

ALASKA LEGISLATURE COMMITTEE FILES 1997-1998 8672

9761 SENATE TRANSPORTATION

Governor Bill Sheffield
Pouch A
Juneau, AK. 99811

Senator Jalmar Kerttula
President, Alaska State Senate
Pouch V
Juneau, AK. 99811

Representative Joe Hayes
Speaker, Alaska House of Representatives
Pouch V
Juneau, AK. 99811

Gentlemen:

Enclosed herewith is the Interim Report of the Alaska Railroad Transfer Advisory Commission. This report is the product of ten months of public hearing, deliberation, and intensive analysis of the alternatives for management and operation of the Alaska Railroad after transfer from the federal government has been accomplished.

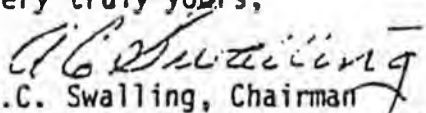
The Commission met a total of nine times in Anchorage, Fairbanks and Juneau. The Commission listened to over fifty hours of public testimony from individuals and groups from literally every corner of the State of Alaska. In addition, we have analyzed almost 1,000 pages of documents and submissions from interested individuals and groups.

In fulfillment of our legislatively mandated duties, we hereby formally tender this report to you for your consideration during the coming months as the transfer of the Alaska Railroad approaches. We hope you will find it helpful not only for the specific recommendation it contains but as a source of information about the wishes, desires and hopes of the people of the State of Alaska.

It should be mentioned that not all Commission members share each and every view expressed within this document. The combination of the change in State Administrations and the convening of the State Legislature made it difficult for the public officials on the Commission to attend all sessions. In many cases, the views expressed in the Interim Report represent an attempt by the Commission to summarize for your consideration consensus opinions heard again and again during public testimony. We feel this provides you with the full benefit of this information as it was expressed to us.

On behalf of the entire commission, I would like to thank you for the opportunity of serving the people of the State in this most important and worthwhile endeavor.

Very truly yours,


A.C. Swalling, Chairman
Alaska Railroad Transfer Advisory Commission

EXECUTIVE SUMMARY

The Alaska Railroad Transfer Advisory Commission met a total of nine times in Anchorage, Fairbanks and Juneau. The Commission listened to over fifty hours of public testimony and heard from over fifty individuals and groups regarding all aspects of the transfer of the Alaska Railroad from federal to state control. This Executive Summary is a compilation of the major policy recommendations of the Commission and a list of specific changes pending state legislation which the Commission feels are most important.

I--POLICY RECOMMENDATIONS OF THE COMMISSION

1. The railroad should eventually be owned and/or operated by private industry. Almost unanimously those testifying before the Commission felt strongly that it was in the best interests of the people of the State of Alaska and the best interests of the railroad to plan for the eventual transfer of the ownership and/or operation of the railroad to private industry.

2. Plans for expansion of the railroad should begin immediately. The Commission recommends the immediate preparation and filing of five right-of-way applications: (1) to Delta, (2) to Canada, (3) to Kenai, (4) to Beluga, (5) to Tanana and Kobuk/Ambler.

3. The railroad should cooperate with local governments. The Commission urges the State not to compete with local governments in the operation of railroad-related facilities, such as ports, which are historically operated by local governments.

4. The railroad should expand into connecting services by contracting with private enterprise. The Commission urges that the policy of the Alaska Railroad should be that, to the maximum extent possible, expansion should occur by contracting private enterprise and by not competing in a service area previously provided by private industry.

5. The interim operation of the railroad should be conducted by an independent authority under a separate department on a temporary basis. The Commission feels that the short term management of the railroad is critical to the overall future of the railroad and the state. Therefore, the Commission recommends the creation of an independent authority under a separate department of state government on a temporary basis as provided for in Article III, Section 22 of the Alaska Constitution.

6. State oversight of the railroad should be kept at a minimum. The Commission recommends that only the bare minimum of oversight consistent with good public policy be provided for in the legislation and that the legislation specifically provide for a public process so that policy determinations made by the board are based upon adequate public input.

7. Alaska railroad mineral rights should be preserved. The Commission recommends that any authority or private operator of the railroad should be able to utilize all subsurface resources and railroad land for railroad purposes without any restriction as to ownership or use of those resources which might otherwise be applicable under existing state law.

8. Additional appropriation for the Commission. The Commission feels that to adequately fulfill its legislative mandate between the date of this interim report and the final transfer of the Alaska Railroad to the State, an appropriation in the amount of \$75,000.00 is essential. This amount will provide the Commission with the ability to hire the necessary staff and incur necessary operational expenses so that a final report can be prepared.

II--SPECIFIC RECOMMENDATIONS FOR CHANGES IN PENDING STATE LEGISLATION

In the body of the report, the Commission makes numerous recommendations for specific changes in SB10, pending state legislation accepting transfer of the railroad. However, in this Executive Summary the Commission would like to call attention to a few specific matters which it considers to be critical.

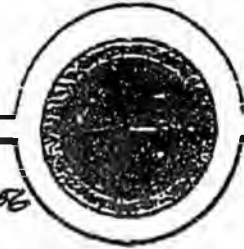
1. The Commission urges that a seven-member board of commissioners be established for the railroad authority. Balanced geographic distribution for the board is critical and the Commission recommends that at least two members be from areas served by the railroad north of Windy Pass and at least two from south of Windy Pass.

2. If consistent with law, the Commission recommends that the Commissioner of Transportation and Public Facilities be a non-voting member of the authority.

3. The Commission recommends that a representative from the employee bargaining units and the general manager of the Alaska Railroad be non-voting members of the board of Commissioners.

4. Consistent with federal legislation, all bargaining agreements should be honored and maintained for a period of time until renegotiation can be accomplished smoothly and without disruption of rail service.

ALASKA RAILROAD CORPORATION



Corporate Address: P.O. Box 107500, Anchorage, Alaska 99510
327 W. Ship Creek Avenue, Anchorage, Alaska 99501

265-2403

FAX 258-1456

Kathryn Thomas
PO Box 3005
Kenai, AK

December 27, 1996

Dear Kathryn,

As you may be aware, the chamber recently adopted a resolution concerning the Alaska Railroad submitted by the lobbyist representing Montana Rail Link. As chairman of the board of directors for the Alaska Railroad Corporation, I would like you to keep in mind three important points as we come into this Legislative session:

- The Alaska Railroad is not a state agency;
- The Alaska Railroad does not take a subsidy from the state;
- The Alaska Railroad makes money.

In 1995, the Railroad earned an \$8 million profit. In 1996, I expect the line will earn more than \$7 million. We have been able to do that by providing good service, using professional railroad management, and aggressively using our assets to increase revenues. We accomplished all this without taking a nickel – not for operating, not for capital, not for labor contracts or benefits – not a single nickel from the state treasury since the purchase 12 years ago. Our employees are not state workers and are not part of the state retirement system. Our labor contracts are in place, long-term, and independent of the state employee unions.

The Alaska Railroad is managed by a board of Alaskans. The operators are professional railroaders. The money the railroad makes is earned in Alaska, and stays in Alaska. Our balance sheet is rock-solid, and we have excellent access to capital for expansion. The bottom line is that the railroad is safe, profitable, professional, and Alaskan.

Very truly yours,

A handwritten signature in cursive script that reads "Bill Sheffield".

Bill Sheffield.
Chairman of the Board
Alaska Railroad Corporation

FY 1997

110 STAT. 2962

PUBLIC LAW 104-205—SEPT. 30, 1996

PUBLIC LAW

HIGH-SPEED RAIL TRAINSETS AND FACILITIES

For the National Railroad Passenger Corporation, \$80,000,000, to remain available until September 30, 1999, to pursue public/private partnerships for high-speed rail trainset and maintenance facility financing arrangements.

RAILROAD REHABILITATION AND IMPROVEMENT PROGRAM

The Secretary of Transportation is authorized to issue to the Secretary of the Treasury notes or other obligations pursuant to section 612 of the Railroad Revitalization and Regulatory Reform Act of 1976 (Public Law 94-210), as amended, in such amounts and at such times as may be necessary to pay any amounts required pursuant to the guarantee of the principal amount of obligations under sections 511 through 513 of such Act, such authority to exist as long as any such guaranteed obligation is outstanding: *Provided*, That no new loan guarantee commitments shall be made during fiscal year 1997.

NEXT GENERATION HIGH-SPEED RAIL

For necessary expenses for Next Generation High-Speed Rail studies, corridor planning, development, demonstration, and implementation, \$24,757,000, to remain available until expended: *Provided*, That funds under this head may be made available for grants to States for high-speed rail corridor design, feasibility studies, environmental analyses, and track and signal improvements.

TRUST FUND SHARE OF NEXT GENERATION HIGH-SPEED RAIL

(LIQUIDATION OF CONTRACT AUTHORIZATION)

(HIGHWAY TRUST FUND)

For grants and payment of obligations incurred in carrying out the provisions of the High-Speed Ground Transportation program as defined in subsections 1036(c) and 1036(d)(1)(B) of the Intermodal Surface Transportation Efficiency Act of 1991, including planning and environmental analyses, \$2,855,000, to be derived from the Highway Trust Fund and to remain available until expended.

~~Alaska Railroad Rehabilitation~~

To enable the Secretary of Transportation to make grants to the Alaska Railroad, \$10,000,000 shall be for capital rehabilitation and improvements benefiting its passenger operations.

RHODE ISLAND RAIL DEVELOPMENT

For the costs associated with construction of a third track on the Northeast Corridor between Davisville and Central Falls, Rhode Island, with sufficient clearance to accommodate double stack freight cars, \$7,000,000 to be matched by the State of Rhode Island or its designee on a dollar for dollar basis and to remain available until expended: *Provided*, That as a condition of accepting such funds, the Providence and Worcester (P&W) Railroad shall enter

Contract.

into an agreement with the or the Federal Railroad Ad: up to the first \$13,000,00 action initiated by the P& with Amtrak relating to the Davisville and Central Fall freight operations.

