

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672

5146 HTRA HB 94 - HB 100

718

Honorable Chair and members of the Committee. My name is Gretchen Derr, I am from the Department of Public Safety.

The Department of Public Safety is Neutral on this piece of legislation.

The purpose of this bill is to generate revenues for the State, both in fees received from a vessel numbering system, and through federal assistance funds. This bill is designed to address boating safety and boating registration while generating revenues for the State, etc.

Passage of this bill would require the Department to:

1. develop a boat numbering system;
2. develop and maintain a record-keeping system;
3. develop an accident reporting system;
4. develop and present boating safety education programs; and,
5. promulgate regulations.

Prior to implementation of this bill, extensive public education would be required to advise the public of the change in this responsibility from the federal government to the State.

Federal assistance funds from the Aquatic Resource Trust Fund are available through April 1, 1989. There is a bill in Congress to extend the Trust Fund; however, it has not passed, and is still in Committee. The State would receive approximately \$250.0 the first year and up to \$290.0 per year thereafter under the current law.

In order for the State to qualify for these funds, we must meet a number of requirements:

1. develop an approved vessel numbering system;
2. provide sufficient state matching funds -- these funds could come from fees received through vessel numbering.
3. maintain a cooperative boating assistance program with the U.S. Coast Guard;

4. provide adequate patrol to insure compliance with all laws and regulations concerning boating safety;
5. provide a boating safety program which meets the standards established by the National Association of State Boating Law Administrators; and, finally,
6. have an approved system for reporting marine fatalities.

The Department feels that, as with most federal funds which required certification that the grantee has complied, the requirements and audits become more stringent with the passage of time. There is no free lunch.

The Coast Guard requires uniformed officers to patrol and enforce the state's laws and regulations. This could create a tremendous responsibility if we are required to patrol all state waters - including the three-mile limit and all lakes and streams.

The Department could not fully meet the federal requirements with existing personnel -- that is, the reduced number of enforcement personnel we will have in FY88.

Subj: ALASKA HOUSE BILL 94

g. Section 5.25.240 discusses the report of transfer, abandonment or destruction of boat or change of address of owner. 33 CFR 174.13 incorporates the provision of 33 CFR 173.29 mandating that the owner must also provide the issuing authority with notice of the theft/recovery of the vessel or destruction of the certificate of number. These matters should be included with the required notice provisions of this section.

h. Section 5.25.245 sets forth the applicability of the numbering portion of the draft state law. Subsection 4 thereof provides that AS 5.25.200 - 5.25.240 do not apply to ship's lifeboats" used solely for lifesaving purposes". This qualification as to ships' lifeboats goes further than the requirements of 33 CFR 174.11 which incorporates the requirements of 33 CFR 173.11(d). Whereas Coast Guard regulations state that ships' lifeboats are to be exempted from state numbering requirements, the State of Alaska purports to exempt only those ships' lifeboats that are used solely for lifesaving purposes. The issue of the use of ships' lifeboats as small passenger vessels for passenger lightering has been a local bone of contention. Therefore, this provision which would exempt only those lifeboats that are properly used as such may indeed be considered a legitimate exercise of the State's authority.

i. Section 5.25.325 sets forth the applicability of AS 5.25.300 through 5.25.320, the provisions dealing with accident reporting. Subsection (b) provides exemption for certain vessels from the applicability of the section. 33 CFR 174.101 sets forth the requirements for applicability of state casualty reporting systems and incorporates 33 CFR 173.51 therein. 33 CFR 173.51 provides that all uninspected vessels which are either required to be numbered or used for recreational purposes fall under the casualty and accident reporting regulations. Insofar as draft 5.25(b)(1) and (2) would exempt a documented or foreign boat being used by its operator for recreational purposes from the casualty reporting regulations, this section conflicts with the federal law. Therefore, this section should be modified to more closely mirror the provisions of 33 CFR 173.51.

→ j. Section 5.25.330 deals with the owner's civil liability. This section includes the provision that the owner of the boat is liable for injury or damage caused by the negligent operation of the boat whether the negligence consists of a violation of a state statute or a failure to use ordinary care. Such a provision seems to create a "per se" negligence rule which arguably could create liability based merely upon

Subj: ALASKA HOUSE BILL 94

the expiration of a certificate of number notwithstanding the use of reasonable care. Insofar as the legislature intends this effect there is no objection from the standpoint of federal law. However, comment is made to insure that the ramifications of this language are fully considered prior to its inclusion in the final bill.

k. Section 5.25.405 contains provisions relating to safety equipment on recreational vessels. Subsection (a) has a requirement for a white light. It is noted that the COLREGS and the requirements therein for lights control exclusively in the navigable waters of the State of Alaska. This provision dealing with lights therefore should be modified to state its applicability to only non-navigable waters. Moreover, if the state desires to include provisions for lights and shapes, etc., the statute should make reference to the international navigation rules.

l. Section 5.25.415 requires a diver's flag. This provision likewise can have effect only insofar as it does not conflict with the COLREGS. Rule 27 of the COLREGS sets forth the requirements for the exhibition of lights and shapes for vessels engaged in diving operations. Subsection (e) requires that a vessel which cannot exhibit all the lights and shapes described must still exhibit three all around lights in a vertical line where they can best be seen, the highest and lowest of these lights being red and the middle being white and a rigid replica of the international code flag "A" not less than one meter in height in a manner providing all around visibility. This section of the Alaska bill purports to require a different flag when diving operations are underway. The application of the diving flag laws in conjunction with the COLREGS was discussed in 434 Coast Guard Law Bulletin 24, corrected by (G-LMI) letter 16672 dated 12 November 1985. In short, the ruling has been made that the "Alpha" flag signal is to be flown as a means of indicating when a small vessel engaged in diving operations is restricted in ability to maneuver. Flying a state prescribed flag may be used as a personal identifying signal and may be used either in conjunction with the "Alpha" flag signal when the vessel is restricted in the ability to maneuver or alone if the vessel is not restricted in ability to maneuver. However, a vessel is not exempt from flying the code "Alpha" flag merely because it is flying a state prescribed flag and that state prescribed flag cannot be allowed to impair the visibility of the code "Alpha" flag. I would suggest that the draft bill be modified to reflect the foregoing.

HOUSE COMMITTEE REPORT

3/11

(5)

Date referred: 1/30/87

FURTHER REFERRALS:

Judiciary
Finance

DATE: March 9, 1987

The Transportation Committee has considered HB 94

"An Act relating to boat numbering, accidents, and safety; and providing for an effective date."

RECOMMENDS:

- replace with CS HB 94 (Transportation) the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

Bill Hudson

Ed A. Boush

Heinrich Springer

Bette Cato

SIGNING OTHER RECOMMENDATIONS:

Wade Monroe - Dolan

Bette Cato
 Chairman's signature



Official Business

COMMITTEE:

House Transportation

DATE: February 11, 1987

SIGN-IN

Subject of meeting:

HB 31 "An Act relating to registration of commercial and noncommercial motor vehicles; and providing for an effective date."

HB 94 "An Act relating to boat numbering, accidents, and safety; and providing for an effective date."

NAME ADDRESS PHONE REPRESENTING DO YOU WANT TO TESTIFY?

CDR. G.M. HARBEN	FED BUILDING Box 3-5000 Juneau 99802	586-7474	U.S.C.G.	YES ✓
CDR DM WALTON	612 Willoughby Ave Juneau 99801	586-7349	USCG MSD JUN	Yes ✓
Randy Weaver	415 Coleman 155 S. Seward Juneau, AK 99801 Tuna	586-5255	Harbormaster	yes ✓
LT. D.M. Shippert	Fed Bldg	586-7398	USCG	NO
CWO W.R. LIRD	Fed Bldg	586-7719	USCG	NO
MAILYN COFFMAN	108 TROY AVE JUNEAU 99801	586-6113	U.S.C.G. AUXILIARY	YES ✓
T.O. Thrasher *	3443 Main Anch IPDC HB # 31 31 99503	463-3279	AK Trucking Assoc	HB31 yes ✓
Bill Brown *	P.O. Box N HB # 31 31 99811	465-4335	DMV	HB31 Yes ✓
Bob Olin Taylor	Anchor V. Jr. AK	465-4905	ME	yes ✓



Official Business

COMMITTEE:

House Transportation Committee

DATE: February 27, 1987

SIGN-IN

Subject of meeting:

- HB 74: "An Act relating to motorcycle license plates."
- HB 94: "An Act relating to boat numbering, accidents, and safety; and providing for an effective date."
- HB 118: "An Act relating to decisions on right-of-way lease applications."

NAME	ADDRESS	PHONE	REPRESENTING	DO YOU WANT TO TESTIFY?	
John Manning	title: Health & Soc. Sv. Planner P.O. BOX H-060, Juneau, 99811	465-3141	EMS/DPH/DHSS	Yes (HB94)	94*
Elliot Lipson	9001 Long Run Dr. Juneau 99801	989-0989	self	no	
HAROLD MOLES	title: 2BKS AK 1001 NOBLE Sub. 240 99701	456-8700	Pipeline Northwest ALASKAN	HB 118 yes	HB 118
GRETCHEN DEER	title: Spec. Asst. Comm. P.O. Box N, Juneau, AK 99811	465-4322	Public Safety	HB 94 Yes	94
DML WALDROW	612 Willoughby Ave Juneau 99801	586-7349	USCG	HB 94 Yes	94*
M.A. CONWAY	title: P.O. Box 3-5000, Juneau, AK 99802	586-7197	USCG	NO	
G.M. HARBEN	CCGD 17 (2)	586-7471	USCG	HB 94 IF NEEDED	94
Bill Brown	P.O. Box N	465-4335	DMV	Answers Questions HB 94	74*
Rep. Richard Shultz	AK State Legis	465-4440	Sponsor of HB 118		



Official Business

COMMITTEE:

House Transportation Committee

DATE: March 9, 1987

SIGN-IN

Subject of meeting:

HB 94: "An Act relating to boat numbering, accidents, and safety; and providing for an effective date."

HCR 13 Relating to the expeditious redesign and reconstruction of the airport road in Bethel.

NAME Please include title **ADDRESS** Please include zip **PHONE** **REPRESENTING** **DO YOU WANT TO TESTIFY?**

NAME Please include title	ADDRESS Please include zip	PHONE	REPRESENTING	DO YOU WANT TO TESTIFY?
Cdr G. HARBEN	USCG FED BUILDING	586-7474	USCG	IF NEEDED No
Cdr DM WALDRON	USCG MSO JUNEAU	586-7349	USCG	IF NEEDED *
Cdr M.A. CONWAY	USCG DISTRICT 17	586-7197	USCG	
GRETCHEN DEER SPECIAL ASST	P.O. Box N, Juneau, AK 99811	465-4328	Public Safety	Answer Questions if necessary
MARK S. JOHNSON	Dept. of Health & Social Services EMS Section P.O. Box H-060 JUNEAU	465-3027	AHSS	SUPPORT HB 94 if needed
SUSAN FLEISCHHAUER	DEPT. OF TRANSPORTATION	405-3900	DOT/PT	ANSWER QUESTIONS IF NECESSARY *

HB

100

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3600

LEGISLATIVE AFFAIRS AGENCY
LEGISLATIVE REFERENCE LIBRARY

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 Transportation:

3/6/87

Alaska State Legislature



House of Representatives

Committee on Transportation

Rep. Bette Cato, Chairman

Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-4858

March 6, 1987

FOR TODAY'S MEETING YOU HAVE:

A BINDER ON HB 100 THAT INCLUDES:

- * a copy of HB 100
- * a bill analysis
- * a copy of the statute that would be amended by HB 100
- * a legal opinion regarding the railroad's budget and fiscal records
- * a copy of the statutes outlining the railroad's exemption from certain laws
- * a legal opinion regarding the Alaska Railroad Corporation Act
- * ~~a fiscal note from the Dept. of Commerce and Economic Development~~
- * the Alaska Railroad Corporation's response to HB 100
- * selected questions asked to the Alaska Railroad Corporation by House Labor & Commerce

A copy of several reports from the Alaska Railroad Corporation

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

A N N U A L

R E P O R T



1985



SECTIONAL ANALYSIS HB 100

Chapter 40 Sec 42.40.260 - annual report of the Alaska Railroad.

Section 1 (a) Line 10 thru 17 are the same as are currently in the statute

Commencing at Line 18 "The report shall also" thru to Line 7 on Page 2 of the bill - this underlined section has all been added to the current statutes.

- Line 19 - (1) requires the annual report to include the goals and objective of the board for the preceding fiscal year and any modifications.
- Line 22 (2) requires proposed plans to implement goals and objectives be included in the report.
- Line 27 (3) requires the report include a budget to carry out proposed plans, and explanation of services, service costs and total number of persons employed be included in the annual report.
- Line 4
Page 2 (4) requires the report include receipts and expenditures for the preceding fy, and, and estimate of the receipts during the current fiscal year, and an estimate of receipts for the succeeding fiscal year.

HOUSE COMMITTEE REPORT

Date referred: 2/2/87

FURTHER REFERRALS: Finance

DATE: March 6, 1987

The Transportation Committee has considered HB 100

"An Act relating to the annual report of the Alaska Railroad Corporation."

RECOMMENDS:

- replace with _____ the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

Cliff McLaughlin

Bill Ford

Harold Spruig

Bette Cato

SIGNING OTHER RECOMMENDATIONS:

Amel Kance - K. Kee

Bette Cato

 Chairman's signature

(29) enter into agreements with a state agency or other instrumentality of the state; and

(30) do all things necessary or desirable to carry out the powers and duties of the corporation granted or necessarily implied in this chapter or other laws of the state or the laws or regulations of the federal government. (§ 2 ch 153 SLA 1984)

Sec. 42.40.260. Annual report. (a) Within 90 days following the end of the fiscal year of the Alaska Railroad the board shall distribute to the governor and to the legislature a report describing the operations and financial condition of the corporation during the preceding fiscal year. The report may include suggestions for legislation relating to the structure, powers or duties of the corporation or to the operation or facilities of the corporation. Subject to AS 42.40.220, the report shall itemize the cost of providing each category of service offered by the railroad and the income generated by each category.

