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solved by the federal government since it is their system and not Alaska's which has given the employees their protection. Failure to solve these obligations prior to the transition phase may well lead to lengthy and costly litigation as well as to excessive employee turnover. Thus, careful consideration of these factors as part of the federal transfer legislation would benefit all concerned.

We should also note that several of the existing labor agreements will continue in force until either the labor organizations or the railroad management wishes to open negotiations. It is probably best that these agreements remain in force for a specified time, after which they would be subject to new negotiations. The transfer legislation could provide for such negotiations and establish the framework for setting labor agreements.

In summary, ARR's legal obligations to its employees are extensive, and the federal government is in a much better position than the state to provide them with a proper transitional program. Such a program would protect the employees, the State of Alaska, and the federal government.

#### Finances

Its status as a federal agency complicates the financial condition of the Alaska Railroad. For example, none of the traditional measures of financial health such as price-earnings, debt-equity, or even revenue-expense ratios properly portray the condition of the operation. In addition, the burden of passenger service (about 35 percent of all trains operated in 1980) distorts even the traditional railroad operating efficiency measures which might otherwise be employed. Financial reporting is done by methods and for reasons which differ from private practice and which are not even entirely consistent with federal government standards. Similarly, public sector capital budgeting and justification is not organized or presented using the methods of the rail industry. The differences result both from conflicting management objectives and requirements for management information which are dictated as much by federal control as by the need to manage operations.

The ARR receives operational funds from four primary sources:

1. Revenues earned by transporting freight and passengers.
2. Income from property leased to others.
3. Reimbursable services performed for others.
4. Congressional appropriations for acquiring capital assets and for major maintenance.

This income is all placed into a single revolving fund account with the U.S. Treasury against which the railroad draws to support its day-to-day operations and fund capital expenditures. Income placed in the account remains available until extended by ARR either for operations, capital expenditures, or other work authorized by appropriation.

While the revenue from the railroad's own operations is largely independent of external control,<sup>9</sup> those resources obtained by Congressional appropriation are subject to many of the same restraints common to the budgets of all federal agencies. These requirements dictate a budgetary process which may have both revenue-based funding and appropriated funding used for similar purposes while justification for their use may be quite different. The justification for appropriated funding is similar to that seen for other agencies which seek money to maintain the existing property and operations and to comply with federal guidelines. This is somewhat different from the approach used on most private rail systems where budgets are developed and justified on the basis of the profitability of operations and the investment being funded.

With this background, let us look in more detail at the railroad's financial situation. This analysis will deal with the *financial statements, revenues and expenses, assets and liabilities, and capital budgets*. We will review both the information available from this material and its limitations. In addition, where possible, we will explain the future implications of these items.

#### Reporting Financial Information

The Alaska Railroad prepares three public financial documents. One of these, the *capital budget and appropriation request*, will be dealt with in another part of this section. The other two are the *annual report* and the *monthly financial statements*. While both provide useful information, they are limited in scope when compared to similar documents prepared by private railroads.

**Annual Reports.** The annual reports are prepared following the end of each federal fiscal year (September 30). They summarize the previous year's financial performances and contain a limited amount of operational data as well as a narrative outline of the previous year's events. The financial information includes a brief income statement, balance sheet, and

<sup>9</sup>The only restraint upon expenditures of these revenues is that they must be used for a function authorized the railroad in its enabling legislation, as amended.

a statement of changes in financial position. None of these are entirely consistent with private practice in stockholder reports, principally due to the federal status. The differences are most clearly apparent in the balance sheet where liabilities include only a limited number of current items and neither long-term liabilities nor stockholders' equity. The long-term liabilities do not exist since the railroad is debt free and need not provide for taxes. Substituted for stockholder's equity is an item termed "Proprietary Interest of the United States Government," which is the sum of all federal appropriations plus retained earnings from operations.

The income statement varies from that of private practice in that it does not account for fixed charges other than depreciation. It is important to note that the ARR, as is common with most railroads, does not capitalize and depreciate its track structure. Rather, it uses the practice known as betterment accounting, which charges any replacement material regardless of the amount of expenditure, to current maintenance expenses and capitalizes only the improvements. While the result of this practice for a private railroad is to present the financial status in a more conservative light, the effect on the Alaska Railroad is slightly different. Because the ARR seeks federal appropriations to perform some major track maintenance (which becomes part of the proprietary interest), this work is effectively capitalized (whether it involves replacements or improvements) and is then not depreciated. Effectively, this practice tends to understate the long-term capital requirements to maintain an adequate track structure while at the same time, it overstates current maintenance expenditures.

Table 12 shows the changes in fixed asset values which have taken place in the 1976-1981 period. The increase is due primarily to additions to equipment (mostly fifteen new locomotives) and to structures.

A difficulty on the asset side of the balance sheet involves establishing the value of assets. It should be remembered that a considerable portion of the ARR properties were transferred from other federal agencies, often at a cost of only transport charges or salvage value. The entire line from Whittier to Portage is in this category. To what extent this type of accounting for the assets understates their true value is not certain. For present day-to-day operational purposes, it is not of great importance except that it understates the depreciation charges and thus the capital reserve requirements. Any restructuring will necessitate the identification of appropriate asset values for rate-making and other purposes.

Table 12  
End of Fiscal Year Fixed Assets  
(\$ in millions)

|                                       | Date   |        |        |        |        |        |
|---------------------------------------|--------|--------|--------|--------|--------|--------|
|                                       | 8/81   | 8/80   | 8/79   | 8/78   | 8/77   | 8/76   |
| Land*                                 | .27    | .27    | .87    | .43    | .27    | .27    |
| Buildings                             | 12.32  | 12.36  | 12.39  | 12.15  | 11.96  | 11.51  |
| Other Structures<br>& Facilities      | 112.13 | 111.69 | 110.89 | 108.83 | 107.63 | 107.20 |
| Equipment<br>Nonoperating<br>Property | 45.84  | 44.93  | 41.33  | 40.93  | 40.93  | 36.36  |
|                                       | 1.88   | 2.99   | 3.93   | 3.54   | 3.54   | 3.44   |
| Total Fixed<br>Assets                 | 172.44 | 171.34 | 168.96 | 165.88 | 164.33 | 159.78 |

\*Only purchased lands are included in this statement. See Table 9 for values of all lands.

Source: Alaska Railroad Financial Statements

The lands controlled by the railroad are also not included in assets, except for those directly purchased by the ARR, because most of the land was transferred to the railroad at no cost by executive order or public land order.

**Monthly Financial Statements.** The monthly financial statements are much more detailed than the annual reports. They provide both an income statement and a balance sheet in the same format as the annual report. However, each line item is further broken down into relevant details. Conceptually, the same limitations apply to these statements as to the annual reports. This investigation, however, discovered an additional serious limitation: the inability to isolate passenger from freight-service costs. While revenues are separately reported, costs are separated in only a few categories. Those that are recognized appear to be only a few of the short-term, out-of-pocket costs. This clearly does not reflect the full, direct cost of providing the passenger service, which constitutes 30 to 40 percent of all train miles operated. Because of the importance of this function of the ARR, we allocated the costs left unassigned by the financial statements and present them later in this section.

Another important difference between the ARR and normal industry reporting occurs in the area of operational statistics, which allow the analyst to prepare efficiency measurements. While the annual report contains limited data on operations, the financial statements have none. Those in the annual report are not equivalent to those required of private railroads in their annual reports to the ICC or even to

many of those prepared for stockholders. This area represents an important deficiency in the ARR's public reports.

With these explanations in mind, it is appropriate to look at the financial performance of the Alaska Railroad during the past several years.

#### Financial Performance

The Alaska Railroad has experienced rather varied financial circumstances over the past decade. It experienced some of its best years during 1975 and 1976 and some of its worst in 1979 and 1980. The ARR's cyclic performance during these years is representative of the entire financial and operational history of the railroad. It also indicates the sensitivity of the railroad's financial performance to traffic changes which would be considered minor on most railroads.

Table 13 summarizes the income and expense performance between October 1975 and September 1981. As can be seen, revenues had fallen by 1979 to half their 1976 level; expenses stabilized after 1977 and remained so through 1980. This indicates the sensitivity of the profit or loss to changes in revenue rather than to cost factors. This is a basic fact for all light-density railroads; they must operate at certain minimum levels if they are to handle available traffic and maintain certain operable levels. That is what has occurred on the Alaska Railroad. To retain traffic, it has had to maintain and operate the property at a certain level. However, it would cost only marginally

|  | FY 81        | FY 80         | FY 79         | FY 78         | FY 77         | FY 76         |
|--|--------------|---------------|---------------|---------------|---------------|---------------|
| <b>REVENUE</b>                           |              |               |               |               |               |               |
| Operating                                | \$40.78      | \$28.74       | \$23.08       | \$27.44       | \$33.38       | \$48.08       |
| Nonoperating                             | 3.18         | 2.13          | 2.08          | 1.85          | 1.85          | 1.15          |
| <b>Total</b>                             | <b>43.94</b> | <b>30.88</b>  | <b>25.16</b>  | <b>29.29</b>  | <b>35.23</b>  | <b>49.23</b>  |
| <b>EXPENSES</b>                          |              |               |               |               |               |               |
| Operating                                | 40.36        | 34.38         | 31.28         | 33.30         | 36.70         | 49.67         |
| Nonoperating                             | .27          | .34           | .21           | .21           | .28           | .18           |
| <b>Total</b>                             | <b>40.63</b> | <b>34.72</b>  | <b>31.49</b>  | <b>33.51</b>  | <b>36.98</b>  | <b>49.85</b>  |
| <b>Gain (Loss)</b>                       | <b>3.31</b>  | <b>(3.83)</b> | <b>(6.33)</b> | <b>(4.22)</b> | <b>(1.75)</b> | <b>(2.64)</b> |
| <b>Depreciation included in Expenses</b> |              |               |               |               |               |               |
|  | 3.27         | 3.53          | 3.22          | 3.20          | 3.12          | 2.81          |
| <b>Gain (Loss)</b>                       | <b>6.58</b>  | <b>(7.36)</b> | <b>(9.55)</b> | <b>(7.42)</b> | <b>(4.87)</b> | <b>(5.45)</b> |

Source: Alaska Railroad Financial Statements.

Table 14  
1978 Revenues and Expenses  
(\$ in millions)

|  | Freight        | Passenger     | Other         | Total          |
|--|----------------|---------------|---------------|----------------|
| <b>Revenue-Total</b>                   | <b>\$23.88</b> | <b>\$1.50</b> | <b>\$3.77</b> | <b>\$29.15</b> |
| Operating                              | 23.88          | 1.50          | 2.12          | 27.50          |
| Nonoperating                           |                |               | 1.65          | 1.65           |
| <b>Cost Expenses</b>                   | <b>21.98</b>   | <b>6.35</b>   | <b>1.98</b>   | <b>30.31</b>   |
| Engineering                            | 4.24           | 0.64          |               | 4.88           |
| Maintenance                            | 6.29           | 1.28          |               | 7.57           |
| Transportation                         | 9.30           | 2.95          |               | 12.25          |
| Traffic                                | 0.29           | 0.13          |               | 0.42           |
| Communications                         | 0.30           | 0.14          |               | 0.44           |
| Administration                         | 2.57           | 1.21          |               | 3.78           |
| Other Operating                        |                |               | 1.86          | 1.86           |
| Nonoperating                           |                |               | 0.12          | 0.12           |
| <b>Depreciation</b>                    | <b>2.81</b>    | <b>0.28</b>   | <b>0.12</b>   | <b>3.19</b>    |
| <b>Total Expenses</b>                  | <b>24.80</b>   | <b>6.63</b>   | <b>2.10</b>   | <b>33.53</b>   |
| <b>Gain (Loss) Before Depreciation</b> | <b>1.70</b>    | <b>(4.13)</b> | <b>1.79</b>   | <b>(1.64)</b>  |
| <b>Fully Allocated Gain (Loss)</b>     | <b>(1.11)</b>  | <b>(5.11)</b> | <b>1.87</b>   | <b>(4.35)</b>  |

Source: Alaska Railroad Financial Statements and Annual Report, 1978, using ICC cost allocation methods.

more to operate at a considerably higher level, generating much more revenue. The 1981 results further illustrate this problem. As noted below, the composition of costs and revenues provides significant insight into the various cost factors.

Tables 14, 15, and 16 provide a more detailed analysis of 1978, 1979, and 1980 revenues and expenses distributed to freight and passenger service and to other activities. It is important to note that the method used by this analysis develops fully allocated costs.<sup>10</sup> That is, the method allocates both the direct, short-term, out-of-pocket costs and the various types of joint costs and overhead to the appropriate service. This estimates the resources used to supervise the passenger trains' operation and maintenance, to market and administer them, to provide the incremental track maintenance required by them, to service and supply them, and to control their activities. It should be realized that if the passenger trains were eliminated, many of these joint and common costs would remain. However, over the long term, it would be possible to eliminate them

<sup>10</sup>Where the financial statements provided specific cost breakdowns (such as passenger or freight car maintenance), these were used directly rather than being allocated.

Table 15  
1979 Revenues and Expenses  
(\$ in millions)

|                                 | Freight | Passenger | Other  | Total   |
|---------------------------------|---------|-----------|--------|---------|
| Revenue-Total                   | \$15.08 | \$1.88    | \$4.11 | \$21.07 |
| Operating                       | 18.08   | 1.98      | 2.03   | 22.09   |
| Nonoperating                    |         |           | 2.08   | 2.08    |
| Cash Expenses                   | 20.10   | 6.17      | 2.00   | 28.27   |
| Engineering                     | 1.35    | 0.58      |        | 1.94    |
| Mechanical                      | 4.77    | 1.18      |        | 5.95    |
| Transportation                  | 8.86    | 2.89      |        | 11.75   |
| Traffic                         | 0.31    | 0.16      |        | 0.47    |
| Communications                  | 0.25    | 0.13      |        | 0.38    |
| Administration                  | 2.56    | 1.25      |        | 3.81    |
| Other Operating                 |         |           | 1.91   | 1.91    |
| Nonoperating                    |         |           | 0.09   | 0.09    |
| Depreciation                    | 2.82    | 0.25      | 0.15   | 3.22    |
| Total Expense                   | 22.92   | 6.42      | 2.15   | 31.49   |
| Gain (Loss) Before Depreciation | (1.02)  | (4.21)    | 2.11   | (3.12)  |
| Fully Allocated Gain (Loss)     | (3.84)  | (4.48)    | 1.98   | (6.34)  |

Sources: Alaska Railroad Financial Statements and Annual Report recomputed using ICC cost allocation methods.

or to divert the resources they represent to more productive uses.<sup>11</sup>

The analysis indicates that the nonrail activities have consistently shown a positive net income. The freight service has shown a positive cash flow (net income before deduction of depreciation) in 1978 and 1980, but 1979 indicates a \$1.02 million cash loss. For the 3 years, the total cash gain on freight operations was \$2.48 million. While this is not sufficient to cover all depreciation charges, it does represent an impressive performance, particularly when considered in relation to the weak Alaska economy during this period. With freight and other activities combined, the cash flow is positive for all 3 years, and total net income is positive (or zero) in 1978 and 1980. This leaves the passenger service as the principal source of the substantial losses shown in the annual reports. Such a result is consistent with the problems experienced by other North American railroads during the past 30 years.

<sup>11</sup>Where ARR accounting records did not specifically allocate costs to either freight or passenger service, they were so allocated using methods prescribed by the Interstate Commerce Commission to the extent that the required operating statistics were available. See Code of Federal Regulations, Title 49, Part 1242.

There are two possible causes for the passenger service's poor financial situation: excessive expenses or inadequate revenues. An examination of the various expense categories indicates that they are not excessive considering the substantial proportion of the operations represented by passenger service. Given the nature of passenger train operations, this is in fact a substantial compliment to the ARR management. This result is confirmed by comparing the ARR passenger service to that of the Denver and Rio Grande Western (D&RGW) passenger service for comparable periods. During 1978 to 1980, approximately the same number of passenger train miles were operated by both railroads. Expenses were also comparable; however, the D&RGW revenues were 50 percent to 100 percent greater, resulting in a significantly smaller loss attributed to passenger service. ARR revenues, on the other hand, were not large enough to be comparable to the proportion of total operations represented by passenger service.

A more detailed discussion of the passenger problem is contained in the following section (Competitive and Regulatory Environment). It appears, however, that it would be impossible to generate enough passenger traffic to make the net income from passenger operations positive. This is the basis of a substantial long-term public policy question. It

Table 16  
1980 Revenues and Expenses  
(\$ in millions)

|                                 | Freight | Passenger | Other  | Total   |
|---------------------------------|---------|-----------|--------|---------|
| Revenue-Total                   | \$22.72 | \$2.09    | \$4.08 | \$28.89 |
| Operating                       | 22.72   | 2.08      | 1.92   | 26.73   |
| Nonoperating                    |         |           | 2.16   | 2.16    |
| Cash Expense                    | 20.92   | 7.60      | 2.67   | 31.19   |
| Engineering                     | 3.20    | 0.59      |        | 3.79    |
| Mechanical                      | 6.27    | 1.59      |        | 7.86    |
| Transportation                  | 9.34    | 3.58      |        | 12.92   |
| Traffic                         | 0.33    | 0.20      |        | 0.53    |
| Communications                  | 0.25    | 0.15      |        | 0.40    |
| Administration                  | 2.53    | 1.48      |        | 4.02    |
| Other Operating                 |         |           | 2.42   | 2.42    |
| Nonoperating                    |         |           | 0.25   | 0.25    |
| Depreciation                    | 3.08    | 0.32      | 0.13   | 3.53    |
| Total Expense                   | 24.00   | 7.92      | 2.80   | 34.72   |
| Gain (Loss) Before Depreciation | 1.80    | (5.51)    | 1.41   | (2.30)  |
| Fully Allocated Gain (Loss)     | (1.28)  | (9.83)    | 1.28   | (9.83)  |

Sources: Alaska Railroad Financial Statements and Annual Report recomputed using ICC cost allocation methods.

is also important to realize that, except for a modest depreciation charge against passenger service, this analysis has not included any capital costs.

Since it appears that freight service is a fairly stable income source even in economically depressed years, it is useful to examine the effects of adding a major additional long-term movement. For purposes of this discussion, it is assumed that the recently announced pending coal movement from Healy to Seward for export saw its initial operation in 1980. The revised income statement is shown in Table 17 based on the proposed 800,000 metric tons moving at a rate of \$10.10 per ton. Operation expenses are based on data supplied by ARR, and depreciation costs are computed at current rates based on the assumption that all new equipment is used for the movement. For this analysis, only freight and other

activities are considered. The changes in performance due to this single movement are considerable: overall net income of \$0 becomes a positive \$1.2 million, and total cash generated goes from \$3 million to \$5.37 million. This clearly indicates both the dependence of a light-density railroad on such movements and, more importantly, the positive effects of a substantial traffic source with long-term prospects.