GRANTS TO THE NATIONAL

To enable the Secretary the National Railroad Pa U.S.C. 24104, \$665,450,00 of which \$342,000,000 shall be for mandatory passenger shall be for capital impro this head for capital imp before July 1, 1997: *Provid* appropriated shall be used vehicles or for the hire employee, other than the the lease of passenger mot while in official travel statu

FEDERAL TR

ADMIN

For necessary admini Administration's program: United States Code, §41,4

F

For necessary expenses 5311, and 5338, to remain *Provided*, That no more shall be available for th the funds provided under than \$400,000,000 may 49 U.S.C. 5338(d): *Provid* ing assistance provided areas of less than 200,00 five percent of the amou eligible to receive under That in the distribution o ing to urbanized areas th of 1,000,000 or more, th to give priority considerat ing assistance on smaller area and to consider the n ties when the limitation is operating in the area.

FY 1996
Oct 1 - Sept 30th

109 STAT. 446

PUBLIC LAW 104-50—NOV. 15, 1995

PUBLIC LAW

seq.) and 49 U.S.C. 24909, \$115,000,000, to remain available until September 30, 1998.

RAILROAD REHABILITATION AND IMPROVEMENT PROGRAM

The Secretary of Transportation is authorized to issue to the Secretary of the Treasury notes or other obligations pursuant to section 512 of the Railroad Revitalization and Regulatory Reform Act of 1976 (Public Law 94-210), as amended, in such amounts and at such times as may be necessary to pay any amounts required pursuant to the guarantee of the principal amount of obligations under sections 511 through 513 of such Act, such authority to exist as long as any such guaranteed obligation is outstanding: *Provided*, That no new loan guarantee commitments shall be made during fiscal year 1996.

NATIONAL MAGNETIC LEVITATION PROTOTYPE DEVELOPMENT

(LIMITATION ON OBLIGATIONS)

(HIGHWAY TRUST FUND)

None of the funds in this Act shall be available for the planning or execution of the National Magnetic Levitation Prototype Development program as defined in subsections 1036(b) and 1036(d)(1)(A) of the Intermodal Surface Transportation Efficiency Act of 1991.

NEXT GENERATION HIGH SPEED RAIL

For necessary expenses for Next Generation High Speed Rail studies, corridor planning, development, demonstration, and implementation, \$19,205,000, to remain available until expended: *Provided*, That funds under this head may be made available for grants to States for high speed rail corridor design, feasibility studies, environmental analyses and track and signal improvements.

TRUST FUND SHARE OF NEXT GENERATION HIGH SPEED RAIL

(LIQUIDATION OF CONTRACT AUTHORIZATION)

(HIGHWAY TRUST FUND)

For grants and payment of obligations incurred in carrying out the provisions of the High Speed Ground Transportation program as defined in subsections 1036(c) and 1036(d)(1)(B) of the Intermodal Surface Transportation Efficiency Act of 1991, including planning and environmental analyses, \$7,118,000, to be derived from the Highway Trust Fund and to remain available until expended: *Provided*, That none of the funds in this Act shall be available for the implementation or execution of programs the obligations for which are in excess of \$5,000,000.

ALASKA RAILROAD REHABILITATION

To enable the Secretary of Transportation to make grants to the Alaska Railroad, \$10,000,000 shall be for capital rehabilitation and improvements benefiting its passenger operations.

RHODE ISLAND

For the costs associated on the Northeast Corridor Rhode Island, with sufficient freight cars, \$1,000,000 to 1 or its designee on a dollar until expended: *Provided*, funds, the Providence and into an agreement with the or the Federal Railroad Administration up to the first \$8,000,000 action initiated by the P&V with Amtrak relating to the Davisville and Central Fall freight operations.

GRANTS TO THE NATIONAL

(INCLUDE)

To enable the Secretary of the National Railroad Passenger U.S.C. 24104, \$635,000,000 of which \$305,000,000 shall be for mandatory passenger transition costs \$230,000,000 shall be for up to \$15,000,000 of the for capital improvements: be transferred to the No *Provided further*, That funds shall not be made *further*, That none of the for lease or purchase of of vehicle operators for president of the Corporate vehicles for those officers:

FEDERAL TRUST

ADMINISTRATION

For necessary administrative Administration's program United States Code, §42,0

For necessary expenses 5311, and 5336, to remain *Provided*, That no more shall be available for the funds provided under than \$400,000,000 may 49 U.S.C. 5336(d): *Provided* assistance provided areas of less than 200,0

FEDERAL FUNDING

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ALASKA RAILROAD REVOLVING FUND

ESTIMATES		APPROPRIATIONS	
1975	\$6,500,000	1975	\$6,031,000
1976	0	1976	9,000,000
1977	6,000,000	1977	6,000,000
1978	3,000,000	1978	3,000,000
1979	3,000,000	1979	9,300,000
1980	5,000,000	1980	6,500,000
1981	10,640,000	1981	10,640,000
1981 (Supp.)	2,000,000	1981 (Supp.)	2,000,000
1982	6,160,000	1982	6,160,000
1983	0	1983 (2nd Cont. Res.)	7,600,000
1984	0	1984	0

0-LS0182AB
Utermohle
2/19/97

CS FOR SENATE BILL NO. 42(TRA)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTIETH LEGISLATURE - FIRST SESSION

BY THE SENATE TRANSPORTATION COMMITTEE

Offered:
Referred:

**Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE LEGISLATIVE BUDGET AND
AUDIT COMMITTEE**
A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the fiscal operations of the Alaska Railroad Corporation; and
2 providing for an effective date."

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

4 * Section 1. Section 1(b), ch. 153, SLA 1984, is amended to read:

5 (b) It is the purpose of this Act to

6 (1) create a viable economic entity with the powers and duties
7 necessary to operate and manage the Alaska Railroad pending eventual transfer of the
8 railroad to the private sector for its ownership or operation or both consistent with
9 45 U.S.C. 1201 - 1214 (Alaska Railroad Transfer Act of 1982);

10 (2) provide for the level of transportation service that best satisfies the
11 needs of the people of the state consistent with the other findings and policies of this
12 section;

13 (3) create a public corporation with the powers, duties, and functions
14 needed to operate the Alaska Railroad and manage its rail, industrial, port, and other

1 properties in the best interest of the people of the state by ensuring that the corporation
2 will

3 (A) be [EXCLUSIVELY] responsible for the management of
4 the financial and legal obligations of the Alaska Railroad;

5 (B) operate the railroad as a common carrier subject to the
6 jurisdiction of the United States Interstate Commerce Commission consistent
7 with 45 U.S.C. 1207;

8 (C) have the ability to raise capital by issuing bonds upon
9 approval of the legislature exempt from federal and state taxation and applying
10 for federal money to which the state may be entitled or that may be available;

11 (D) carry out its responsibilities on a self-sustaining basis;

12 (E) provide the best possible combination of types and levels
13 of safe, efficient, and economical transportation to meet the overall needs of
14 the state, supported when necessary by state investment;

15 (F) provide for the prudent operation of the railroad according
16 to sound business management practices; [AND]

17 (G) preserve the integrity of the railroad utility corridor for
18 transportation, communication, and transmission purposes; and

19 (H) be subject to AS 37.07 (Executive Budget Act) and be
20 responsible for the operating, capital, and debt service expenditures of the
21 corporation in accordance with appropriations made by the legislature;

22 (4) ensure that borrowing by the corporation does not directly or
23 indirectly endanger the state's own borrowing capacity.

24 * Sec. 2. AS 37.07.120(1) is amended to read:

25 (1) "agency" means a department, officer, institution, board,
26 commission, bureau, division, or other administrative unit forming the state
27 government and includes the Alaska Railroad Corporation, Alaska Pioneers' Home,
28 and the University of Alaska, but does not include the legislature or the judiciary;

29 * Sec. 3. AS 42.40.100 is amended to read:

30 **Sec. 42.40.100. Management by the board.** The board is responsible for the
31 management of the corporation but shall delegate certain powers and duties to the chief

1 executive officer in accordance with AS 42.40.120. In managing the corporation, the
2 board shall

3 (1) be responsible for the management of the financial and legal
4 obligations of the Alaska Railroad;

5 (2) operate the Alaska Railroad as a common carrier subject to the
6 jurisdiction of the United States Interstate Commerce Commission consistent with 45
7 U.S.C. 1207;

8 (3) generally manage the corporation on a self-sustaining basis;

9 (4) in accordance with AS 37.07, apply to the legislature for an
10 appropriation with the concurrence of the governor to be used to

11 (A) fund the operating, capital, and debt service
12 expenditures of the corporation; and

13 (B) when necessary, provide a particular service that is not
14 otherwise self-sustaining if a subsidy is required to maintain that service;

15 (5) provide for safe, efficient, and economical transportation to meet
16 the overall needs of the state;

17 (6) raise needed capital by issuing bonds of the corporation upon
18 approval by the legislature while ensuring that borrowing by the corporation does not
19 directly or indirectly endanger the state's own borrowing capacity;

20 (7) review all state and other land disposal proposals to aid in planning
21 for future development or expansion of transportation services;

22 (8) ensure that the procurement procedures of the corporation meet
23 accepted railroad industry standards;

24 (9) ensure that the accounting procedures of the corporation meet
25 generally accepted accounting principles consistent with industry standards for
26 comparable railroads.

27 * Sec. 4. AS 42.40.540 is amended to read:

28 **Sec. 42.40.540. Appropriations.** The corporation shall [MAY] request, in
29 accordance with AS 37.07, appropriations [THE CONCURRENCE OF THE
30 GOVERNOR, A DIRECT APPROPRIATION OR GRANT] from the legislature to
31 carry [ASSIST IN CARRYING] out the provisions of this chapter.

1 * Sec. 5. AS 42.40.920(b) is amended to read:

2 (b) Unless specifically provided otherwise in this chapter, the following laws
3 do not apply to the operations of the corporation:

4 (1) AS 19;

5 (2) AS 30.15;

6 (3) AS 35;

7 (4) AS 36.30, except as specifically provided in that chapter;

8 (5) AS 37.05;

9 (6) [AS 37.07;

10 (7)] AS 37.10.010 - 37.10.060;

11 (7) [(8)] AS 37.10.085;

12 (8) [(9)] AS 37.20;

13 (9) [(10)] AS 37.25;

14 (11)] AS 38;

15 (10) [(12)] AS 44.62.010 - 44.62.320.