(b) 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. (§ 2 ch 153 SLA 1984)

*Jack Mege, AG
most
specific*

Sec. 42.40.270. Audits. (a) The board shall have the financial records of the corporation audited annually by an independent certified public accountant experienced in railroad accounting. The board shall have an annual performance audit conducted by a recognized railroad management expert to assure that the railroad is being managed and operated effectively and efficiently in accordance with the requirements of this chapter and that each appropriation is used to directly support those services for which the appropriation was requested. Auditors shall use the standards required under AS 42.40.100(9) and determine whether appropriations received for a service that is not self-sustaining were calculated in accordance with United States Interstate Commerce Commission standards for determining rail service subsidies.

(b) The corporation shall make all of its financial records available to an auditor appointed by the governor and to the legislative audit division for examination. Disclosure to the public by the auditor or legislative audit division of this information is subject to AS 42.40.220 and rules implementing that section. (§ 2 ch 153 SLA 1984)

STATE OF ALASKA
THE LEGISLATURE

JAN 22 1987

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

January 22, 1987

SUBJECT: Budget and fiscal records of the Alaska
Railroad Corporation (Work Order 15-0271)

TO: Representative Bette Cato

FROM: George Utermohle *GU*
Legislative Counsel

You have asked that the budget and fiscal records of the Alaska Railroad Corporation be more available to the legislature.

While the corporation is exempt from the Executive Budget Act and the Fiscal Procedure Act, under AS 42.40.220(a) information in the possession of the corporation is public and is open to public inspection. The only information which the corporation may withhold from the public are matters of a privileged or proprietary nature such as personnel records, communications and work product of legal counsel and other information associated with specific shippers, divisions, and contrast rate agreements. (AS 42.40.220(b)) Budget and fiscal records of the corporation are not included in the matters that the corporation may withhold from disclosure. Thus the legislature should already have access to budget and fiscal information of the corporation as well as the financial and performance audits conducted under AS 42.40.270.

However if the corporation can legally withhold budget and fiscal information under AS 42.40.220(b) or if that information has simply been difficult to obtain, then the following amendment is proposed in order to require the corporation to provide some of the information that you seek:

AS 42.40.260(a) is amended to read:

(a) Within 90 days following the end of the fiscal year of the Alaska Railroad the board shall distribute to the governor and to the legislature a report describing

the operations and financial condition of the corporation. The report shall include

(1) the goals and objectives of the board for the preceding fiscal year and modifications of the goals and objectives for the current fiscal year;

(2) proposed plans to implement goals and objectives, including estimates of future service needs, proposed modifications of existing services and establishment of new services, and the estimated financial and personnel resources to carry out the proposed plan;

(3) a budget to carry out its proposed plans in the current fiscal year including an explanation of services to be provided, the total number of persons employed or under contract by the corporation for personnel services including those for capital improvements, the need for the services, the cost of the services and other related information requested by the governor or legislature;

(4) a report of the receipts and the expenditures during the preceding fiscal year, an estimate of the receipts during the current fiscal year, and an estimate of the receipts for the succeeding fiscal year.

The report may include suggestions for legislation relating to the structure, powers or duties of the corporation or to the operation or facilities of the corporation. Subject to AS 42.40.220, the report shall itemize the cost of providing each category of service offered by the railroad and the income generated by each category.

If I can provide further assistance on this matter, please contact me.

GU:mkr
m8/C38

Chapter 40. Alaska Railroad Corporation.

Article

1. Establishment and Organization (§§ 42.40.010 - 42.40.060)
2. Management (§§ 42.40.100 - 42.40.120)
3. Administrative Provisions (§§ 42.40.150 - 42.40.230)
4. Powers and Duties (§§ 42.40.250 - 42.40.310)
5. Corporation Property (§§ 42.40.350 - 42.40.450)
6. Financial Provisions (§§ 42.40.500 - 42.40.540)
7. Bonds (§§ 42.40.600 - 42.40.700)
8. Personnel and Labor Relations (§§ 42.40.705 - 42.40.890)
9. General Provisions (§§ 42.40.900 - 42.40.990)

Cross references. — For legislative findings and purpose in enacting this chapter, see § 1, ch. 153, SLA 1984 in the Temporary and Special Acts; for special reports required, see § 3, ch. 153, SLA 1984 in the Temporary and Special Acts.

Legislative history reports. — For legislative letter of intent relating to ch. 153, SLA 1984 (SCS CSHB 512 (Fin) am S), see 1984 Senate Journal, p. 3221

Article 1. Establishment and Organization.

Section

10. Establishment of the corporation
20. Board of directors
30. Term of office

Section

40. Vacancies
50. Compensation and expenses
60. Board officers

Sec. 42.40.010. Establishment of the corporation. There is established the Alaska Railroad Corporation. The corporation is a public corporation and is an instrumentality of the state within the Department of Commerce and Economic Development. The corporation has a legal existence independent of and separate from the state. The continued operation of the Alaska Railroad by the corporation as provided in this chapter is considered an essential government function of the state. (§ 2 ch 153 SLA 1984)

For purposes of liab (R or tort) the RR is separate entity. can sue RR - cannot go after other state assets. restricts liability

state should be RR - RR auth. to issue ex. exempt bonds.

Sec. 42.40.020. Board of directors. (a) The powers of the corporation are vested in the board of directors. The board consists of the commissioner of commerce and economic development, the commissioner of transportation and public facilities, and five members appointed by the governor. The five appointed members must be registered voters in the state except as provided in (1) and (2) of this subsection. Except for the commissioners and the member appointed under (5) of this section, a member may not be a state officer or employee. Appointed members shall have the following qualifications:

- (1) one member of the board shall be a person who has at least 10 years of experience in railroad management; a person who is not a resident of the state may be appointed under this paragraph:

Article 4. Powers and Duties.

Section

- 250 General powers
- 260 Annual report
- 270 Audits
- 280 State oversight reports
- 285. Legislative approval required

Section

- 290 Long-range capital improvement and program plan
- 300 Use of corporation assets
- 310. Indemnification

Sec. 42.40.250. General powers. In addition to the exercise of other powers authorized by law, the corporation may

- (1) adopt a seal;
- (2) adopt bylaws governing the business of the corporation;
- (3) sue and be sued;
- (4) appoint trustees and agents of the corporation and prescribe their powers and duties;
- (5) hire legal counsel to represent the corporation;
- (6) make contracts and execute instruments necessary or convenient in the exercise of its powers and duties;
- (7) acquire by purchase, lease, bequest, devise, gift, exchange, the satisfaction of debts, the foreclosure of mortgages, or otherwise, personal property, rights, rights-of-way, franchises, easements, and other interests in land, and acquire by appropriation water rights that are located in the state, taking title to the property in the name of the corporation;
- (8) hold, maintain, use, operate, improve, lease, exchange, donate, convey, alienate, encumber, or otherwise grant a security interest in, or authorize use or dispose of, land or personal property, subject to other provisions of this chapter;
- (9) contract with and accept transfers, gifts, grants or loans of funds or property from the United States and the state or its political subdivisions, subject to other provisions of federal or state law or municipal ordinances;
- (10) undertake and provide for the management, operation, maintenance, use, and control of all of the property of the corporation, including all land and personal property of the Alaska Railroad transferred under 45 U.S.C. 1203(a) and described in the report dated July 14, 1983, as amended, submitted to Congress and the legislature under 45 U.S.C. 1204(a);
- (11) recommend to the legislature and the governor any tax, financing, or financial arrangement the corporation considers appropriate for expansion or extension and operation of the Alaska Railroad;
- (12) maintain offices and facilities at places it designates;
- (13) apply to the state, the United States, and foreign countries or other proper agencies for the permits, licenses, rights-of-way, or approvals necessary to construct, maintain, and operate transportation and related services, and obtain, hold, and reuse the licenses and permits in the same manner as other railroad operators;

(14) prescribe rates to be charged for services provided by the Alaska Railroad consistent with 45 U.S.C. 1201 — 1214 (Alaska Railroad Transfer Act of 1982);

(15) determine the routes, schedules, and types of service to be provided by the Alaska Railroad;

(16) enter into contracts, leases, and other agreements with connecting carriers, shippers, and other persons concerning the services, activities, operations, property, and facilities of the corporation, including agreements that contain provisions to preserve and expand the railroad's traffic base;

(17) plan for and undertake expansion of the railroad and railroad activities, including extension of the rail system, and contract with other modes of transportation service connecting to the rail system;

(18) hire and discharge railroad personnel and determine benefits and other terms and conditions of employment;

(19) assume all rights, liabilities, and obligations of the Alaska Railroad in accordance with 45 U.S.C. 1201 — 1214 (Alaska Railroad Transfer Act of 1982);

(20) maintain a security force to enforce municipal ordinances, state laws, and the corporation's rules with respect to violations that occur on or to property owned, managed or transported by the corporation;

(21) issue its bonds upon approval of the legislature and provide for and secure their payment, provide for the rights of their holders and hold or dispose of them;

(22) purchase the corporation's bonds at a price not more than the principal amount of them plus interest;

(23) cancel bonds of the corporation purchased by the corporation;

(24) secure the payment of its bonds by pledge, mortgage, or other lien on its contracts, revenues, income, or property;

(25) consent to the modification of the rate of interest, time of payment of an installment of principal or interest, or other term of a loan, contract, or agreement to which the corporation is a party;

(26) borrow money, including the amounts necessary to establish reasonable reserves, and pay financing charges and interest on bonds for a reasonable period after which the corporation estimates other money will be available to pay the interest, consultant, advisory, and legal fees, and other expenses necessary or incident to borrowing;

(27) acquire, hold, and dispose of stocks, memberships, contracts, bonds, general or limited partnership interests or other interests in another corporation, association, partnership, joint venture, or other legal entity, and exercise the powers or rights in connection with these interests that are provided in contracts or agreements and that are allowed by law concerning the satisfaction of debts;

(28) undertake and provide for the acquisition, construction, maintenance, equipping, and operation of connecting, switching, terminal, or other railroads and railroad facilities;

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(29) enter into agreements with a state agency or other instrumentality of the state; and

(30) do all things necessary or desirable to carry out the powers and duties of the corporation granted or necessarily implied in this chapter or other laws of the state or the laws or regulations of the federal government. (§ 2 ch 153 SLA 1984)

Sec. 42.40.260. Annual report. (a) Within 90 days following the end of the fiscal year of the Alaska Railroad the board shall distribute to the governor and to the legislature a report describing the operations and financial condition of the corporation during the preceding fiscal year. The report may include suggestions for legislation relating to the structure, powers or duties of the corporation or to the operation or facilities of the corporation. Subject to AS 42.40.220, the report shall itemize the cost of providing each category of service offered by the railroad and the income generated by each category.

(b) 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. (§ 2 ch 153 SLA 1984)

*Jack Meyer AG
most
specific*

Sec. 42.40.270. Audits. (a) The board shall have the financial records of the corporation audited annually by an independent certified public accountant experienced in railroad accounting. The board shall have an annual performance audit conducted by a recognized railroad management expert to assure that the railroad is being managed and operated effectively and efficiently in accordance with the requirements of this chapter and that each appropriation is used to directly support those services for which the appropriation was requested. Auditors shall use the standards required under AS 42.40.100(9) and determine whether appropriations received for a service that is not self-sustaining were calculated in accordance with United States Interstate Commerce Commission standards for determining rail service subsidies.

(b) The corporation shall make all of its financial records available to an auditor appointed by the governor and to the legislative audit division for examination. Disclosure to the public by the auditor or legislative audit division of this information is subject to AS 42.40.220 and rules implementing that section. (§ 2 ch 153 SLA 1984)

Sec. 42.40.280. State oversight reports. (a) The board shall provide a state oversight report to the governor and the legislature before undertaking

(1) expansion, reduction, or diversification of services provided by the railroad upon the date of transfer or as provided under this chapter that the board determines would represent a significant and permanent change in the level and nature of services provided; or

(2) an application for an appropriation to be used for providing any service that is not self-sustaining.

(b) The report under (a) of this section shall be in writing, describe the proposed undertaking in detail, and specify

(1) its financial impact on the corporation;

(2) its impact on the level and nature of services provided by the corporation;

(3) the reasons the action is necessary or desirable to achieve the purposes of this chapter;

(4) whether and when the undertaking or service is expected to be self-sustaining financially; and

(5) if the undertaking requires an appropriation to be used for providing a service that is not self-sustaining, that the amount of the appropriation has been strictly calculated in accordance with United States Interstate Commerce Commission standards for determining rail service subsidies. (§ 2 ch 153 SLA 1984)

Sec. 42.40.285. Legislative approval required. Unless the legislature approves the action by law, the corporation may not

(1) exchange, donate, sell, or otherwise convey its entire interest in land;

(2) issue bonds;

(3) extend railroad lines; this paragraph does not apply to a spur, industrial, team, switching or side track;

(4) lease land for a period in excess of 35 years unless the corporation reserves the right to terminate the lease if the land is needed for railroad purposes. (§ 2 ch 153 SLA 1984)

Sec. 42.40.290. Long-range capital improvement and program plan. (a) The corporation shall prepare and the board shall adopt a long-range capital improvement and program plan. The plan shall explain the manner in which the corporation intends to accomplish the purposes of this chapter and the corporation's anticipated capital improvements during each of the five years after the plan is adopted.

(b) The board shall annually review and approve revisions to the long-range capital improvement and program plan. The board shall provide copies of the updated plan to the governor and the legislature by December 1 of each year. (§ 2 ch 153 SLA 1984)

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Sec. 42.40.905. Notice of legal actions. (a) The corporation shall notify the Department of Law within 30 days before initiating legal action unless special circumstances exist that require immediate legal action to protect the corporation assets or to continue existing service.

(b) If notice of legal action is not given under (a) of this section, within seven days of taking action the board shall notify the Department of Law of the action taken and of the special circumstances that exempted the action from the requirements of (a) of this section. (§ 2 ch 153 SLA 1984)

Sec. 42.40.910. Exemption from taxation. (a) The exercise of the powers granted by this chapter shall be in all respects for the benefit of the people of the state, for their well-being and prosperity, and for the improvement of their social and economic conditions. Subject to (b) of this section, the real and personal property of the corporation and its assets, income, and receipts are exempt from all taxes and special assessments of the state or a political subdivision of the state.

(b) Bonds and notes issued under this chapter are issued by a body corporate and public of the state and for an essential public and governmental purpose. Therefore, the bonds and notes, the interest and income from them, and all fees, charges, funds, revenue, income and other money pledged or available to pay or secure the payment of the bonds and notes or interest on them, are exempt from taxation except for inheritance, transfer, and estate taxes.