Thus, the overall indication is of a property that has undergone substantial financial changes over the past 5 years. Although it has seen serious diminution in the volume and ton-miles of available freight traffic, there has been sufficient control of costs to maintain an overall positive cash flow each year after the passenger service is deducted from the results. A high-revenue, moderate-cost movement such as that proposed for coal could add stability to the performance.

#### Capital Budgets

Unlike private railroads, the Alaska Railroad does not have access to capital markets. It cannot borrow funds for equipment and cannot mortgage property to generate capital. These factors mean that the only methods of obtaining funds for capital improvements are through internal generation of funds through charges or financial surpluses or special appropriations. It also means that it must be able to pay cash for improvements.<sup>12</sup>

Table 18 lists the capital and major maintenance expenses between July 1975 and September 1980 along with the source of funds. Clearly, about 75 percent of the funding came from appropriations rather than from earnings. As noted in the previous section, it appears that the principal reason for this is the negative impact of passenger service on income. It also indicates that without passenger service, the ARR would have produced \$7.79 million in internal capital between 1978 and 1980 instead of the \$1.2 million actually available. This would have reduced the necessary appropriation from \$17.3 million to \$9.51 million, even assuming that no money had been retained from earlier, more prosperous years. Clearly, the recognition of passenger service as a public good requiring public support could have a major impact upon the railroad's capital budget flexibility.

<sup>12</sup>The usual method used by private railroads to purchase rail equipment is through the "Philadelphia Plan," in which the down payment is 20 percent of purchase price, with the balance paid over 15 years. Because rail equipment offers excellent security, the interest rates are usually substantially below the prime rate.

Table 17

#### 1980 Financial Performance with Potential Coal Traffic

800,000 Metric Tons = 881,600 Short Tons  
(\$ in millions)

|                                 | Freight  | Other   | Total    |
|---------------------------------|----------|---------|----------|
| <b>Without Coal</b>             |          |         |          |
| Revenue                         | \$ 22.72 | \$ 4.08 | \$ 26.80 |
| Operating                       | 22.72    | 1.82    | 24.54    |
| Nonoperating                    |          | 2.16    | 2.16     |
| Cash Expense                    | 20.92    | 2.67    | 23.59    |
| Operating                       | 20.82    | 2.42    | 23.24    |
| Nonoperating                    |          | 0.25    | 0.25     |
| Depreciation                    | 3.08     | 0.13    | 3.21     |
| Total Expense                   | 24.00    | 2.80    | 26.80    |
| Gain (Loss) Before Depreciation | 1.80     | 1.41    | 3.21     |
| Fully Amortized Gain (Loss)     | 11.281   | 1.28    | 0.00     |
| <b>With Coal</b>                |          |         |          |
| Revenue                         | 31.82    | 4.08    | 35.70    |
| Operating                       | 31.82    | 1.92    | 33.74    |
| Nonoperating                    |          | 2.16    | 2.16     |
| Cash Expense                    | 27.86    | 2.67    | 30.53    |
| Operating                       | 27.86    | 2.42    | 30.28    |
| Nonoperating                    |          | 0.25    | 0.25     |
| Depreciation                    | 3.42     | 0.13    | 3.55     |
| Total Expense                   | 31.08    | 2.80    | 33.88    |
| Gain (Loss) Before Depreciation | 3.96     | 1.41    | 5.37     |
| Fully Amortized Gain (Loss)     | 0.94     | 1.28    | 1.22     |

Source: Table 16 and Alaska Railroad records.

Table 18  
Capital and Major Maintenance Programs  
(\$ in millions)

| Use                              | 1980       | 1979             | 1978       | 1977       | 1976 <sup>a</sup> | Total       |
|----------------------------------|------------|------------------|------------|------------|-------------------|-------------|
| Buildings                        | 0.2        | 0.1              | 0.1        | 0.1        | 0.5               | 1.0         |
| Right-of-Way, Tracts, Structures | 3.3        | 2.3              | 2.8        | 3.8        | 4.2               | 16.4        |
| Equipment                        | 1.8        | 0.7              | 0.3        | 4.5        | 13.8              | 19.9        |
| Other Projects                   | 0.2        | 6.4 <sup>b</sup> | 0.4        | 0.3        | 0.5               | 7.8         |
| <b>Total</b>                     | <b>5.5</b> | <b>9.4</b>       | <b>3.6</b> | <b>8.8</b> | <b>17.8</b>       | <b>48.1</b> |
| <b>Fund Sources:</b>             |            |                  |            |            |                   |             |
| Appropriations                   | 5.0        | 9.3              | 3.0        | 1.0        | 9.0               | 32.3        |
| Railroad Earnings                | 0.5        | 0.1              | 0.6        | 7.8        | 8.8               | 12.5        |

<sup>a</sup>1976 was a 15-month fiscal year.  
<sup>b</sup>\$6.3 million for repairs to Seward and Whittier docks.

Source: Alaska Railroad 1980 Annual Report.

It is in capital budgeting that the Alaska Railroad differs the most financially from private operations. This difference results from, and is evident in, several features of the budget, including the distribution among expenditure types, the budget process and line item justifications, and the types of programs included in the budget. As noted earlier, many of the budgeting objectives, fund sources, and utilization capabilities differ. These variations are reflected in the documents themselves.

The budget tends to be heavily weighted toward improving facilities and light equipment rather than purchasing rolling stock. In private industry, the reverse tends to be true. There are three reasons for the difference. One is the ease with which private industry can finance equipment. This ease permits a relatively modest cash flow to leverage substantial amounts of equipment purchases, particularly when used in conjunction with reasonable interest rates and tax advantages related to interest, investment tax credits, and accelerated depreciation. Obviously, the ARR cannot take advantage of any of these. A second reason that equipment expenditures receive less emphasis, particularly in marginal years, is that individual items are so expensive. A locomotive costs \$750,000 to \$900,000, while cars run \$40,000 to \$50,000 each. Thus, if an ARR budget is cut by FRA, OMB, or the Congress, an event which occurs regularly, it is easier to reduce the size of track programs than equipment purchases, since the former tends to comprise a large number of smaller items and personnel requirements. With track or structure programs, at least some of the improvement can

usually be made, but an equipment acquisition program must often be written off entirely even if a portion of the funding is not approved. A third reason for these budget priorities is that it is easier to repair older equipment and to keep it operating than it is to operate over track which has not been properly maintained. Ultimately, the differences in budget priorities provide for physical facilities maintenance in the manner of most federal agencies, but they do not necessarily respond to marketplace influences.

The next difference between ARR's budget and those of private capital arises in the budget development process and the basis for project selection and justification. On private railroads, the projects for a capital improvement plan are developed on the basis of either rate of return or net present value of the proposal. The ability to contribute to the profitability (usually long term) of the organization is the primary criteria of selection. On the Alaska Railroad, this does not appear to be strictly the case. ARR budgeting documents must conform to U.S. Department of Transportation requirements. These requirements rarely reflect a need to operate profitably. Thus, the justification for projects in the ARR budget is almost inevitably based on cost minimization criteria or satisfaction of federal requirements. While cost minimization is an important part of developing an efficient operation, it may or may not reflect the most profitable use of resources. Such an approach also fails to consider the opportunity costs of alternative uses of capital. Between the 1978 and 1982 budget requests, that of 1979 was the only one which contained a cost-benefit analysis and a computation of internal rate-of-return for individual projects. In no case was there an attempt to estimate overall returns for groups of projects. These overall numbers may be considerably different from the sum of individual returns due to various project interdependencies and timings. It should be emphasized that the majority of these problems result from the requirement that the ARR follow federal budgeting procedures rather than allowing its management to develop programs, as much as possible, on the same basis as private firms.

The final difference between ARR and private budgeting practices is the type of projects incorporated into the capital budget. The ARR's budget includes both strict capital items and major maintenance, which would be part of ordinary expenses under ICC accounting rules and within most private organizations. This causes the income requirements to be understated. This problem is exacerbated by

the use of betterment accounting for track structure as explained earlier. The proportion of the budget which is actually devoted to maintenance rather than to capital expenditures is difficult to estimate from available data. However, the FY 1982 budget, at the minimum level, lists such items as cross-tie replacement, track surfacing, vegetation control, equipment repair and refurbishing, and building repair, none of which appear to be normal capital items. Once again, the requirement to conform with federal budgeting (this time coupled with railroad betterment accounting) distorts the financial picture of the railroad.

The final capital budgeting item which requires review is the question of deferred maintenance. ARR defines deferred maintenance as:

"... the accumulated maintenance that would have to be performed in order to bring the physical plant up to the material condition and capacity considered necessary to accommodate the level of freight and passenger traffic expected."

In 1977, the ARR estimated deferred maintenance at \$58.9 million, with this increasing to \$63 million by 1980. Of the 1977 total, \$38.7 million was considered to be delayed capital expenditures.<sup>13</sup> Table 19 shows the breakdown of the 1977 total by functional area. It is important to realize that these areas do not represent items which make it unsafe or difficult to operate the railroad. These are items which should be programmed projects but have had implementation delayed. It is not unusual practice in the rail industry to adopt this strategy when revenues are not at an adequate level. Since much of the programming is on a cyclical basis and the items are long-term assets, the practice becomes crucial only when it is continued over an extended period. It is also possible to "trade" capital expenditures in exchange for higher current maintenance expenditures. Both are part of the situation at the ARR. This is particularly true for the roadbed and track category where many of the charges are for subgrade which should be upgraded to eliminate future maintenance demand. However, the principal result of not performing the work will be higher current costs, not unsafe conditions or major operational problems. This is the nature of many of ARR's problems, particularly the delayed capital expenditures, although a good deal of the tie renewal appears to be true deferred maintenance.

Thus, it appears that while deferred maintenance

<sup>13</sup>Once again, the effect of betterment accounting for track is to increase the apparent level of deferred maintenance. Actually, many track-related deferred-maintenance items are delayed capital expenditures.

Table 19

Deferred Maintenance by Functional Area  
(\$ in millions)

|                         |             |
|-------------------------|-------------|
| Rail Relay              | \$ 7.8      |
| Tie Renewal             | 7.5         |
| Other Roadbed and Track | 15.7        |
| Tunnels                 | 1.7         |
| Bridges                 | 4.3         |
| Buildings               | 4.9         |
| Other Fixed Facilities  | 15.7        |
| Communications          | 0.9         |
| Equipment               | 0.4         |
| <b>Total</b>            | <b>58.9</b> |

Source: Alaska Railroad FY 1982 Budget Submission Documentation.

may become a long-term difficulty if there is a very large traffic increase (more than the currently projected coal traffic), it does not seem to be a major current problem. The solution of the problem remains difficult to project until the type of structure under which this railroad will be operated can be determined. If structured correctly, a projected organization may provide considerable potential to address the problem, certainly more than the present federal structure.

## Competitive and Regulatory Environment

The Alaska Railroad both competes and cooperates with Alaska motor carriers and, through barge connections, with marine carriers operating between Alaska and the United States. Because of local freight carried by ARR is unsuitable for road haulage due to its bulk, the railroad is relatively free from local competition. The exceptions to this are some petroleum products movement and the local TOFC/COFC service between Anchorage and Fairbanks, which amounts to less than 10 percent of the total traffic between these two points.

However, there are numerous examples of local tariffs which represent cooperative arrangements. In fact, the Anchorage-Fairbanks TOFC/COFC represents one such tariff, while others include grain between Delta and rail points, pipe from Seward to Anchorage to Prudhoe Bay, cement from Anchorage to interior points, and petroleum products between a variety of places. Table 20 lists several Alaska Railroad tariffs which include through rates involving both the Alaska Railroad and motor carriers. Motor carriers also provide drayage services in Anchorage.

Table 20  
Alaska Railroad Tariffs Involving Joint  
Rail-Motor Rates

| Tariff | Services  | Carriers                        |
|--------|---|---------------------------------|
| 3085-C | Prince Rupert, B.C., and Al.  | Water/rail/motor rates          |
| 3085-A | Washington & British Columbia and Alaska                                  | Water/rail/motor rates          |
| 3101-K | British Columbia, Idaho, Montana, Oregon, Washington, Wyoming, and Alaska | Rail/motor/rail/motor rates     |
| 3016-J | Alaska Points   | Rail/motor and motor/rail rates |

Source: Alaska Railroad Tariffs 3085-C, 3085-A, 3101-K, 3016-J.

and Fairbanks for the railroad. Table 21 provides a partial list of motor carriers involved in joint arrangements.

It is the interline traffic which brings the railroad into the most direct competition with private carriers. However, even here, RR is functioning in cooperation with other private firms. The nature of the commodities moved makes the interline traffic more competitive than the local.<sup>14</sup> The marine competitors in this service are Sea-Land Service and Totem Ocean Trailer Express, who operate container ships and roll-on-roll-off trailer ships, respectively, between Puget Sound ports and Anchorage. Both also have through tariff arrangements with motor carriers, as well as with the railroad.

The importance of this traffic is in the volumes available and its high value. The total container, trailer, and railcar traffic through Anchorage and Whittier is presently about 1,350,000 tons annually. Of this, the railroad hauls about 250,000 tons. Some of this is not subject to alternate routings (like heavy machinery, many chemicals, heavy structural shapes); however, most could move by any carrier.

The shipper's choice of carrier is usually based on a combination of price and service characteristics depending on value of cargo and delivery requirements. The most recent innovation used to influence market share was the introduction of contract rates by the railroad. These require the shipper to provide a certain minimum number of carloads in exchange for certain long-term rate maximums and service guarantees. This type of rate was authorized by federal legislation in 1976 and has begun to gain fairly wide

<sup>14</sup>See "Traffic Base," pages 9-11 for a description of the competitive commodity types.

acceptance nationally only in the last 2 years. It has created considerable controversy in Alaska, principally because of its success. It has also been the subject of court action and a congressionally mandated ICC investigation to determine whether the prices in the railroad's contracts are in conformance with statutory requirements. Preliminary results indicate that the rates exceed the minimum levels allowed by law and are well below maximum allowable levels.<sup>15</sup>

It is the Interstate Commerce Commission which is responsible for regulation of the economic relations of the various Alaska motor, rail, and water carriers. Executive Order 11107 of April 25, 1963, placed the Alaska Railroad partially under the jurisdiction of the ICC for rate-setting purposes. There were two exceptions which have created difficulties in the railroad's relationship with its competitors, both in terms of marketing and in rate making. These two sections provided that:

1. "The Secretary . . . shall allocate . . . a proper portion of the capital investment of the railroad . . . to the national public purposes for which it had originally been built." (This part of the railroad's valuation was to be excluded from the costs on which rates were based.)
2. ". . . Rates and charges shall not be deemed to be unjust or unreasonable by reason of failure to yield sufficient revenues to cover any amounts for taxes not actually required by law to be paid or provide a return on capital investment."

Effectively these two provisions allowed the railroad to retain most of its rate-making freedom. This situation remained basically unchanged until 1980 when passage of the Staggers Rail Act (and the subsequent appropriation bill) mandated an investi-

<sup>15</sup>It should also be noted that the ICC investigation has, for the first time, included a cost of capital for the federal investment in the railroad as a part of the basis for determining the locality of rates.

Table 21  
Motor Carriers Involved in Through Tariffs with  
the Alaska Railroad

Alaska West Express, Inc.  
Big State Motor Freight, Inc.  
Drilling Mud Haulers  
Four Star Terminals, Inc.  
Frontier Transportation Company  
K & W Trucking Company, Inc.  
Kodak Oilfield Haulers, Inc.  
Muskogee Freight Line, Inc.  
Sourdough Express, Inc.  
Weaver Brothers, Inc.

Source: Alaska Railroad Tariffs 3085-A and 3016-J

gation of the Alaska Railroad's rail-water rates (the competitive interline movements) to determine whether they were in conformance with the provisions of the act. This represented a substantial change in policy, since the Staggers Act contains very specific provisions regarding the allowable cost basis for rates. The statutory language of the Act makes it clear that the railroad is expected to meet these cost-based tariff requirements, which now form much of the basis for the interline rate making.<sup>16</sup>

Provisions of the Staggers Rail Act provide the basis for marketing and management of rail service delivery. They provide for a good deal of latitude in implementation; however, they do require that economic efficiency be a basic consideration in developing any service and pricing package. They also place a number of restrictions on the relationships between carriers.

Establishing a clear set of pricing rules for the Alaska Railroad is probably the most important function of the new regulatory legislation and the subsequent ICC investigation. These rules define an area of marketing flexibility not previously available. These statutory bounds for pricing also allow the railroad to compete more freely, and they protect its competitors from predatory pricing. However, it is important that they be applied as outlined in the statute if they are to be effectively implemented. Artificial restrictions on the ARR do not appear to be in the best interests of either the state, the ARR's competitors, or the railroad. If Alaska is to develop a financially viable transport system, all participants must become active competitors rather than relying on artificial constraints.

<sup>16</sup>The Staggers Rail Act of 1980 was enacted following a long period of dissatisfaction with results of ICC regulatory activity and its effect on the financial viability of the rail industry. It had been preceded 3 months earlier by the Motor Carrier Act of 1980 which withdrew most of the economic regulations applicable to the trucking industry. The goals of the rail act were:

1. "To assist the railroads of the nation in rehabilitating the rail system in order to meet the demands of interstate commerce and the national defense.
2. To reform federal regulatory policy so as to preserve a safe, adequate, economical, efficient, and financially viable rail system.
3. To assist the rail system to remain viable in the private sector of the economy.
4. To provide a regulatory process that balances the needs of carriers, shippers, and the public.
5. To assist in the rehabilitation and financing of the rail system."

The regulatory environment of the Staggers Act provides a setting for both the competitive and cooperative arrangements between the Alaska Railroad and other carriers. The whole regulatory structure is still in the implementation stage, and the precise application procedure for the new system is not yet known with any degree of certainty. However, it is certain that the new regulations, if unambiguously applied by management, will provide the railroad with considerable opportunity to improve its profitability while simultaneously forcing improvement in the quality of management data and its use. They provide a basic framework for establishing the Alaska Railroad as an integral competitive segment of the state's transport system.

#### Passenger Service

The Alaska Railroad provides regular scheduled passenger service and special passenger trains. There are two distinct parts of the scheduled passenger service: the long-distance service between Anchorage and Fairbanks and the specialized shuttle service between Portage and Whittier.

The Anchorage-Fairbanks service includes express trains daily in each direction with stops only at Talkeetna and Denali Park during the summer tourist months (May-September). In addition, there are three local mixed trains (passenger and freight cars) per week during the summer. The local trains stop as necessary for passengers along the route and permit hunters, fishermen, and hikers to reach parts of Alaska inaccessible by road. The mixed trains are limited by union agreements to a maximum of twenty-five freight cars per train unless granted a special exemption. The express trains operate with coaches, a dining car, a lounge car, a dome car, and a baggage car for checked luggage. In the winter, there is mixed train passenger service once per week. Mixed trains in both summer and winter have coaches and a dining car for passenger service. The summer trains represent one of the most salable tourist attractions in Southcentral and Interior Alaska.