16 * Sec. 6. PREPARATION OF FIRST ANNUAL BUDGET UNDER AS 37.07. The
17 Alaska Railroad Corporation shall prepare its first agency program and financial plan under
18 AS 37.07 for consideration by the governor in the development of the governor's
19 recommended operating and capital improvements programs and financial plans that are
20 submitted to the legislature at the next regular session of the legislature that convenes
21 following the effective date of this Act.

22 * Sec. 7. This Act takes effect immediately under AS 01.10.070(c).

COMMENTS ON SB 42 / HB 55

Submitted by the Alaska Railroad Corporation
to the Senate Transportation Committee

A. Fiscal Operations Aspect of the Bills

- **Changes in railroad business require the ability to respond quickly with capital investment.**

The railroad industry in America is engaged in a capital intensive business which has experienced significant changes in customers' requirements, therefore significant changes in its infrastructure, equipment and technology. The Alaska Railroad Corporation has recently responded to changes like these by acquiring new high capacity hopper cars to make its coal customers more competitive. We have also purchased new passenger equipment to support the tourism segment of our business; and we have negotiated a long term contract with our largest customer to assure that our tank car fleet is one of the most modern in the business. We are currently evaluating upgrade of our locomotive fleet. While initially capital intensive, this upgrade represents a significant opportunity for long term savings.

Responding to customer needs often requires quick action. For example, the decision to acquire the new hopper cars was made during negotiations regarding export coal, in order to make that service competitive for the customer, as well as improve service to other customers. Inasmuch as this occurred during the middle of a fiscal year, it would have been difficult if not impossible to respond had it been necessary to seek administrative and legislative approval.

Subjecting ARRC to the Executive Budget Act ("EBA"), AS 37.07, will adversely affect this ability to respond quickly, and chill other financial and contractual relationships of the corporation. Moreover, it may well subject the State to direct liability for ARRC actions.

- **By assuming substantial actual control over the financial and legal obligations of ARRC and removing a substantial portion of ARRC's asset base, the state may inadvertently be subjecting itself to full liability for ARRC's operations, despite language to the contrary in AS 42.40.500.**

ARRC has been a defendant in numerous lawsuits since its creation, and the State of Alaska has never been made a party as a result of ARRC's actions, nor called upon to answer in damages in any of these cases. ARRC conducts its own separate risk management program to address the risks created by its operations, which include a mix of preventative actions, insurance and ready cash availability through lines of

credit.¹ Obviously, the language of AS 42.40.500 and the arm's length nature of the corporation past relationship with the State have had the intended effect and spared the State these liabilities. We fear the same will not be true once the State injects itself so substantially into the railroad's business decision-making process, and once it renders the corporation significantly less able to satisfy judgments by removing its profitable real estate base. A "state entity" version of "piercing the corporate veil" will very likely occur.

- **The proposed bill will adversely affect the corporation's ability to maintain favorable premiums and retentions in its insurance package. These increases may be so great that ARRC is unable to procure its own insurance, forcing the State to add ARRC insurance costs to its risk management program.**

Removal of real estate assets from the corporation and the resulting decrease in revenues will adversely affect the corporation's insurance costs. Assets and revenues are among a number of factors considered by the insurance underwriters every year when ARRC is placing its coverages. ARRC currently enjoys relatively low premiums for the coverage it obtains, with high self-insured retentions. It is likely that stripping ARRC of its real estate will cause premiums to increase, or the self-insured retentions to decrease, or both. Either or both of these effects may cause the corporation to be unable to place insurance on its own behalf without paying an exorbitant cost. Coupled with the increased likelihood of State liability for ARRC obligations, this could force the State to add ARRC into its own risk management program.

1. **Chilling Effect on Borrowing.**

- **Will essentially end conventional borrowing, driving ARRC capital needs into state capital budget process. For example, ARRC is considering buying 20 new locomotives, which will cost approximately \$40MM.**

The bill leaves intact several provisions regarding borrowing by ARRC, yet by placing the corporation under the EBA, the borrowing ability of the corporation is called into question. The provision of this bill that subjects ARRC to the EBA and requires ARRC

¹ ARRC carries third party liability insurance coverage of \$25MM above a \$5MM self-insured retention ("SIR") (with free reinstatements, up to \$75MM in coverage is available for a single catastrophic event). For ARRC's own property damage, insurance of \$25MM is carried, subject to a \$10MM SIR. Various other specialized insurance policies complete ARRC's insurance package. The \$5-10MM SIRs are covered by dedicated lines of credit if cash on hand is not sufficient to meet an immediate need.

to request appropriations for its operating, capital and debt service expenditures may have serious consequences on ARRC's existing and future contracts/loan agreements. The corporation has several long term contracts to provide various services to customers and several long term loan agreements that require ARRC to make periodic interest and principal payments. To our knowledge, none of these agreements contains language conditioning ARRC's duty to perform on its receipt of sufficient appropriations from the legislature, as is the case in a typical state contract. Even if ARRC retains all its revenues, if it cannot expend them except in strict accordance with a legislatively approved annual budget, our existing customers/lenders may have valid concerns about our continuing ability to perform as the contract requires. If our performance is hampered by legislative or administrative revision of a proposed budget, those customers/lenders may argue that their contract rights have been impaired in violation of Article I, Section 15 of the Alaska Constitution.

With regard to future loans, it will be much more difficult and expensive to borrow money for operating capital or to purchase equipment, for example, on credit if this bill becomes law. It may be difficult for ARRC to assure its creditors that the legislature will appropriate sufficient money, or approve line entries in its budget, to pay the debt service on their loans. While ARRC has never mortgaged its real estate, lenders do scrutinize the corporation's revenue flow and financial statements before deciding to lend money to the corporation. Removing the contribution attributable to real estate from this bottom line will most certainly affect a lender's willingness to do business with ARRC. These same problems exist for future long term contracts with freight and real estate customers. In short, if we cannot assure our customers that we will have the funds and the authority to spend them to perform the services they require, they will go elsewhere.

2. Violation of Alaska Railroad Transfer Act ("ARTA").

- **The Transfer Act specifically provided that ARRC would retain control of funds and budget, because the federal railroad had experience with having to budget and seek appropriations, and had learned the hard way that you cannot anticipate all your business opportunities, and cannot respond quickly enough to capitalize on them when they arise if forced to follow this process.**
- **The federal government may well raise this violation of ARTA as a breach in its contract with the State of Alaska transferring the railroad.**

Section 1207 of ARTA mandates that the revenues generated by ARRC be "retained and managed by the State-owned railroad for railroad and related purposes". This bill will infringe on that "management" right in several respects. For example, inclusion of ARRC under the EBA will have the effect of prohibiting the corporation from increasing

the salaries of its employees, hiring additional employees or expending any money or incurring other obligations unless all of the same were included in an operations plan approved by OMB, which must in turn comport with a budget approved by the legislature. See AS 37.07.080(d). If ARRC receives excess funds from its operations (beyond what is expected and accounted for in its approved budget), it must convince the administration to propose a revision to the Legislative Budget & Audit Committee and wait 45 days before expending the money. See AS 37.07.080(h). One can foresee a multitude of business opportunities or potential employees that will not wait the time required to obtain such approvals, and accordingly be lost to the corporation.

As noted in Section A.5. below, there does not appear to be any requirement that all of the money generated by ARRC be paid into the state treasury. However, in light of the "appropriation" language found in the bill, the bill's intent is not entirely clear. If the design is for ARRC revenues to be "state funds" which are then appropriated back to the corporation or, even if held by the corporation but only expended pursuant to an approved budget, then the corporation no longer has the "management" rights required by Section 1207 of ARTA. Moreover, if all of ARRC's revenues are not either appropriated back to the corporation or approved to be used in the corporation's budget, part of ARRC's revenue could be used to fund a program or project that is totally unrelated to the railroad. This too would violate the mandate of ARTA Section 1207.

3. Process Adds Time and Cost Without Adding Value.

- **ARRC's customer base will not significantly change. Participating in the budgeting process as proposed will substantially increase the costs of doing business. It is unreasonable to expect the customers to bear this additional cost.**

Numerous provisions throughout the EBA impose procedures with considerably different focus and detail than ARRC currently develops, such as the "agency program," "financial plan" and "operations plan." In addition, involvement of additional layers of governmental agencies (OMB, I R&A, etc.) to business sector decision making will delay the process and therefore result in less flexibility to react to business climate changes. All of these add cost to the procedure without adding value. The cost will ultimately be paid by the customer, or worse still, by the corporation in the form of lost opportunity.

4. Effect of State Fiscal Year.

- **ARRC's business is highly seasonal, and moving to state fiscal year would split the business season.**

Subjecting ARRC to the EBA will require it to change from its current calendar year as fiscal year, to the state fiscal year that ends on June 30. While there does not appear to be a specific mandate to this effect, the requirement to participate in the governor's budgeting process and seek legislative approvals will necessitate such a change. Prudent businesses close their fiscal year at the end of business cycle, not during its busiest time. The railroad's "busy season" ends around November 1, and the calendar year is therefore the most appropriate fiscal year for ARRC. Not only would the state fiscal year artificially bifurcate the business year, but it would require the corporation to spend considerable time participating in the budgeting process at the same time it is gearing up to expand operations in May. This is not an efficient use of resources.

5. Inconsistency of Approach.

- **The inconsistencies found in the bill illustrate the difficulty in separating the financial management of the corporation from the operational management left to ARRC.**

The bill expressly subjects ARRC revenues to legislative control by making the corporation subject to the EBA. Yet, it does not change the primary directive found in the Alaska Railroad Corporation Act ("ARCA") for the corporation to be managed on a self-sustaining basis². For example, the directors are required to, "in accordance with AS 37.07, apply to the legislature for an appropriation . . . to be used to fund the operating, capital, and debt service expenditures of the corporation; and . . . when necessary, provide" a non-self sustaining service. This implies that an annual appropriation is required for all expenditures of the corporation, with all the accompanying budget, operations plan and other documents that are generated in the governor's budgeting process. However, the EBA itself does not require ARRC revenues to be paid into the general governmental treasury,² and it is unclear whether the bill contemplates this result. If ARRC is to retain its receipts, it is inconsistent to require the corporation to seek appropriations for operating and other expenditures.