(c) This section does not affect or limit an exemption from license fees, property taxes, or excise, income or other taxes, provided under any other law, nor does it create a tax exemption with respect to the interest of any business enterprise or other person, other than the corporation. (§ 2 ch 153 SLA 1984)

Sec. 42.40.920. Application of existing laws. (a) The corporation is not subject to the jurisdiction of the Alaska Transportation Commission.

(b) [Effective July 1, 1987] Unless specifically provided otherwise in this chapter, the following laws do not apply to the operations of the corporation:

sets up DOT

- (1) AS 19: - *highways & Ferries*
- (2) AS 30.15: - *Navigation, Harbors + Shipping - State grants for port facilities construction*
- (3) AS 35: - *Public Buildings, Works & Improvements*
- (4) AS 36.30, except as specifically provided in that chapter: - *Public Contracts*
- (5) AS 37.05: *Public Finance* : *financial reports - uniform accounting*
- (6) AS 37.07: - *Exec. Budget Act*
- (7) AS 37.10.010 - 37.10.060: *Public Funds*
- (8) AS 37.10.095: - *Fin. Aid to Corporations in state or political subdiv.*
- (9) AS 37.20: - *Acceptance of federal funds.*

(10) AS 37.25; - *Miss provisions re appropriations*

(11) AS 38; - *Public Lands*

(12) AS 44.62.010 — 44.62.320. (§ 2 ch 153 SLA 1984; am § 41 ch 106 SLA 1986) - *Admin Procedures Act. - applies primarily to developing regulations*

Effect of amendments. — The 1986 amendment, effective July 1, 1987, inserted paragraph (4) of subsection (b) and redesignated the following paragraphs accordingly.

Editor's notes. — Prior to July 1, 1987, subsection (b) read as follows: "(b) Unless specifically provided otherwise in this chapter, the following laws do not apply to the operations of the corporation:

"(1) AS 19;

"(2) AS 30.15;

"(3) AS 35;

"(4) AS 37.05;

"(5) AS 37.07;

"(6) AS 37.10.010 — 37.10.060;

"(7) AS 37.10.085;

"(8) AS 37.20;

"(9) AS 37.25;

"(10) AS 38;

"(11) AS 44.62.040 — 44.62.320."

Sec. 42.40.930. Conflicting laws inapplicable. If provisions of AS 42.40 conflict with the provisions of other state law, the provisions of AS 42.40 prevail. Provisions of AS 42.40 shall be construed so that they do not conflict with 45 U.S.C. 1201 — 1214 (Alaska Railroad Transfer Act of 1982). (§ 2 ch 153 SLA 1984)

Sec. 42.40.935. Railroad facilities code compliance. (a) Not later than two years after the date of transfer the corporation in consultation with the Department of Labor shall develop and adopt a plan to achieve compliance with AS 18.60. The plan shall be implemented and compliance achieved within five years after it is adopted.

(b) No later than two years after the date of transfer, the corporation in consultation with the Department of Public Safety and appropriate municipal officials, shall develop and adopt a plan to achieve compliance with building and related safety codes applicable to facilities of the corporation. The plan shall be implemented and compliance achieved within five years after it is adopted. In the sole determination of the commissioner of public safety, any existing building owned or controlled by the corporation that does not present a serious safety hazard and for which compliance would be uneconomical in consideration of its remaining useful life shall be exempted from compliance with state or municipal safety codes. (§ 2 ch 153 SLA 1984)

Sec. 42.40.940. Sale or lease of the railroad. (a) The governor may provide for the sale or lease of the Alaska Railroad and dissolve the corporation if

(1) it can be assured that the railroad will continue to operate after the sale or lease; and

(2) under the terms of the sale or lease, the state will receive the amount of money it has spent in connection with the Alaska Railroad

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(b) A sale under this section is subject to approval by law. (§ 2 ch 153 SLA 1984)

Sec. 42.40.950. Reversion of assets. Except as provided in AS 42.40.940, if the corporation ceases to exist its assets revert to the state. (§ 2 ch 153 SLA 1984)

Sec. 42.40.980. Definitions. In this chapter unless the context otherwise requires,

(1) "board" means the board of directors of the Alaska Railroad Corporation;

(2) "bonds" means bonds, bond anticipation notes, notes, refunding bonds, or other obligations;

(3) "collective bargaining" means the performance of the mutual obligation of the corporation or its designated representatives and the representatives of the employees to meet at reasonable times, including meetings in advance of the budget making process, and negotiating in good faith with respect to wages, hours, and other terms and conditions of employment, or the negotiation of an agreement, or negotiation of a question arising under an agreement and the execution of a written contract incorporating an agreement reached if requested by either party, but these obligations do not compel either party to agree to a proposal or require the making of a concession;

(4) "corporation" means the Alaska Railroad Corporation;

(5) "date of transfer" means the date on which the United States Secretary of Transportation delivers the transfer documents under 45 U.S.C. 1201 -- 1214 (Alaska Railroad Transfer Act of 1982);

(6) "employees" means all persons employed by the corporation including executive officers;

(7) "executive officer" means the corporation's chief executive officer, assistant chief executive officer, assistant to the chief executive officer, chief of administration, superintendent of transportation, manager of marketing and sales, chief engineer, chief mechanical officer, manager of industrial development and real estate, manager of budget and accounting, manager of planning, manager of personnel, manager of supply and procurement, chief of security, manager of operating rules, manager of data processing, manager of strategy, manager of operations planning, manager of supply, manager of procurement, manager of safety, manager of administrative procedure, chief counsel, or if so designated by the board, any employee who fulfills these management functions under a different title or who exercises a similar or comparable level of responsibility or supervision;

(8) "land" means any interest in real property, including tide and submerged land, and any right appurtenant to the interest.

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STATE OF ALASKA
THE LEGISLATURE

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JUNEAU ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

December 11, 1986

SUBJECT: Alaska Railroad Corporation Act
(Work Order No. 15-0271)

TO: Representative Bette Cato

FROM: George Utermohle *GU*
Legislative Counsel

You have asked a number of questions regarding the Alaska Railroad Corporation (ARR). This memorandum is in answer to those questions.

ONE: WHAT ARE THE LEGAL AND ECONOMIC EFFECTS OF THE EXEMPTIONS CONTAINED IN AS 42.40.920?

AS 42.40.920 specifically exempts ARR from compliance with eleven parts of the statutes.

(1) AS 19

AS 19 addresses highways and ferries. Generally AS 19 is irrelevant to ARR, however there are some sections that could affect railroad operations. In AS 19.05 - 19.40 "utility" is defined to include railroads, so that those provisions of AS 19 addressing the interactions between the Department of Transportation and Public Facilities (DOTPF) and utilities also apply to railroads. In particular AS 19.25.010 - 19.25.020 provides that utilities may be located in highway right-of-ways with the approval of DOTPF and that utilities can be removed from highway right-of-ways if necessary to construct or repair highways.

The economic effect of this provision is to free ARR from the obligation to consult with DOTPF before locating its tracks within a highway right-of-way or to remove tracks from a highway right-of-way. The exemption puts ARR in a better position to negotiate with DOTPF for relocation of tracks from highway right-of-ways, so that DOTPF may have to

bear a larger portion of the cost of relocation. If ARR did not have this exemption, it would be in the same position as other utilities such as power companies, gas companies, and other railroads.

(2) AS 30.15

AS 30.15 provides for state participation in port development projects by authorizing grants to municipalities. The selection and support of port development projects is subject to some control by DOTPF. ARR is exempted from this process for port development.

This exemption enhances the autonomy of ARR more than it promotes economic efficiency of the railroad. Without the exemption ARR may have its port development projects complicated by cooperation with municipalities and DOTPF, but the economic cost of the cooperation should not be significant.

(3) AS 35

AS 35 relates to the construction of public facilities. ARR is exempt from several significant provisions of this title.

AS 35.05.010 designates DOTPF as the agency responsible for construction of public works in the state.

AS 35.10.015 delegates responsibility for enforcement of regulations for handicapped access to public buildings to DOTPF.

AS 35.10.025 requires that state facilities comply with local building codes.

AS 35.10.090 - 35.10.120 makes DOTPF responsible for establishing priorities for port development and for applying for federal funds for harbor facilities.

AS 35.10.160 makes DOTPF responsible for the planning, design, and construction of public facilities. This section also requires that life-cycle costing be used in estimating the total cost of proposed public facilities.

AS 35.27.020 requires that one per cent of the construction cost of public facilities be allocated to art in public places.

AS 35.30 requires that DOTPF and University of Alaska building projects receive the approval of municipal planning authorities.

ARR receives a considerable economic benefit from the exemptions from state handicapped access regulations, participation in the one-per cent-for-art program, and compliance with municipal building codes and planning ordinances.

The exemption from state handicapped access regulations may not mean any real economic benefit to ARR. ARR is still subject to federal regulations regarding handicapped access to federally licensed common carriers and to demands of the market that the railroad serves.

(4) AS 37.05

AS 37.05 is the Fiscal Procedures Act. The act requires that state agencies submit annual financial reports and statements. The act also makes the Department of Administration responsible for accounting, public records, purchasing, and space leasing for state agencies. AS 37.05.230 requires competitive bidding for goods and services purchased by state agencies and grants a bidder's preference to Alaskan businesses. AS 37.05.230 will be repealed on July 1, 1987 and replaced by provisions of the State Procurement Code (AS 36.30).

This exemption gives greater autonomy to ARR, but does not confer a measurable economic benefit on ARR.

(5) AS 37.07

AS 37.07 is the Executive Budget Act. The act requires the governor to prepare and the legislature to review budgets for state agencies. The effect of this exemption is to assure the autonomy of ARR. There is no significant economic benefit to ARR as a result of this exemption.

(6) AS 37.10.010 - 37.10.060

AS 37.10.010 - 37.10.060 requires the Department of Administration to disburse money for state agencies and the Department of Revenue to deposit in the state treasury all money received by state agencies. The exemption from these provisions assures autonomy for ARR without conferring an economic benefit.

(7) AS 37.10.085

AS 37.10.085 prohibits the state from subscribing to capital stock of corporations, from lending credit to corporations, and from borrowing money for the use of a corporation. This exemption permits ARR to invest its funds in corporations and enhances the autonomy that ARR has over its own capital.

(8) AS 37.20

AS 37.20 establishes procedures for receipt of money, property, and land from the federal government. This exemption allows ARR to receive aid from the federal government without having to receive the aid through the governor, Department of Administration, or the Department of Natural Resources. This exemption enhances the autonomy of ARR by freeing ARR from having to cooperate with other agencies in order to receive federal aid. There is no particular economic benefit to ARR associated with this exemption because ARR could still receive federal aid through the processes established in AS 37.20.

(9) AS 37.25

AS 37.25 establishes the lapse date for one year appropriations and for capital appropriations. This exemption makes it necessary for an appropriation to ARR to specifically designate a lapse date.

(10) AS 38

AS 38 relates to the management of state lands. Under AS 38 land in the public domain is managed by the Department of Natural Resources. The disposal of state land to private owners and to municipalities and the exchange of land between state, federal, and municipal governments and private landowners is also controlled under AS 38.

Most provisions of AS 38 would affect ARR only indirectly by establishing procedures for the use and management of railroad lands. However AS 38.35.020 provides for pipeline right-of-ways across state lands including railroad lands. By exempting ARR from the pipeline right-of-way provisions a pipeline company must negotiate a right-of-way across railroad lands just as if ARR was a private company.

The exemption from AS 38 enhances the autonomy of ARR by allowing ARR to manage its own land. The exemption does not confer a direct economic benefit on ARR, but may indirectly result in savings for land management costs associated with the detailed notice and public hearing requirements of AS 38.

(11) AS 44.62.040 - 44.62.320

AS 44.62.040 - 44.62.320 relates to the procedures for the adoption of regulations and for public meetings. The operation of ARR is controlled by rules adopted by the Board of the corporation in accordance with the procedures set out in AS 42.40.180. The procedures under AS 42.40.180 are analogous to the procedures required by the Administrative Procedures Act (AS 44.62) but are much less detailed regarding the notice required and the timing of the process.

The Railroad Labor Relations Agency, however, must fully comply with the Administrative Procedures Act.

ARR is also exempt from the "open meetings" law (AS 44.62.310). However ARR is subject to AS 42.40.150 and 42.40.170 which are analogous to the open meetings law. Unless the board of the corporation is discussing privileged or confidential information, the board must discuss its business in public.

The exemption from the provisions of the Administrative Procedures Act relating to adoption of regulations simplifies the process for making rules governing the railroad. The economic impact of this exemption is that ARR does not incur the costs associated with the complex procedures required to adopt regulations under AS 44.62.

The exemption from the "open meetings" law enhances the autonomy of ARR by freeing the railroad's decision-making process from the statute applicable to other government agencies. However, since ARR is required to hold open meetings under its own legislation, there is no real difference between ARR and other state agencies.

(12) AS 36.30

Effective July 1, 1987 ARR will be exempt from the State Procurement Code. However, ARR must adopt procurement procedures which are substantially equivalent to the procedures contained in the State Procurement Code and the regulations adopted under the authority of the Code. (AS 36.30.015(e))

Since ARR must adopt procurement procedures equivalent to the State Procurement Code, ARR is not truly exempt.

The only effect of this exemption is that it reflects the legislature's acknowledgement of the relatively independent status of ARR.

TWO: YOU HAVE STATED THAT YOU WOULD LIKE TO SEE ARR PROVIDE MORE INFORMATION ON ITS REVENUES, RATES, FINANCES, AND OPERATIONS. THE FOLLOWING IS A SUMMARY OF REPORTS REQUIRED OF ARR.

Ninety days after the end of ARR's fiscal year on December 31 ARR must prepare an annual report relating to the operations and financial conditions of the corporation. (AS 42.40.260) Every five years the annual report must contain a report on offers to sell the railroad. The annual report is subject to restrictions on the release of confidential information (AS 42.40.220); these restrictions may limit the informational value of the annual report.

ARR must prepare an oversight report when a significant and permanent expansion, reduction, or diversification is made in the level and nature of services provided and when the ARR applies to the legislature for a subsidy to provide rail service. (AS 42.40.280) The report must include discussions on the financial impact the railroad, on the impact of the action on the level and nature of services, on the reasons for the action, on whether and when the project will be self-supporting, and on whether the subsidy has been calculated in accordance with the standards of the Interstate Commerce Commission. ARR has not been required to prepare an oversight report to date.