Additional passenger service is offered by the Alaska Railroad in the form of a shuttle train between Portage and Whittier, a distance of 12.4 miles. The train moves autos, trucks, buses, (with passengers allowed to remain in their vehicles) on special quick-loading flat cars and also carries passengers in coaches for the 35-minute trip, which includes three-and-one-half miles of tunnels.

This shuttle train provides access to the state ferry service between Whittier and Valdez and access for the private and commercial boat owners who moor their craft at Whittier. The railroad is the only

means of overland transportation to and from Whittier. The equipment originates out of Anchorage and returns to Anchorage each night. The shuttle train from Portage to Whittier provides a summer schedule of three round trips three days per week, four round trips two days per week, and two round trips on the remaining two days of the week. In the winter, the shuttle makes two round trips between Portage and Whittier on Sunday, Wednesday, and Friday, returning to Anchorage each night.

Table 22 indicates the total numbers of passengers carried by the Alaska Railroad during the ten fiscal years from 1971 to 1980. Passenger traffic has been increasing annually since 1975. There were about 154,000 passengers carried in 1953, making it the highest year in passenger service on the railroad. The passengers carried in 1979 reached the second highest level (151,045) followed in 1980 by almost as many (150,678).

| Fiscal Year | Passengers |
|-------------|------------|
| 1971        | 84,000     |
| 1972        | 102,000    |
| 1973        | 74,000     |
| 1974        | 84,000     |
| 1975        | 81,000     |
| 1976        | 84,500     |
| 1977        | 103,632    |
| 1978        | 126,277    |
| 1979        | 151,045    |
| 1980        | 150,678    |

Source: Alaska Railroad records.

Table 23 shows the passenger service in the last 2 years. While the Anchorage-Fairbanks run suffered a traffic loss, there was a substantial gain on both the Portage-Whittier shuttle and special trains. The railroad operates excursion train services for special events such as the Alaska State Fair in Palmer and scenic trips to Seward.

It is important for the State of Alaska and the railroad to focus on the purpose and function of the passenger service. The State has already provided financial subsidy to assist in meeting some of its operational deficit and in providing improved shuttle service. The passenger equipment now in service is old and will soon have to be substantially rehabilitated to compete in the marketplace. The passenger cars are, in general, well-maintained, but are now in

Table 23  
Alaska Railroad Passenger Service  
FY 1979-1980

| Service                         | FY 1979 | FY 1978 | Percent Change |
|---------------------------------|---------|---------|----------------|
| Anchorage-Denali Park-Fairbanks | 84,186  | 81,207  | -11.5%         |
| Anchorage-Portage               | 87,257  | 84,730  | +3.1           |
| Specials                        | 8,156   | 6,108   | +79.2          |
| Total                           | 180,578 | 181,045 | -0.2%          |

Source: Alaska Railroad Annual Reports.

need of modernization, including installation of all-electric heating and air conditioning. The interiors have not been refurbished except for upholstery. According to a memorandum by AMTRAK evaluating the Alaska Railroad passenger service, dated November 21, 1979, the estimated cost to rehabilitate passenger equipment would be about \$6 million. The railroad, in the next few years, can keep sufficient equipment in service, particularly with the recent acquisition of eight long-distance coaches from the Southern Railway. In the long term, however, the form, style, and mechanical aspects of passenger train service in Alaska must be re-evaluated.

It should be clear from previous portions of this report that if the State of Alaska is to have passenger train service on the Alaska Railroad, it will require a substantial public operational and capital subsidy. The freight and other revenues of the railroad have, in the past, been used as a subsidy supplement to the passenger revenue. This is known as "cross-subsidy"—taking freight income to pay for passenger operating expenses. However, the authors feel that such cross subsidization is not in the best interest of the ARR, if the railroad is to function efficiently as a business enterprise within the state's total transportation system.

In the "Finances" section of this report, we attempted to ascertain more accurately the revenue and expenses of freight and passenger service (page 20). Our analysis indicated that the cost of passenger service is reasonable when comparing the number of passenger trains operated to the total number of trains. Therefore, the operational costs for passenger service appear to be appropriate. The problem is that there are simply an insufficient number of passengers to pay operational costs. Raising fares to provide revenue equal to such operational costs would reduce the number of passengers served, leading to a continu-

ation of the deficit.

Revenue and expenses have been allocated between passenger and other categories. The results of these allocations may be found in Table 24. In each of the past 3 years, passenger service has shown a substantial loss while freight and other railroad services have shown a gain. This is true even in the light of unfavorable economic conditions and low traffic volumes during these years. The financial losses in passenger service have been sufficient to cause the Alaska Railroad to have an overall loss. Thus, cross-subsidization of passenger service by freight service clearly is detrimental to the railroad. The subsidy required for each passenger carried was as follows: 1978—\$38.41; 1979—\$27.87, 1980—\$38.57.

It should also be noted that in this analysis the passenger service received credit for revenue from the vehicles as well as the passengers hauled on the Portage-Whittier shuttle service and for mail and baggage revenues.

|                          | FY 1978 | FY 1979 | FY 1980 |
|--------------------------|---------|---------|---------|
| <b>Passengers</b>        |         |         |         |
| Revenue                  | \$1.50  | \$1.96  | \$2.09  |
| Cost Expenses            | 6.35    | 6.17    | 7.60    |
| Gain (Loss)              | (4.85)  | (4.21)  | (5.51)  |
| <b>Freight and Other</b> |         |         |         |
| Revenue                  | 27.48   | 23.19   | 26.80   |
| Cost Expenses            | 23.97   | 22.10   | 23.59   |
| Gain (Loss)              | 3.49    | 1.09    | 3.21    |

Note: Depreciation is not included but may be found elsewhere in the report.

Sources: Alaska Railroad reports; Interstate Commerce Commission investigation; computed by Institute of Social and Economic Research, University of Alaska, and Sivens and Associates, Inc.

Passenger service is important to Alaska, it is a service that can and should be provided by the ARR. However, the interests of the railroad and the state would best be served if passenger and freight service were separated both operationally and by cost accounting. In that way, passenger service would still be provided as required and requested, but with the understanding that the service requires public subsidy.

## RESTRUCTURING ALTERNATIVES

Congress may soon pass legislation for the transfer of the Alaska Railroad from the Federal Railroad Administration, U.S. Department of Transportation, to the State of Alaska. Before such a transfer can take place, the State of Alaska must determine the organizational structure it will use to own and operate the railroad. This organizational structure will most probably become the basis for state legislation.

A potential approach to the state's ownership and operation of the ARR in the period of transition is discussed on pages 34 and 35 of this report ("Alaska Railroad Transition"). The purpose of this section is to describe various organizational alternatives for the state to consider before it selects the most appropriate organization for the Alaska Railroad.

### Existing Organizational Limitations

In selecting an appropriate organization for a state-owned and/or state-operated Alaska Railroad, policymakers must understand the limitations of the existing organizational structure in order to perpetuating them. These limitations are described below:

- **Inability to Obtain Adequate Capital Investment Funds.** Although the Alaska Railroad, like any rail property, is capital intensive, the ARR has no continuing means for obtaining adequate funds for essential capital investments. All capital costs for the Alaska Railroad have been obtained out of the revenue generated by the railroad or from Congressional appropriations. The railroad is debt free, which is advantageous. However, the funds available from the two current capital sources, revenue and appropriations, have been insufficient to modernize much of the car fleet and other equipment including passenger cars. The process for obtaining the needed capital appropriations is difficult and usually political, providing the railroad with little assurance that the required funds will be available when necessary. The funding mechanisms presently available also make it impossible for the ARR to realistically plan and budget more than a year in advance. There is a need for the Alaska Railroad to be able to borrow capital investment funds and/or to raise such funds from a variety of public and private sources.
- **Marketing is Difficult Because of Competitive Issues.** As a federal agency, the Alaska Railroad faces difficult marketing conditions. If the railroad markets aggressively, other transportation firms allege that the reason for the railroad's traffic

success is public financial support. On the other hand, the lack of adequate marketing may result in the need for public subsidy. The Interstate Commerce Commission (ICC) was mandated by the Staggers Rail Act of 1980 to investigate such allegations. The ICC study has been completed and found that the questioned rates charged by the Alaska Railroad are compensatory and do not constitute predatory pricing, as was alleged by some of its marine and highway competitors. The Alaska Railroad needs the freedom to aggressively market its transportation services.

- **Management Does Not Have Required Flexibility.** Alaska's economic activity is dynamic, which means that rail service needs also change frequently. Under its federal agency status, the Alaska Railroad management does not have the flexibility required to be responsive to changing rail service needs. Even though the railroad has enjoyed a certain autonomy through the years, there are endless federal regulations which must be followed in the transactions of daily business. The ARR management needs flexibility in operating the railroad if they are to make it a self-sufficient component of Alaska's economy and if the ARR is to contribute its full capability to Alaska's overall development.
- **Employees are Unsure of Their Status.** Most of the employees of the Alaska Railroad belong to unions in addition to being federal agency personnel. Therefore, the employees are uncertain whether they work for a railroad or for a federal agency. In effect, the railroad personnel have two sets of rules by which personnel matters are settled, and often these regulations conflict, causing confusion and sometimes hampering performance. They certainly make administration of the property difficult.
- **Needs for Rail Services Have Changed.** The Enabling Act for the Alaska Railroad established as primary purposes for the railroad the connection of Interior Alaska with open Pacific Ocean harbors and the stimulation of development. These purposes have either been fulfilled or are no longer applicable. There has not been a recent policy evaluation or a determination for various aspects of rail service in Alaska based on the changes which have occurred. These include such changes as:
  1. Statehood.
  2. Energy development in Alaska.
  3. Changes in Alaska ports and port development.

4. Marine transportation interface changes.
5. Railroad deregulation and availability of contract rates.
6. Less reliance on rail transport for defense installations.
7. Improvements in nonrailroad transportation in Alaska.

Due to these circumstances, the state must clearly determine the role that the Alaska Railroad should now play as part of the Alaska transportation system.

- **Alaska Railroad is Burdened with Federal Agency Requirements.** The Alaska Railroad, in addition to the requirements placed on other common carriers by federal regulations, must also meet various federal agency requirements. Because it is a federal agency, numerous reports are required of the railroad that do not conform to railroad practices or procedures. The railroad must, therefore, spend time trying to force its operation into a format which was designed for other federal agencies. This results in nonproductive time and increased documentation either in preparing reports of no significant management value, explaining why the Alaska Railroad cannot comply with federal requirements, or explaining what was reported in an attempt to comply with external demands.
- **Procurement is Cumbersome and Slow.** The Alaska Railroad must follow federal procurement regulations. Since the Alaska Railroad is the only railroad owned and operated by the federal government, the equipment, materials, and supplies for the railroad are not common federal agency purchases. There are unnecessary delays in obtaining essential supplies and equipment which often limit the railroad's ability to either anticipate or react to market opportunities. The procurement process is also a public process which tends to preclude negotiated purchases and requires direct cash outlays, thereby increasing the costs.
- **Passenger Service is Subsidized by Freight.** Railroad passenger service is more of a social service than a business. Fares (which could be higher than they currently are) cannot be raised sufficiently to cover the true cost of the service. However, rail passenger service is publicly subsidized throughout the United States and the rest of the world. Since the rail freight service is used to subsidize passenger service in Alaska, the public has had to provide the Alaska Railroad with tax revenues for its operation, maintenance, and rehabilitation from

time to time. The accounting system on the Alaska Railroad does not adequately separate the freight and passenger costs for railroad expenses. There is a need to separate the freight and passenger costs and to allocate the passenger cost to the public as a social service.

- **Alaska Railroad Cannot Negotiate Solutions to its Problems.** As a federal agency, the Alaska Railroad has a high degree of public visibility. This tends to preclude the ARR's negotiating solutions to its problems or taking advantage of business opportunities. In the past, the railroad has been able to make certain business decisions without the necessity of Washington approval. Recently, however, there appears to be a shift toward centralization of decision making which prevents negotiations for business within Alaska.

#### Railroad Perspective: Public Service or Business?

The history of the Alaska Railroad bears out this split perspective of the railroad, is it public service or business? Viewed historically from a public service perspective, the Alaska Railroad has been a success. It has generally accomplished its public service mission by connecting Interior Alaska with open Pacific Ocean ports. The railroad has assisted in developing the urban communities in what has been called the "Railbelt" of Alaska. The ARR serves Alaska's coal fields; it has opened up the Matanuska Valley agricultural areas; it has fostered settlement of public lands. In addition, the ARR has moved large volumes of commodities to and from Alaskan communities and between them at a reasonable cost. Products have been made available at affordable transportation costs. The movement of military personnel and material by rail has aided the national defense structure. The railroad has also provided passenger trains as a public service function.

However, the view of the Alaska Railroad from the business perspective has been less clear and more intermittent. The business perspective involves railroad economics—meeting fully allocated costs plus a return on the investment. The Alaska Railroad has generally not been a profitable business enterprise, except for a few years of substantial traffic resulting from the war or pipeline construction.

This dichotomy between public service and business railroad operation has been reflected in the management and personnel of the Alaska Railroad. Marketing of the railroad's services, as previously mentioned, has also reflected this conflict of perspective. The management decisions which have been made on the railroad have, on occasion, reflected

both the public service and the business perspectives.

Faced with the prospect of state ownership and (or) operation of the Alaska Railroad, the decision-makers in the State of Alaska must decide whether the property is to be governed from a public service or a business orientation. The long-range implications of this decision for the people of Alaska are significant. Much debate, discussion, and careful consideration will be required to determine this policy, and the state must also consciously decide where to draw the line between the public service and business sectors of the enterprise.

One major implication of the state's railroad perspective is in the selection of the organizational alternative for the Alaska Railroad. The organizational structure chosen by the state will not assure that the railroad will be operated from the perspective selected, but the appropriate organization can help to facilitate its operation within the framework established by the State of Alaska.

Finally, the transfer of the ARR to the state will provide Alaska with an opportunity to benefit from the railroad's past experience under federal government operation and resolve the uncertainty and conflicts of running the railroad as a public service versus a business operation.

#### Assumptions and Criteria for a State Railroad Organization

The following assumptions concerning the railroad and its relationship to the state were used to develop the criteria and proposals for an organization to operate a state-owned railroad:

1. The Alaska Railroad is to be transferred to the State of Alaska without direct compensation of the federal government, but with indirect costs to the state for existing liabilities and any requirements for capital investments.
2. The State of Alaska wishes to operate the railroad in the most efficient manner, minimizing the cost to the taxpayers of the state.
3. The Alaska Railroad is an important element of the state's transportation system, and any state investments relating to transportation will be made with full recognition of the importance and intermodal nature of the railroad.
4. The Alaska Railroad can and will be responsive to changing needs and opportunities for transportation services.
5. The railroad revenues are to be used to provide essential rail service, maintain and

- improve railroad property, and meet operational expenses.
6. The public's capital investments are to be protected.
  7. The rail service rates are to remain competitive.
  8. Public railroad operational subsidies are to be minimized.
  9. Rail users are to receive good service, including adequate service frequency, an adequate number of cars, and appropriate car types.
  10. The Alaska Railroad is to cooperate with the state, local governments, ports, businesses, industries, and other transportation modes within established policies and legal constraints.

Establishing criteria designed to meet the rail service needs of Alaska will enable the state administration and legislature to evaluate the organizational alternatives subsequently described. Each organizational structure can be measured by the extent to which it satisfies the following criteria:

1. Ability to obtain access to public and private capital funds.
2. Freedom of management to make the railroad's operational decisions within established policies.
3. Clear-cut lines of management responsibility and accountability for decisions.
4. Marketing freedom within established policies and budgetary constraints.
5. Clear decision-making authority without a cumbersome and bureaucratic process.
6. Separation of freight and passenger service functions and accounting.
7. Ability to efficiently procure necessary supplies, equipment, services, and materials within appropriate policies and budgetary authority.
8. Management capability to make long-term commitments within established policies.
9. Management freedom to negotiate solutions to problems and to take advantage of service opportunities.
10. Industrial development capability on Alaska Railroad land.
11. Performance-based personnel management, including the direct ability to hire, fire, promote, train, supervise, and direct required railroad employees.
12. Ability to provide financial and other incentives for performance.

We recognize that it may not be possible or

acceptable to have a state organization which fully meets all of these criteria. However, these criteria are important in defining the long-term objectives for the Alaska Railroad. The State of Alaska should seek an acceptable organizational structure which will enable the railroad to operate as effectively as possible within these areas.

#### Organizational Alternatives Considered

When we began this study, various alternatives were considered possible. Among these were:

- Keeping the status quo—letting the ARR continue to operate as a federal agency.
- Allowing the ARR to operate as a federal agency corporation like the Consolidated Railroad Corporation (Conrail) or Amtrak.
- Selling the ARR to private investors.

However, during the early stages of this study the federal government made clear its intentions to divest itself not only of the ARR, but also of Conrail and Amtrak, which precluded the first two alternatives. Further, the difficulty a private investor would have in financing the marginally profitable ARR, in addition to the complex issue of unresolved land-transfer problems, effectively precluded the third alternative. Thus, there emerged but three remaining alternatives that seemed to offer workable opportunities for the ARR. These included the state (1) operating the ARR as a line agency of the state, (2) operating it as a state public corporation or authority, or (3) leasing it out for operation by a private party. We examine these three alternatives in the following paragraphs.

#### Three Possible Alternatives

##### The Railroad as a State Line Agency

Under this approach, the state would take title to the railroad in a manner similar to state ownership of such other transportation facilities as airports, the Marine Highway System, and state highways. However, we should note that the long-term availability of railroad assistance funding from the federal government, either for capital or operating purposes, is very uncertain. There currently exists no trust fund for railroads as there is for airports or highways.

Under this alternative, the Alaska Railroad would logically be made a division or some other unit of the Alaska Department of Transportation and Public Facilities. The railroad personnel would therefore become employees of the state with all of the benefits available to other state employees.

Policy direction for the Alaska Railroad as a

state line agency would come from the governor, from the legislature through normal legislative processes, and from the commissioner of the department involved.

There are several advantages to establishing the Alaska Railroad as a state line agency. The management lines of authority and responsibility would be clear. The institutional structures and resources of the State of Alaska could be readily available for use on the railroad. Alaska Railroad employees would have the fringe benefits and other advantages of state employment, including reasonable job protection. Since the railroad already has a cadre of experienced and trained operational personnel, the transition from federal agency status to state agency status would be easier than other alternatives.

However, there are also significant disadvantages in organizing the railroad as a state line agency. The ARR would encounter most of the same limitations as a state agency as it now does as a federal agency. One of the most critical limitations would be the inability to obtain essential capital investment funds except by state appropriations. The competitive issues related to marketing, management flexibility, state agency regulations, procedures and requirements; the potential for even more direct political influence on operational decisions; and the public-service-versus-business-orientation questions are all disadvantages of this approach.

