to sales efforts even after 1990. Instead, "potential sale arrangements" would be initiated by market opportunities and railroad and State needs.

Some may suggest that offers to sell the railroad could stipulate that the sale will not be consummated until after 1990, thus avoiding ARTA's requirement that profits from an earlier sale be surrendered to the United States. The private operator could be granted a lease of railroad lands and operations until then. However, there are legal pitfalls to this approach if the lessee does not have a clear option to back out of a sale slated for 1990 and beyond. Otherwise, the "lease" may be determined to be a pre-1990 "sale" and subject to the ARTA restriction. Also, even a well-drafted lease will not be a "sale" which will satisfy ARCA's "three offers to sell" mandate.

For these reasons, we continue to recommend that AS 42.40.260(b) be repealed in part.

Efforts to sell the railroad seem premature until the State has decided whether sale of the railroad lies in the public's best interest. On one hand, profits of a sale after 1990 may help to bolster declining State revenues. However, an early or untimely sale to a private owner operator may endanger continued vitality of the line in a recessing economy.

Finally, at least that portion of the special governor's report required by ARCA to review operational alternatives and the transfer of all or part of the railroad operations to the private sector should be funded and completed. Its conclusions will greatly assist State leaders as they consider sale issues.

James O. Campbell, Chairman
February 17, 1987
Page 3

At a minimum, ARRC should be allowed to delay its solicitation of responsible offers until it receives a clear direction from Juneau that a sale should be pursued before 1990.

II.

DISCUSSION

Legal Constraints: ARTA's Strings

At the beginning of this century, railroading was a financial failure in Alaska. Convinced of a legitimate need for year-around access to Fairbanks and other Interior communities, the federal government wisely purchased the remnants of the Alaska Northern and Tanana Valley railroads to establish The Alaska Railroad. With considerable governmental support, the line ultimately stretched from Seward to Fairbanks' satellite communities. Serving Alaska's transportation and development needs for 70 years, the Alaska Railroad was an established government institution by 1982 when the guidelines for its sale to the State of Alaska were set forth in ARTA. Yet, Congress recognized that continuation of the railroad's services was vitally important to many Alaska communities which substantially or completely depend upon the carrier's operations. Congressional concerns about continued railroad operations, belief that the State was enjoying a bargain, and skepticism about the prospects of an entirely private railroad led to the attachment of some important strings to the sales agreement.

First, if within five years after transfer to the State (January 5, 1990) Alaska sells or transfers all or substantially all of the railroad, the sale or transfer proceeds which exceed the State's costs of Railroad improvements and liabilities must be paid to the United States. In other words, the State's profits from a sale before 1990 automatically inure to the federal government.^{1/}

Second, if within ten years after transfer to the State (January 5, 1995) all or part of the Railroad's property is converted to a use which would prevent railroad operations,

1/ There is no express setoff for the State's original purchase price and start up costs. Presumably, these sums are "net liabilities" incurred by the State for the railroad. Caution dictates that this interpretation be agreed to by the U.S. Attorney General before the line is sold or transferred. The Attorney General is required to enforce this section of the Act.

James O. Campbell, Chairman
February 17, 1987
Page 4

that property and its improvements will revert to the United States. To prevent this reversion, the State may tender the property's fair market value. While this limitation will not prevent sale or transfer to a private owner or operator, it is intended to encourage continued rail service until 1995. It could also impact the line's sale value.

Finally, if use of Railroad right of way is discontinued, ownership in the land will revert to the U.S. The federal government will then convey the land to adjoining landowners.

Although these few limitations do not restrict further railroad transfers, they do represent economic liabilities, especially until 1990. The timing of the State's disposal plan is therefore particularly critical.

ARCA's Marching Orders: Too Little Too Soon?

The State of Alaska agreed to abide by ARTA's sales terms. For instance, it has ensured that the railroad is a rail carrier operating, retaining, and managing its own revenues to better serve Alaska's transportation and development needs. In framing the public corporation's operating characteristics in ARCA to conform to this expectation, State leadership gave ARRC enough independence to conduct its activities as a separate and viable economic entity.