ARR must prepare a five year capital improvement plan and update it annually. (AS 42.40.290) The plan must explain the manner in which the ARR will achieve the purposes of the Alaska Railroad Corporation Act. ARR must submit the report to the legislature by December 1 of each year. ARR has prepared the five year plan and at least one annual update. The update for 1986 has not been released yet.

The governor is required to contract with a private consultant for a special report on the long term operations of the railroad that are in the best interest of the state. The report must include specific recommendations on operational alternatives and on transfer of all or part of the railroad

operations to the private sector. The report is due February 1, 1987. The funds for this report lapsed without being spent. The consultant was never hired. This report has not been and is not likely to be completed.

THREE: WHAT ARE THE REQUIREMENTS FOR THE SALE OF THE RAILROAD? WHAT IS THE TIME FRAME? WHAT HAS BEEN DONE TO DATE? WHAT HAPPENS IF ARR DOES NOT COMPLY WITH THE STATUTE?

There is no specific requirement that the railroad be sold. AS 42.40.940 authorizes the governor to sell or lease the railroad and dissolve the Alaska Railroad Corporation if

- (1) it can be assured that the railroad will continue to operate after the sale or lease; and
- (2) under the terms of the sale or lease, the state will receive the amount of money it has spent in connection with the Alaska Railroad.

The legislature must approve any sale.

AS 42.40.260(b) requires ARR to include in its annual report once every five years

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.

This language can be construed as a requirement that ARR make three offers to sell the railroad every five years, but this language does not require the railroad to be sold.

There is no time period in which the railroad must be sold. The only time period involved is the requirement that ARR report on three offers to sell the railroad every five years.

To date ARR has made no offers to sell the railroad. The annual report containing information on offers to sell the railroad is due by 1990.

AS 42.40 contains no sanctions for failure to sell the railroad or to make the offers to sell the railroad. If ARR does not make the offers to sell the railroad, the only result will be that the railroad will not be sold.

Representative Cato
Page 8
December 11, 1986

Please contact me if you have further questions regarding
the Alaska Railroad Corporation Act.

GU:mkr
m7/061

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: HB 100
Publish Date: HOUSE 3/9/87

REQUEST

Bill/Resolution No. : HB 100
Title: Alaska Railroad Annual Report

Sponsor: Representative Cato
Requestor: House Transportation
Date of Request: March 6, 1987

FISCAL DETAIL

Agency Affected: Commerce & Economic Dev.
BRU: _____

Components: _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

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

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

According to the Alaska Railroad Corporation, the information requested in HB 100 can be provided by the Alaska Railroad Corporation without a great deal of additional expense.

Prepared by: Representative Bette Cato Phone: 465-4858
Division: House Transportation, Chairman Date: March 6, 1987

Approved by Commissioner: *Bette Cato* Date: _____
Agency: The Alaska State Legislature

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

FACSIMILE COVER SHEET

TO: Honorable Bette Cato, Chairman
House Transportation Committee

FROM: Larry D. Wood, Esq.

General Counsel's Office
Alaska Railroad Corporation

DATE: March 5, 1987

NUMBER OF PAGES (including cover sheet): 10

If any questions/problems with transmittal, please call (907) 265-2461.

3395L

PLEASE NOTE: WE ARE SENDING THE ORIGINALS AND EXHIBITS OUT TODAY BY AIRBORNE EXPRESS. THANK YOU.

ALASKA RAILROAD CORPORATION



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

VIA TELECOPY

March 5, 1987

Honorable Bette Cato, Chairman
House Transportation Committee
Alaska State Legislature
P.O. Box V
Juneau, Alaska 99811

Re: HB 100, An Act Relating to the Annual Report of the
Alaska Railroad Corporation

Dear Representative Cato,

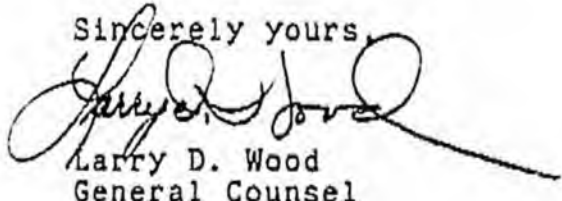
We understand that on Friday, March 6, 1987, the House Transportation Committee will be considering HB 100 which proposes some changes to the annual report of the Alaska Railroad Corporation ("ARRC"). We are hopeful that the committee will find the Corporation's position paper useful as it reviews the bill.

Unfortunately, Frank Turpin is out of town and is unable to present our comments personally. However, I know that he would want me to extend his best regards and to thank you for your continued interest in Railroad-related activities.

Because of travel budget cuts, we do not currently plan to send an ARRC representative to the hearing, but can arrange it if you believe a Railroad presence is imperative. As an alternative, our Director of Administration, Jim Blasingame, or I will be available during Friday afternoon to answer questions or concerns generated by the position paper. Our telephone numbers are 265-2425 and 265-2461, respectively.

Thank you very much.

Sincerely yours,



Larry D. Wood
General Counsel

cc: F. G. Turpin, President & CEO

3897L

HOUSE BILL NO. 100

An Act Relating to the Annual
Report of the Alaska Railroad Corporation

I. Introduction

The Alaska Railroad Corporation Act ("ARCA") requires the Board of Directors of the Alaska Railroad Corporation ("ARRC") to prepare and distribute an annual report to the governor and legislature within 90 days following the end of each corporate fiscal year. HB 100 proposes amendments to ARCA's annual report section, AS 42.40.260(a), which are intended to add several items which must be discussed in the report.

The substance of these items appear to be generally covered in ARRC's annual report, long-range or five-year capital improvement and program plan and its yearly updates, performance and financial audits, and operating and capital budgets. However, even if the same information may be largely available now, HB 100 reflects a desire that all of it be combined in the railroad's annual report. Should the bill be favorably considered for this reason, ARRC requests that the legislation be amended to call for the items to be presented in a supplement to the annual report. Because year-end financial information would also appear in this supplement, we request that 120 days, rather than 90, be available for annual report preparation.

II. Discussion

Part A of the following discussion explains current ARCA goal setting and reporting requirements in greater detail and compares them to HB 100's modifications of the law. Part B describes changes to HB 100 which will help mitigate its impact on ARRC operations if the bill is passed.

A. ARCA's Present Planning and Reporting
Requirements

In short, HB 100 will require that ARRC's annual report include:

1. The Board's goals and objectives;

ARRC Position Paper
HB No. 100
Page 2

2. Proposed plans to implement these goals and objectives;
3. A budget to carry out proposed plans; and
4. A report of past, present, and future receipts and expenditures.

Currently, the corporation's goals and objectives and its plans to implement them are contained in its long-range or five-year capital improvement and program plan. Goals and objectives are also discussed in ARRC's annual report and a consultant's management audit measures ARRC's success in attaining them. Moreover, ARRC's budget is prepared before the close of each fiscal year. A report of railroad receipts and expenditures appears in the yearly financial audit which is published in the annual report. These plans, reports, audits, and budgets are presently available to the governor and legislature to assist their review of railroad activities.

We have attached ARRC's five-year plan, 1985 annual report, performance audit, and 1987 operating and capital budget. As noted, the financial audit is published in the annual report.

For examples of current ARRC planning and reporting, the reader may turn to ARRC's five-year plan. The plan must be updated annually and copies provided to the governor and legislature by December 1 of each year. It "must explain the manner in which the corporation intends to accomplish the purposes of this chapter and the corporation's anticipated capital improvements during each of the five years after the plan is adopted." AS 42.40.290.

Corporate goals and objectives are divided into four categories, physical plant, revenue, personnel, and general on page four of the current plan. Physical plant goals, for example, include "Major effort to upgrade equipment to improve efficiency and lower maintenance costs will continue throughout the planning period." Page 5. Efforts to implement this goal are explained in the Plans Priority and Classification of Capital section and also appear in the form of a capital spending program on page 18.

The corporation's goals for 1985 also appear on page 4 of the 1985 annual report. Goals and accomplishments are discussed by department throughout the report. In addition, ARCA requires that the annual report describe the operations and financial condition of the corporation during the preceding fiscal year. The report must itemize the cost of providing each category of service offered by the railroad and the income generated by each category.

ARRC Position Paper
HB No. 100
Page 3

The goal of "modernizing the railroad's rolling stock, equipment and physical plant" is repeated in the 1985 annual report. A detailed discussion of improvements and maintenance appears in the performance audit as another means of measuring goal attainment. The operating and capital budget lists those projects and expenditures which propose specific actions to achieve upgrade and maintenance objectives.

Finally, the budget and audited year-end financial statements appearing in the annual report do substantially include the information identified by HB 100's final paragraphs. ARRC's 1987 operating and capital budget lists those services each department will provide during the fiscal year. A manpower budget projects the number of personnel needed to accomplish operating and capital goals.

Although in separate formats, railroad plans, reports, audits, and budgets already largely cover the data and information targeted by HB 100. However, the bill's primary focus may be upon combining the information into an enlarged or supplemented annual report. Should HB 100 receive favorable consideration for this or other reasons, there are two modifications which would greatly alleviate its anticipated impact upon corporate operations.

B. Proposed Amendments to HB 100

First, because financial information would be included in the annual report, ARRC requests that the report be due 120 days, not 90, following the end of the railroad's fiscal year. By this time, audited data would more likely be available. Our experience last year indicates that 90 days is not a realistic deadline given the delays inherent in exhaustive, external financial reviews.

Second, we request that the information directed by HB 100 to be combined or provided in the annual report actually appear in a supplement. To effect this change, HB 100 could be easily modified by adding "A supplement to" before "The report" in line 18.

Although primarily a report to the governor and legislature (who, of course, represent ARRC's "shareholders"), the annual report is also used as a marketing tool. In the manner of private corporations, ARRC provides copies of its annual report to customers, potential customers, carriers, and government officials to promote and market its operations and services. We are concerned that a voluminous report will contain information of little interest to such groups, increase publication costs, and seriously damage this effective marketing tool. On the other hand, a supplemented report can be easily and less expensively provided to meet legislative needs. Finally, goals related to market strategies and costing

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Page 4

models will contain sensitive, sometimes confidential, information which should not be widely disseminated.

C. Fiscal Impact of HB 100

Because we view the tasks as largely already required by present law, favorable consideration and passage of a modified HB 100 will mostly have an administrative impact upon ARRC. To the extent that composites and additional information may be needed for an supplemented annual report, we presently believe that they can be provided without a great deal of additional expense in the area of staff and Board time, wordprocessing, copying, printing, and postage.

II. Conclusion

HB 100 requires information to be inserted in ARRC's annual report which is largely already available to the legislature in the railroad's annual report, five-year plan and updates, audits, and operating and capital budget. However, should the bill receive favorable legislative consideration, we request two amendments which will ensure a more realistic report deadline and preserve the marketing advantages of the present annual report format.