While the state agency alternative should be considered, it clearly does not meet most of the criteria established for a viable railroad organization. If the Alaska Railroad is to adequately fulfill its transportation role within its technological limitations, a state agency organizational structure is the least desirable of the three alternatives discussed in this report. It would be unfortunate if the State of Alaska were to place the Alaska Railroad in an organizational structure that perpetuated the limitations of federal agency status.

#### The Railroad as a State Public Corporation or Authority

There are precedents for this approach, both nationally and internationally. The West Virginia Railroad Maintenance Authority and the British Rail Corporation, with some variations, will serve as examples.

The West Virginia Railroad Maintenance Authority. The State of West Virginia has since 1975 owned and operated a railroad<sup>17</sup> similar in some ways to the ARR. The West Virginia Maintenance Authority (WVMA) consists of seven part-time

<sup>17</sup>The West Virginia Railroad carries no commercial passengers.

members, including the governor as an ex-officio member. The other six members are appointed by the governor, with the consent of the state senate, for staggered 6-year terms. The authority selects its own officers and appoints an executive director (the chief administrative officer). The employees of the authority in West Virginia work for the state and are non-union.

The WVMA has all the powers needed to own and operate a railroad. These powers include the ability to plan, carry out projects, acquire property, sell or transfer property, contracts, and sue or be sued. The WVMA may raise capital via railroad authority revenue bonds. It may also acquire railroad rights in other states. In addition, the authority has the power of eminent domain.

The railroad experience in West Virginia has been generally successful, and with some modification, lessons learned there may be applicable to Alaska.<sup>18</sup>

The British Rail Corporation. Since its inception in the late 1940s, British Rail has operated as a profit-oriented transportation company, providing both freight and passenger service. A government-appointed chairman and an autonomous board of directors provide general policy for running the corporation, with each director responsible for a particular facet of the operation (passenger, maintenance, capital investment, etc.).

British Rail's chief executive is responsible to the board and the chairman, at the same time serving as a member of the board. The principal officers of British Rail serve at the pleasure of the Chief Executive.

The levels and nature of British Rail's passenger service are negotiated between the government and the corporation, with the government paying for passenger service provided.

British Rail's capital investment package overseen by the Minister of Transport includes a 5-year plan, the first 3 years of which are fixed. This establishes the capital limits, within which investments must fall. British Rail can only borrow through the government, and major projects must be approved by the Minister of Transport.

The ministry of Transport, through its Railways Division, oversees the capital investment program of British Rail. It also has some safety responsibilities. Regulation is not institutionalized. The marketplace drives most policy decisions of British Rail.

<sup>18</sup>A copy of the West Virginia Maintenance Authority Act is on file at the Alaska Department of Transportation and Public Facilities.

Like the West Virginia Railroad Authority, the British Rail Corporation offers a potential organizational model for the Alaska Railroad. If the Alaska Railroad, under state jurisdiction, were organized as an authority or public corporation under carefully worded state legislation, most of the federal agency limitations could be removed. Properly established under this approach, the Alaska Railroad could meet all of the criteria previously outlined for a state railroad organization.

The principal advantages of a public corporation or authority alternative are an ability to obtain access to required capital funds and freedom to manage and operate the railroad within policies established by a board. Management can be given flexibility and responsibility and can also be held accountable for its decisions. Passenger service can be accounted for separately and not subsidized by freight service. The state could determine the appropriate levels, locations, and other areas of passenger train service in accordance with their willingness to pay for the service selected. The freight rail service could be marketed and required to meet fully allocated costs. Thus, under this organizational scheme, it might be possible to reach a compromise between the public service and business purposes of the railroad.

#### A State Railroad with Private Operations

A third alternative would be for the State of Alaska to own the railroad and contract with private enterprise to provide for operations. The main difference between this and the other alternatives is the operation of the Alaska Railroad by a private organization.

Several states, such as South Dakota and Oklahoma, are using this approach. These states, among others, have experienced abandonment of significant rail lines that they considered essential to their economy and transportation systems. These are using state and federal funds to acquire and rehabilitate extensive rail lines. The Department of Transportation, as a representative of the state, takes title to the rail property (usually excluding rolling stock). The state then selects a private railroad with the required management experience, skills, and interest in operating its equipment over the line to furnish shippers and receivers with rail service. An operating agreement is negotiated with the private common carrier for rail service. The operational limitations of the railroad can be whatever the state and the railroad agree upon.

The negotiated operating agreement can include such provisions as the assignment of maintenance responsibilities; liabilities; frequency, level, and type

of rail service; car supply; revenues; and costs. Thus, all of the appropriate criteria for a state railroad organization can be reflected in the operational agreement. This can even extend to the provision of required capital.

A major advantage of this approach is that once the operating agreement has been negotiated, the state has only a supervisory or overseer responsibility, plus whatever financial requirements have been determined by the negotiations. The railroad operations can include public service rail requirements as well as being performance based.

A substantial difficulty with this alternative for the Alaska Railroad is that no private railroad carrier is operating within the state. Too, there is the problem of the existing Alaska Railroad personnel. While the present railroad employees have the necessary knowledge of railroad operational peculiarities in Alaska, these are federal agency employees, with long-term rights rather than private employees whose rights are subject to negotiation. This could present such a significant liability to prospective private operators that it might be difficult to find interested parties. This approach, therefore, may be impractical unless the responsibility for the current Alaska Railroad personnel is assumed by the Federal Railroad Administration, while a private carrier, with the necessary qualifications, can be attracted as the operator. However, no one knows at this time whether or not such a private operator exists.

One variation to the alternatives described above is a concept under consideration in Iowa. It is an old concept which has proved successful in other organizations but which is new in its application to railroading. It involves the use of a general partner and limited partnerships.

A limited partnership is a very flexible institutional arrangement which could potentially attract substantial private capital. A major consideration in developing this institutional approach is the designation of the general partner. In order to legally establish a limited partnership, at least one financially responsible general partner must be found or established. The State of Alaska could establish an organization which could become the general partner for this railroad venture. Although limited partners are not subject to liability beyond their investment in the partnership, there is usually no limit to the liability of the general partner.

A limited partnership is, by law, a nontaxable entity. All gains or losses from the venture flow directly back to the investors (partners) for tax purposes. Partnerships are thus attractive because (1) there is no double taxation of income as with

corporations and (2) partners can take full tax advantage of loans, depreciation allowances, and tax credits. The ability to take advantage of depreciation allowances will become more important if the Reagan Administration's accelerated depreciation proposal is enacted. It would be necessary, of course, to examine legal constraints in Alaska for public involvement in limited partnerships. In Iowa, there is no apparent constitutional prohibition against public involvement in such arrangements.

It may be possible in such a limited partnership to attract rail users, businessmen, private individuals, and Alaska Railroad employees, among others. Thus, it would be advantageous to those with direct rail interests to see the Alaska Railroad succeed as a business venture while offering only limited individual liability. The idea and concept may be worthy of further consideration.

#### Alaska Railroad Transition

##### Transition Legislation and Problems

As noted earlier, the Federal Railroad Administration (FRA) has determined that the original intent of the Enabling Act for establishing and operating the Alaska Railroad has been met and federal responsibilities discharged. Thus, for the past several years, several federal administrations and the Department of Transportation have discussed divestiture of the Alaska Railroad by the federal government. However, it has only been since January 1981 that the decision was made to prepare legislation for such a divestiture and implementation steps taken.

The FRA has shown some urgency in getting the transfer legislation introduced and passed. This urgency results from a reduction of employees in the Federal Railroad Administration, as well as desire to cut the capital fund request of the Alaska Railroad. FRA's schedule calls for passing the legislation this fiscal year. The legislation proposes that the State of Alaska meet the transfer conditions within one year of enactment of the legislation. The draft legislation also provides for transferring the Alaska Railroad to other interested parties should the State of Alaska not meet the conditions for transfer within this time period.

The proposed legislation further embodies a number of discretionary "strings" attached to the transfer which would enable the federal government to ensure that the State of Alaska own and operate the Alaska Railroad in a manner commensurate with FRA's preconceived ideas. Failure by the state to conform to the provisions of the Act would be grounds for the FRA to reclaim the railroad within a 10-year period. The rationale for the continuing

federal interest in the Alaska Railroad is predicated upon the offer of a no-cost transfer to the state.

In summary, there are numerous problems associated with the transfer of the Alaska Railroad from federal to state ownership. Federal transfer legislation will likely be passed by Congress before these problems have been resolved. The U.S. Department of Transportation has not determined the land, the structures, the right-of-way, nor equipment to be included in the transfer. Arrangements have not yet been made to provide for an orderly transfer of the employees from federal agency status. There is no organizational framework established within Alaska to accept the ownership, operation, or employees of the railroad. The FRA is anxious to relinquish ownership, operation, employee, and funding responsibilities of the Alaska Railroad. This could potentially result in postponement of major ARR operational decisions. Such postponement could jeopardize the smooth long-range operation of the railroad and perhaps result in lost traffic—an event not in the best interest of Alaska. In addition, the employees are left in a state of "limbo," not knowing for whom they will work, if they will have a job, how the transition will occur from federal employment, or what happens to the benefits received as a federal employee. The employees lack information, and many of their questions cannot be satisfactorily answered at this time.

State legislation will probably be required to accept the transfer of the Alaska Railroad. The state, however, has made no decision on the transfer question or on the organizational structure required to own and/or operate the railroad. The current railroad assets, obligations, and liabilities have not clearly been defined, which leaves the state with inadequate information on the short- and long-term financial and other requirements accompanying the proposed transfer.

The railroad needs to continue operation without disruption, since disruption would detrimentally affect the state's economy and economic development. And this would come when economic activity is quickly increasing.

These are some of the more important transitional problems. Unfortunately, these problems have not yet received the attention needed to determine their full implications. Time and additional efforts are required to provide the Alaska decision-makers with the information necessary to act in the best interest of the state. The complexities and extent of these transitional problems are likely to result in legal actions and court adjudication. A transitional bridge is needed to facilitate the smooth transfer of the Alaska Railroad from the federal government.

### An Orderly Transition

Even if we assume that satisfactory federal legislation can be drafted and passed by Congress for the transfer of the Alaska Railroad from federal to state ownership, there will remain a significant period for transition. Along with land, employee, competition, and various obligation problems, the smooth transition to state ownership and operation is a most perplexing problem. How the transition is handled will have either a positive or adverse impact—long term as well as short term—on the railroad and its operations as well as on the State of Alaska.

During this transitional period, certain needs must be met if the railroad is to fulfill its important and special transportation function in Alaska. These include the need to:

- Continue the freight and passenger operation of the Alaska Railroad.
- Preserve as many potential operational and organizational alternatives for the state as possible.
- Provide adequate legal protection for the Alaska Railroad throughout the transitional period.
- Provide interim protection and transitional assistance for the employees of the Alaska Railroad.
- Provide adequate time for adjudicating the legal issues which have been raised by the

transfer question, such as land title, equipment and railroad property, employee rights and benefits; existing or pending court cases, railroad agreements, contracts, and obligations.

- Establish an orderly process and procedure for solving problems which have been identified or which may arise during the transition.
- Provide the time required for the state administration and the legislature to consider the issues, to seek solutions to problems, and to deliberate carefully on the implications of each proposed state legislative bill without being faced with a stringent schedule and a crisis-type atmosphere.

Given the general mood of the Reagan Administration and the Congress to reduce federal expenditures and the federal perception of great Alaskan wealth, it is quite possible that Alaska Railroad transfer legislation will be passed this year. The State of Alaska will probably be faced with the need for a package of legislation which sets the tone and organizational framework for state ownership of the railroad if Congress passes transfer legislation. Under these circumstances, there is a genuine need to provide for an orderly transition from federal to state ownership. Sufficient time must be allowed to work out the myriad transitional problems.

\* \* \* \* \*

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HOUSE BILL 485

I HAVE INTRODUCED HB 485 -" AN ACT AMENDING PROVISIONS RELATING TO A SOLICITATION FOR OFFERS TO PURCHASE OR OPERATE THE ALASKA RAILROAD AND PROVIDING FOR AN EFFECTIVE DATE" TO CLARIFY SOME QUESTIONS REGARDING THE ALASKA RAILROAD CORPORATION ACT.

ON JULY 6, 1984, SCS CSHB 512 (FIN) WAS SIGNED INTO LAW. THIS ACT ESTABLISHED THE ALASKA RAILROAD CORPORATION TO MANAGE AND OPERATE THE ALASKA RAILROAD. THE CORPORATION OFFICIALLY TOOK OVER THIS RESPONSIBILITY ON JANUARY 6, 1985, ONE DAY AFTER THE ALASKA RAILROAD WAS TRANSFERED TO STATE OWNERSHIP.

THE STATE OF ALASKA PURCHASED THE ALASKA RAILROAD FOR \$22.3 MILLION. AN ADDITIONAL \$10.9 MILLION WAS APPROPRIATED BY THE LEGISLATURE FOR OPERATING AND CAPITAL EXPENSES. THIS VALUE WAS DERIVED BY DETERMINING:

- A. THE PRESENT VALUE OF THE RAILROAD'S NON OPERATING REAL ESTATE, THIS WAS VALUED AT \$47.8 MILLION
  
- B. THE PRESENT VALUE OF CONTINUING RAIL OPERATIONS BEYOND TEN YEARS IN PERPETUITY (INCLUDING START UP COSTS)  
THIS WAS DETERMINED TO BE A NEGATIVE VALUE OF \$25.5 MILLION.

QUESTIONS CONCERNING THE REVERSION CLAUSES BOTH IN THE STATE AND FEDERAL ACT OFTEN ARISE.

SECTION 610 (a) TITLE 6 OF THE FEDERAL ALASKA TRANSFER ACT STATES:

IF WITHIN TEN YEARS AFTER THE DATE OF TRANSFER TO THE STATE ANY OR ALL OF THE REAL PROPERTY TRANSFERRED TO THE STATE IS CONVERTED TO A USE THAT WOULD PREVENT THE STATE OWNED RAILROAD FROM CONTINUING TO OPERATE, THAT REAL PROPERTY INCLUDING PERMANENT IMPROVEMENTS TO THE PROPERTY SHALL REVERT TO THE UNITED STATES GOVERNMENT, OR, THE STATE SHALL PAY TO THE UNITED STATES GOVERNMENT AN AMOUNT DETERMINED TO BE THE FAIR MARKET VALUE OF THAT PROPERTY AT THE TIME OF CONVERSION.

IF WITHIN 5 YEARS AFTER THE DATE OF TRANSFER THE STATE SELLS OR TRANSFERS ALL OR SUBSTANTIALLY ALL STATE OWNED RAILROAD TO AN ENTITY OTHER THAN AN INSTRUMENTALITY OF THE STATE, THE PROCEEDS FROM THE SALE OR TRANSFER THAT EXCEED THE COST OF ANY REHABILITATION AND IMPROVEMENTS MADE BY THE STATE AND ANY NET LIABILITIES INCURRED BY THE STATE, SHALL BE PAID INTO THE GENERAL FUND OF THE TREASURY OF THE UNITED STATES.

SECTION 610 - THE FEDERAL REVERSION CLAUSES ALSO PROVIDES FOR REVERSION REQUIREMENTS IF THE STATE DISCONTINUES USE OF RIGHT OF WAY LAND, OR LAND WHICH LIES WITHIN THE BOUNDARIES OF DENALI NATIONAL PARK OR THE CHUGGACH NATION FOREST BOUNDARIES.

THESE ARE THE FEDERAL REVERSION REQUIREMENTS. THE ALASKA RAILROAD CORPORATION ACT SEC. 42.40.260 (B) STATES: EVERY FIVE YEARS THE ANNUAL REPORT OF THE ALASKA RAILROAD CORPORATION SHALL INCLUDE AN ANALYSIS OF POTENTIAL SALE ARRANGEMENTS WHEREBY THE CORPORATION MAY BE TRANSFERRED INTO PRIVATE OWNERSHIP. THE ANALYSIS SHALL INCLUDED DOCUMENTATION OF AT LEAST THREE OFFERS TO SELL THE CORPORATION INITIATED BY THE CORPORATION DURING THE LAST FIVE YEARS.

COMMITTEE SUBSTITUE HOUSE BILL 485 (TRANSPORTATION) DELETES THE REQUIREMENT FOR THE ANALYSIS TO INCLUDE DOCUMENTATION OF AT LEAST THREE OFFERS TO SELL THE CORPORATION. RAILROAD MANAGEMENT HAS STATED SEVERAL CORPORATIONS HAVE EXPRESSED AN INTEREST IN PURCHASING THE ALASKA RAILROAD. TO DATE, NO FORMAL REQUEST FOR PROPOSALS HAVE BEEN REQUESTED BY THE CORPORATION. BY DELETING THE REQUIREMENT TO DOCUMENT AT LEAST THREE OFFERS TO SELL THE CORPORATION, WE ARE OPEN TO CONSIDER ALL OFFERS. IN ORDER TO DETERMINE WHETHER OR NOT WE WOULD CONSIDER CERTAIN OFFERS, WE NEED TO KNOW WHAT SORT OF OFFERS ARE OUT THERE. MANY TIMES IN NEGOTIATING SUCH SALES WE LIMIT OURSELVES TO A NARROW CRITERIA WE FEEL WE NEED TO MEET. INSTEAD, THIS WOULD ALLOW US TO VIRTUALLY SAY, "BRING ALL OFFERS YOU HAVE RECEIVED IN THE LAST FIVE YEARS TO US FOR CONSIDERATION". WHILE ONE PARTICULAR OFFER MAY NOT MEET SOME OF THE NARROW CRITERIA WE INITIALLY THOUGHT WAS NECESSARY, IT MAY OFFER US SEVERAL OTHER VALUABLE ALTERNATIVES WE HAD NOT CONSIDERED.

AS THE ALASKA RAILROAD IS A VALUABLE IN-STATE TRANSPORTATION MODE, WE NEED TO NOT ONLY LOOK AT THE "BOTTOM LINE" BUT WE MUST ALSO LOOK AT IN STATE TRANSPORTATION NEEDS AND ALTERNATIVES. WE MUST CONSIDER IF ANY PROPOSED SALE IS TRULY IN THE STATE'S BEST INTEREST OVERALL. TO DO THIS WE NEED TO EVALUATE ANY AND ALL OFFERS, AND WEIGH THE ADVANTAGES AND DISADVANTAGES IN ALL AREAS.

HOUSE BILL 485 PROVIDES US THIS OPPORTUNITY. THE ORIGINAL TRANSFER ACT REQUIRES AN ANALYSIS FOR POTENTIAL SALE ARRANGEMENTS TO BE CONSIDERED WITHIN 5 YEARS OF THE TRANSFER DATE. HOUSE BILL 485 ESSENTIALLY BROADENS THE LANGUAGE TO ALLOW US TO CONSIDER ALL OFFERS RECEIVED WITHIN THE FIVE YEAR PERIOD.