6. Lack of Definition.

- **The bill directs decisions to be made without providing any guidance on how to make them.**

The ARRC directors are directed to apply for appropriations to be used to, "when necessary", provide a non-self sustaining service, without any guidance as to what

² Another section of the Public Finance title, AS 37.05.146, provides that ARRC receipts are not general fund receipts. Without any other section of that title being made applicable to ARRC, there is apparently no requirement that corporation funds be paid over to the state treasury.

factors go into a determination of such necessity or who is to make the determination. A similar lack of guidance is found throughout the real estate provisions of the bill, as will be discussed in Section B below.

B. Land Related Aspects of the Bill

- **The 1996 financial statements indicate that real estate provided \$4.4MM of ARRC's \$8MM income for that year. In past years, the percentage has been even higher.**

The general effect of the bill is to remove a considerable amount of ARRC's real estate holdings from the corporation's control. The wisdom of this approach is questionable, in view of the fact that real estate income accounts for the majority of ARRC's net income in any given year. Real estate revenues are relatively predictable and stable, unlike freight revenues which are subject to many vagaries outside ARRC's control. Railroads have traditionally relied upon their real estate asset base to support the operational side of the business, and the ARRC is no exception to this rule.

- **Most of the valuable leasable lands are already leased, which will complicate the effectiveness of any transfer to municipalities or DNR.**

The bill also envisions transferring excess rail lands to municipalities, but in fact, most of the valuable non-operational property is already leased to third parties and will not be available for conveyance. The bill recognizes that it must accept those existing third party rights, but its authors may not understand how much of the desirable rail land is so encumbered. In addition, it has been our experience in the past that lessees are not comfortable with a change in landlord, even if the lease terms remain the same. They realize that there is much more to the relationship than the words in the lease document. In fact, some have complained when a change to a municipal landlord was proposed. Thus, there is a significant risk of negative "customer relations" resulting from a transfer of leased rail land to a municipality.

- **The corporation currently enjoys the benefit of an agreement with the FRA that clarifies responsibility for pre-transfer contamination. This agreement may be jeopardized by the transfer of the land to other parties who could find themselves facing significant environmental liability without clear cut redress with the federal government.**

Another consideration is the environmental aspects of a transfer of rail land to the Department of Natural Resources ("DNR"). There is certain known contamination of rail land, both right-of-way ("ROW") and parcels and, no doubt, some amount of currently unknown contamination as well. ARTA provided that the United States

retained all liabilities that accrued prior to transfer, without specific reference to environmental liabilities. ARRC entered into an agreement with the Federal Railroad Administration ("FRA") in 1990 that addresses respective responsibilities for contamination, an agreement which is not specifically stated to be assignable. The FRA is currently somewhat unhappy with the agreement, and may take advantage of any opportunity, however flimsy, to repudiate it. Moreover, transfer of ARRC land to DNR will create two separate entities to deal with pre-transfer contamination--ARRC for the ROW and any retained rail land, and DNR for the other rail lands. DNR has no experience dealing with FRA, and FRA will resist having to deal with two different state "agencies" on the same underlying liability, rightly fearing it could be subject to different approaches. Lastly, given the inherent difficulties in dealing with contaminated properties and DNR's lack of experience in this area, it will present that agency with a new and onerous burden that is unnecessary and undeserved.

Thus, it is apparent that there are several philosophical objections to removing "non-operational" real estate from ARRC's control. In addition, the bill contains numerous errors and inconsistencies, and fails to provide sufficient guidance for the difficult decisions it requires to be made. A number of examples are discussed below.

1. **Land Title in Limbo for Considerable Period.**

- **Mechanism of the proposed transfer to DNR will create title questions for an extended period, which will affect third parties' willingness to do business on railroad land.**

Effective immediately upon the bill becoming law, title to all land acquired by ARRC is transferred to DNR. The commissioner is directed to record title to the land in the name of the state within an unspecified period of time. Given that the existing conveyance documents for lands transferred by the United States to ARRC consist of over 450 pages of patents, interim conveyances and exclusive licenses recorded in nine different recording districts, and include numerous pages of metes and bounds legal descriptions that will have to be retyped or scanned into DNR databases, this process will take a significant time. During that time, the title to the rail lands will be regarded as flawed by any title company that has occasion to address the subject. Title companies often assess the strength of ARRC's title when dealing with long term tenants who are financing or refinancing improvements on the properties.

2. **Necessity for U.S. Involvement.**

- **As current owner of record for most of the rail lands, the United States will probably have to be a signatory to this transfer process.**

The exclusive licenses received from the United States at transfer in 1985, which constitute the bulk of the current title documents of record, are not specifically assignable. The United States may have to be a signatory to a recordable document to establish the chain of title between ARRC and DNR for these lands.

3. Separation of ROW by Survey Required.

- **Additional costs will be incurred to survey and plat the right-of-way, with no added benefit other than to document the transfer to DNR.**

The statutory rubric appears to intend that, despite the immediate transfer of title of all railroad lands to DNR, the 200-foot ROW (still called the "utility corridor") will be "reserved" for ARRC use. Presumably this reservation is effective immediately, but query how, where and when the commissioner of DNR makes this reservation a part of the public land records. In areas where the ROW passes through railroad reserves (the larger parcels of railroad land at Anchorage, Fairbanks, and various other railbelt locations), there is no separately surveyed 200-foot ROW. In order to "reserve" and separate this portion of the ROW from surrounding rail lands, the DNR commissioner will have to undertake extensive surveys and platting under local land use rules.

4. Retention of Non-ROW if "Necessary" Without Guidelines.

- **There are no guidelines provided for determining what lands are "necessary" to railroad operation and therefore retained by ARRC.**

Non-ROW lands are called "rail land" under the existing statute and the bill. As to such lands, the bill provides that "rail land necessary for the use, maintenance or operation of the railroad shall be reserved for use by the railroad." There is no indication that this reservation is delayed, so presumably it too is effective immediately. However, there is no indication of who is to make the "necessity" determination, the standards to be applied, or how it is to be expressed. This again will cause valid concern in the real estate community as ARRC tenants, permittees, and those seeking to become such, can find no certainty in the state of title.

5. Process to Be Employed by DNR in Determining Necessity.

- **Again, without guidelines, it is unclear how DNR will determine what are "necessary" rail lands in the future, and will at best add another layer of process and time to ARRC's ability to respond to a business opportunity to the benefit of a freight or real estate customer.**

For lands that are not subject to the immediate "reservation", the ARRC board is authorized to "request" the DNR commissioner to make available other lands

"necessary or useful for present or future railroad purposes". No guidance is given as to what standards the DNR commissioner must apply in making this determination, although he is given 90 days to make the decision. What is the meaning of "necessary", "useful", or, for that matter, "railroad purposes"? Query whether different standards should be applied depending on whether additional ROW is being requested, as opposed to additional "rail land". Query what "appeal" rights ARRC would have as the aggrieved party if the commissioner refuses the request.

6. Unnecessary Administrative Burden Imposed on DNR.

- **Transferring over 250 leases to DNR's administration will add a significant burden to that agency, requiring additional expertise and funding.**
- **There can be no real change in the use and administration of these properties, because terms of existing leases cannot be changed. Therefore, there is no real benefit to the state from such a transfer.**

The administrative burden imposed on DNR by adding these lands under these conditions to its inventory should be considered. DNR has an efficient mechanism in place to handle leases and other interests in land, which differs somewhat from the mechanism retained under this bill for rail land. For example, a lease of rail land to a party other than the state must be at fair market value "as determined by a qualified appraiser or by competitive bid." The DNR statutes provide a somewhat different approach, so that DNR will have to devise and master another system and apply them both efficiently. In addition, presumably all of ARRC current leases and permits on lands not "reserved" to the corporation under Sections B 2-4 above will be administered by DNR. These contracts are vested rights and may not be divested without payment of compensation. For example, there are a total of 261 current leases, the overwhelming majority of which are on non-"ROW" land.³ Therefore, DNR would acquire over 250 new leases to administer, with ARRC or federal railroad standard terms and conditions, and rental reappraisal cycles entirely different from its normal inventory. It will be necessary for DNR staff to administer these "unusual" leases for remaining terms of up to 35 years (or even longer, due to options to extend as well as hold-over federal leases which had longer terms from their inception). The enormity of this assignment should not be underestimated, and DNR must be prepared to expend sufficient resources to master those documents or the businesses and individuals who have contracted in good faith with the railroad will feel cheated. The potential for negative public relations is significant.

³ There are an unknown number of the 576 active permits granted by the railroad that would also fall under DNR administration, although the vast majority of these are on railroad ROW.

7. **Changes Required re "Disposal of Entire Interest in Rail Land".**

- **Technical changes are required to make new provisions consistent with remainder of ARCA, and at same time, the legislature should consider why this land should be disposed of a in different manner than other DNR lands.**

Section 5 of the bill amends AS 42.40.285 to add a new subsection (b), requiring the "state" to seek legislative approval when disposing of its entire interest in railroad land. First, the existing statute does not have a subsection (a). Presumably the intention is to make the existing language into a subsection (a), but this does not quite fit either because the new language appears to replace the intent in current subsection 285(1), which is indeed repealed by Section 22 of the bill. However, the lettering and structure of the remainder of the section must also be changed to match this bill's additional language. In addition to such technical changes, the intent of the bill should be clarified. Query what remains for which ARRC as the continuing corporation must seek legislative approval. Further, one must ask why DNR, as administrator of rail land removed from ARRC control under other portions of this bill, is required to act differently with respect to disposals of this land? DNR has an enormous inventory of state land to manage and has stringent provisions under the Alaska Constitution and the Alaska Lands Act governing its disposals. Imposing an additional and different procedure on DNR for just these lands creates an unwarranted administrative burden with no identified value added.