3898L

ALASKA RAILROAD CORPORATION



Five Year Plan

Issued July, 1986

PROPRIETARY INFO.
NOT FOR PUBLIC DISCLOSURE

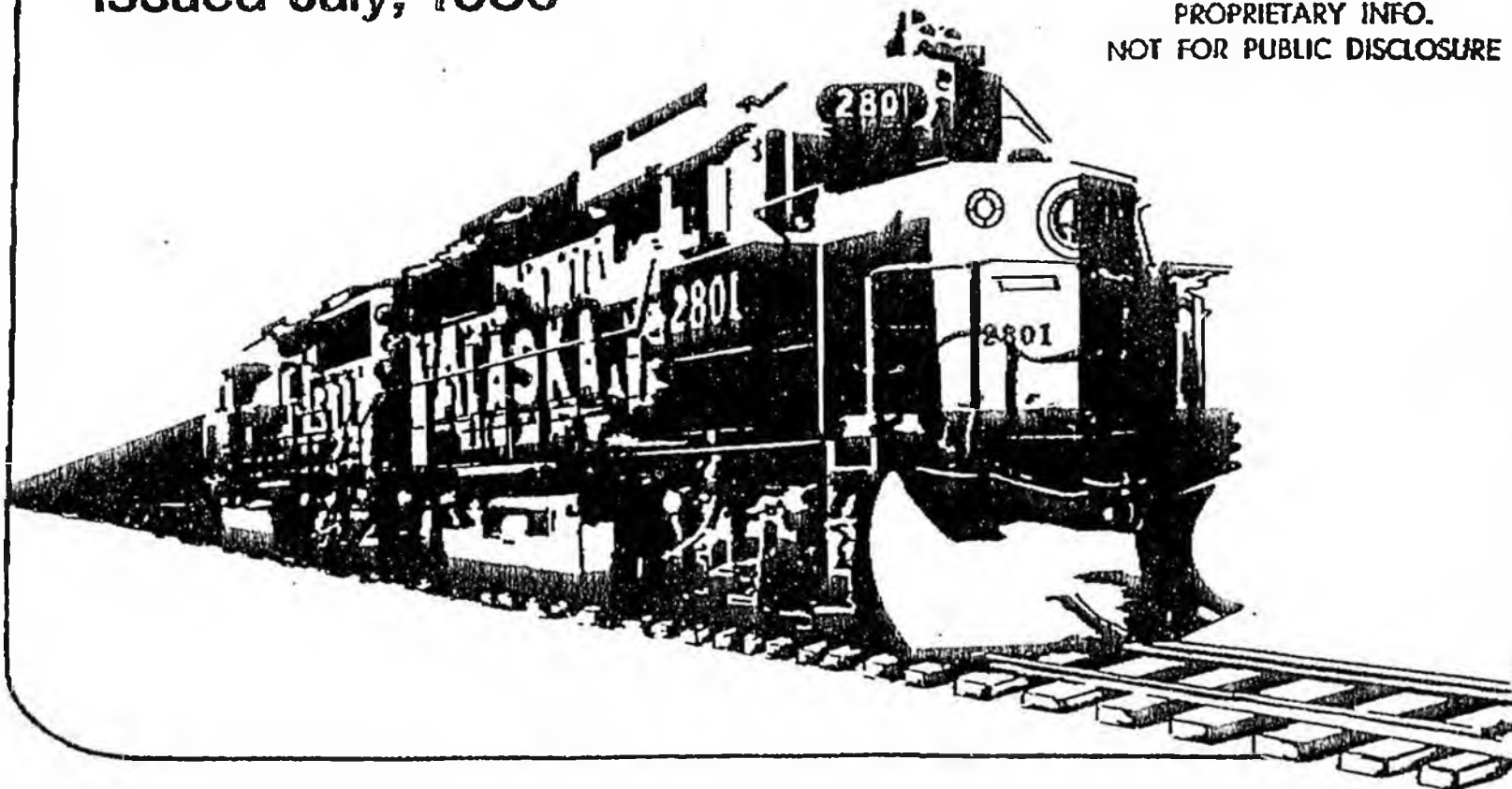


EXHIBIT A

MAR 05 '87 14:15 ARRC TANCH ALASKA

A N N U A L R E P O R T



1985



EXHIBIT B

TO THE BOARD OF DIRECTORS
OF THE ALASKA RAILROAD CORPORATION

A PERFORMANCE AUDIT
OF THE ALASKA RAILROAD

JANUARY 5, 1985 - DECEMBER 31, 1985

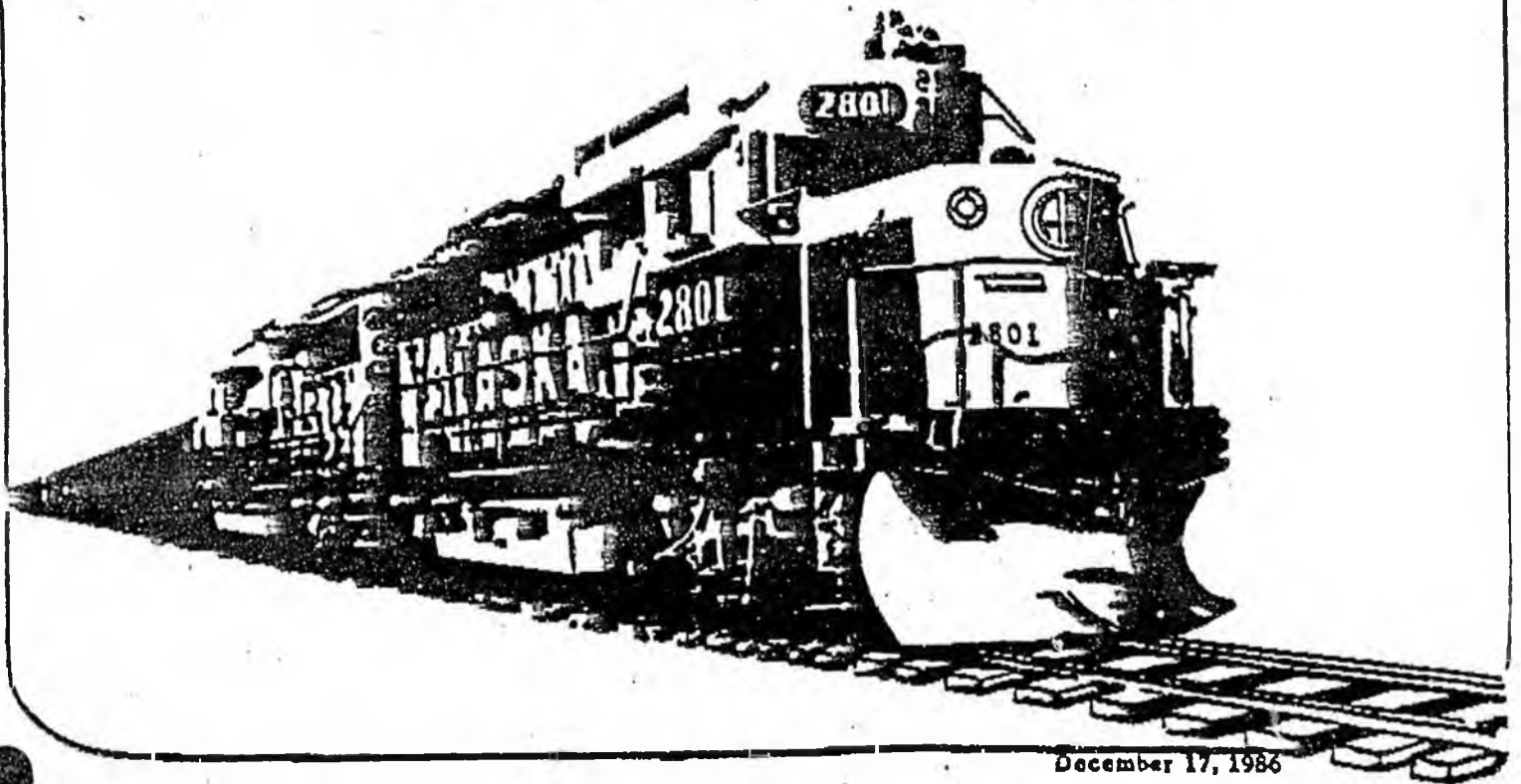
G. W. MAXWELL

JULY 28, 1986

ALASKA RAILROAD CORPORATION



**1987
APPROVED
OPERATING
AND
CAPITAL BUDGET**



December 17, 1986

ALASKA RAILROAD CORPORATION



Phone 7-2111 • Anchorage, Alaska 99510-7069

January 12, 1987

Ms. Penelope Weyhrauch
Legislative Analyst
Alaska State Legislature House of
Representatives Research Agency
P.O. Box Y
State Capital
Juneau, Alaska 99811-3100

Dear Ms. Weyhrauch:

Your letter dated December 4, 1986 to Mr. Larry Wood, General Counsel of the Alaska Railroad Corporation, was referred to me for response.

You have asked for our assessment of negative impacts that the Alaska Railroad Corporation ("ARRC") might experience if the statutory exemptions in AS 42.40.920 were repealed. Unfortunately, your question does not avail itself of a simple response.

In order to answer your question, it is important to understand the various laws and agreements which circumscribe ARRC's existence and operations. The federal Alaska Railroad Transfer Act ("ARTA"), 45 U.S.C. §§1201-1214, authorized the transfer of the Alaska Railroad to ARRC and established the ground rules for the State's purchase of the Railroad. As part of that act, the State was required to make certain declarations and agreements to abide by the sale terms. The state Alaska Railroad Corporation Act ("ARCA"), AS 42.40.010-.990, implemented the State's commitments all within the requirements of ARTA through the creation of a public corporation to own and operate the Alaska Railroad.

ARTA, the State's own declarations and agreements to abide by those sale terms, and ARCA insure that the State-owned railroad shall be a rail carrier generating, retaining, and managing its own revenues for railroad purposes to better serve Alaska's transportation and development needs. In framing the operating characteristics of the public corporation to conform to this expectation, Alaska's leadership, both federal and state, 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 promotes, 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 and regulations to govern internal and external affairs, and manages its own purchasing, financing, and budgeting needs. On the other hand, a desire for public accountability requires open meetings, appointments by the Governor to the railroad board, procurement and ethical codes substantially equivalent to State models, financial and management audits, annual and oversight reports, legislative approval of certain real estate transactions, and long-range capital improvement and program plans. This wise blend of financial and operations independence with State oversight requirements results in a quasi-public, quasi-private railroad armed with the flexibility needed to quickly react to changing market, financial, and legal needs and with the accountability mechanisms necessary to satisfy the governmental aspects of its operations.

As a result of the dual legislative desires of self-sufficiency and public accountability all within the confines of ARTA, the Alaska legislature created a public corporation unlike any other public corporation in Alaska. This is reflected in the legislative findings and purposes which accompanied ARCA. See 1984 Alaska Session Laws, Chapter 153, Section 1. The findings and purposes clauses state that the public corporation is to be exclusively responsible for the management of the financial and legal obligations of the Alaska Railroad, carry out its responsibilities on a self-sustaining basis, and provide for the prudent operation of the railroad according to sound business management practices. Also, ARCA creates a "viable economic entity with the powers and duties necessary to operate and manage the Alaska Railroad pending eventual transfer of the Railroad to the private sector." ARCA and its legislative history reflect a legislative desire that the railroad operate as independently as possible from the State to facilitate the smooth transfer of its business and assets to a private owner. Indeed, AS 42.40.260 requires that ARRC's annual report contain every five years an analysis of potential sale arrangements, including documentation of at least three offers to sell ARRC.

Under AS 42.40.920, ARRC is exempt from the following statutes:

- (1) AS 19;
- (2) AS 30.14;
- (3) AS 35;
- (4) AS 37.05;
- (5) AS 37.07;
- (6) AS 37.10.010 37.10.050;
- (7) AS 37.10.080;
- (8) AS 37.20;

Ms. Penelope Weyhrauch
January 12, 1987
Page 3

- (9) AS 37.25;
- (10) AS 38;
- (11) AS 44.62.040 - 44.62.320.

A careful review of these statutes demonstrates how each conflicts with ARCA or ARTA. Titles 19 and 35 set forth the powers and duties of the Department of Transportation and Public Facilities ("DOT/PF") to plan, construct, maintain and operate transportation facilities, including state ferries, airports and water and harbor facilities, and to plan and construct public buildings, boat harbors, dikes and breakwaters. Since ARRC operates as a self-sustaining public corporation, exemptions from Titles 19 and 35 insure that ARRC is responsible for its own facilities and operations.

AS 30.15 provides for state grants of monies and land for construction of local port facilities. ARRC's exemption precludes municipalities from using ARRC funds or lands for port facility development.

Exemptions from portions of Title 37 are required by ARTA which states that "revenues generated by the state-owned railroad shall be retained and managed by the state-owned railroad for railroad and related purposes." 45 U.S.C. §1207(a)(5). AS 37.05, the Fiscal Procedures Act, establishes uniform accounting, purchasing, post auditing, and related financial provisions for all "state agencies" and requires state agencies to submit reports, documents, and statements to the Department of Administration for accounting purposes, requires federal funds received by state agencies to be deposited in the state treasury, makes the Department of Administration responsible for all accounts and purchases of state agencies, requires competitive bidding procedures, and imposes other financial and reporting requirements. The exemption from AS 37.05 conforms to ARTA by allowing ARRC to maintain and control its own accounts and to act as its own purchasing agent.

The exemption from AS 37.07, the Executive Budget Act, also conforms to ARTA by allowing the ARRC to budget and manage its revenues as a separate economic entity.

AS 37.10.010 - .060 designates the Department of Administration as the custodian of state funds and requires all officers, boards and commissions to account to the Department of Revenue for moneys received. Again, an exemption from AS 37.10.010 to 37.10.060 allows ARRC to manage its own revenues.

AS 37.25 determines which unexpended appropriations lapse and which do not. This exemption insures that all ARRC's monies are available to it from year to year.

AS 37.10.035 prohibits political subdivisions from subscribing to the stock of a corporation and from joining itself as

Ms. Penelope Weyhrauch
January 12, 1987
Page 4

borrowing money for a corporation's use. Exemption from AS 37.10.085 permits ARRC to manage its revenues by placing its funds in a wide range of investments, including lending its credit and borrowing money for the use of a corporation.

AS 37.20 authorizes the governor to accept federal grants and transfers of property. Transferred land falls within the jurisdiction of the Department of Natural Resources. ARRC's exemption from AS 37.20 insured that federal railroad property, including land, building, monies, personnel property and structures, would be directly conveyed to ARRC rather than to the Departments of Administration, Natural Resources and Transportation and Public Facilities.

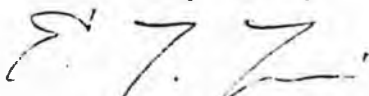
Title 38 states that the lands of the state are to be managed by the Department of Natural Resources. Exemption from Title 38 conforms to ARTA's and ARCA's mandate that ARRC manage railroad real estate.

AS 44.62.040 to 44.62.320, much of the Administrative Procedures Act, provide procedures for adopting and implementing regulations in state government. These provisions are supplanted by ARCA's AS 42.40.170 - .270, which call for publicly adopted rules by ARRC's board of directors.

The eradication of one or more of the ARCA exemptions will substantially change the model of a self-sufficient, competitive and accountable public railroad corporation that was created by Alaska's state and federal leadership. Furthermore, through the development of its own personnel, procurement, surplus property, budget, accounting, and land and lease plans, policies, and procedures, ARRC stands ready for expeditious transfer to the private sector. The short history of ARRC operations have underscored the wisdom of the legislature's original direction. We very much support that mission and would most appreciate the opportunity to comment upon proposed legislation to change or amend it.

I hope this adequately answers your question. Please feel free to call if you have any further questions.

Yours very truly,



E. Thaddeus Lewis
Associate General Counsel

cc: F. G. Turpin
L. D. Wood, Esq.

3505L

Questions asked to The Alaska
Railroad Corporation by The House
Labor & Commerce Committee, 1987.

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

Response: Those instances included the following Board meetings:

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

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

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

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

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

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

Response: See response to Question No. 27.

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

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

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

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

Response: See response to Question No. 29.

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

Response: See response to Question No. 29.

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

Response: See response to Question No. 29.

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

Response: See response to Question No. 27.

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

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

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

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

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

Categories of information which must remain confidential:

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

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

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

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

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

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.

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

HOUSE BILL 100 - AN ACT RELATING TO THE ANNUAL REPORT
OF THE ALASKA RAILROAD CORPORATION.

GOOD AFTERNOON - MY NAME IS REPRESENTATIVE BETTE CATO.
AFTER SEVERAL YEARS OF LISTENING TO THE ANNUAL PRESENTATION BY
THE ALASKA RAILROAD CORPORATION BOARD AND MANAGEMENT, AND
REVIEWING THE ANNUAL REPORT BY THE CORPORATION TO THE
LEGISLATURE, I FELT THE NEED FOR A MORE COMPLETE, INDEPTH
REPORT BEING MADE AVAILABLE THAT WOULD ENABLE US TO PROPERLY
EVALUATE THE RAILROAD'S OPERATIONS.

I WAS DIRECTLY INVOLVED WITH THE TRANSFER OF THE RAILROAD
TO STATE OWNERSHIP. MANY HOURS WERE SPENT WRITING STATUTES
THAT SET UP A "QUASI" PUBLIC CORPORATION AS AN INSTRUMENTALITY
OF THE STATE WITHIN THE DEPARTMENT OF COMMERCE AND ECONOMIC
DEVELOPMENT, HOWEVER, THE CORPORATION HAS A LEGAL EXISTENCE
INDEPENDENT OF AND SEPARATE FROM THE STATE.

THE POWERS OF THE CORPORATION ARE VESTED IN A SEVEN MEMBER
BOARD OF DIRECTORS APPOINTED BY THE GOVERNOR.