I FEEL THIS WILL ENABLE US TO PROPERLY EVALUATE POTENTIAL SALE OFFERS IN ALL AREAS AND THUS MAKE A DECISION THAT IS IN THE STATE'S BEST TRANSPORTATION AND FINANCIAL INTERESTS

THANK YOU FOR LISTENING. I URGE YOUR SUPPORT OF HB 485.

# PROPOSAL TO SELL AK RAILROAD

## (A) ASSET APPRAISAL & INVENTORY

- 1-Land
- 2-Equipment
- 3-Facilities
- 4-Other Assets

## (B) COSTING ANALYSIS BY TYPE OF SERVICES

- 1-Freight
- 2-Coal (local & export)
- 3-Gravel
- 4-Petroleum
- 5-Pipe
- 6-TOFC-COFC
- 7-Interline
- 8-Passenger (Anch.-Fairbanks,Whittier,Seward & Charters)

## (C) DETAILED MARKETING PLAN

- 1-Freight
- 2-Passenger
- 3-Real Estate
- 4-Other

## (D) LONG-RANGE PROFITABILITY ANALYSIS

- 1-Pro-Forma Financials
- 2-Real Estate Potential

## (E) MODELS FOR FINANCING PURCHASE

- 1-Hiring of an Investment Banker

## (F) DETERMINATION OF LIQUIDATION VALUE

## (G) DEVELOP REPLACEMENT COST DATA

- 1--Land
- 2-Equipment
- 3-Facilities

## (H) RISK MANAGEMENT ANALYSIS

## (I) STATUS OF TITLE TRANSFER

- 1-Outstanding Issues ( Federal Transfer Act )
- 2-Native Claims

## (J) ANALYSIS OF LEGAL CLAIMS

(K) ANALYSIS OF LABOR CONTRACTS

- 1-Impact of Federal Transfer Act
- 2-Retirement Benifits (Federal & Corporation)
- 3-What kind of employee protection

(L) DETERMINE TYPE OF SALE (ANALYSIS)

- 1-Whole
- 2-Part
- 3-Combination

(M) DETERMINE STRUCTURE OF SALE (ANALYSIS)

- 1-Lease
- 2-Lease / Purchase
- 3-Outright Purchase
- 4-What Services To Be Retained

(N) IDENTIFICATION OF PROSPECTIVE BUYERS

PREPARED FOR HOUSE TRANSPORTATION COMMITTEE

H.B. 485

2-24-88 / G.D. VALINSKE

# HOUSE COMMITTEE REPORT

(7)

Date referred: 2/15/88

FURTHER REFERRALS: Labor & Commerce

DATE: 2/24/88

The Transportation Committee has considered HB 485

"An Act amending provisions relating to a solicitation for offers to purchase or operate the Alaska Railroad; and providing for an effective date."

### RECOMMENDS:

- replace with CS HB 485 (TRSP)  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
- zero with analysis  same as previous zero fiscal note published \_\_\_\_\_

### SIGNING DO PASS:

Mike Miller  
Heather Smith  
Bill Hanks  
Wendy Kooze  
D. G. Parker  
Bette Cato

### SIGNING OTHER RECOMMENDATIONS:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Bette Cato  
Chairman's signature



FOR ALL MEMBERS ON THE HOUSE

FACT SHEET - BETTE CATO

*Bette Cato*

HOUSE BILL NO. 485

An Act Amending Provisions Relating to a Solicitation for Offers To Purchase or Operate the Alaska Railroad; and Providing for An Effective Date.

1. WHAT THIS BILL DOES.

HB 485 deletes the second sentence of AS 42.40.260 (b) which is part of the 1984 Alaska Railroad Corporation Act ("ARCA"). Although every five years the Alaska Railroad Corporation's ("ARRC") annual report would continue to analyze potential sales arrangements to private owners, it would not be required to document at least three offers to sell its assets during the same period of time. This provision of the current law would be repealed.

2. IS THIS LEGISLATION REALLY NECESSARY?

Yes. When the State purchased the Alaska Railroad in January, 1985, it agreed to many sale terms. Those terms included a provision in the federal Alaska Railroad Transfer Act ("ARTA") which requires the State to turn over any profits of a subsequent sale to the United States, if the sale occurs within the first five years of State ownership. This period ends on January 5, 1990. Despite this onerous penalty, State law presently requires ARRC to make attempts to sell all or part of its assets during the same period of time! Since it is extremely unlikely that the legislature would approve an early sale under these circumstances, the huge and probably unnecessary cost related to researching, preparing, soliciting, and negotiating meaningful sale arrangements should be avoided by repealing this portion of AS 42.40.260 (b).

3. WILL THIS MODIFICATION PREVENT SALE OF THE RAILROAD OR DISCOURAGE ACTIVE SOLICITATION AND CONSIDERATION OF SALES POSSIBILITIES?

No. ARCA's section 940 will remain unchanged. It permits the governor to sell or lease the Alaska Railroad under certain conditions at any time. A sale must be approved by the legislature. In addition, the modification will not eliminate the legislature's original desire that ARRC pursue a disposal of its assets. Every five years, the corporation will continue to analyze transfer opportunities for the legislature's consideration.

4. IS A MODIFICATION WHICH SIMPLY EXTENDS THE TIME PERIOD FOR SOLICITATION OF SALES OFFERS A MORE ATTRACTIVE ALTERNATIVE?

No. Although the ARTA early sales penalty can certainly be avoided by extending the first deadline for solicitation of sales offers by ARRC beyond January, 1990, total repeal of the "three offers" requirement is preferable to continuing an artificial and wasteful stimulus to sales efforts. Instead, potential sales arrangements should be initiated by market opportunities and State needs. Sales profits should not be needlessly diminished by huge costs related to premature sales preparations. Additionally, in the interest of economy, efficiency, and fairness to those involved, only those offers which will clearly serve State needs and fulfill its expectations should be solicited. Unless HB 485 is passed, the railroad will be required to mechanically solicit disposal offers before the State has had an opportunity to consider what long-term railroad operations and operational alternatives will best serve its needs. Direction must be provided to those involved in the disposal process explaining how the railroad will be operated and under what terms and conditions it will be sold. Much time, money, and effort will be expended in the inventory and evaluation of railroad assets and operations, analysis of profitability projections, selection of sales alternatives and terms, identification of acceptable buyers and their qualifications, and negotiation of operating restraints and conditions.

HB

511

STATE OF ALASKA  
THE LEGISLATURE

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May, 1988

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

Mary Van Nimwegen

*House Transportation:*

*3/16/88*



Official Business

# Alaska State Legislature

House of Representatives

House Transportation Committee

P.O. Box V  
Juneau, Alaska  
99811

Phone:  
(907) 465-4859

March 16, 1988

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## COMMITTEE CALENDAR:

HB 511: "An Act relating to motor vehicle windshields and windows."

Confirmation Hearings on Mr. Mark A. Foster to the Board of Marine Pilots

FOR THIS MEETING, YOU HAVE BEEN GIVEN:

a folder on HB 511 that includes:

- item #1: HB 511
- #2: fiscal note & position paper:  
Department of Public Safety
- #3: a statement from Rep. Sund
- #4: statutes
- #5: a letter of support
- #6: a proposed amendment

a folder on the confirmation hearings:

- item #1: a resume from Capt. Howard Elsensohn
- #2: a resume from Mr. Mark A. Foster
- #3: a resume from Ms. Marlene Johnson

New Information: a letter from Ms. Shiela Gottehrer  
regarding Mr. Foster  
confirmation forms and witness  
register from the last hearings

FISCAL NOTE

REQUEST

Revision Date: \_\_\_\_\_ Agency Affected: Public Safety  
 Title: "An Act relating to motor vehicle  
windshields and windows" BRU: Alaska State Troopers  
 Sponsor: Rep. Sund Components: Detachments  
 Requestor: House Transportation

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING         | FY88 | FY89 | FY90 | FY91 | FY92 | FY93 |
|-------------------|------|------|------|------|------|------|
| PERSONAL SERVICES |      |      |      |      |      |      |
| TRAVEL            |      |      |      |      |      |      |
| CONTRACTUAL       |      |      |      |      |      |      |
| SUPPLIES          |      |      |      |      |      |      |
| EQUIPMENT         |      |      |      |      |      |      |
| LAND & STRUCTURES |      |      |      |      |      |      |
| GRANTS, CLAIMS    |      |      |      |      |      |      |
| MISCELLANEOUS     |      |      |      |      |      |      |
| TOTAL OPERATING   | 0    | 0    | 0    | 0    | 0    | 0    |

|         |  |  |  |  |  |  |
|---------|--|--|--|--|--|--|
| CAPITAL |  |  |  |  |  |  |
|---------|--|--|--|--|--|--|

|         |  |  |  |  |  |  |
|---------|--|--|--|--|--|--|
| REVENUE |  |  |  |  |  |  |
|---------|--|--|--|--|--|--|

FUNDING: (Thousands of Dollars)

|               |   |   |   |   |   |   |
|---------------|---|---|---|---|---|---|
| GENERAL FUNDS |   |   |   |   |   |   |
| FEDERAL FUNDS |   |   |   |   |   |   |
| OTHER         |   |   |   |   |   |   |
| TOTAL         | 0 | 0 | 0 | 0 | 0 | 0 |

POSITIONS:

|           |   |   |   |   |   |   |
|-----------|---|---|---|---|---|---|
| FULL-TIME | 0 | 0 | 0 | 0 | 0 | 0 |
| PART-TIME |   |   |   |   |   |   |
| TEMPORARY |   |   |   |   |   |   |

ANALYSIS: (Attach a separate page if necessary)

Passage of this legislation will not affect the level of traffic enforcement that currently exists, thus no fiscal impact is anticipated.

Prepared by: Francis C. Allan  
 Division: Alaska State Troopers

Phone: 269-5691  
 Date: 3/15/88

Approved by Commissioner: *Art G. D.*  
 Agency: Public Safety

Date: 3-16-88

Distribution: (by preparer):  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

BILL NO: HB 511

DATE: March 15, 1988

TITLE: "An Act relating to  
motor vehicle windshields  
and windows."

CONTACT: Col. Robert E. Jent  
269-5641

DEPARTMENT OF  
PUBLIC SAFETY

There is a concern among the public and the law enforcement community that vehicles with deeply tinted windows will inhibit the operator's vision and thus impair his/her ability to safely operate the vehicle. Further, law enforcement officers are concerned about approaching motor vehicles when they can not clearly see the operator from outside of the vehicle.

This well intentioned bill addresses a serious concern of the law enforcement community in Alaska. Unfortunately, difficulties are anticipated with the wording used in this legislation. Specifically Sec. 28.35.165(b)(1), (c)(1), and (c)(2). Without a clear, reasonable and sophisticated testing procedure, the percentage of light transmission capacity and luminous reflectance could not be adequately identified and thus the proposed statute would be unable to withstand a court challenge.

Other states have been attempting to deal with the concerns that are being addressed by this legislation. Resolution is unclear at this time. Problems exist related to achieving a balance between officer safety, privacy of citizens, and interference with interstate commerce. It is suggested that a thorough review be performed by the Department of Law relative to the complicated legal issues involved.

  
Arthur English, Commissioner  
Department of Public Safety

JOHN SUND, REPRESENTATIVE

2504 2nd Avenue  
Ketchikan, Alaska 99901  
(907) 225-5552

---

While in Juneau  
P. O. Box V  
Juneau, Alaska 99811  
(907) 465-4919

MEMORANDUM

March 9, 1988

TO: Rep. Bette Cato, Chair,  
House Committee on Transportation

FROM: Rep. John Sund

RE: House Bill 511

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This bill was introduced at the request of a member of the Ketchikan Police Department as a safety measure. (See attached letter from Corporal. James Janke.)

The bill would add a new section to AS 28.35 (Motor Vehicles -Miscellaneous Offenses,) to prohibit operating a motor vehicle with windshields or windows that obstruct the driver's clear view.

I have attached an amendment which would set the penalty at an infraction, (non-criminal, maximum fine \$300.-); if no penalty is specified, the offense would become a Class B Misdemeanor (90 maximum jail; \$1000 maximum fine).

This legislation would contribute to motor vehicle safety in three ways. First, it would prohibit operation with windshields that obstruct a driver's view in a manner that interferes with safe operation. Second, it would protect the police officer stopping a vehicle by allowing him or her to see inside the vehicle and spot potential trouble. Third, as Officer Jenke points out, it will allow a pedestrian to tell if the approaching driver is alert to his or her presence.

FEB 10 1988

February 6, 1988

The Honorable John Sund  
Alaska Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Mr. Sund,

I am writing this letter to you regarding a matter I feel is of grave importance to me and my fellow Police Officers. As you know, John, I am a Police Officer with the City of Ketchikan and have been for the past eight years. In recent years, I have noticed more and more vehicles being driven on our streets and highways with all or most of their windows tinted. The density of the tint varies from slight to completely dark.

My primary concern deals with the vehicles that do not allow one to see inside the vehicle, due to the tint. As a Police Officer, my life depends on my ability to view what is going on inside of a vehicle should I have to make contact with the occupants. Should I have occasion to stop a driver for suspected Driving While Intoxicated, I must know that the occupants in the vehicle have not exchanged drivers. The disadvantages of a Police Officer not being able to view what is going on inside a vehicle while it is on our streets and highways are endless, and obvious.

While describing my dismay of this problem to a concerned citizen one day, she pointed out to me that she also has a major concern about this problem. She went on to tell me that she refuses to cross a street when a vehicle is passing by her, when she cannot see the driver. She stated that is she can't see the driver, how does she know he can see her?

My own personal vehicle has factory tinted glass, but it is not so dark that you cannot see everything inside, this includes in the dark of night. Like I mentioned earlier, my major concern is vehicles with the "mirror" or "one way" tinted windows.

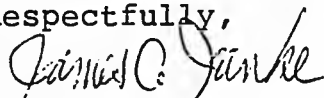
I telephoned your office earlier this week about this matter and talked to a very helpful John Hartle. I informed him at that time that I thought California has a law in effect regarding the "tinted window" issue. He advised me that your staff would research this issue and by the time you receive this letter, they should have some more information for you on this matter.

Honorable John Sund  
Alaska Legislature  
February 6, 1988  
Page Two

Mr. Sund, I would appreciate your time and effort on this matter, and hope that it can be resolved in a timely manner. I believe that this is a matter of grave concern to other Police Officers in our state and that they feel the same way I do.

In anticipation, thank you for your help.

Respectfully,



Cpl. James C. Janke  
Ketchikan Police Department  
361 Main Street  
Ketchikan, Alaska 99901  
(907) 225-6631

Home address:  
3760 Fairview Avenue  
Ketchikan, Alaska 99901  
(907) 225-6326

A M E N D M E N T

Offered in the HOUSE

By Sund

TO: HB 511

Page 2, after line 3:

Insert a new subsection to read:

"(d) A person who violates this section is guilty of an infraction."



Official Business

**COMMITTEE:**

House Transportation Committee

**DATE:** March 16, 1988

**SIGN-IN**

**Subject of meeting:**

\* HB 511: "An Act relating to motor vehicle windshields and windows."

Confirmation Hearings on Mr. Mark A. Foster to the Board of Marine Pilots

**NAME** Please include title **ADDRESS** Please use full address. Please include zip. **PHONE** **REPRESENTING** **DO YOU WANT TO TESTIFY?**

| NAME<br>Please include title | ADDRESS<br>Please use full address.<br>Please include zip. | PHONE  | REPRESENTING   | DO YOU WANT TO TESTIFY?        |
|------------------------------|--|--------|----------------|--------------------------------|
| John Hartle                  | 40 House Judiciary   | X 4990 | REP. John Sund | Yes - HB 511                   |
| Sheila Gattiker              | Governor's Office  | X 3500 | Governor       | yes if desired - Conf. hearing |
|                              |  |        |                |                                |
|                              |  |        |                |                                |
|                              |  |        |                |                                |
|                              |  |        |                |                                |
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|                              |  |        |                |                                |
|                              |  |        |                |                                |

\* indicates first public hearing

HB

525

4-24-87

Dear Senator Hanley,

I don't usually complain much but this recent article in the Anchorage paper really gauled me; so much so that I cancelled a trip to Seattle next month.

Several years ago it seems our legislature in Juneau complained to the airlines about singling out Alaskans for higher fares to the states and they lowered them for awhile but it didn't last long.

Also, why do I have to pay a full month in advance to get any break at all?

Hope you can help us out.

Sincerely,

Gordon Halkett

3103 Brookside Dr.

Apt. 5

Anchorage, Ak 99517

# Air fare wars to continue this summer

## But won't apply to Alaska

By BILL MENEZES  
The Associated Press

NEW YORK — Several major airlines said Monday they would extend their lowest discount fares through the end of summer, but the tickets would be more expensive and carry more restrictions than the cut-rate fares unveiled earlier this year.

The lower fares will not apply to travel between Alaska and the Lower 48, a local travel agency spokesman said.

"It's fair to say that in the current pricing environment that the relatively high fares between Anchorage and the Lower 48 help offset losses from fare wars in the Lower 48," said Scott McMurren of Easy Travel.

Also Monday, Continental Airlines said it had asked the Department of Transportation to require U.S. airlines to routinely disclose service information such as on-time performance, complaints about lost luggage, and the time it takes for answers on telephone reservation lines.

Continental and Eastern Airlines, both units of Texas Air Corp., said they would continue offering the special "Maxsaver" fares previously slated to end May 20.

Those non-refundable fares, which were matched by other major airlines when introduced in late January, are discounted as much as 80 percent from regular fares and are less than the supersaver fares that previously were the industry's lowest.

Northwest Airlines said it would match the discount fare extension. United and Delta and American representatives said their companies were studying the fare announcements.

Industry analysts said they expected the major airlines to follow the move, noting the summer fares would be higher to reflect the peak travel season and the advance purchase requirements would be slightly greater.

"Those are two positives," said Louis Markesano, of Janney Montgomery Scott Inc. in Pittsburgh. "We were hoping they would modify pricing upward and or increase the minimum stay involved."

Thomas G. Plaskett, Continental's president, told a news conference the Maxsaver fares had proven "extremely popular," and some 3 million passengers had bought the fares since Feb. 1.

The fares good through May 20 — intended to fill seats that otherwise would go empty on many flights — could be purchased at any time up until two days before the flight. Passengers changing or canceling their reservations forfeited the entire ticket price.

The summer fares will cost more than the earlier Maxsavers and the advance purchase requirement was stretched to seven days. They also require a Saturday night stayover and a roundtrip purchase.

The summer Maxsavers are priced from \$38 to \$278 roundtrip, compared with a range of \$38 to \$198 roundtrip before May 20. A Maxsaver flight from New York to Los Angeles, for example, would be \$129 one-way this summer, compared with \$89 each way before May 20.

Continental also said it was trimming the advance purchase restriction on its regular supersavers to seven days from 30 days, while reducing the cancellation penalty to 25 percent from 50 percent.