8. **Ratification of Leases to Third Parties.**

- **The bill ratifies prior third party leases but does not address the numerous leases and permits from ARRC to municipalities and state entities.**

Section 24 of the bill purports to ratify prior land transfers to a party other than the state. ARRC has entered into numerous long term leases with state agencies and political subdivisions of the state, many of them at nominal lease rates. Are these to be voided unless and until acted upon and somehow validated by DNR? What standards might these lessees expect to see imposed under DNR's administration? The term "transfer" is not defined--are parties other than the state, who are purportedly protected by this provision, secure in their lease rights without a definition of this language to include leases? They will have valid concerns unless the legislative intent is clarified.

9. **Limitation on Future Leases of ROW.**

- **The bill limits future leases within right-of-way to certain purposes without regard to benefit to rail operations or customer's needs.**

Leases or other disposals within the ROW may be authorized by ARRC but must "require that the land be used for transportation, communication and transmission purposes in perpetuity." Other "compatible" purposes are also allowed. One threshold issue is the definition of the word "compatible." Moreover, the reasoning behind the entire concept is unclear. If this provision is an effort to avoid forfeiting the ROW under ARTA's reversionary provisions (45 U.S.C. § 1209(b)), it goes much farther than necessary. That section of ARTA only requires that the ROW not go unused for transportation, communication and transmission purposes for more than 18 years or it will revert to the United States. A lease or permit could easily incorporate such a provision, or be limited to less than 18 years in length to accomplish this purpose. A complete disposal of the entire interest in such land requires legislative approval in any event, and the legislature could at that time seek to impose any condition it liked.

10. Inconsistency Created by Terminology.

- **A technical amendment is needed to make references to the right-of-way consistent.**

Section 6 of the bill, at page 8, lines 6-7, should be amended in a manner that explains the seemingly inconsistent use of the term "right-of-way" here when all other references in ARCA are to "utility corridor". We suggest adding the following: '...within railroad "right-of-way" as defined in 45 U.S.C. §1202(11) and received by the state under 45 U.S.C. 1201 - 1214 shall require that the land be used for transportation....'

sb42



CITY OF KENAI

" Oil Capital of Alaska "

210 FIDALGO AVE., SUITE 200 KENAI, ALASKA 99611-7794
TELEPHONE 907-283-7535
FAX 907-283-3014



February 20, 1997

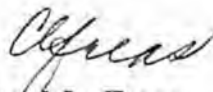
Senator Jerry Ward
Alaska State Legislature
State Capitol, Room 423
Juneau, AK 99801-1182

RE: ***RESOLUTION SUPPORTING PUBLIC OWNERSHIP AND THE PRESENT
MANAGEMENT STRUCTURE OF THE ALASKA RAILROAD
City of Kenai***

Enclosed is a copy of Resolution No. 97-7, unanimously passed by the Kenai City Council at their regular meeting of February 19, 1997. Please review the resolution and consider its content during legislative deliberations.

If you have any questions or require further information, please contact this office at (907) 283-7539.

CITY OF KENAI


Carol L. Freas
City Clerk

clf

Suggested by: Vice Mayor Measles

**CITY OF KENAI
RESOLUTION NO. 97-7**

**A RESOLUTION OF THE COUNCIL OF THE CITY OF KENAI, ALASKA,
SUPPORTING PUBLIC OWNERSHIP AND THE PRESENT MANAGEMENT
STRUCTURE OF THE ALASKA RAILROAD.**

WHEREAS, the Alaska Railroad was constructed by the Federal Government from 1915 to 1923 as a public transportation system to open Alaska's Interior and foster development; and,

WHEREAS, the State of Alaska purchased the Alaska Railroad in 1985 to bring this critical transportation link under control of Alaskans for the first time; and,

WHEREAS, the Alaska Railroad accomplishes a dual mission of supporting economic development and providing vital public transportation services; and,

WHEREAS, the Alaska Railroad Corporation Act of 1984, the Alaska State Legislature created a management structure that is accountable to the Legislature and Governor through the appointment and confirmation of board members; and,

WHEREAS, the Alaska Railroad is successfully managed and operated by professional railroad managers and workers; and,

WHEREAS, the Alaska Railroad Corporation Act enables the Alaska Railroad to be self-sustaining through retention of profits for reinvestment in capital improvements and maintenance; and,

WHEREAS, the Alaska Railroad is meeting its mission to be professionally managed and self-sustaining, earning record profits in 1995 and 1996; and,

WHEREAS, the Alaska Railroad has not received state general fund subsidies for operation or maintenance since coming under state ownership; and,

WHEREAS, Alaska Railroad employees are not state employees, receive no state benefits, and are not part of the state retirement system; and,

WHEREAS, the Alaska Railroad's success is due largely to its non-political management, its ability to respond to customer needs and its integration of freight, passenger, and real estate operations; and,

WHEREAS, the Alaska Railroad, as a public institution, is an integral part of Alaska's history and future development; and,

WHEREAS, the Alaska Railroad has one of the vital transportation corridors of 578 main line miles of track from tidewater at Seward to Alaska's interior City of Fairbanks; and,

WHEREAS, the City of Kenai recognizes that even successful organizations must continue striving for improvement and that the Alaska Railroad is no exception.

NOW, THEREFORE, BE IT RESOLVED THAT THE COUNCIL OF THE CITY OF KENAI, ALASKA, supports continued State ownership of the Alaska Railroad under the terms of the Alaska Railroad Corporation Act of 1984.

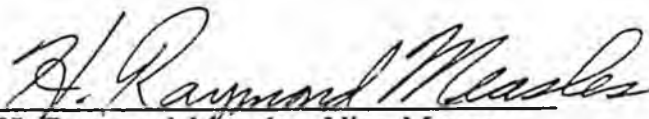
BE IT FURTHER RESOLVED that the City of Kenai opposes any legislative or administrative proposals that would diminish the Alaska Railroad's ability to:

- Manage its budget and finances according to accepted business practices;
- Meet the needs of its customers in a timely manner;
- Limit the Corporation's ability to generate sufficient revenue to be self-sustaining, especially by transferring Railroad lands to another entity.


BE IT FURTHER RESOLVED that the City of Kenai encourages the Alaska Railroad's Board of Directors to actively solicit and incorporate recommendations from representatives of rail users, impacted communities, tenants, legislators, and other interested parties, and to develop long-range plans for improving and expanding railroad services.

BE IT FURTHER RESOLVED that copies of this resolution shall be sent to the Honorable Tony Knowles, Governor, State of Alaska; Governor Bill Sheffield, Chairman of the Board, Alaska Railroad Corporation; and all members of the Alaska State Legislature.

PASSED BY THE COUNCIL OF THE CITY OF KENAI, ALASKA, this 19th day of February, 1997.


H. Raymond Measles, Vice Mayor

ATTEST:


Carol L. Freas, City Clerk

ALASKA RAILROAD CORPORATION

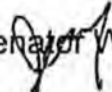


Corporate Address: P.O. Box 107500, Anchorage, Alaska 99510
327 W. Ship Creek Avenue, Anchorage, Alaska 99501

Executive Office
(907) 265-2414
Fax (907) 258-1456

February 20, 1997

The Honorable Jerry Ward
Alaska State Legislature
State Capitol, Room 423
Juneau, Alaska 99801

Dear Senator  Ward:

Thank you for your faxed letter to me this morning.

Attached are the answers to the six questions that you referred to in your letter.

Our Board Member, Commissioner Joe Perkins, can address these issues as well as any other issues that pertain to this legislation that you are considering today.

As Chairman of the ARRC Board of Directors, I would appreciate the opportunity to testify on this legislation. As I understand, it was too late today for the Legislative Information Office to patch us in from Anchorage.

I had hoped to meet with you this week, but I understand from Margaret that you had canceled my meeting because of a conflict. It is unfortunate that I could not meet with any of your staff. I will be in Juneau Wednesday, February 26 and Thursday, February 27 and I would appreciate if you could make the time to visit with me on one those days. My phone number is (907) 265-2403. I look forward to testifying.

Respectfully,



Bill Sheffield
Chairman, ARRC Board of Directors

**ALASKA RAILROAD CORPORATION'S RESPONSE TO
SENATE TRANSPORTATION COMMITTEE'S QUESTIONS
FEBRUARY 20, 1997**

QUESTION NO. 1:

With regard to ARRC's agreement with the Flamingo Brothers Partnership to market and extract gravel from ARRC's Anchorage property; How was this agreement arrived at? Was this opportunity put out to competitive bid? How much gravel was extracted? How much gravel was sold? Which Anchorage property was the gravel extracted from? If you had to do it all over again, what, if anything, would you do differently?

RESPONSE:

This agreement was developed in response to an inquiry by Flamingo Brothers as to availability of the ground/resource. The request was for short term possession with intent to remove the resource, thus the agreement was framed as a license and focused on the value of the resource. The ground and the resource opportunity was not put out to bid. It was negotiated to achieve "fair market value" under ARRC's statutes and real estate policies. This process has been applied for resources elsewhere, for example at the Usibelli mine. Note: this very same property and resource had been investigated by another company four years earlier but had not resulted in an agreement.

There has been no gravel extracted to date, as there have been no fill projects in the port area to which the gravel's disposal is limited. The Port of Anchorage, Northstar & Alaska Petroleum Contractors all have fill projects pending which could use up this resource, however, no gravel has yet been sold.

The resource will be extracted from the Government Hill bluff which forms the north edge of the Anchorage rail yard. It is all ARRC property. Removing the gravel will allow for additional "train length" tracks to be added to the yard under ARRC's operations improvement plans. Completion of this project will allow the Municipality's Hollywood Vista project to remove gravel, revenue from which will benefit completion of this high public interest project. The net result will be a bluff which is terraced for greater geotechnical stability and a pleasing appearance.

Because this transaction was structured as a license, it was not presented to the ARRC Board for approval. ARRC has since changed its policies to cover permits and licenses of high public interest. These now receive public notice and are submitted to the Board for approval.

QUESTION NO. 2:

How much land do you lease to Mapco? Is the land leased at fair market value? How was the value determined? Can you estimate the difference between the lease value and the current fair market value, if any?