WHILE I DO AGREE THAT THE CORPORATION NEEDS THIS AUTONOMY IF
THEY ARE OPERATE SUCCESSFULLY AS A CORPORATION, I DO FEEL THE
NEED FOR THE GOVERNOR AND THE LEGISLATURE TO HAVE ACCESS TO
A REPORT THAT CONTAINS A COMPLETE OVERVIEW OF THE RAILROADS
OPERATIONS, BUDGET, REVENUES, EXPENDITURES, CAPITAL
EXPENDITURES AND GOALS FOR THE NEXT FISCAL YEAR.

CHAPTER 40 SECTION 42.40.920 - APPLICATION OF EXISTING
LAWS PROVIDES THE CORPORATION WITH 12 EXEMPTIONS. THESE
EXEMPTIONS, WHICH WOULD NORMALLY APPLY TO A STATE AGENCY,
DO NOT APPLY TO THE ALASKA RAILROAD CORPORATION BECAUSE IT
WAS FELT THE AUTONOMY OF THE CORPORATION WOULD BE GREATLY

IMPAIRED IF IT WAS TO COMPLY WITH THESE EXEMPTIONS. A COPY OF THESE EXEMPTIONS IS SHOWN IN YOUR FOLDERS UNDER THE SECTION LEGAL AND EXEMPTIONS - PAGE 219. ALSO AVAILABLE IS A LEGAL OPINION ON THE RAMIFICATIONS OF REPEALING THESE EXEMPTIONS. THE CORPORATION AND LEGAL SERVICES BOTH AGREE THAT THIS INFORMATION SHOULD BE PROVIDED. THE CORPORATION BY LAW MAY WITHHOLD INFORMATION FROM THE PUBLIC THAT IS OF A PROPRIETARY NATURE SUCH AS PERSONNEL RECORDS, COMMUNICATIONS AND RATE STRUCTURES, THE CORPORATION ADOPTED RULE NUMBER 4 - PUBLIC DISCLOSURE OF INFORMATION ON 12-17-84 AND AMENDED THIS RULE ON 7-18-85. THIS RULE, WHICH YOU WILL FIND ON THE LAST SHEET OF YOUR PACKETS, SETS DOWN THE INFORMATION THE RAILROAD HAS DESIGNATED AS PRIVILEGED INFORMATION AND THEREFORE WITHHELD FROM PUBLIC INSPECTION. NONE OF THE INFORMATION REQUIRED BY HB 100 FALLS INTO RULE 4.

IN THE RESPONSE FROM THE RAILROAD, THEY STATE THAT MUCH OF THE INFORMATION REQUESTED IS CURRENTLY PROVIDED BY THE RAILROAD. ON YOUR DESKS YOU WILL SEE A LARGE PACKET WHICH IS A SAMPLE OF SOME OF THIS INFORMATION REQUESTED. I MYSELF, HAVE HAD A DIFFICULT TIME OBTAINING SOME OF THIS INFORMATION, ~~AND I HAVE ALSO RECEIVED NUMEROUS COMPLAINTS FROM INDIVIDUALS WHO HAVE ALSO EXPERIENCED THE SAME PROBLEM.~~

I DO FEEL IF WE, THE LEGISLATURE, IS RESPONSIBLE FOR OVERSIGHT OF THE ALASKA RAILROAD CORPORATION, WE NEED TO HAVE A COMPLETE OVERVIEW REPORT CONTAINING ALL THE RELEVANT INFORMATION NECESSARY FOR US TO MAKE A WELL INFORMED DECISION ON THE OPERATIONS AND FUTURE OF THE RAILROAD.

THE STATE SPENT \$22.9 MILLION ON THE PURCHASE OF THE RAILROAD AND PROVIDED AN ADDITIONAL \$10.9 MILLION FOR THE FIRST YEARS OPERATIONAL FUNDS. I FEEL WE HAVE A RESPONSIBILITY TO ENSURE THAT THE STATE'S INVESTMENT IS MANAGED PROPERLY.

THE INFORMATION REQUESTED IN HB 100 WILL ENABLE US TO PROVIDE THIS PROPER OVERSIGHT.

THANK YOU FOR LISTENING TO ME.

From: The Alaska Railroad Initiative Committee

Donald Hennessey, Chairman

Representing:

Owner-operators, Road Houses(Parks highway), Repair Shops, mechanics, Allied Workers and 4500 Alaskans that signed our pilot initiative.

We heartily endorse HB 100 because an oversight committee can not oversee an operation without a full insight of the operation. The Alaska Railroad has been less than enthusiastic about informing the legislature. A point of discussion at the October Board Meeting was on the timing of disposal and purchase of passenger cars to avoid reporting to the Oversight Committee. The ARR has consistently over estimated their planned capital expenditures on many phases. The roadbed and track are prime example. Because the railroad has consistently over estimated income and expenditures by 15 to 20 per cent, we feel the requirement of a detailed explanation of the difference between estimated and actual income and expenditure would be in order. The only other business, we know of, that may survive with this type of variance between estimated and actual might be architectural businesses working on public buildings This has caused an on going raging debate. An explanation should be provided if the ARR's proposed and actual track and roadbed capital budget fails to meet or approach the Sverdrup Engineering Report and recommendations. The deterioration of roadbed is the biggest single factor in loss of assets and the easiest to hide or ignore for several years.

REPORT OF THE GOVERNOR'S TASK FORCE ON

RAIL LINE ABANDONMENT

RAIL DIVISION OREGON PUBLIC UTILITY COMMISSIONER OCTOBER 1986

Deferred Maintenance

Maintenance of way and structures is the third of the three major expenses in railroad operation. It is both a symptom of abandonment and a cause. Initially, deferred maintenance is a result of lower revenues; ultimately, deferred maintenance lowers service levels and discourages shipper use.

The decline of rail traffic system-wide over the last 20 years has encouraged the larger railroads to diversify and disinvest in railway operations. The companies tended to delay the purchase of new track and equipment and to defer maintenance (replacement of track, ties and ballast), where lower maintenance levels would not greatly affect train operations. High use lines usually get plenty of attention, but low-density lines have often been allowed to deteriorate. Normal maintenance on a low-density line runs between \$3,000 and \$7,000 per mile per year. For a long line with one or two shippers, that is a significant cost.

Many branch lines subject to abandonment suffer from deferred maintenance. In some cases the cost of rehabilitating the line, using either public or private money, is unjustifiable given even the most optimistic traffic level. This not only is a disincentive to line improvement for the owning railroad, it is a disincentive to anyone else interested in buying the line.

A good example of how deferred maintenance can contribute to the abandonment of a line is the Wilkins line, located in Linn County. (see Case Studies) Approximately \$3 million was needed to bring the line to minimum standards. Given the very low traffic levels on the line, such an enormous investment would have been unwise.

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

REPORT OF THE GOVERNOR'S TASK FORCE ON

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RAIL DIVISION OREGON PUBLIC UTILITY COMMISSIONER OCTOBER 1986

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Construction of the highway system has had a much broader and significant impact on the modal choice, in this case between rail and motor carriage. However, the highway cost structure is not artificial, since highway users pay fees which, in a cumulative sense, are designed to cover the costs of constructing and maintaining the highway system.

6. Railroad Taxation

Railroad taxation, particularly property taxation, is a particularly thorny problem. The task force looked at railroad taxation for ways of providing incentives to railroads to keep branch lines in operation, only to discover that the method of taxation made developing incentives difficult.

All three of the Class I Carriers and some of the short lines have filed suits against the Oregon Department of Revenue. These suits are costly to all parties and are creating growing animosities between the state and the railroads. Also, as the number of short lines in the state increases, the manner of appraising short lines deserves to be reviewed. The task force did not have the expertise or the authorization to embark on a study of the state tax system, but members of task force felt such a study is needed.

7
(5)

HOUSE COMMITTEE REPORT

Date referred: 2/2/87

FURTHER REFERRALS: Finance

DATE: March 6, 1987

The Transportation Committee has considered HB 100

"An Act relating to the annual report of the Alaska Railroad Corporation."

RECOMMENDS:

- replace with _____ the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

Ch. C. McLaughlin

Bill Ford

Heinrich Springer

Bette Cat

SIGNING OTHER RECOMMENDATIONS:

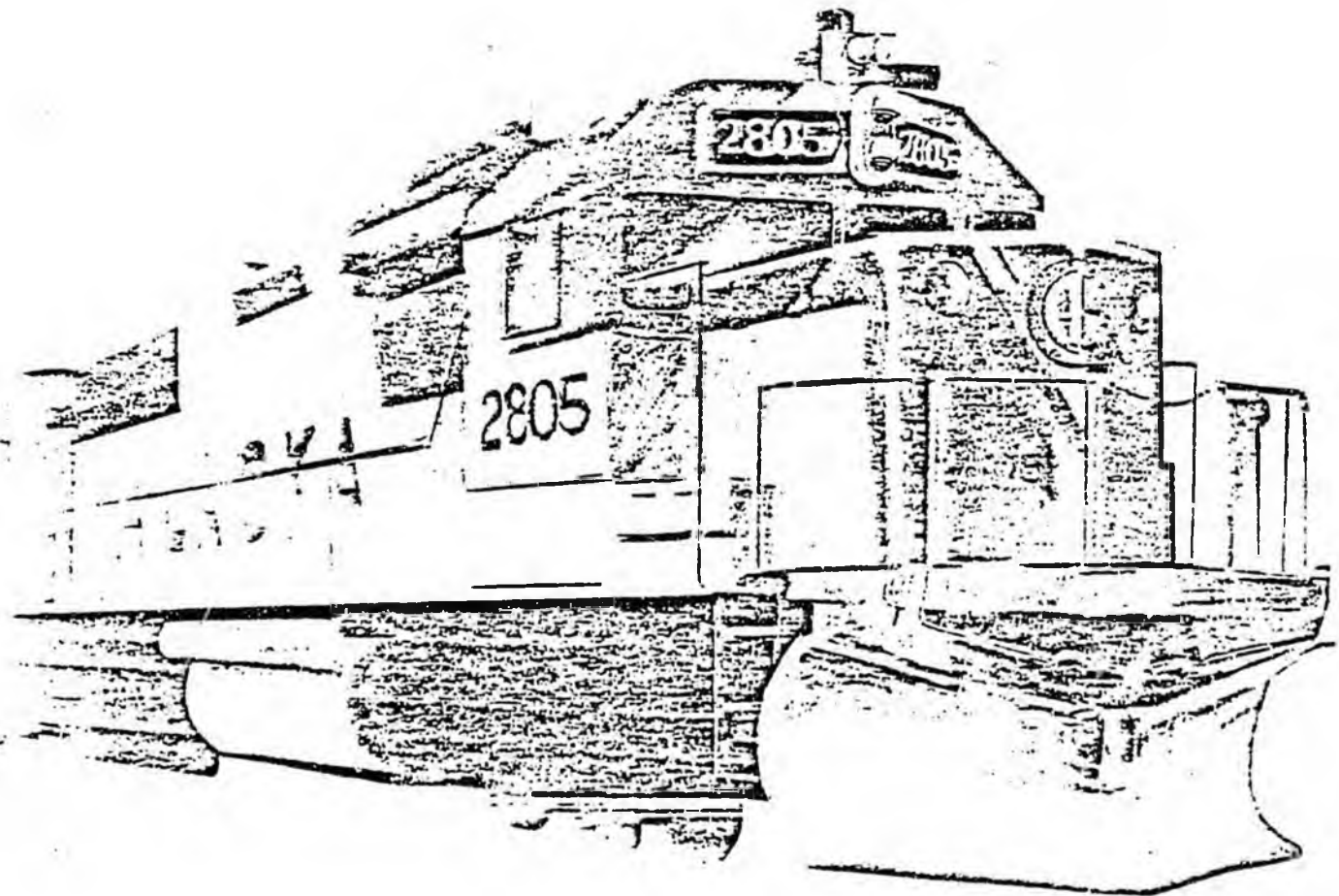
Ann Koonce - B. Ke

Bette Cat

 Chairman's signature

A N N U A L

R E P O R T



PRESIDENT'S MESSAGE

As the New Year resolutions, business goals and objectives are made with the thought in mind that they will be met, and the time for reflection is busy. I am proud that after one year of operation as a state-owned corporation, the Alaska Railroad has an impressive score card based on the goals we set out for the year. It is a tremendous achievement in the coming year.

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 a competitive rate and at the same time generate sufficient funds to upgrade and maintain the physical integrity of the railroad. We will continue to work towards this goal by providing transportation services that include the efficient use of the program and the necessary services coupled with the maintenance of the railroad's operations in a cost-effective manner. The goal of the Alaska Railroad is to provide a

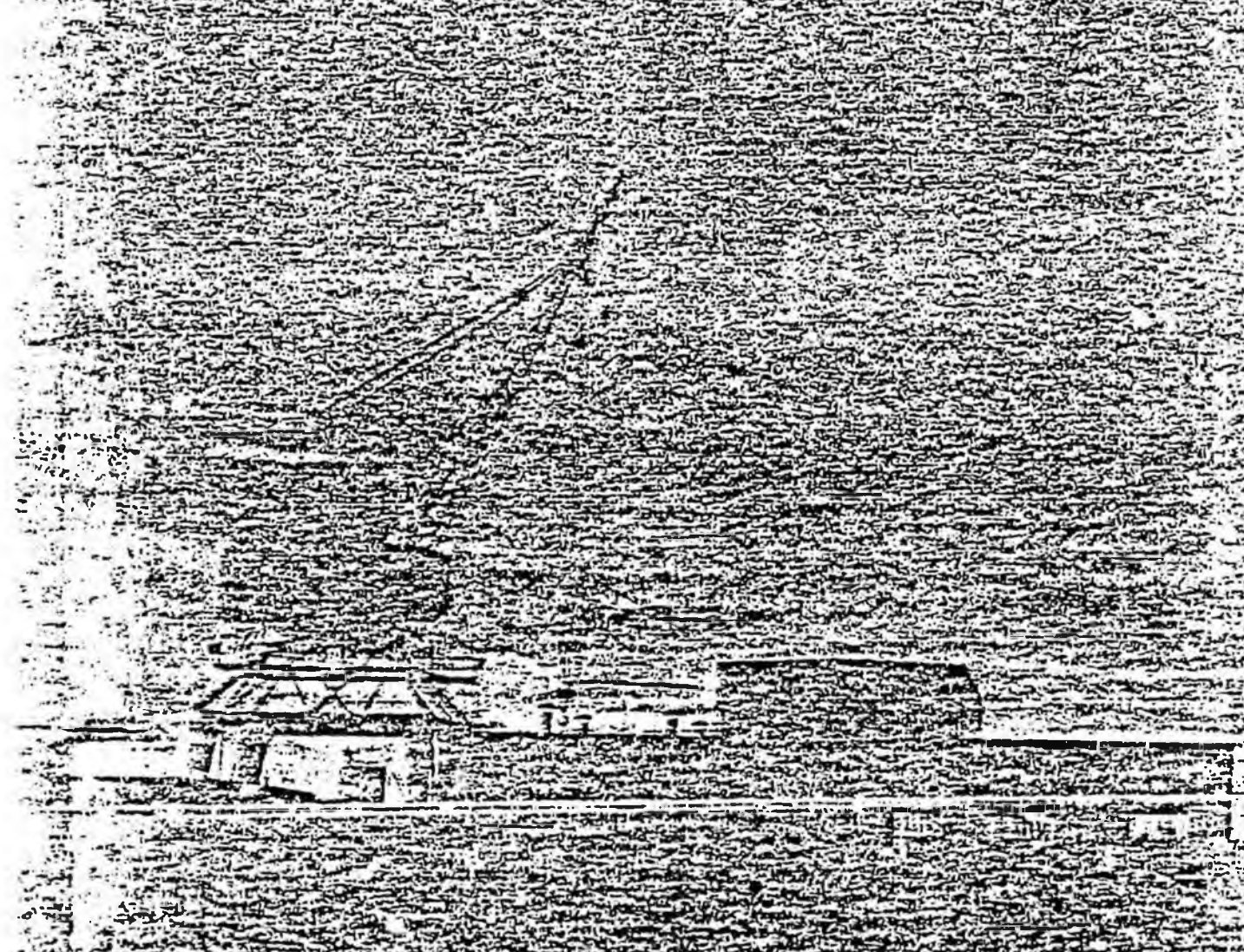
modernizing the railroad including purchases of

equipment, upgrading the track and roadbed, and improving supply and demand.