Exemptions from laws which apply to State agencies mean generally that ARRC receives and manages its own revenues, supplies, equipment, facilities and real estate, establishes its own personnel policies, compensation systems, and employment agreements, promulgates its own rules to govern all internal and external affairs, and controls its own purchasing, financing, and budgeting needs. On the other hand, a recognition of ARRC's State ownership and essential governmental functions led to public accountability requirements manifested by open meetings, Governor-appointed board members, procurement and ethical codes substantially equivalent to State models, financial and management audits, annual and oversight reports, legislative approval of land disposals, and long-range capital improvement and program plans. This blend of substantial financial and operations independence subject to State oversight results in a quasi-public, quasi-private railroad armed with the flexibility it needs to quickly react to changing markets and operational and financial needs. However, the ARRC model was not designed to last forever. It was formed only to "operate and manage the Alaska Railroad pending eventual transfer of the Railroad to the private sector."

Budget slashes by the federal government raised a very real State concern that the railroad's drain on a dwindling treasury would be ended by surplusizing the line and its assets with no guarantee of continued rail operations in Alaska. The State's purchase of the railroad was intended to preserve an important link in Alaska's transportation network without creating another Marine Highway System to bleed the State's own treasury. But legislators never intended that the State would long own and operate a railroad. They gave ARRC directions to find a private buyer, if it could, within a reasonably short time frame. However, these disposal directions are sketchy, probably untimely in light of ARTA restrictions, and poorly drafted in contrast to the scholarship generally reflected in ARCA.

ARCA requires ARRC's annual report to contain "an analysis of potential sale arrangements every five years whereby the corporation may be transferred into private ownership." This analysis must include "documentation of at least three offers to sell the corporation initiated by the corporation during the last five years."^{2/}

Unfortunately, the ground rules for these offers are not provided. The spectrum of the meaning of "sale" is broad, extending to such alternatives as public offerings of stock by a business corporation, direct purchase by individuals, partners, or parent corporations, management and/or employee buyouts, leases with options to buy, and separate sales of real property, operating facilities, and equipment. To render some meaning to ARRC sales efforts we must imply an intent that mere technical compliance with the sale offers provision is insufficient. The offers must be good faith overtures to bona fide potential purchasers who have the interest and ability to consummate an acceptable disposal arrangement.

Although the corporation is required to initiate offers to sell its assets, the governor may sell or lease the railroad and dissolve the corporation. The sale must be approved by the

^{2/} The reference to "corporation" is an error: the public corporation is not a business corporation with transferable stock. The clear intent, however, is that ARRC attempt to sell all or substantially all of its assets. Despite the use of "transferred," offers to sell, not offers to lease or transfer, are probably expected.

legislature.^{3/}

ARCA requires that sale or lease terms guarantee continued railroad operations and, at a minimum, reimburse the State for money it has spent in connection with the Alaska Railroad. Therefore, to insure continued rail operations, any offer to sell must include a reversion of the railroad's property to the State should the line cease to operate. Unlike the federal government's ten year cap on a reversion affecting non-right of way lands, an open-ended reversion will virtually guarantee some degree of railroad operations by a private operator. But an open-ended reversion will also have a substantial impact on the railroad's market value. Without it, the private firm will have considerable flexibility in retaining or disposing of railroad assets.

The ARCA sale and lease sections create ambiguities, apparent inconsistencies, and lack definiteness. However, those problems are substantially overcome by reasonable interpretations of the statute to ascertain the State's probable intentions. ARRC may then consider a very broad spectrum of sale and lease alternatives.

The Next Step: What Are the Available Options?

- A. Option One - Request Repeal of AS 42.40.260 and/or Completion of Special Governor's Report

AS 42.40.260(b) provides simply:

Every five years the annual report shall include an analysis of potential sale arrangements whereby the corporation may be transferred into private ownership. The analysis shall include documentation of at least three offers to sell the corporation initiated by the corporation during the last five years.