RESPONSE:

MAPCO has two leases with ARRC, both in the Anchorage port area. One lease is for 20.95 acres. It is leased at 9% of the land's appraised fair market value. The second is for 6.25 acres. It is leased at 6% under an old federal lease. Both leases are reappraised every five years. Therefore there is little or no difference between lease value and fair market on the first lease. There is the 3% difference in lease rate on the second, which cannot be changed until the old federal contract expires.

QUESTION NUMBER 3:

With regard to the ARRC agreement with the Washington Corporation for the Whittier tie-in; What commitments did the ARRC make for this agreement? What long range indebtedness, is there, if any?

RESPONSE:

The ARRC has no agreement with the "Washington Corporation" for rail barge service between Seattle and Whittier. Presently, rail barge service is provided by Crowley Marine Services, Inc. ("CMS") at an annual cost of \$12.5-\$14 million under a contract that expires in 1998. In anticipation of the expiration of the CMS contract, ARRC issued a request for proposals ("RFP") for rail barge service in the Spring of 1996. ARRC received seven (7) proposals from various water carriers in response to this RFP. In December, 1996 ARRC determined that the proposal submitted by Norsk Pacific Steamship Company, Ltd. ("Norsk") was the most cost efficient and beneficial to ARRC. Norsk is wholly-owned by Dennis Washington. Norsk proposed to build two (2) articulated tug and barge units that will provide weekly rail barge service from Seattle to Whittier. Norsk has offered 10 year, 12 year and 15 year term options. The cost of this service is approximately \$9- \$11 million per year depending on which option ARRC selects. At the present time, ARRC is in the process of negotiating with Norsk and has not made any commitments to buy their service.

QUESTION NO. 4:

In the event of an oil spill or major derailment, does ARRC have a plan in place to cover the resulting costs associated with clean up, repair to rail lines and equipment, etc.? If a major disaster occurred that was beyond the ARRC's ability to pay, how would costs be covered? How does ARRC cover their liability?

RESPONSE:

ARRC has an Emergency Response Plan in place to address such events. The plan contains detailed procedures for the mobilization of manpower and equipment resources to address the immediate needs of protecting human life, as well as property and the environment. With regard to clean-up costs, repairs, etc., as well as the more routine third party liabilities, ARRC purchases liability insurance with limits of \$25,000,000 after a \$5,000,000 deductible. If a single event were to exhaust those limits, a condition of the policy allows for two free "reinstatements" of the limits, which in effect provides a \$75,000,000 limit for any one catastrophic event. To address losses of its own property, ARRC purchases insurance with limits of \$25,000,000 after a \$10,000,000 deductible. Additionally, to address the deductibles and provide immediate cash in the event of a catastrophe, ARRC maintains a standby line of credit in the amount of \$10,000,000. The line of credit is dedicated to addressing only insurance contingencies, and again acts as a risk transfer vehicle, much like an insurance contract.

An event of a major disaster that exhausted the limits of insurance purchased by ARRC, is problematical. In such an event, one source of capital to address losses above "ARRC's ability to pay" is the Federal Emergency Management Agency ("FEMA"). Because federal laws are written to allow ARRC to apply for FEMA assistance in specific situations (i.e. acts of God) FEMA has been successfully utilized in ARRC's Risk Management program. In the 1986 flood, damage to track, roadbed, and bridges caused an estimate \$3 million in damage. FEMA paid approximately \$2.2 million of these losses.

QUESTION NO. 5:

Taking into consideration the Alaska Constitutional mandate on appropriations, how does ARRC justify the expenditure of state funds without legislative oversight?

RESPONSE:

Article IX, Section 13 of the Alaska Constitution provides that "no money shall be withdrawn from the Treasury except in accordance with appropriations made by law." Both the federal law that authorized the transfer of the railroad to the State and the Alaska Railroad Corporation Act provide that revenue generated by the Alaska Railroad Corporation shall be retained and managed by the Corporation for railroad and related

purposes. See 45 U.S.C. § 1207(a)(5) (the Alaska Railroad Transfer Act of 1982) and AS 42.40.530 (the Alaska Railroad Corporation Act). Accordingly, revenues generated by ARRC are not deposited in the State Treasury and are therefore not subject to the Constitutional Appropriation requirement.

QUESTION NO. 6:

In 1996, ARRC reported profits in excess of \$8 million. How is the \$10 million subsidy from the federal government accounted for? Without this subsidy, would the ARRC have reported a loss for this period?

RESPONSE:

Grant revenue is recorded in the same period as expenses related to the grant. Grant funds received but not yet expensed are recorded as deferred revenue on the balance sheet.

Because grant revenue and expense are equal, *the grant has a \$0 impact on net income.* ARRC would have still reported the identical net income figure of \$8 million. In other words, the net income of \$8 million reflects the results of railroad and real estate operations only.

We would be happy to arrange for our external auditors, KPMG Peat Marwick, to explain this accounting issue to any committee member. This money is administered by a Federal Railroad Administration official who can confirm that all grant monies are controlled separately from operational revenues and have no impact on the bottom line.

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ALASKA RAILROAD CORPORATION'S RESPONSE TO SENATE TRANSPORTATION COMMITTEE'S QUESTIONS FEBRUARY 20, 1997

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The ARRC has no agreement with the "Washington Corporation" for rail barge service between Seattle and Whittier. Presently, rail barge service is provided by Crowley Marine Services, Inc. ("CMS") at an annual cost of \$12.5-\$14 million under a contract that expires in 1998. In anticipation of the expiration of the CMS contract, ARRC issued a request for proposals ("RFP") for rail barge service in the Spring of 1996. ARRC received seven (7) proposals from various water carriers in response to this RFP. In December, 1996 ARRC determined that the proposal submitted by Norsk Pacific Steamship Company, Ltd. ("Norsk") was the most cost efficient and beneficial to ARRC. Norsk is wholly owned by Dennis Washington. Norsk proposed to build two (2) articulated tug and barge units that will provide weekly rail barge service from Seattle to Whittier. Norsk has offered 10 year, 12 year and 15 year term options. The cost of this service is approximately \$9- \$11 million per year depending on which option ARRC selects. At the present time, ARRC is in the process of negotiating with Norsk and has not made any commitments to buy their service.

QUESTION NO. 4:

In the event of an oil spill or major derailment, does ARRC have a plan in place to cover the resulting costs associated with clean up, repair to rail lines and equipment, etc.? If a major disaster occurred that was beyond the ARRC's ability to pay, how would costs be covered? How does ARRC cover their liability?

RESPONSE:

ARRC has an Emergency Response Plan in place to address such events. The plan contains detailed procedures for the mobilization of manpower and equipment resources to address the immediate needs of protecting human life, as well as property and the environment. With regard to clean-up costs, repairs, etc., as well as the more routine third party liabilities, ARRC purchases liability insurance with limits of \$25,000,000 after a \$5,000,000 deductible. If a single event were to exhaust those limits, a condition of the policy allows for two free "reinstatements" of the limits, which in effect provides a \$75,000,000 limit for any one catastrophic event. To address losses of its own property, ARRC purchases insurance with limits of \$25,000,000 after a \$10,000,000 deductible. Additionally, to address the deductibles and provide immediate cash in the event of a catastrophe, ARRC maintains a standby line of credit in the amount of \$10,000,000. The line of credit is dedicated to addressing only insurance contingencies, and again acts as a risk transfer vehicle, much like an insurance contract.

An event of a major disaster that exhausted the limits of insurance purchased by ARRC, is problematical. In such an event, one source of capital to address losses above "ARRC's ability to pay" is the Federal Emergency Management Agency ("FEMA"). Because federal laws are written to allow ARRC to apply for FEMA assistance in specific situations (i.e. acts of God) FEMA has been successfully utilized in ARRC's Risk Management program. In the 1986 flood, damage to track, roadbed, and bridges caused an estimate \$3 million in damage. FEMA paid approximately \$2.2 million of these losses.

QUESTION NO. 5:

Taking into consideration the Alaska Constitutional mandate on appropriations, how does ARRC justify the expenditure of state funds without legislative oversight?

RESPONSE:

Article IX, Section 13 of the Alaska Constitution provides that "no money shall be withdrawn from the Treasury except in accordance with appropriations made by law." Both the federal law that authorized the transfer of the railroad to the State and the Alaska Railroad Corporation Act provide that revenue generated by the Alaska Railroad Corporation shall be retained and managed by the Corporation for railroad and related

purposes. See 45 U.S.C. § 1207(a)(5) (the Alaska Railroad Transfer Act of 1982) and AS 42.40.530 (the Alaska Railroad Corporation Act). Accordingly, revenues generated by ARRC are not deposited in the State Treasury and are therefore not subject to the Constitutional Appropriation requirement.

QUESTION NO. 6:

In 1996, ARRC reported profits in excess of \$8 million. How is the \$10 million subsidy from the federal government accounted for? Without this subsidy, would the ARRC have reported a loss for this period?

RESPONSE:

Grant revenue is recorded in the same period as expenses related to the grant. Grant funds received but not yet expensed are recorded as deferred revenue on the balance sheet.

Because grant revenue and expense are equal, *the grant has a \$0 impact on net income.* ARRC would have still reported the identical net income figure of \$8 million. In other words, the net income of \$8 million reflects the results of railroad and real estate operations only.

We would be happy to arrange for our external auditors, KPMG Peat Marwick, to explain this accounting issue to any committee member. This money is administered by a Federal Railroad Administration official who can confirm that all grant monies are controlled separately from operational revenues and have no impact on the bottom line.

*Julie Black
265-2461*

ALASKA RAILROAD CORPORATION



P.O. Box 107500 • Anchorage, Alaska 99510-7500

FACSIMILE COVER SHEET

TO: *Craig Johnson*
Sen. Ward's Office
 FROM: *Phyllis Johnson*

OFFICE OF THE GENERAL COUNSEL
ALASKA RAILROAD CORPORATION

DATE: *2-19-97*

NUMBER OF PAGES (including cover sheet): *12*

OUR PHONE NUMBER IS (907) 265-2461. OUR FAX NUMBER IS (907) 265-2443.