The marketing objectives also include increasing our revenue from petroleum products and our freight rail service. In 1985 we added two new trains that give priority service to the customers, increasing petroleum revenues 41 percent and freight revenues by 20 percent.

In addition, we plan over three years to reduce our losses from passenger service. No railroad makes more unprofitable service and the Alaska Railroad is no exception recording losses of \$18 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.

While we were attempting to boost our revenue, major plans underway to cut expenses by 20% by implementing the commitment to reassign a substantial amount of supply rail distribution and to eliminate the unprofitable remainder of the rail service. We completed in 1985



or 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 start-up 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.

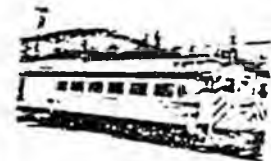


John Riley, Federal Railroad Administrator, and Bill Sheffield, Governor of Alaska, signed an agreement January 5, 1985 to transfer the Alaska Railroad from federal to state ownership.

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 Engeström 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

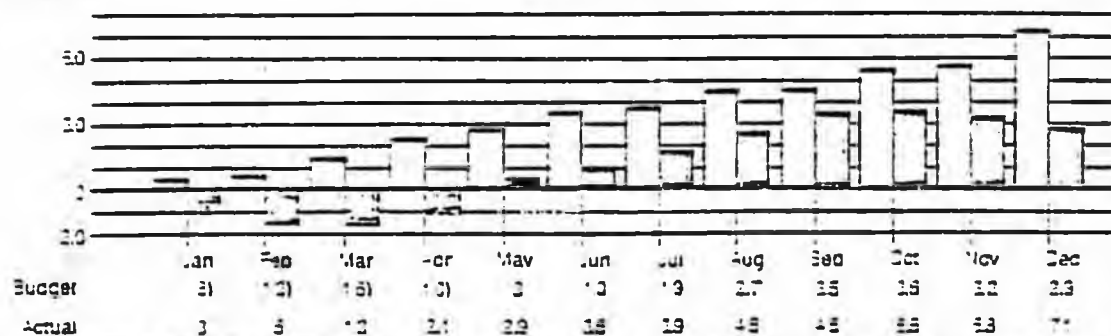
Despite all the changes and reorganization it experienced in 1985, the Alaska Railroad Corporation is looking to 1986 as another year of challenges. An ambitious program is planned to continue to upgrade and improve the railroad's track and roadbed, its rolling stock and its physical plant. A \$66 million 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.

Millions
of Dollars

ALASKA RAILROAD CORPORATION
1985 income (Loss)



OPERATIONS

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

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

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

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

ENGINEERING

In 1985 crews replaced about 25,000 cross-ties, re-laid 31,000 linear feet of mainline rail using premium alloy rail, and turned another 40,500 feet of rail on curves. More than one-third of the rail system, or about 200 miles, was surfaced.

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

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, Tern Avenue, and Campbell Creek, plus 1.5 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

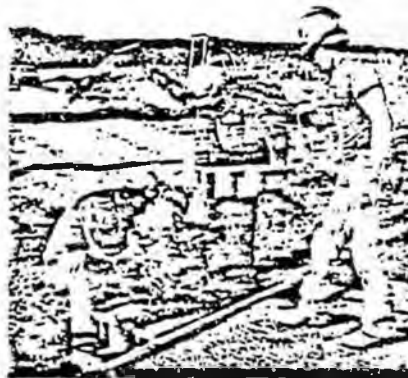
begun with the replacement of 4.5 miles of 75-lb. rail with secondhand 115-lb. rail that was replaced on the main line. The branch line serves Ft. Wainwright, North Pole and Eielson Air Force Base. It is used for delivery of coal to fuel the military's power plants. A 4,100-foot siding was constructed 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.



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

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

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

MOTIVE POWER AND EQUIPMENT

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

Major purchases included five new state-of-the-art GP49 diesel locomotives manufactured by the Electro Motive Division of General Motors. The 2,500-horsepower locomotives have an anti-wheel-slip system that improves train performance and fuel consumption.

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

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

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



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

Left, the Alaska Railroad owns about 680 acres near downtown Anchorage, most of which is at the mouth of Ship Creek. In the background is the roundhouse where all equipment maintenance and repairs are done.

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

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

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

TRANSPORTATION

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

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

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

In May 1985, a new intermodal freight service was inaugurated called the Arctic FOX, or Freight Overnight Express. This service is a unit trailer train that provides six-days-a-week overnight delivery of trailers and containers between Anchorage and Fairbanks. The Arctic FOX operates with an average of 10 articulated flat cars that provide space for about 30 trailers or containers. The FOX hauled 5,332 trailers in its seven months of operation in 1985.

The FOX is the first cabooselless 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 cabooselless trains. Each device consists of two units, a receiver in the locomotive cab and a transmitter on the rear car of the train. Together these units allow crews to monitor air brake pressure, detect motion in the last car of the train and measure train distances traveled. The units also provide the rear-end car with an FRA-required amber light that automatically turns on at dark.

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

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

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



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



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



Fairbanks carmen Kirby Roundtree welds the undercarriage of a rail car.



Merwin 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

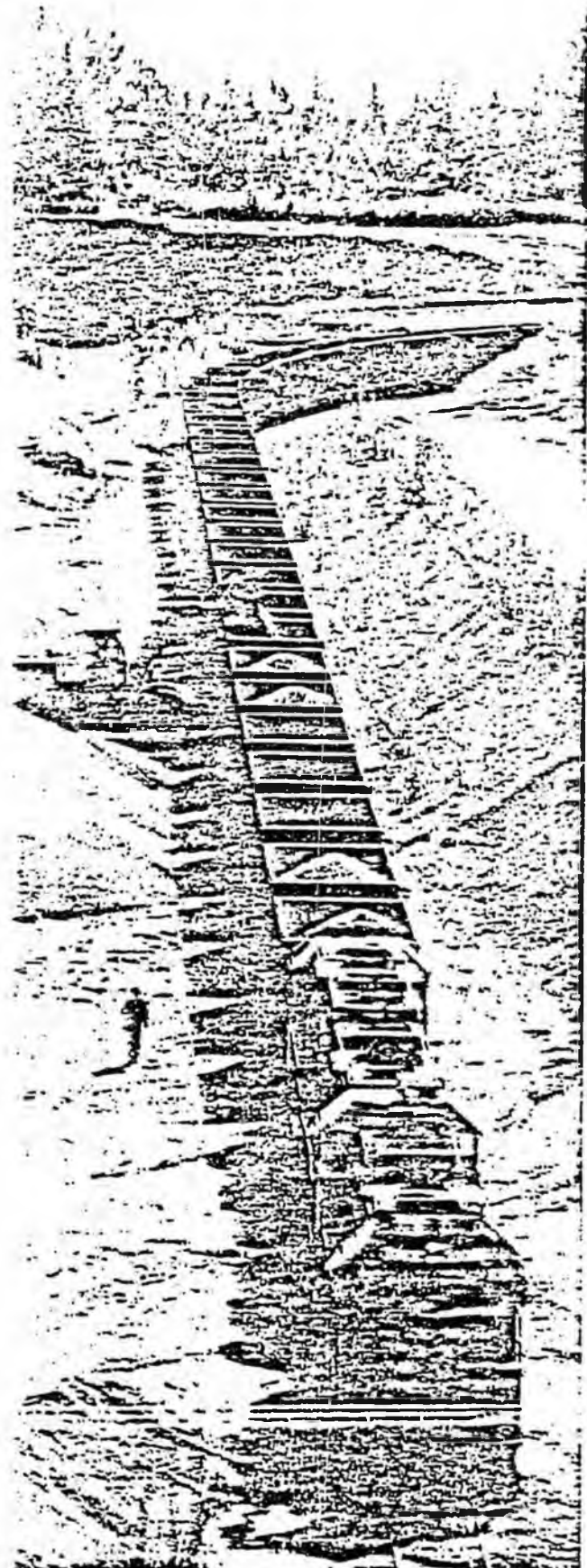
With the transfer of the Alaska Railroad to state ownership, the new corporation was required to organize a risk management program to provide insurance for property damage or loss, theft, fire, vandalism and other potential liabilities. For the first six months of 1985 the railroad operated on an interim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



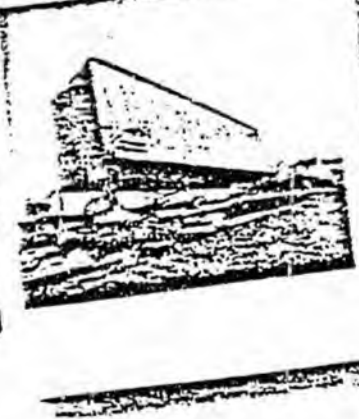
Travel unit trains are loaded near Palmer, in the MacKenzie Valley, 40 miles north of Anchorage.

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 begun in 1985 was the OWL (Oil Worker Limited). This daily train transports jet fuel from the petroleum refinery at North Pole to Anchorage, returning to the Fairbanks area with

gasoline and other petroleum products. The efficiency of this service has made it possible for the customer to double the shipping volume without increasing the number of tank cars it leases.

FREIGHT SERVICE

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

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

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



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

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

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) 371,000 tons of coal were moved to Seward. That is about 20 percent below the volume projected because of lower consumption by the customer, Korea Electric Power Company.

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

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

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

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

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

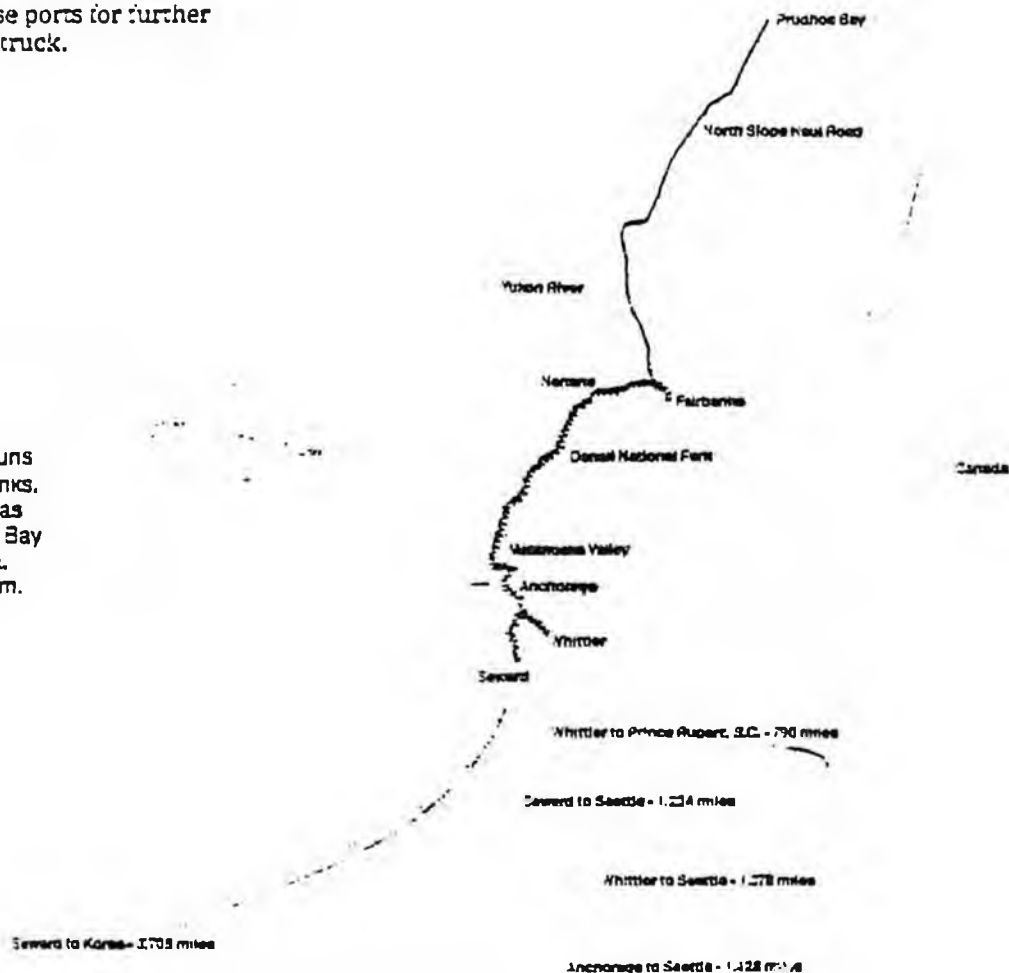
Interior Alaska covers thousands of square miles, much of it primitive wilderness; and, its towns and settlements are often isolated by distance and terrain. But, although the Alaska Railroad goes no farther than Fairbanks, it uses a combination of transportation modes, including motor carriers, river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

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

The railroad competes actively for the transportation of imported steel pipe products, which move into Alaska principally through the ports of Seward,

Anchorage, and Valdez. The railroad moved 74,000 tons of pipe in 1985.