New logo suggested  
for Alaska Airlines

*Juneau  
Empire  
2/12/88*

**Dear Editor:**

While watching television last night I saw a commercial on one of the Seattle TV stations for Alaska Airlines. This ad was for roundtrip airfare to San Diego - 2,100 air miles, plus two nights' hotel accommodations for a total of \$267. The cheapest roundtrip airfare from Juneau to Seattle, 1,818 air miles, is \$340 and includes nothing extra.

Seeing this commercial brought to mind the Great Logo Crisis of Alaska Airlines that has been in the news so much during the past few weeks. My suggestion is to get rid of the Eskimo and replace him with a picture of Jesse James - gun, mask and all. This would better represent the highway robbery we all face buying an airline ticket in Southeast Alaska.

**Thank you,  
Dean Nordenson  
Auke Bay**

*Juneau Empire*  
Lower fares would *1/21/88*  
create happy faces

**Dear Editor:**

I think concerns are being misplaced about Alaska Airlines' advertising symbol. While this issue has been capturing headlines and legislators' attention, Juneauites continue paying air fares that are among the highest in the country.

I'm currently planning a trip to Boston. The round-trip air fare for the approximately 900 miles from Juneau to Seattle is \$340.60. The round-trip fare for the approximately 3,000 miles from Seattle to Boston is \$238. I've lived in Juneau for 14 years and I've yet to talk to anyone who hasn't shared my ill feelings about air fares from Juneau. I really cannot believe that costs here justify fares two or three times greater per mile than typical Lower 48 fares. I'd at least feel a lot better about paying higher

air fares from Juneau if those fares could be justified and that justification be publicized with the same vigor as the recent logo switch.

I do have empathy for the airline business here in that I don't think it's reasonable to expect healthy competition in such a confined market. I believe it would be good for the public and the airline industry if an appropriately sanctioned monopoly could be granted to one airline to serve all of Southeast Alaska. I'm thinking of this in similar terms of the monopolies that utility companies now operate under. In the case of air service we would have the opportunity to nationally solicit bids to obtain the best service for the best price over a specified time.

In this manner, the public would benefit from expanded competition and the winning airline would be assured the highest possible volume to allow the lowest possible cost per passenger mile. This would bring air fares down and I suspect Juneau would see more tourists while the state and private sector would save on travel costs.

I appreciate having the opportunity to share my views and I encourage others to share their opinions about this. I think we need everyone to work honestly together on this so we will all be winners and fly with a happy face.

**Sincerely,  
Mark J. Miller  
Douglas**



# Alaska State Legislature

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## House of Representatives

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4007 BRENTWOOD CIRCLE  
ANCHORAGE, ALASKA 99502  
(907) 243-7574

REPRESENTATIVE  
**ALYCE HANLEY**  
DISTRICT 9, SEAT B

---

WHILE IN JUNEAU  
BOX V  
JUNEAU, ALASKA 99811  
(907) 465-4939

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MEMBER  
HEALTH, EDUCATION AND  
SOCIAL SERVICES COMMITTEE  
REGULATION REVIEW COMMITTEE

February 16, 1988

### MEMORANDUM

TO: All House Members

FROM: Representative Alyce Hanley *A.H.*

SUBJECT: Resolution relating to the cost of air travel and to competition in the airline industry; and a bill relating to unfair trade practices of air carriers and ticket agents.

I have prepared for introduction this morning the attached House Resolution and Bill concerning the high cost of airline travel not only within the State of Alaska but to and from Alaska. A similar resolution was introduced during the 14th Legislature and the cost of commercial passenger fares continues to increase. In addition I have also introduced a bill to add a new section to Title 2 called Unfair Trade Practices. This section outlines who can file complaints and adds penalties for participating in restriction of competition in air commerce.

I would welcome your co-sponsorship of this resolution. If you have any questions please do not hesitate to contact my office.

Attachments 2

IN THE HOUSE

BY HANLEY

HOUSE RESOLUTION NO. 12

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Relating to the cost of air travel and  
to competition in the airline industry.

BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES:

WHEREAS airline travel is an essential means of transportation for the people of the state; and

WHEREAS the competitive market forces in many other states have caused a decline in commercial passenger air fares; and

WHEREAS there are no competitive forces in the state to cause a significant decline in commercial air fares; and

WHEREAS commercial passenger air fares are higher today and continue to escalate upward; and

WHEREAS the cost of air travel in the state has become prohibitively expensive in many rural areas; and

WHEREAS passengers traveling to and from Alaska pay a significantly higher fare per air mile than passengers traveling between other states; and

WHEREAS the commercial air carriers appear to be engaging in setting mutually beneficial fare rates that restrict a free and open competitive market;

BE IT RESOLVED that the House of Representatives urges the Governor, the Attorney General, and the commissioner of transportation and public facilities to investigate and report to the legislature any barriers to an open and competitive airline industry and pursue every avenue that will reduce the cost of airline travel for passengers traveling to and from the State of Alaska.

IN THE HOUSE

BY HANLEY

HOUSE BILL NO. 525

IN THE LEGISLATURE OF THE STATE OF ALASKA  
FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to unfair trade practices of air carriers and ticket agents."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

\* Section 1. AS 02 is amended by adding a new chapter to read:

CHAPTER 07. AIR COMMERCE TRADE PRACTICES.

Sec. 02.07.010. UNFAIR TRADE PRACTICES. (a) The department, upon its own initiative or upon complaint by an air carrier, ticket agent, or a member of the public, shall investigate and determine whether an air carrier or ticket agent has been or is engaged in unfair or deceptive practices or unfair methods of competition in air commerce or the sale of air commerce.

(b) If the department finds, after notice and opportunity for hearing, that the air carrier or ticket agent is engaged in unfair or deceptive practices or unfair methods of competition, it shall order the air carrier or ticket agent to cease and desist from those practices or methods of competition.

(c) The department may enforce this section and adopt procedural regulations necessary to implement this section.

(d) In addition to other penalties and remedies provided by law, a person who violates a provision of this section is subject to a civil penalty not to exceed \$100,000 for each violation.

(e) In this section

(1) "air carrier" means a person engaged in air commerce, directly or indirectly, by lease, contract, or other arrangement, and



Dept. of Transportation & Public Facilities

# Position Paper

BILL NO: CSHCR 36 TRANS

TITLE: Intrastate Air Travel

APPROVED:

DATE:

*Paul J. Knapp*  
Commissioner

2/12/86

The Department supports the goals of this bill which we assume to be a concern for reducing, insofar as practicable, the costs for air travel within the State of Alaska. However, there is some question as to how involved the State should get in private industry decisions in a deregulated environment.

The DOT&PF has undertaken a cursory review of air fares for one airline only. This paper (attached) indicates that for one air carrier serving in and out of Alaska, the per mile fare is higher for routes within the State. In evaluating this information, however, it is crucial to consider the different characteristics of the individual routes involved (traffic loads, staging length, competition, etc.)

Part of this analysis also compared costs for in-State routes with costs for routes of comparable length in the lower 43 states. In general, it appeared that the in-State routes were quite comparable and, in some cases, lower than the lower 43 routes of comparable length.

This information is very cursory and cannot be viewed as conclusive, but it does indicate that if there is unfair pricing within the State, it will likely be very difficult to prove.

The DOT&PF will administer the study suggested in HCR 36 if the Legislature deems it advisable. A description of the study is shown on the accompanying fiscal note.

- D R A F T -

ALASKA/LOWER 48 STATES AIR FARES

DOT&PF - STATEWIDE AVIATION

December 2, 1985

I. INTRODUCTION

This paper conducts two analyses of air fares. The first is a comparison of Alaska Airlines' (ASA's) air fares over three types of routes:

- (1) routes between points in Alaska,
- (2) routes between points in Alaska and points in the Lower 48 States, and
- (3) routes between points in the Lower 48 States.

The intent is to determine how ASA's air fares in Alaska compare to their air fares in the Lower 48 States. For ease of comparison and data collection, only coach and SuperSaver fares of ASA have been used.

The second analysis is a comparison of several of ASA's air fares and air fares of other airlines for trips of comparable length in the Lower 48 States. The intent of this analysis is to determine how ASA's air fares compare to fares of other airlines. Only coach fares have been compared, again for ease of comparison and data collection.

II. ALASKA AIRLINES' FARES; Within Alaska, Alaska to Lower 48 States, and Within the Lower 48 States

Table I compares average ASA fares for three types of routes in Alaska and the Lower 48 States.

TABLE I  
ASA's  
AVERAGE COACH AND SUPERSAVER  
FARES/MILE

| <u>ASA's Routes</u> | <u>ASA's Coach Fares/Mile</u> | <u>ASA's SuperSaver Fares/Mile</u> |
|---------------------|-------------------------------|------------------------------------|
| Within Alaska       | \$ .30                        | \$ .22                             |
| Alaska to Lower 48  | .21                           | .15                                |
| Within the Lower 48 | .22                           | .15                                |

The Table shows that fares for travel within Alaska far exceed other fares. There may be a variety of explanations for this. Higher labor and operation costs and shorter stage lengths (flight distances) for ASA routes within Alaska compared to the Lower 48 States could be one cause of the differential. In addition, traffic densities and load factors are likely to be lower in Alaska. The low traffic in Alaska also results in fewer carriers competing with ASA compared to the relatively stiff competition for heavier traveled routes between Alaska and the Lower 48 States and between points in the Lower 48 States.

Table 1 also shows that ASA's fares for travel between Alaska and the Lower 48 States are comparable to their fares for travel within the Lower 48 States. Some fares are higher than others, but on the average, they are comparable.

Actual fares for travel between points in Alaska are shown in Table A-I in the Appendix. Only fares from Anchorage to outlying communities were used because ASA routes to the outlying communities originate in Anchorage. For example, to fly Fairbanks to Deadhorse would require a flight from Fairbanks to Anchorage and another flight from Anchorage to Deadhorse.

Fares range from the highest fare/mile for service to Cordova which has low traffic, a short stage length and only air taxi competition, to the lowest fare in the Anchorage to Fairbanks market which has higher traffic, heavier loads, and greater competition. It should be noted that fares to points in Southeast Alaska are as much as three cents/mile less than the average fares for other routes within Alaska. These fares may be slightly artificially low due to ~~subsidies provided through the Essential Air Service (EAS) program.~~

Actual fares for travel between Alaska and the Lower 48 States are shown in Table A-II in the Appendix. Fares have been shown from Anchorage, Fairbanks, and Juneau because most routes originate from these points. Coach and SuperSaver fares from Anchorage average about one cent/mile less than fares from Fairbanks and Juneau. The highest fares/mile are for routes to Seattle and Portland while the lowest fares/mile are for the longer routes to Phoenix and Tucson.

Actual fares for travel between points in the Lower 48 States are shown in Table A-III. Fares have been shown for travel from Seattle and Portland since most of the ASA routes in the Lower 48 States arrive or depart from these cities.

### III. AIR FARES, ALASKA AIRLINES - OTHER AIRLINES

This analysis compares air fares for several of ASA's routes to fares of other airlines for routes of comparable length in the Lower 48 States. Only coach fares are compared and none of ASA's routes entirely within the Lower 48 States were examined.

Table II summarizes the results of this comparison. This table shows that, except for routes from Fairbanks to Seattle and Anchorage to Deadhorse, ASA's flights were consistently cheaper per mile than routes of comparable length by other airlines.

This data has limitations in that only 5 or 6 Lower 48 routes were used for each comparison. In addition, in the case of comparisons of routes within Alaska to routes in the Lower 48 States, in some instances the aircraft flown in the Lower 48 are different from aircraft flown in Alaska. Furthermore, many routes within Alaska utilize 737 aircraft equipped for cargo and passenger loads. In general, however, it appears that ASA's fares are generally lower than fares of other airlines in the Lower 48 for routes of comparable length.

TABLE II  
COMPARISON OF ASA'S FARES TO OTHER AIRLINES' FARES

| <u>ASA's Route</u>   | <u>Approximate Stage Length</u> | <u>ASA's Coach Fare/Mile</u> | <u>Other Airlines' Average Coach Fare/Mile for Lower 48 Routes of Comparable Length</u> |
|----------------------|---------------------------------|------------------------------|---|
| Anchorage-Seattle    | 1450 miles                      | \$ .22                       | \$ .24  |
| Fairbanks-Seattle    | 1550 miles                      | .25                          | .23   |
| Juneau-Seattle       | 900                             | .25                          | .22   |
| Ketchikan-Seattle    | 650                             | .27                          | .36   |
| Anchorage-Deadhorse  | 627                             | .38                          | .36   |
| Anchorage-Petersburg | 677                             | .20                          | .36   |
| Anchorage-Sitka      | 592                             | .23                          | .36   |
| Anchorage-Wrangel    | 700                             | .27                          | .36   |
| Anchorage-Bethel     | 500                             | .25                          | .42   |
| Anchorage-Fairbanks  | 500                             | .21                          | .42   |
| Anchorage-Home       | 530                             | .37                          | .42   |
| Anchorage-Kotzebue   | 540                             | .36                          | .42   |

The Lower 48 States routes used to compare to Alaska Airlines fares are shown in Tables A-IV-AIX.

#### IV. CONCLUSIONS

The data presented in this paper suggests three conclusions, based on a fare per mile comparison.

(1) ASA's air fares for travel within Alaska are substantially higher than its fares for travel to and within the Lower 48 States. Higher labor and operations costs in Alaska and lower stage lengths and load factors may be the primary reasons for the higher fares for travel in Alaska.

(2) ASA's air fares for travel from Alaska to the Lower 48 States are, on the average, comparable to ASA's fares for travel within the Lower 48 States.

(3) ASA's fares for travel within Alaska and from Alaska to the Lower 48 States are usually lower than fares of other airlines for routes of comparable length in the Lower 48 States.

TN/sg

STATEMENT  
OF  
LARRY MERCULIEFF  
CS FOR HOUSE CONCURRENT RESOLUTION 36  
HOUSE FINANCE COMMITTEE  
March 27, 1986

Mr. Chairman, Members of the Committee, my name is Larry Mercurieff, representing the City of St. Paul and the St. Paul Trust. My primary task, as an economic development advisor for the City and the Trust, is to seek means by which the community of St. Paul can be economically self-sufficient before Trust funds (which support critical island services) are depleted. I also serve as chairman of the Western Alaska Fishery Loan Board of CEDC which administers a million dollars of revolving loan funds to support developing small boat fisheries in western Alaska.

I wish to speak in support of the committee substitute for HCR 36. As you all know, marine and air transportation to rural Alaska is extremely important for good economic development. In the west coast of Alaska, the primary means by which the communities can develop meaningful entre into the Bering Sea fisheries is by transporting product by air to the markets. In developing coastal fisheries, we have a chicken or egg syndrome. Efficient, low-cost marine transportation cannot financially justify stop-over in a community with low volumes of fish product

to transport. By the same token, developing fisheries communities cannot develop their full potential until low-cost and efficient marine transportation is available and local cold storage facilities are available. This requires, initially, that such communities transport product by air. Obviously, the more cost-efficient the air transportation, the more competitive such communities will be in the various fish markets, and thus, the more likely the developing fisheries will expand.

Needless to say, air transportation costs for passengers and cargo to and from rural communities is costly, affecting every aspect of community economic development. I believe the State of Alaska needs to obtain a clear picture of these costs and the factors which affect them in order to begin addressing the development of integrated and comprehensive plans which achieve the goal of lowering air and marine transport costs in rural Alaska. For example, one factor affecting air transport cost is the method of tendering the mail to the airlines by the U.S. Post Office. Should the U.S. Post Office consider changing their present policies (of what is called equitable tender of mail) to eliminate certain categories of air carriers or somehow make such categories less competitive in their tendering policies, many rural communities may receive less service or experience higher costs, or both, due to a lessening of competition. We understand that at least one special interest group is seeking just such policy changes within the U.S. Post

Office. The point is, the more aware we are of major factors affecting air transport costs, the more able we are to direct efforts to control such factors - and/or to develop plans to lower costs. Certainly we cannot make any impacts on costs without reliable information. We believe that the studies and analyses proposed by CS for HCR 36 is a good step in the right direction.

Thank you.

\*  
\*\*\*\*\*

TO: HOUSE TRANSPORTATION COMMITTEE  
REPS. CATO, DAVIS, SHULTZ, HERRMANN, FURNACE, PIGNALBERI,  
MARROU  
AND REF. HERRMANN  
FROM: LAMAR COTTEN/CITY OF SAND POINT, BOX 177, SAND POINT,  
AK, 99661, 383-2696  
SUBJECT: HCR 36, INTRASTATE AIRLINE INDUSTRY

CITY OF SAND POINT SUPPORT THE EFFORTS OF REP. HERRMANN AND OTHERS TO ANALYZE AND DETERMINE THE HIGH COST OF INTRA STATE TRANSPORTATION AND RECOMMEND THAT THE TRANSPORTATION COMMITTEE INVESTIGATE THIS MATTER.

\*  
\*\*\*\*\*

TO: HOUSE TRANSPORTATION COMMITTEE  
REPS. CATO, DAVIS, SHULTZ, HERRMANN, FURNACE, PIGNALBERI,  
MARROU  
AND REP. HERRMANN  
FROM: LAMAR COTTEN/CITY OF KING COVE, KING COVE, AK 99612  
SUBJECT: HCR 36, INTRASTATE AIRLINE INDUSTRY

CITY OF KING COVE SUPPORT THE EFFORTS OF REP. HERRMANN AND OTHERS TO ANALYZE AND DETERMINE THE HIGH COST OF INTRA STATE TRANSPORTATION AND RECOMMEND THAT THE TRANSPORTATION COMMITTEE INVESTIGATE THIS MATTER.

\*\*\*\*\*  
\*  
\* DELIVER TO: JFOM \*  
\* \*  
\* \*  
\* ORIGINAL \*  
\* SENT: 01/28/86 TIME: 15:46 \*  
\* FROM: DOROTHY LARSON \*  
\* SUBJECT: HCR36 POM \*  
\* PRINT DATE: 01/28/86 TIME: 15:47 \*  
\* \*  
\*\*\*\*\*

TO: HOUSE TRANSPORTATION COMMITTEE  
REPRESENTATIVE CATO, CHAIR  
REPRESENTATIVES DAVIS, FURNACE, HERRMANN, MARROU,  
PIGNALBERI AND SHULTZ

REPRESENTATIVES WALLIS AND THOMPSON

SENATOR ZHAROFF, ALASKA STATE SENATE

FROM: CARLOS TENIENTE, BOX 34, ADAK, ALASKA, FPO  
SEATTLE 98791

RE: HCR36, RELATING TO AIRLINE TRAVEL

URGE YOUR POSITIVE CONSIDERATION AND PASSAGE OF HCR36. AIRLINE TRAVEL IS AN AREA OF GREAT CONCERN TO THOSE OF US IN THE RURAL AREAS AND THOSE WHOSE PRIAMRY MODE OF TRAVEL IS BY AIR CARRIER AND QUITE COSTLY. THANK YOU.