*Here's some comments for
 tomorrow's hearing on
 SB 42. I will check with
 you early tomorrow to see
 if the fax went through.
 Ok thanks for your call
 and efforts to get this into
 the senators' packets.*

Alaska State Legislature

Senate

JERRY WARD

State Capitol
Juneau, AK 99801-1182
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February 20, 1997

Mr. William Sheffield
Alaska Railroad Corporation
PO Box 107500
Anchorage, AK 99510-7500

Dear Mr. Sheffield:

As you know, the Senate Transportation Committee will be hearing SB 42 - *An Act Related to the Alaska Railroad Land and Budget* on Thursday, February 20 at 1:30 pm in the Butrovich Room. If enacted this legislation will make two changes to the railroad and the corporation. The bill will place the Alaska Railroad Corporation under the Executive Budget Act and it will transfer land not needed for rail operations to the Department of Natural Resources.

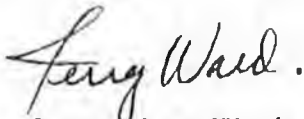
To assist the Senate Transportation Committee in our deliberations on this and other legislation which may be introduced at a future date affecting the ARRC, we would appreciate obtaining the input of the ARRC Board on the attached 6 questions on corporation agreements and policy.

I had planned to give these questions to you during our scheduled meeting this week in hopes that you could present the answers to the Transportation Committee during the February 20 meeting. It is indeed unfortunate that you had to cancel our appointment due to illness. If it is not possible to provide the Committee with the answers to these questions by the time of the February 20 Transportation meeting, I would appreciate receiving this information as expeditiously as possible.

Should you have any questions or comments regarding the questions or this request, please feel free to contact Lydia Jones of my staff at 465-6641 for assistance.

Thank you and I look forward to hearing from you in the very near future.

Sincerely,

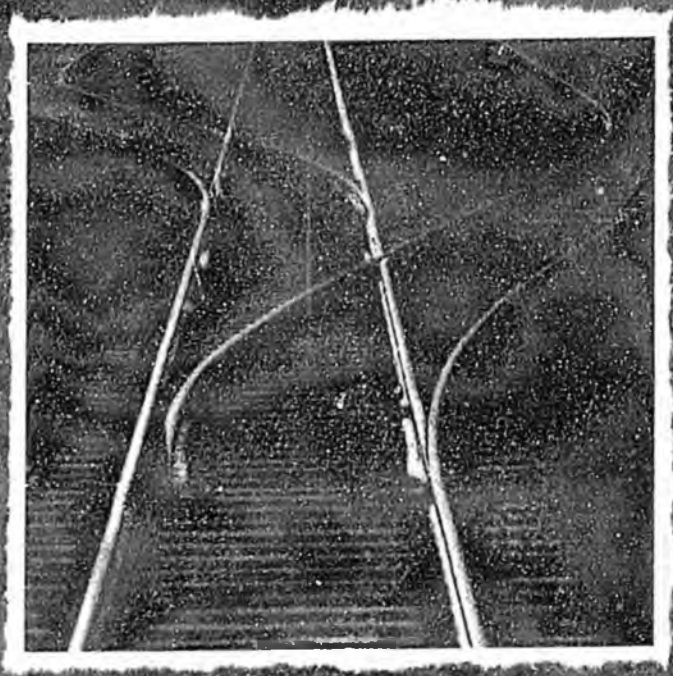


Senator Jerry Ward

cc: ARRC Board Members

Senate Transportation Committee Questions of the Alaska Railroad Corporation:

1. With regard to ARRC's agreement with the Flamingo Brothers Partnership to market and extract gravel from ARRC's Anchorage property; How was this agreement arrived at? Was this opportunity put out to competitive bid? How much gravel was extracted? How much gravel was sold? Which Anchorage property was the gravel extracted from? If you had to do it all over again, what, if anything, would you do differently?
2. How much land do you lease to Mapco? Is the land leased at fair market value? How was the value determined? Can you estimate the difference between the lease value and the current fair market value, if any?
3. With regard to the ARRC agreement with the Washington Corporation for the Whittier tie-in; What commitments did the ARRC make for this agreement? What long range indebtedness, is there, if any?
4. In the event of an oil spill or major derailment, does ARRC have a plan in place to cover the resulting costs associated with clean up, repair to rail lines and equipment, etc? If a major disaster occurred that was beyond the ARRC's ability to pay, how would costs be covered? How does ARRC cover their liability?
5. Taking into consideration the Alaska Constitutional mandate on appropriations, how does ARRC justify the expenditure of state funds without legislative oversight?
6. In 1996, ARRC reported profits in excess of \$8 million. How is the \$10 million subsidy from the federal government accounted for? Without this subsidy, would the ARRC have reported a loss for this period?



THE TIES THAT BIND ALASKA



THE FOLLOWING DOCUMENT HAS NOT
BEEN FILMED BUT IS AVAILABLE IN THE
ORIGINAL FILE.

ALASKA RAILROAD



1997 PASSENGER SERVICES



The Alaska Railroad

**PRESENTATION TO THE ALASKA
LEGISLATURE
JOINT COMMITTEES ON FINANCE AND
TRANSPORTATION**

**JANUARY 30, 1997
JUNEAU, ALASKA**

alaska railroad corporation



Before the committees

- Governor Bill Sheffield, Chairman,
Alaska Railroad Corporation Board of Directors
- Senator John Binkley, Board of Directors
- Patricia Dunn, Vice President, Finance and Administration,
Alaska Railroad Corporation
- Evan McKinney, Vice President, Maintenance, and Engineering

Order of presentation

- Mission, objectives, historical background (Governor Sheffield)
- Current business setting (Ms. Dunn)
- Five-year strategic outlook (Mr. McKinney)
- Summary of legislative issues (Governor Sheffield)

EXECUTIVE SUMMARY

The Alaska Railroad is a professionally-run, self-sustaining railroad serving ports and communities from the Gulf of Alaska to Fairbanks. Owned by the State of Alaska since 1985, the Railroad overseen by a seven-member board of directors appointed by the Governor and confirmed by the Legislature.

Under this management and ownership arrangement created and approved by the Legislature in 1984, the Alaskans maintain control of Southcentral Alaska's principal transportation corridor, retain 38,000 acres of land transferred from the federal government, and have the revenues needed to operate, maintain, and expand the line.

The Railroad is operated by professional railroad managers, requires no subsidies from the state treasury, and has no state employees.

HISTORICAL OVERVIEW

Purpose The Alaska Railroad was built by the United States government between 1914-23 as a way to open up and develop Alaska's westward Interior. It served as the focal point for the development of Anchorage and the Matanuska Valley, the Interior's mining districts' link to ocean transportation, a vital carrier of World War II troops and supplies, and principal freight line from tidewater during the Cold War construction boom and construction of the Trans-Alaska Pipeline.

It remains one of the state's oldest and most important pieces of infrastructure for transportation and economic development.

Alaska control In the early 1980s the United States no longer considered the Alaska Railroad an important federal asset and sought to sell it. The State of Alaska saw an opportunity to gain Alaska control of the line.

The Legislature approved acquisition of the line in 1984 specifically because:

- The Railroad "is an essential part of the state's transportation network that may, unless preserved by state action, cease to be a transportation option in Alaska." (AS 42.40)

The intent was to bring the line under Alaska ownership and direction, keep the profits in-state, assure that the line had the resources to operate safely and efficiently, and make sure the Railroad continued to serve Alaska businesses and communities as an engine of community development and economic growth.

The transfer took place January 5, 1985.

Purchase agreement The State paid the United States \$22.271 million cash for the Railroad's track, rolling stock, and 38,000 acres of land. The United States also retained \$10.978 million in the Railroad's cash-on-hand, in exchange for also accepting significant past liabilities.

As part of the purchase agreement, the Legislature replaced the nearly \$11 million in operating capital, bringing the total cost to just under \$34 million.

Note: The Railroad has *neither requested nor received* any additional state money outside of the agreement and legislation approved by the Legislature in 1984.

Public ownership, private management In bringing the Railroad under state control, the Legislature specifically created a structure that would avoid the liabilities and limitations of traditional public management, while maintaining the accountability of public ownership.

The Alaska Railroad Corporation Act of 1984 created a state corporation that is:

- *Accountable* to the Governor and Legislature through appointment and confirmation of board members;
- *Professionally operated* by railroad managers who have the flexibility to negotiate their own labor contracts with professional railroad workers;
- *Self-sustaining* through retention of all profits generated by the enterprise.

This 12-year-old arrangement is one of the few examples of a situation in which government is, indeed, run like a business. The Alaska Railroad Corporation has the flexibility to meet the needs of its customers (such as refiners, tour companies, and construction operations) and earn a profit, which helps support vital public transportation services that do not pay their way, and would otherwise be dropped by an exclusively private, profit-centered operation.

Note: Since 1984, the line has earned and reinvested \$102 million in maintenance and expansion of Railroad facilities.

The structure also provides that major and minor expansion of Railroad operations — from line extensions to leasing of Railroad land — are viewed not just by how much money they may make for the corporation, but whether the action is consistent with community and state development goals and opportunities. This, in turn, is consistent with the findings of the Legislature expressed in the Alaska Railroad Corporation Act of 1984.

MANAGEMENT

The management structure of the Railroad is designed so that it may respond quickly to service and customer needs, changes in the economy, or business opportunities, while being accountable to the state's elected leadership and the public.

Board of directors As noted above, the Railroad is managed by a seven-member board of directors appointed by the Governor and confirmed by the Legislature.

The board is configured, by law, so that:

- At least one member has substantial railroad management experience;
- One member represents the railroad's employee unions;
- Each judicial district of the state is represented on the board;
- At-large appointees have substantial business management experience in Alaska.

The intent is to have business, railroad business, and public policy interests all on the board. With this mix, it is possible for the board to make wise railroad business decisions, but with the leavening provided by broad Alaska public policy perspectives.

Operations The board has the authority to hire a professional, chief executive officer outside the ranks of the state personnel system and political supporters, or even outside of Alaska itself. Pay and other contract terms are negotiated according to professional standards in the industry. The CEO serves at the pleasure of the board.

All other members of the management team are hired according to the judgment and the needs of the CEO and the board. Performance is measured on merit, not longevity or classification. Railroad managers are paid at industry standards, out of the Railroad's own revenues.