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



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

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

PASSENGER SERVICE

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

The purchase of two specially rebuilt rail diesel cars (RDCs) received in late 1985 is expected to reduce

significantly the cost of wintertime rail service to rural areas, where the greater part of passenger service losses are incurred. These self-propelled passenger cars are available for charter and excursion trains and to supplement other passenger services where necessary.

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

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

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

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

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

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



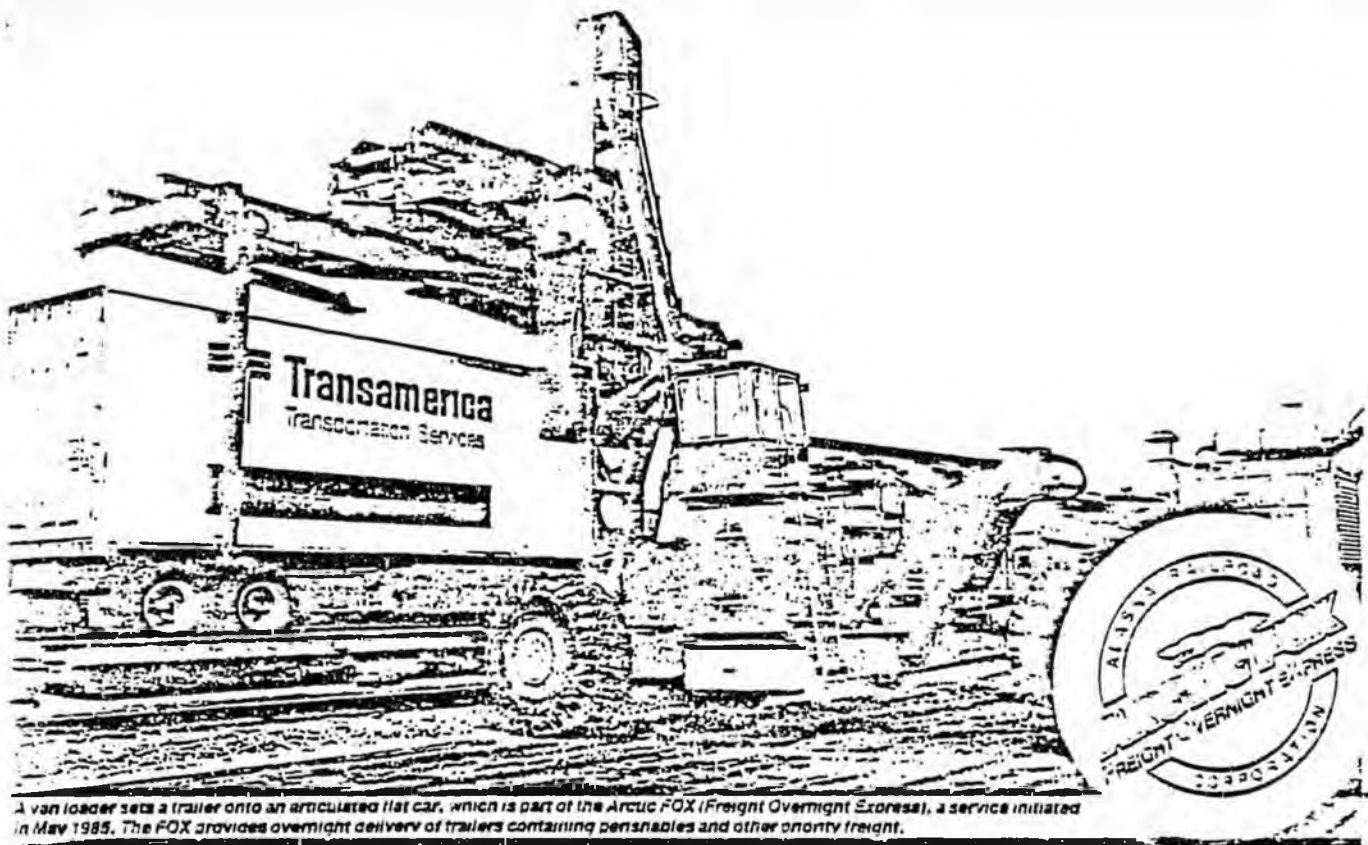
Phil Hilsdon, left, and Dennis Smith, railroad marketing representatives, provide pricing information for freight service.



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



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



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

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

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

REAL ESTATE

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

Since transfer of the railroad to state ownership, the scope and duties of the Real Estate Department have expanded to include a greater involvement in land-use planning. Coordinated efforts between Operations and Real Estate departments have been initiated to identify surplus lands available for long term lease. This would

result in a more efficient use of undeveloped railroad properties. Leasing policies and practices have been written and implemented to create a more equitable and consistent approach to land management. Innovative ground lease techniques such as rent credits for certain non-depreciable lessee improvements and rent caps that create predictable and financially attractive lease documents will be made available under this new policy. Real estate revenues for 1985 were approximately \$4.3 million.

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

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

THE FUTURE

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

CHIEF COUNSEL'S OFFICE

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

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

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

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

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

Competitor challenges to the corporation's pricing of piggyback traffic (truck trailers on flat cars) led the Chief Counsel to retain transportation and ac-

counting experts to review the corporation's rate costing practice. The studies confirmed that the corporation's pricing was appropriate.

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

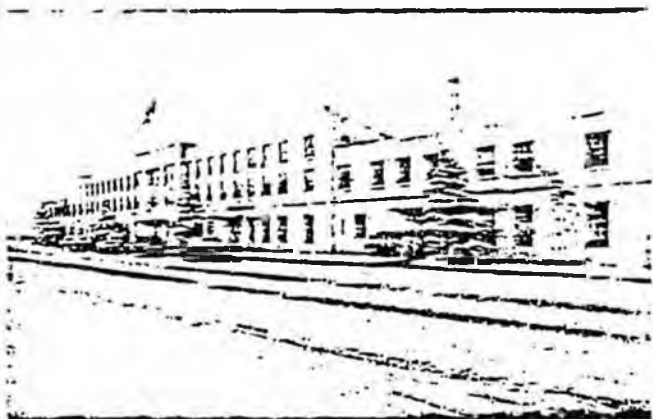
Through the first year of state ownership, the corporation received relatively few claims for personal injury and property damage related to railroad operations. Corporate counsel participated in resolution of several of the claims and in review of the corporation's risk management procedures.

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

Terry T. SPECIAL



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



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

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



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

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



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



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

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

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

Human Resources played a significant role in labor negotiations in 1985. According to both the federal transfer and state corporation acts, union contracts in existence at the time of transfer to state ownership are to be renegotiated by the corporation

within the first two years of state operation. Beginning in August 1985, for the first time in the history of the Alaska Railroad, representatives from all seven bargaining units and management met at the bargaining table. This unique process called for bargaining with all the unions at once on items common to all the units. By year's end significant steps had been made toward reaching a mutually agreeable master contract.

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

UNIONS REPRESENTING RAILROAD EMPLOYEES

(As of December 31, 1985)

Union	Employees
United Transportation Union	109
Brotherhood of Railway Carmen	40
International Association of Machinists and Aerospace Workers	1,000
American Federation of Government Employees	288
American Train Dispatchers Association	13
American Train Dispatchers Association	5
Train Dispatchers Union	
State order and wide collaboration	

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

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

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

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

BENEFIT PROGRAMS

(As of December 31, 1985)

PENSION PLAN	Federal Retirement System*	Corporation Program	Total
Employee Contributions	\$1,338,311.58	\$41,834.28	\$1,379,945.84
Employer Contributions	\$1,338,311.58	\$25,389.00**	\$1,373,700.58
TOTAL	\$2,576,623.12	\$77,023.28	\$2,753,646.40

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

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

TAX DEFERRED SAVINGS

Employee Contributions: \$232,697.29

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

CORPORATION PAID LEAVES

(In hours)

	Earned	Used
Annual Leave	91,533	71,975
Sick Leave	58,547	35,247
Administrative Leave	—	6,209
Jury Duty	—	1,457
Maternity Leave	—	112

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

NUMBER OF EMPLOYEES BY DEPARTMENT

CEO Staff	10
Operations	532
Administration/Human Resources	25
Finance	55
Marketing	27
TOTAL	559

EMPLOYEE YEARS OF SERVICE

Years	Employees	Years	Employees
32	1	14	28
30	3	13	18
29	2	12	13
28	2	11	33
27	2	10	46
25	1	9	19
24	3	8	9
23	5	7	12
22	4	6	22
21	4	5	29
20	8	4	24
19	3	3	33
18	2	2	15
17	10	1	65
16	10	Less than 1	84
15	14		

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

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

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

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

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

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



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



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

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

BOARD MEMBERS

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

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

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



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

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

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

James O. Campbell
Chairman of the Board of Directors

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

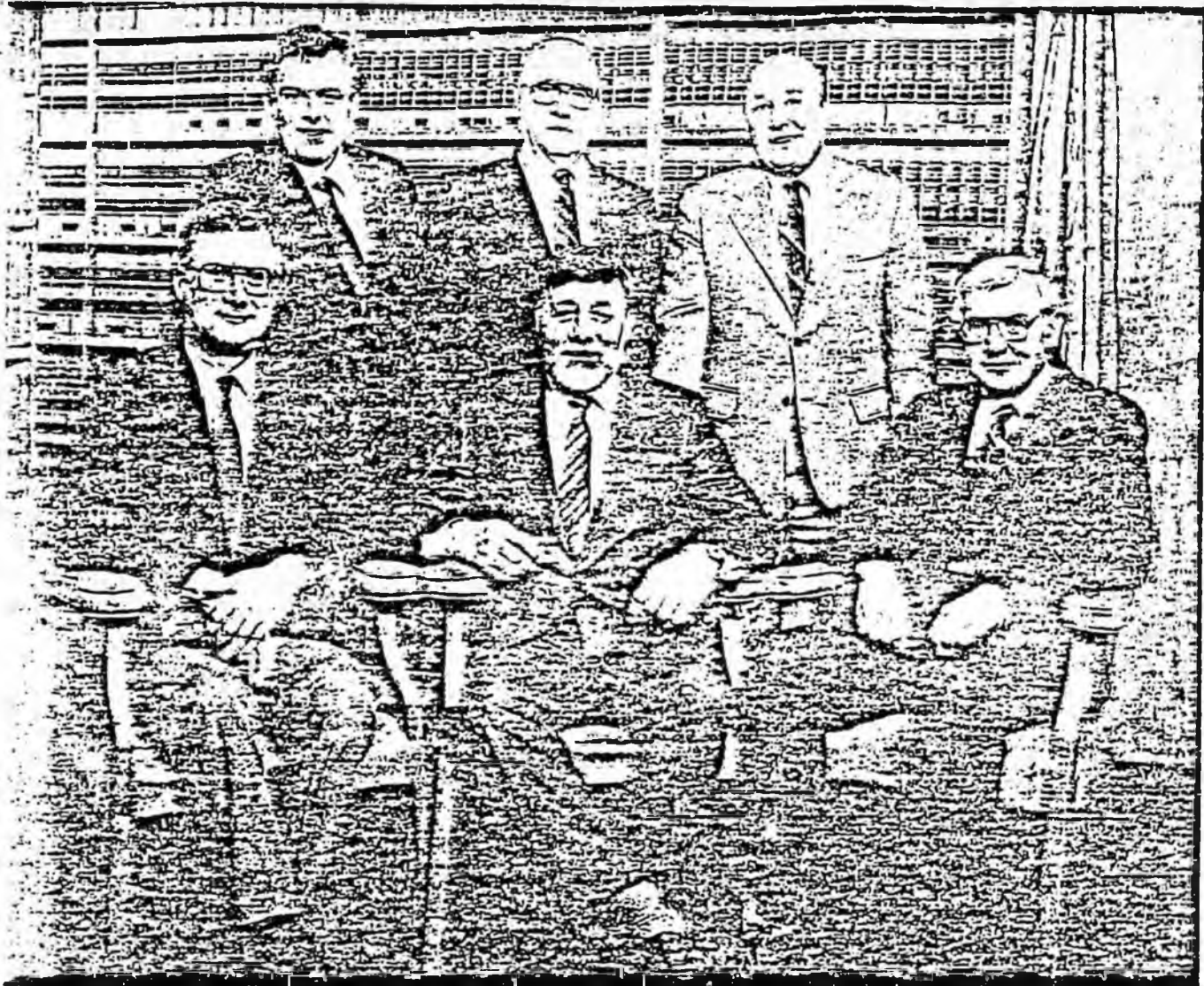
The Alaska Railroad Corporation board is responsible for the management of the corporation but has delegated certain powers and duties to the Chief Executive Officer, Railroad President Frank Turpin.

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

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



Myron M. Christy is the railroad board member from out of state. He resides in San Francisco and fulfills the directive of the legislature that one board member have at least 10 years of management experience in the railroad industry outside Alaska. Christy worked with the Western Pacific Railroad Company from 1950 to 1970 in many positions including president and CEO. Currently he is consultant and director for U.S. Leasing International, Inc.



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

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

Richard J. Knapp is one of the two state commissioners who serve on the railroad board. As commissioner for the Department of Transportation and Public Facilities, Knapp represents the transportation interests of the state. Knapp is a retired rear admiral of the U.S. Coast Guard, one of six appointed by President Carter in 1975. A graduate of the U.S. Coast Guard Academy, he served as district commander of the Coast Guard in Alaska from 1980 to 1984, and has a master's degree in business administration from George Washington University in Washington, D.C.

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

Gerald D. Valinske serves on the railroad board as a member of the United Transportation Union, Local 1626. He has been a conductor with the Alaska Railroad since 1975. A 22-year Alaska resident, Valinske worked with the Milwaukee Railroad as a brakeman prior to moving to Alaska. In 1984, he was a lobbyist for the United Transportation Union, American Federation of Government Employees, and the Brotherhood of Railway Carmen.

ALASKA RAILROAD CORPORATION



Financial Statements December, 1985

PROPRIETARY INFO.
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