\*\*\*\*\*  
\*  
\* DELIVER TO: JPOM \*  
\* \*  
\* \*  
\* ORIGINAL \*  
\* SENT: 01/28/86 TIME: 15:01 \*  
\* FROM: DOROTHY LARSON \*  
\* SUBJECT: POM - HCR 36 \*  
\* PRINT DATE: 01/28/86 TIME: 15:02 \*  
\* \*  
\*\*\*\*\*

TO: HOUSE TRANSPORTATION COMMITTEE  
REPRESENTATIVES CATO, DAVIS, FURNACE, HERRMANN,  
MARROU, PIGNALBERI, SHULTZ

FROM: IDA APOKEDAK, PRESIDENT, EXECUTIVE COMMITTEE,  
BRISTOL BAY AREA HEALTH CORPORATION, DILLINGHAM,  
ALASKA 99576  
PHONE - 842-5201

RE: HCR 36, RELATING TO INTRASTATE AIRLINE TRAVEL

THE EXECUTIVE COMMITTEE OF THE BRISTOL BAY AREA HEALTH CORPORATION MET TODAY AND VOTED BY RESOLUTION TO SUPPORT HCR 36 RELATING TO THE HIGH COST OF AIRLINE TRAVEL IN RURAL AREAS. WE HOPE THAT SOMETHING CAN BE DONE TO LOWER AIRFARES. PLEASE PASS HCR 36. OTHER MEMBERS OF THE EXECUTIVE BOARD ARE JOHN MARK, ANDREW WASSILLIE AND ALVIN BOSKOFKY.

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\*  
\* DELIVER TO: JPOM \*  
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\* \*  
\* ORIGINAL \*  
\* SENT: 01/28/86 TIME: 16:30 \*  
\* FROM: JEAN MILLER \*  
\* SUBJECT: POM \*  
\* PRINT DATE: 01/28/86 TIME: 16:53 \*  
\* \*  
\*\*\*\*\*

TO: HOUSE TRANSPORTATION COMMITTEE

REPRESENTATIVES CATO, DAVIS, SHULTZ, HERRMANN, FURNACE  
PIGNALBERI AND MARROU

FROM: DR. LEROY OWENS  
SUPERINTENDENT, ALEUTIAN REGION SCHOOL DISTRICT  
640 WEST 36TH, SUITE 3  
ANCHORAGE, AK 99503 PHONE: 562-2924

SUBJECT: HCR 36 - INTRASTATE TRAVEL

THE ALEUTIAN REGION SCHOOL DISTRICT SUPPORTS THE ATTENTION OF HCR 36 TO INVESTIGATE THE RATE CHARGE FOR INTRASTATE TRAVEL. RATE INCREASES HAVE RESTRICTED THE ABILITY OF RURAL DISTRICT TO OPERATE EFFECTIVELY. SEVERAL RURAL DISTRICTS ARE INVOLVED IN AN ATTEMPT TO NEGOTIATE THEIR RATES FOR REQUIRED DISTRICT TRAVEL. THIS EFFORT COULD BE GREATLY AIDED BY PASSAGE OF HCR 36.

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\*  
\* DELIVER TO: JPOM  
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\* ORIGINAL  
\* SENT: 01/28/86 TIME: 16:32  
\* FROM: DOROTHY LARSON  
\* SUBJECT: HCR 36 - POM  
\* PRINT DATE: 01/28/86 TIME: 16:54  
\*  
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9

TO: HOUSE TRANSPORTATION COMMITTEE  
REPRESENTATIVE CATO, CHAIR, REPRESENTATIVES DAVIS,  
FURNACE, HERRMANN,  
MARROU, PIGNALBERI, AND  
SHULTZ  
REPRESENTATIVES WALLIS AND THOMPSON  
FROM: SOUTHWEST REGION SCHOOLS, DILLINGHAM, AK. 842-5287  
RE: HCR 36 - RELATING TO AIRLINE TRAVEL

THE SOUTHWEST REGION BOARD OF EDUCATION SUPPORTS HCR 36 AND FURTHER REQUESTS THAT THE LEGISLATURE INVESTIGATE SOME FORM OF SUBSIDY AS CURRENTLY PRACTICAL WITH STUDENT TRAVEL ON THE STATE FERRY SYSTEM.

AIR TRAVEL IS THE ONLY FORM OF TRANSPORTATION BETWEEN OUR SITES OR MAJOR COMMUNITIES OUTSIDE OF OUR DISTRICT.

IT MAY BE OF INTEREST TO KNOW THAT THE COST OF A ROUND TRIP TICKET TO ANCHORAGE, 300 MILES FROM DILLINGHAM APPROXIMATES THE COST OF A ROUND TRIP TICKET FROM ANCHORAGE TO SAN FRANCISCO, 2,018 AIR MILES.

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\* DELIVER TO: JPOM  
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\*  
\* ORIGINAL  
\* SENT: 01/28/86 TIME: 16:42  
\* FROM: DOROTHY LARSON  
\* SUBJECT: HCR 36 - POM  
\* PRINT DATE: 01/28/86 TIME: 16:54  
\*  
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10

TO: HOUSE TRANSPORTATION COMMITTEE MEMBERS  
REPRESENTATIVES CATO, CHAIR, REPRESENTATIVES DAVIS,  
FURNACE, HERRMANN,  
MARROU, PIGNALBERI, AND SHULTZ  
REPRESENTATIVES WALLIS AND THOMPSON

FROM: NORMAN ANDERSON, BOX 112 NAKNEK, AK. 99633

RE: HCR 36, RELATING TO AIR TRAVEL INTRASTATE

I WISH TO EXPRESS MY VIEWS ON HCR36. TRANSPORTATION COSTS IN THE BRISTOL BAY AREA ARE AT AN ALL TIME HIGH. ALTHOUGH WE ARE ENJOYING A REDUCED FARE PRESENTLY, THIS IS A TEMPORARY AND TIMELY FIXED RATE. IN A COUPLE OF WEEKS, WE AGAIN, WILL HAVE TO PAY THE INFLATED SCHEDULED RATES WHICH, FIRSTLY MAKES TRAVEL BY SMALL CHARTER AIRLINES MORE ATTRACTIVE WHICH IS PLACING MORE OF A RISK TO TRAVELERS. SMALL PLANES ARE MORE SUSCEPTIBLE TO THE HARSH WEATHER AND TERRAIN CONDITIONS BETWEEN THE ANCHORAGE AND BRISTOL BAY AREA.

SECONDLY, TRAVEL BETWEEN ANCHORAGE AND OUR AREAS IS COMPARED TO TRAVEL COAST TO COAST OUTSIDE. MANY PEOPLE ARE LIMITED TO TRAVEL OUTSIDE THE METROPOLITAN AREA BECAUSE OF THE HIGH COST OF AIRFARE LIMITING THE AVAILABILITY AND ACCESS TO LESS EXPENSIVE PRODUCTS FORCING US TO PAY THE HIGH COST LOCALLY. WE ARE A CAPTIVE AUDIENCE AND AT THE MERCY OF THESE AIR PIRATES.

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TO: HOUSE TRANSPORTATION COMMITTEE  
REPRESENTATIVE CATO, CHAIR, REPRESENTATIVES DAVIS,  
FURNACE, HERRMANN, MARROU  
PIGNALBERI, SHULTZ

REPRESENTATIVES WALLIS AND THOMPSON

FROM: BILLIE BENEDICT, BOX 10019, DILLINGHAM, AK.

RE:

I WOULD LIKE TO FULLY SUPPORT REPRESENTATIVE HERRMANN'S, THOMPSON'S AND WALLIS' LEGISLATION FOR LOOKING INTO AIR FARES TO RURAL ALASKA AREAS. IN CHOOSING TO LIVE IN ISOLATION, WE WERE AWARE OF THE SACRIFICES. HOWEVER, THE HIGH AIR FARES ARE NOT ONLY AN INCONVENIENCE WHICH PREVENTS US FROM TAKING VACATION OUTSIDE OUR AREA, BUT MOST OF US LEFT FAMILIES BEHIND FROM WHOM WE ARE CUT OFF. ALSO, CONSIDER THE COST TO THE STATE FOR THESE AIR FARES WHEN STATE WORKERS AND WORKERS FROM STATE FUNDED ORGANIZATIONS TRAVEL. THE COST IN OUR COMMUNITY ALONE IS INCREDIBLE. I WOULD LIKE TO SEE SOMETHING POSITIVE DONE TO INCLUDE US IN THE REST OF THE WORLD.

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\* DELIVER TO: JPOM  
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\* ORIGINAL  
\* SENT: 01/28/86 TIME: 16:14  
\* FROM: DOROTHY LARSON  
\* SUBJECT: HCR 36 POM  
\* PRINT DATE: 01/28/86 TIME: 16:40  
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TO: HOUSE TRANSPORTATION COMMITTEE MEMBERS  
REPRESENTATIVES CATO, CHAIR, REPRESENTATIVES DAVIS,  
FURNACE, HERRMANN, AND MARROU,  
PIGNALBERI AND SHULTZ  
  
REPRESENTATIVES WALLIS AND THOMPSON  
  
SENATOR FRED ZHAROFF, ALASKA STATE SENATE

FROM: SUE FLENSBURGER, BOX 174, DILLINGHAM, AK., 842-2666

RE: HCR36-RELATING TO AIRLINE TRAVEL

BRISTOL BAY REGION IS ACCESSIBLE TO THE REST OF ALASKA BY AIR AND WATER ONLY. THE COMMERCIAL AIRLINES SERVING OUR REGION HAVE EXCESSIVE FARES CREATING AN ECONOMIC HARDSHIP. AN AUTHORIZED INVESTIGATION INTO THIS SITUATION IS WARRANTED. A MEANS OF ALLEVIATING INSURANCE PROBLEMS FOR AIR TAXIS ALSO DESERVES CONSIDERATION AND ATTENTION.

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\* DELIVER TO: JPOM \*  
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\* ORIGINAL \*  
\* SENT: 01/28/86 TIME: 16:06 \*  
\* FROM: LIOKOD \*  
\* SUBJECT: KODIAK POM \*  
\* PRINT DATE: 01/28/86 TIME: 16:32 \*  
\*  
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TO: REPRESENTATIVES CATO, DAVIS, FURNACE, HERRMANN, MARROU,  
PIGNALBERI, SHULTZ

FR: NANCY GROSS, MANAGER  
CITY OF UNALASKA  
P.O. BOX 89  
UNALASKA, ALASKA 99685  
PH: 581-1251

RE: HCR 36 - INTRASTATE AIRLINE TRAVEL

UNALASKA SUPPORTS HCR 36. THREE CARRIERS NOW SERVE US AND THE  
TICKETS HAVE GONE UP. WE WOULD LIKE TO KNOW WHY.

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\* DELIVER TO: JPOM \*  
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\* \*  
\* ORIGINAL \*  
\* SENT: 01/29/86 TIME: 09:38 \*  
\* FROM: DOROTHY LARSON \*  
\* SUBJECT: HCR36-POM \*  
\* PRINT DATE: 01/29/86 TIME: 09:39 \*  
\* \*  
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TO: HOUSE TRANSPORTATION COMMITTEE MEMBERS  
REPRESENTATIVES CATO, CHAIR; DAVIS, FURNACE,  
HERRMANN, MARROU, PIGNALBERI, AND SHULTZ  
REPRESENTATIVES WALLIS AND THOMPSON  
SENATOR FRED ZHAROFF, ALASKA STATE SENATE  
FROM: SHELLEY FARLER, BOX 10018, DILLINGHAM, AK. 99576  
RE: HCR36, AIRLINE TRAVEL

PLEASE PASS HCR36 OUT OF YOUR COMMITTEE, AIR FARES ARE EXTREMELY HIGH WHEN TRAVELING FROM RURAL ALASKA TO THE LARGER CITIES. STUDY SHOULD BE CONDUCTED TO DETERMINE WHY THIS IS SO.

TO: HOUSE TRANSPORTATION COMMITTEE MEMBERS,  
REPRESENTATIVES CATO - CHAIR, DAVIS, FURNACE,  
HERRMANN, MARROU, PIGNALBERI, SHULTZ  
REPRESENTATIVES WALLIS AND THOMPSON  
SENATOR FRED ZHAROFF, ALASKA STATE SENATE  
FROM: KEN HARPER, DILLINGHAM, AK. 99576  
RE: HCR36 - AIRLINE TRAVEL

URGE PASSAGE OF HCR36 TO STUDY THE TARIFFS THAT ARE CHARGED RURAL ALASKANS TO TRAVEL. WE PAY HIGH PRICES TO TRAVEL WITHIN THE STATE. WHY IS IT CHEAPER TO TRAVEL TO THE LOWER 48 THAN TO TRAVEL INTRASTATE?

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 \* DELIVER TO: JPOM \*  
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 \* ORIGINAL \*  
 \* SENT: 01/29/86 TIME: 09:05 \*  
 \* FROM: DOROTHY LARSON \*  
 \* SUBJECT: HCR36-POM \*  
 \* PRINT DATE: 01/29/86 TIME: 09:08 \*  
 \* \*  
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TO: HOUSE TRANSPORTATION COMMITTEE  
 REPRESENTATIVES CATO, CHAIR, DAVIS, FURNACE  
 HERRMANN, MARROU, SIGNALBERI, SHULTZ  
 REPRESENTATIVES WALLIS AND THOMPSON

SENATOR ZHAROFF, ALASKA STATE SENATE

FROM: DAVE FISHER, BOX 10201, DILLINGHAM, 99576

RE: HCR36, AIRLINE TRAVEL

URGE SUPPORT OF HCR 36 CONCERNING INTRASTATE AIRLINE TRAVEL.  
 COST OF TRANSPORTATION TO RURAL AREAS IS PROHIBITIVE COMPARED TO  
 TRAVEL OUT OF THE STATE. URGE CONSIDERATION THAT THESE AIR FARES  
 BE STUDIED.

TO: HOUSE TRANSPORTATION COMMITTEE MEMBERS  
 REPRESENTATIVES CATO, CHAIR, DAVIS, FURNACE,  
 HERRMANN, MARROU,  
 SIGNALBERI AND SHULTZ

REPRESENTATIVES WALLIS AND THOMPSON

SENATOR ZHAROFF, ALASKA STATE SENATE

FROM: JOHANNA BOUKER, BOX 241, DILLINGHAM, ALASKA 99576  
 - PH 842-5433

RE: HCR36-RELATING TO AIRLINE TRAVEL

IT APPEARS MAJOR STRUCTURAL CHANGES WILL TAKE PLACE AMONG RURAL  
 CARRIERS DUE TO DEREGULATION. INSURANCE RATES ARE AT A  
 PREMIUM-ONE OF THE CAUSES FOR HIGH FARES. (LOWERING FARES MIGHT  
 CONSTITUTE HAZARD TO RURAL TRAVELERS IN CARRIERS ATTEMPT TO SAVE  
 ON MAINTENANCE COSTS, ETC..) MAJOR CARRIERS RATES BETWEEN CITIES  
 AND BUSH SHOULD BE STUDIED.

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\*  
\* DELIVER TO: JPOM  
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\*  
\* ORIGINAL  
\* SENT: 01/29/86 TIME: 09:14  
\* FROM: DOROTHY LARSON  
\* SUBJECT: HCR36-POM  
\* PRINT DATE: 01/29/86 TIME: 09:14  
\*  
\*\*\*\*\*

TO: HOUSE TRANSPORTATION COMMITTEE  
REPRESENTATIVES CATO, CHAIR, DAVIS, FURNACE  
HERRMANN, MARROU, FIGNALBERI, SHULTZ  
  
REPRESENTATIVES WALLIS AND THOMPSON  
  
SENATOR ZHAROFF, ALASKA STATE SENATE  
  
FROM: LEE HOTCHKISS, BOX 10201, DILLINGHAM, AK. 99576  
  
RE: HCR36-RELATING TO AIRLINE TRAVEL

PLEASE CONSIDER PASSAGE OF HCR36 TO UNDERTAKE A STUDY OF AIR  
FARES TO RURAL ALASKA, WE LIVING OUT HERE KNOW THE AIR FARES  
CHARGED ARE EXTREMELY HIGH. WHY IS IT CHEAPER TO GO FROM  
ANCHORAGE TO THE LOWER 48 THAN IT IS FOR US TO GET TO ANCHORAGE?

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TO: HOUSE TRANSPORTATION COMMITTEE MEMBERS  
REPRESENTATIVES CATO, CHAIR, DAVIS, FURNACE,  
HERRMANN, MARROU, FIGNALBERI, SHULTZ  
  
REPRESENTATIVES WALLIS AND THOMPSON  
  
SENATOR FRED ZHAROFF, ALASKA STATE SENATE  
  
FROM: MARK LISAC, BOX 2818, DILLINGHAM, AK. 99576  
  
RE: HCR36-AIRLINE TRAVEL

HOPE THAT YOU WILL CONSIDER HCR36 FAVORABLY. AIRLINE TRAVEL TO  
RURAL AREAS NEEDS TO BE STUDIED AND REASONS GIVEN FOR THE  
DISCREPANCY AND DIFFERENCES IN AIR TRAVEL FROM URBAN TO RURAL  
AREAS VERSUS THE COST OF TRAVEL FROM OUR URBAN CENTERS TO LOWER  
48 AND HAWAII.

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\* DELIVER TO: JPOM  
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\* ORIGINAL  
\* SENT: 02/11/86 TIME: 15:57  
\* FROM: LIODLG  
\* SUBJECT: PUBLIC OPINION MESSAGE  
\* PRINT DATE: 02/11/86 TIME: 15:57  
\*  
\*\*\*\*\*

TO: HOUSE TRANSPORTATION COMMITTEE MEMBER:  
REPRESENTATIVE CATO, CHAIR, REPRESENTATIVES DAVIS  
FURNACE, HERRMANN  
MARROU, PIGNALBERI, AND SHULTZ  
  
SENATOR ZHAROFF

FROM: SHIRLEY CHAPMAN, P.O. BOX 442, KING SALMON, AK. 99613  
PH 246-4442

RE: HCR 36: AIRLINE TRAVEL

AIRLINE RATES ARE SO HIGH MOST PEOPLE IN THE BUSH AREAS CAN'T AFFORD THEM.

50M

February 11, 1984

Adelheid Herrmann

Pouch V

Juneau, AK 99811

Dear Representative Herrmann:

I have lived in Naknek for the past 11 years and have seen airline prices and air freight rates go up steadily.

We now have two "competing" airlines and three freight haulers all charging to the penny the same rate. For the price of a round trip ticket to Anchorage I could go to Seattle from Anchorage, five times the distance.

Southeast Alaska gets subsidized transportation via the Marine Highway. Most people of the state can at least drive to major shopping areas. We only have the choice of air transportation.

This means that all food, household goods and the like needed for living have to come by air and transportation of a family to Anchorage is not a matter of jumping into a car but buying seat fare for each.

Hopefully you can look into this matter.