Repeal of only the emphasized portion of the statute will eliminate a premature sale without eradicating the legislature's original desire that ARRC pursue a disposal of

^{3/} In searching for consistency between these separate sections, the corporation's offer should be consummated by the governor (he can also initiate his own offers) and then presented to the legislature for approval. Although the corporation's power to consummate its own transaction may be necessarily implied, legislative approval is also either an express or implied requirement and exposes the agreement to the governor's veto in any event. The best course suggests that the governor should become involved early in the sales effort.

James O. Campbell, Chairman
February 17, 1987
Page 7

its assets. However, this amendment will require legislative action. Another alternative which will require State funding but avoids any reopening of ARCA for changes this year is discussed below.

A special governor's report is required by a temporary law enacted with ARCA. A private consultant must research, consider, and comment upon what long term railroad operations will best serve Alaska's needs. The report must contain specific recommendations on operational alternatives and transfer of all or part of the railroad operation to the private sector. Unfortunately, funding for the study was not provided to meet a February 1, 1987, deadline. This information seems critical to a meaningful legislative review of disposal alternatives. The report may also measurably assist any legislative reconsideration of its direction that ARRC attempt to sell the railroad before 1990. The report should also discuss another ingredient to a complete transfer: clear land title. ARRC is not expected to receive patent to all of its lands until 1989 or later.

The report may consider the importance of continued rail operations in Alaska and recommend those specific reversion terms which will require operations by a private buyer for a specified period without greatly depressing the line's sales value.

Some consideration must also be given to the loss of important exemptions from federal and State laws now enjoyed by the State-owned railroad. For example, a private owner will not be shielded from tax and railroad worker's compensation, retirement, and unemployment laws. Tax-exempt financing will not be available to meet operational needs. Clearly, the economic impact to these changes can and should be measured since they will influence the railroad's sales price and, perhaps, its viability as a totally private operation.

A report which also identifies operational alternatives should also significantly defray ARRC's expenses by narrowing its search for viable sale or lease options should ARCA not be amended.

If the legislature funds the Governor's report this year it may later reconsider, if necessary, ARCA's directive that the railroad's assets be sold in the face of a troubling ARTA deterrent.

At a minimum ARRC's sales efforts should be delayed until the State has reaffirmed its instruction that the line be sold, if possible, by 1990. Otherwise, ARRC's time and resources may be wasted if offers are prepared, tentatively accepted, and then rejected by the legislature.

B. Option Two - Proceed With Sale Or Lease Offers

The breakdown of large railroads into much smaller short lines has recently lead to the pooling of a great deal of expertise and experience in these disposals. The success of short lines will depend upon managerial experience in proposing lower operations and labor costs and aggressively pursuing new and expanded markets. The options seem endless and without consultants' assistance ARRC may soon become muddled in an explosion of information. Market opportunities are also difficult to identify and seize without capable assistance from those experienced in a number of marketing, financial, and operations disciplines.

Nonetheless, offers to sell the railroad can be prepared. If they are properly drafted, they may even avoid the requirement that profits of an early sale must be turned over to the United States. For instance, a private operator may lease all or part of the railroad's operations until 1990 when a sale will be consummated. As noted above, however, a lease must grant a prospective lessee the clear right to reject a purchase in 1990 and beyond. Otherwise, it will be declared a "sale" which may be subject to the ARTA restriction upon early sales of the railroad. In addition, a "lease" will not satisfy ARCA's "three offers to sell" requirement.

Within the relm of opportunities for transfer of the railroad, either by sale, lease or lease with a purchase option, there are infinite possibilities. Here is a listing of just some of the sale, lease, or transfer alternatives:

1. Sale of all of ARRC's assets, both real estate and personalty, to an existing corporation such as the Burlington Northern or CSX.

2. Sale of only the right of way, other railroad operating properties, and railroad equipment to an existing corporation.

3. No. 2 with an agreement that the purchaser manage the non-operating properties.

4. Nos. 1, 2 or 3 except that the transfer is by lease or lease with a purchase option instead of by sale.

5. Transfer of only portions of the railroad, such as the Anchorage-Fairbanks, Fairbanks-North Pole, and Whittier-Anchorage portions to those shippers who most use those portions.