Kurt Jaehning

Kurt Jaehning

Naknek AK 99822

# Low air fares extended to Anchorage

11/3/85  
Anch. Daily News

Daily News staff and wire services

The low Thanksgiving air fares being offered in the Lower 48 were extended Tuesday to travelers from Anchorage.

Western Airlines announced Tuesday it will offer \$158 round-trip "Turkey fares" from Anchorage to anywhere Western flies in the continental United States.

Travel must take place on Nov. 28, 29 and 30, and the return flight must begin by noon on Nov. 30, according to Rachel Cavitt, sales manager for Western Airlines in Alaska.

Tickets also must be purchased within three days of reserving the seat and they are non-refundable. The last day to purchase tickets is Nov. 26, Cavitt said.

"This is definitely just for the impulse traveler," said one Anchorage travel agent. "But it's just about the cost for two people to go out and have a fancy dinner and drinks."

The Turkey fare offers up to 85 percent savings on some of Western's tickets, Cavitt said.

Western flies to numerous West Coast cities and other destinations across the country including Salt Lake City, Boston, New York, Washington D.C. and Texas.

The Turkey fare is less than half the cost of an ultimate supersaver fare to Los Angeles, which now is about \$398.

Two more airlines joined in the Thanksgiving fare war Tuesday, and the carriers reported a surge of telephone queries and bookings for the steep discounts that are designed to fill empty holiday flights.

"It's been very heavy. There are some markets selling out rapidly," said Linda Johnson, spokeswoman for American Airlines. She said Florida routes were practically booked for the 60-hour period covered by American's offer.

United Airlines spokesman Chuck Novak said the number of phone calls to its reservation centers was up 50 percent. Jim Ewing, a spokesman for Delta Air Lines, said: "The volume of calls has increased drastically, I'd say by 15, 20 percent. We've got to put supervisors on the phones."

American was the first to offer the sharply reduced fares in a Monday announcement aimed at luring travelers who otherwise would stay home during Thanksgiving. United and Delta quickly followed with their own plans, and Northwest Airlines and Eastern Airlines announced sales 24 hours later.

American and Eastern are offering discounts of up to 95 percent on round-trips in the 48 continental states from Thanksgiving Day, Nov. 28, through noon Nov. 30, when passenger traffic traditionally is very light. Thanksgiving eve and the following Sunday have been heavily booked for months.

United matched American's offer on routes they both fly. United; American and Eastern require round-trip bookings and payment within three days of making reservations. Their sale deadline is Nov. 26 and tickets

## For a New Stuyahok pair, it wasn't good day to fly

by Mitch Lipka  
Times writer

After visiting her sick son in an Anchorage hospital, all Annie Gumlickpuk wanted to do was go home to the Bristol Bay village of New Stuyahok.

It all seemed simple enough and it had been done time and time before. All they had to do was get on a plane to Dillingham, catch a Bush plane up the Nushagak River and they would be home.

She and about 10 others boarded a SeAir flight Monday afternoon knowing there was good weather in Anchorage and good weather in Dillingham.

Bad weather is the bane of Bush flying — the major variable people there must learn to cope with.

Off went the SeAir flight and back it came. Mechanical difficulties, the passengers were told.

After a plane switch and more than a hour more on the ground, a second SeAir flight speeded down the runway for the 300-mile trip. Back it came.

Mechanical difficulties, they say.

That's when things began to get bad. Gumlickpuk and her elderly father-in-law, Johnuk Gumlickpuk were informed by

the carrier with the next flight out, AirPac, that their tickets would not be honored.

To make the situation still worse, Johnuk Gumlickpuk speaks only Yupik, and had to sit off to the side not understanding what was happening.

It seems that the \$163 weekend fare tickets the Gumlickpuks had purchased may only be used on the airline that issued them, even if that airline can't get them where they are going. The Gumlickpuks did not have the money on hand to buy \$100 one-way tickets for other carriers.

All things considered it's

probably just as well the Gumlickpuks didn't get on the AirPac flight because it too returned to Anchorage and was cancelled. The problem — mechanical difficulties, the passengers were told.

"I don't like being stuck here," Annie Gumlickpuk said. "If they had been courteous and at least put us up for our meals it would have at least made us feel better."

"We don't have to take somebody's room and board and all of that," said Irene Bonner, director of customer services for SeAir. An airline flying a plane with fewer than 60 seats

is not required to put up stranded passengers, she said.

"Most people who fly in Alaska understand the hassles with the weather conditions flying to these places," Bonner said. "We do accommodate them any way we can."

Bonner said ticket agents were not able to reach her Monday night, and if they would have, she would have given the Gumlickpuks a ticket on another airline.

"I've been flying all my life but this is the worst it has been," Annie Gumlickpuk said.

"We're so unlucky today," Johnuk Gumlickpuk said with

Annie translating. "And it's not our fault."

Janet Schichnes and her family managed to be aboard both SeAir planes and the AirPac plane that were brought back to Anchorage.

"We got on every plane but MarkAir got us here," she said for her Dillingham home this morning. "It's absolutely insane."

"It took us about seven hours to get from Anchorage to Dillingham (normally a one hour flight) and we don't even have our bags."

Repeated calls to AirPac were not returned.

# STATE OF ALASKA THE LEGISLATURE

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

## LEGISLATIVE AFFAIRS AGENCY LEGISLATIVE REFERENCE LIBRARY

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

S. Transportation Feb. 25, 1985 3:30pm  
H. C&RA March 18, 1985 3:00pm  
H. Transportation Feb. 13, 1986 7:00AM  
H. Transportation Jan. 29, 1986 7:00AM  
S. Transportation April 30, 1986  
S. Transportation Feb. 19, 1986 3:30pm  
H. Transportation Jan. 30, 1986 7:00AM



Official Business

# Alaska State Legislature

Senate

Pouch V  
State Capitol  
Juneau, Alaska 9981

January 25, 1985

The Honorable Norman Gorsuch  
Attorney General  
State of Alaska  
Pouch K  
Juneau, Alaska 99811

Dear Mr. Attorney General:

As you know, Alaska Airlines has announced substantial fare increases for coach class passengers.

Advertising has indicated that each of the other interstate carriers (United Airlines, Northwest Airlines and Western Airlines) has followed the new Alaska Airlines fare schedule with virtual exactitude.

Before the new increases took effect, the one-way coach class fare between Anchorage and Seattle, on each of the carriers, amounted to a cost of 22 cents per mile. Alaska Airlines charged a one-way fare of \$324.90. Two other carriers (Northwest Airlines and Western Airlines) were three cents cheaper, at \$324.87. United Airlines charged \$5.90 less than Alaska Airlines, or \$319.00. This is an obviously miniscule "spread", and, as noted, each of the carriers is charging 22 cents per mile in fact.

The route between Anchorage and Juneau is extremely important to State government, inasmuch as many passengers are flying either on state business, at state expense, or because they are exercising their right or duty of citizenship to visit and speak with officials of the government. The fare over this route, where no competition exists, is 33 cents per mile.

For the purpose of this inquiry, however, I will not concern myself with the Anchorage-Juneau route, because only one carrier serves the route. Instead, I will confine my comparisons to the interstate route between Anchorage and Seattle, and other destinations in the continental United

The Honorable Norman Gorsuch  
January 25, 1985  
Page Two

States, on the one hand, and other American routes, not involving an Alaska airport, on the other. The comparisons are based upon the old fares before this month's increases took effect.

Between Anchorage and Seattle, passengers in coach class (disregarding "super saver" passengers) paid 22 cents per mile, as noted. This cost per mile is twice the cost per mile between Salt Lake City, Utah, and Washington, D.C. The distance between Salt Lake City and the nation's capital is 413 miles greater than the distance between Anchorage and Seattle. The fare is \$109.00 less than the Anchorage-Seattle fare before the new increase!

If Alaskans were able to travel for 11 cents per mile, they would pay a one way fare to Seattle of \$162.45, not \$319.00 to \$324.90, or the higher fares now in effect.

Another example -- and the examples are endless, obviously -- is the flight between Kansas City and Seattle, a distance of 1,851 miles (slightly farther than the distance from Anchorage to Seattle). Western Airlines offers a one-way fare of \$185.00, or 12 cents per mile, between Kansas City and Seattle.

Because "super saver" fares are offered virtually everywhere, and have many restrictions, including a requirement for round trip purchases, I have not attempted to calculate their effect. Our research is particularly interesting, I think, in its showing that the four carriers in the Alaska trade follow virtually equivalent coach class fares, as well as super-saver fares, and are also identical in their failure to offer any type of other discount fares (except senior citizens' discounts offered by Alaska Airlines and United Airlines).

Many Alaskans expected that deregulation of the industry would result in lower fares. Many Alaskans expected that the entry into the Alaska trade of United Airlines would enhance competition and result in savings to the consumer. As shown by the two newspaper clippings I enclose (article from the Anchorage Daily News of January 17, 1985 and editorial from the Anchorage Times of January 18, 1985), the fare increases are of interest and concern to Alaska residents.

The problem of the cost of travel is exacerbated for Alaskans because of the absence of rail or other surface travel modes that can be reasonable alternatives for many, given the distances to be covered and the climate that prevails during most of the year.

The Honorable Norman Gorsuch  
January 25, 1985  
Page Three

The inability of Alaskans to travel out-of-state means diminished opportunities for contact with family and friends in "the lower 48", and diminished opportunities for education, professional seminars, and other activities important to the development and fulfillment of the individual Alaskan in his or her personal life and career.

With all of these considerations in mind, I would be grateful for any reflections you and your Department may have, and would like to know particularly:

1. The elements of proof that would normally be required to show an unlawful "contract, combination or conspiracy" in restraint of trade, or other violation of the state anti-trust law. (AS 45.50.562 et. seq.)
2. Whether there may be a possible application of state anti-trust laws, for restraint of trade or price fixing by agreement or conscious parallelism, in this context.
3. Whether state anti-trust laws apply to interstate air carriers.
4. If not, whether state anti-trust statutes could be changed in a constitutional manner to provide such applicability and to establish state court jurisdiction.
5. Whether there is any precedent for anti-trust suits against air carriers in interstate commerce, either under federal or state anti-trust statutes, brought by attorneys general on behalf of state governments or their people, for alleged price-fixing and restraint of trade.
6. Whether there are any other statutory remedies that can be considered or developed to deal at the state level with the problem.
7. Whether the state has been given any data from the carriers which might justify either the apparent coincidence in their respective fare structures or the recent round of fare increases.

Because the matter I have raised is of great importance to the Alaska tourism industry and Alaska business in general, I am sending a copy of this letter to the Honorable Loren H. Lounsbury and I am inviting him and the Department

man Gorsuch  
1985  
our

of Commerce and Economic Development, which he heads, to share with me any comments or ideas that they may have. At a minimum, it would be my hope that state officials in the executive branch will express to the carriers some of the concerns I have voiced here, and encourage fare competition and lower fares.

One of the puzzling factors in all of this is that it would appear to me to be evident that if fares were lower, more passengers would fill the airlines' seats. I am wondering whether the government or the industry has any information or studies, such as studies for the Division of Tourism of the Department of Commerce and Economic Development, which could help us (and the carriers) estimate what the passenger load factor would be if fares were lower.

Today, Alaskans pay more than 100 percent above what each class travelers pay, on a per mile basis, elsewhere in the nation. Alaskan travelers appear to be subsidizing travelers on other routes.

All of this occurs at a time when the rate of inflation in Alaska is less than the rate of inflation across the nation. In the past several years, the federal government has noted on many occasions that the cost-of-living differential between Alaska and the rest of the country is rising, not growing. And airline fuel costs are steadily stabilizing, too. Some airlines, as we know, negotiated union agreements to reduce labor costs. As I have noted above, we are in a deregulation environment that is a supposed benefit to the consumer.

Assistance and advice would be very welcome, so if you and I, or you and other members of the Alaska State Government, working together, can bring down the cost of airplane travel, absent justifications from the carriers showing good prior rates and recent increases have been justified, and good reasons why all the carriers are charging the same fares.

Sincerely,

*Joe P. Josephson*  
Joe P. Josephson  
State Senator

John H. Lounsbury

BILL SHEFFIELD, GOVERNOR

**DEPARTMENT OF LAW**

OFFICE OF THE ATTORNEY GENERAL

POUCH K - STATE CAPITOL  
JUNEAU, ALASKA 99811  
PHONE: (907) 465-3600

RECEIVED

February 5, 1985

Josephson,

The Honorable Joe P. Josephson  
Alaska State Senate  
Pouch V  
Juneau, Alaska 99811

Re: Airline Ticket Prices  
A.G. File 166-312-85

Dear Senator Josephson:

Your recent inquiry concerning the high prices Alaskans are forced to pay for airline tickets has been reviewed in detail by my department. This is a matter of substantial public concern, as air travel costs impact Alaskans in many different ways.

My office has been monitoring the situation for sometime. In particular, the nearly identical prices charged by the carriers for travel between Anchorage and Seattle caught our attention. We did initiate an inquiry to find out how and why Alaska Airlines, United, Western, and Northwest all charge essentially the same prices on this heavily travelled route.

Our investigation revealed that the airlines are able to keep track of each others prices, and proposed price increases, through several computerized information networks. The main network is the Airline Travel Publishing Company's computer service (ATPCO). The ATPCO system publishes routes, schedules, fares, and proposed fare changes nationwide, and is apparently updated daily. This system is used by travel agents as well as by the airlines, and allows its subscribers to know -- to the penny -- what any given airline is charging on its routes.

We are informed that airlines generally "move in packs" when it comes to prices. That is to say, as a general rule, no one airline wants to offer a fare that is much higher than any other airline, for fear of losing business. Air travel is a particularly price-sensitive industry. Consumers will fly the airline that offers the best price, with other factors (schedule, quality of in-flight service, etc.) running far behind price as a factor in selecting which airline to choose. If one airline lowers its prices, its competitors follow suit quickly.

Senator Joe P. Josephson  
Alaska State Senate  
A.G. File 166-312-85

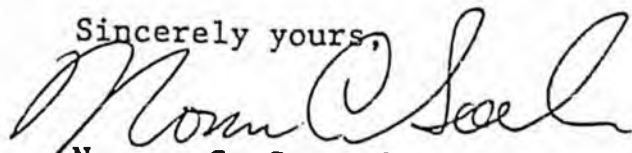
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We are informed that when an airline decides to raise its prices, it will publish the planned increase through the ATPCO system with an effective date of one to two months after the initial announcement. Thus, its competitors are given notice of any up-coming price rise. The competitors are in a position to follow the leader and file corresponding price increases. Unless one airline does not go along, we are told, the upward change is likely to happen. By closely following the proposals of their competitors, and responding to the changes as they occur, airlines are able to keep their prices within a few percentage points of each other. This process is what is known as "conscious parallelism" in antitrust law. It is not illegal, under either the Alaska Restraint of Trade Act or the Federal Sherman Act, to closely follow and to respond to a competitor's prices.

Your letter asks for my thoughts on how the state antitrust laws apply, and whether they ought to be changed, in this situation. The problem is not one of jurisdiction, nor is it, in my opinion, one which can be remedied easily by changes to the law. If it could be shown by direct evidence that the airlines actually met, and agreed to charge any particular fare on Alaska routes, this office would be able to intervene and seek redress on behalf of consumers. But to prove pricefixing, we need evidence which we do not have, and which our initial inquiry does not indicate we would find. Nor would it be wise policy to seek a change in the law making it illegal for a business to watch a competitor's prices and respond to them -- consumers benefit when businesses cut prices in response to competition.

I join with you in expressing concern for the high prices Alaskans have to pay for airfare, in a time when the cost of air travel elsewhere in the country has declined dramatically. I certainly hope that consumers will express their concerns to the airlines. Perhaps one or more of the air carriers serving Alaska may respond by reducing its fares.

Sincerely yours,



Norman C. Gorsuch  
Attorney General

NCG:jf

# ALASKA STATE SENATE

JOE P. JOSEPHSON  
DISTRICT H — ANCHORAGE  
1526 F STREET  
ANCHORAGE, ALASKA 99501  
(907) 277-4419

WHILE IN JUNEAU  
POUCH V  
JUNEAU, ALASKA 99811  
(907) 465-4525



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SENATE CHAIR, ANCHORAGE CAUCUS

February 6, 1985

Mr. Bruce Kennedy  
President  
Alaska Airlines  
P.O. Box 68900  
Seattle, Washington 98188

Dear Mr. Kennedy:

As a state senator from Anchorage, I have asked why air fares have increased in Alaska this year, at the same time that significant new discount fares are offered elsewhere. My inquiries have resonated in the Alaska community, because Alaskans know that fares charged for flights to and from Alaska were high, both in relative and absolute terms, even before the latest increases took effect.

I am enclosing a copy of my letter to the Attorney General of Alaska dated January 25 and a copy of the press release which I issued at that time. I am also enclosing three other newspaper clippings on this subject, including a recent editorial and a recent travel column, which show the existence of widespread community concern.

This office has received many messages from constituents, and there has been a proliferation of letters to the editor on this subject. For example, I also enclose some letters to the editor of the Anchorage Daily News which appeared in that paper recently.

Alaskans who travel know that the fares now available between points in the continental United States tend to be far lower than the fares available between Anchorage and Seattle, on a cost-per-mile basis. From a traveler's standpoint, as the enclosed newspaper clippings make manifest, there does not appear to be an obvious rationale for the existing fare structures, and there is certainly no discernible relationship between distance and cost.

I need not detail here the very serious consequences to us Alaskans of the high airplane fares. We have no rail alternative. Buses and cars do travel over the Alaska

Mr. Bruce Kennedy  
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Highway, but considerations of climate, distance and time make these modes all but useless for most business and vacation travelers.

On the other hand, there is an alternative to the high fares now charged Alaskans on the Anchorage-Seattle route: Alaskans can stay home. Their relatives and friends in the "lower 48", and potential tourists, can stay home, too, rather than visit the 49th State.

That alternative is bad for the airlines. It is bad for Alaskans. It is bad for family relationships. It is bad for tourism. It is bad for commerce. It is bad for those who want to pursue educational curricula and professional seminars in other states. It is bad for community morale. It is bad for the relationship between the airlines and their customers. It is bad for the taxpayers of Anchorage who have invested in a new convention center, a sports arena, and other amenities designed to enhance tourism.

Alaskans are educated and sophisticated. They ask me:

1. Why are airline fares going up here while fares in other places are going down?

2. Why do all airlines consider the high fares to be more profitable, even though they compel many would-be travelers to stay put?

3. What are the justifications for the higher Alaska route fares? Are Alaska state airport landing fees higher than elsewhere? Is jet fuel bought for travel to and from Alaska more expensive? Is there a wage differential paid to employees working in Alaska? Are load factors so low that the costs of operation per seat, relative to revenues, are very high? If so, why do four carriers compete over the market, and why wouldn't lower fares build profits, at least on certain flights, or at least on designated flights off-season? Or, conversely, are load factors so high that it matters not to the carriers whether some Alaskans choose to be price-resistant?

4. Why has deregulation not led to price competitiveness here?