The Railroad has had two CEOs under state ownership: Frank Turpin, who came to the Railroad after extensive upper-level management experience in the oil industry, and Robert Hatfield, a professional railroad executive.

Mr. Hatfield recently accepted a similar position with a railroad Outside. The board is conducting a national search for a replacement.

Labor The labor force at the Alaska Railroad consists of 470 fulltime workers (seasonal employees bring the total to around 600 in the summer). Most are represented by one of five labor unions.

In 1996 the Railroad completed negotiations with all five unions and long-term contracts are in place. Over time, the unions have demonstrated a willingness and ability to work cooperatively with management on contract measures that ensure the Railroad's safety, service objectives, and profitability.

The Legislature and the state treasury make no contributions to Railroad payroll, benefit packages, or retirement and pension programs.

Railroaders *are not* part of the public employee personnel system or the state public employee bargaining units.

Railroaders *are not* part of the state retirement and benefits system.

BUSINESS

Profit The Alaska Railroad earned more than \$8 million in 1996, the line's second straight year of record profit. Current projections estimate a 1997 profit of \$7.3 million.

In 12 years under state ownership, the Railroad has earned a profit nine times. The only years in which it lost money were 1986 (primarily due to a weak economy in the state overall, plus costs incurred after serious Southcentral floods that wiped out bridges and washed out or weakened the roadbed), and 1993-4, during a scheduled management restructuring. The restructuring, which resulted in the elimination of a number of middle management positions, also resulted in one-time costs related to severance pay and other related matters.

Financially healthy In addition to the profits posted the last two years, other indicators further buttress the Railroad's financial good standing:

- Increase in cash balances for the last three years;
- Decrease in current liabilities due to improved cash flow;
- No short-term borrowing in 1996;
- Significant reductions in long-term debt in 1996, with more than half of the long-term debt scheduled to be paid off in 1997;
- Improved equity position through improved earnings;
- Significant increases in fixed assets.

The Railroad's accounting is done in accordance with accepted accounting principles and railroad industry practices. KPMG Peat Marwick audits the Railroad's financial records.

Self-sustaining By law, the Railroad's profits are retained by the line and reinvested in capital improvements, maintenance, and other business needs.

Because the Railroad — like other rail lines — is a capital-intensive business (locomotives, roadbed maintenance and repair, and other asset maintenance), the Legislature specifically allocated operating profits to the Railroad so that it could be maintained without state subsidy.

The profits generated by money-making aspects of the business (real estate, freight, and contract passenger car pulls) allow the Railroad to pay for operations that are important to Alaskans, but that lose money.

Under current law, the Railroad may request an appropriation from the Legislature to subsidize services that do not pay for themselves. **The Railroad has never asked for or received subsidies, relying instead on its profits to sustain services that don't support themselves.**

Access to capital The Railroad is a public/private hybrid, which gives the corporation a variety of options for both operating and capital loans. In addition to work with lending institutions directly on traditional business financing, the Railroad has options to issue bonds (with Legislative approval) and seek direct appropriations (which it has not chosen to do).

As a public entity, it also has the benefit of access to tax-exempt financial instruments.

Freight The health of the Railroad mirrors the health of the Alaska economy. Fully 75 percent of the Railroad's business is in hauling freight such as gravel, oilfield supplies and chemicals, groceries and consumer goods (linked to the Railroad's barge connections to Seattle).

- A third of the Railroad's freight revenue comes from hauling MAPCO Alaska petroleum products from North Pole to Anchorage under a 20-year contract that expires in 2013;

- The Railroad hauls Usibelli coal from Healy to Fairbanks for heat and power generation, as well as coal exported from Seward to Korea under a contract that expires in 1998.

Passenger service About 15 percent of the Railroad's income comes from passenger services, primarily tourism-related pull contracts and seasonal service. In addition to the contract pulls for Holland America and Princess Tours, the Railroad operates seasonal general passenger service to Fairbanks and Seward.

The Railroad is adding Anchorage-Whittier service this summer, working in tandem with the day cruise tour boat businesses that operate out of Whittier.

The Railroad also provides year-round service for Whittier, using the shuttle system from Portage, and for roadless areas north of Talkeetna. The Hurricane Turn and Anchorage-Fairbanks Local (winter) are the only flag-stop services in the country, providing access and freight hauling for individuals and families along the line to the Interior.

Real estate While accounting for only 7 percent of total Railroad annual revenues, **on a percentage basis, real estate contributes more to net income — literally, the bottom line — than rail operations do.** The simple explanation is that real estate leases do not carry the same capital-intensive maintenance and repair costs as rail operations do.

Because of its contribution to the bottom line, real estate revenue from the 36,000 acres of land owned by the Railroad is a critical piece of the corporation's overall health. **It is difficult to envision any owner — public or private — able to earn a profit and provide the full range of services now provided by the Railroad without real estate revenues.**

Fair-market-value leases on Railroad land along the provide the bulk of the real estate revenue, along with revenue generated by the Whittier and Seward docks, and various permits.

SAFETY, MAINTENANCE, ENVIRONMENT

The Railroad's programs in these areas are a mix of solid, standard industrial practice, and initiatives generated by specific public or community concern.

Safety Safety for employees, customers, and neighbors of the Railroad is the line's principal operating priority. The Railroad's health and safety manager is the only company employee, other than the vice presidents, who reports directly to the Chief Executive Officer.

The Railroad has a wide variety of on-going, high-priority safety, training and education programs for employees.

The Railroad conducts a variety of programs — some of them supported by employees on their own time — to educate people about safety hazards such as walking or snowmachining on the tracks, failing to pay attention at crossings, and other potential hazards.

Well maintained We believe the Railroad's assets and roadbed are in better shape than they were at transfer, largely due to almost \$100 million in maintenance work and capital improvement under state ownership.

The Railroad spends \$11 million a year on maintenance of 660 miles of track, 192 bridges, 75 crossing signals, the roadbed, and other assets. An additional \$9 is invested in maintenance of the cars and locomotives. Almost half of the Railroad's fulltime workforce is primarily involved in maintenance and repair.

This \$100 million investment has come at no cost to the general fund and has required no state appropriations from the Legislature. This money has come from the line's operating revenues.

The Railroad is maintained above and beyond Federal Railroad Administration requirements. And because the Railroad carries passengers as well as freight, the entire line is maintained to the higher, passenger-grade safety and operations standards.

Safety and maintenance are directly linked. Yearly improvements include:

- Installation of 40,000 ties;
- Replacement of 20,000 linear feet of mainline rail;
- Place 60,000 cubic yards of ballast (gravel)
- Surface 150-200 miles of mainline track
- Conduct \$1.2 million in repairs and upgrades to bridges.

Cleaner Under state ownership, the Railroad is seeking out and meeting higher standards of environmental protection, compliance, and efficiency.

The Railroad has removed tanks and soil at 60 former underground storage sites, voluntarily limits and controls air emissions in Anchorage, and does not use herbicides to control vegetation — a rarity in the industry. **This is in direct response to public concerns.**

Much of the post-1989 federal and state oil spill response regulation does not apply to railroads. Nonetheless, the Alaska Railroad has upgraded its spill response capabilities with response vans in Anchorage and Fairbanks, and with 12 caches of equipment and material along the line. Twenty-five key employees are trained in spill response organization and techniques — not just for oil and refined products, but in hazardous materials as well.

The Railroad also has an aggressive set waste management and reduction policies intended to eliminate certain additions to the waste stream, and to reuse materials whenever possible. For example, used ties are chipped and shipped to utility systems in Fairbanks to generate power.

Outreach and involvement While the Railroad has consistently maintained community partnerships and sponsorships through donations of cash and tickets, Railroad Week activities, and other outreach efforts, we believe that communication and outreach is an area in which the Alaska Railroad can use improvement.

Particularly, the line's managers and board need to make a stronger and more consistent effort to keep the Legislature informed, as well as work with community leaders and local governments.

FIVE-YEAR STRATEGIC OUTLOOK

Another profit for 1997 Current projections suggest that 1997 net income will be \$7.3 million. This is a conservative figure that assumes freight revenue and expenses to similar to 1996, but that passenger service will increase with the addition of new service to Whittier. Increases in leasing and permitting activities will increase real estate revenues by approximately \$500,000.

New service to Whittier and Girdwood In response to the growth of the day cruise tour business in Prince William Sound, the Railroad is adding daily roundtrip service to Whittier from Anchorage. While the current Whittier Shuttle is safe and dependable, the new service is targeted more for visitor industry needs and demands, and will complement the existing service.

Passenger depots in Fairbanks, Denali Park, Talkeetna, Anchorage, Girdwood and Seward will be upgraded, replaced, or added.

New locomotive fleet The Railroad will phase out its older locomotives over the next few years, resulting in cleaner, more cost-effective, and more efficient service. Newer, more advanced, more powerful engines will allow us to use less fuel, have fewer locomotives, and reduce locomotive maintenance expenses.

The Railroad will use conventional business financing — not legislative appropriations — to acquire this new technology.

Systematic reduction of the Railroad's long-term debt over the last few years (including 1997), set the stage for the Railroad's ability to make this new investment.

Traffic management and communication upgrades A series of technology-based upgrades to the traffic control and separation system will improve safety, reduce operating costs, and more effectively manage train movement.

This year, the Railroad will also begin working with the State of Alaska to upgrade the Parks Highway microwave link from analog to digital.

New barge service The Railroad's current contract for rail-barge service between Alaska and Seattle expires next year. After extensive review of proposals, the Railroad has selected a company that will build new barges, use new technology, move more freight in the same time, with fewer sets of equipment.

Port and dock facilities Both Whittier and Seward are targeted for significant improvements in the dock and port facilities to meet community needs and growth of the visitor industry.

Near-term rail expansion Three opportunities for expansion of the Alaska Railroad are developing:

- Extending a line from downtown to the Anchorage International Airport would eliminate bus transfers of visitors, providing better service for passengers and for major contractors;
- Adding a spur into Girdwood and the Alyeska Prince resort would serve the expanding tourist destination opportunities there;
- Development of coal deposits at Sutton would be enhanced by extension of the line from Palmer to Wishbone Hill.

Long-term rail expansion Three long-term opportunities for expansion are developing:

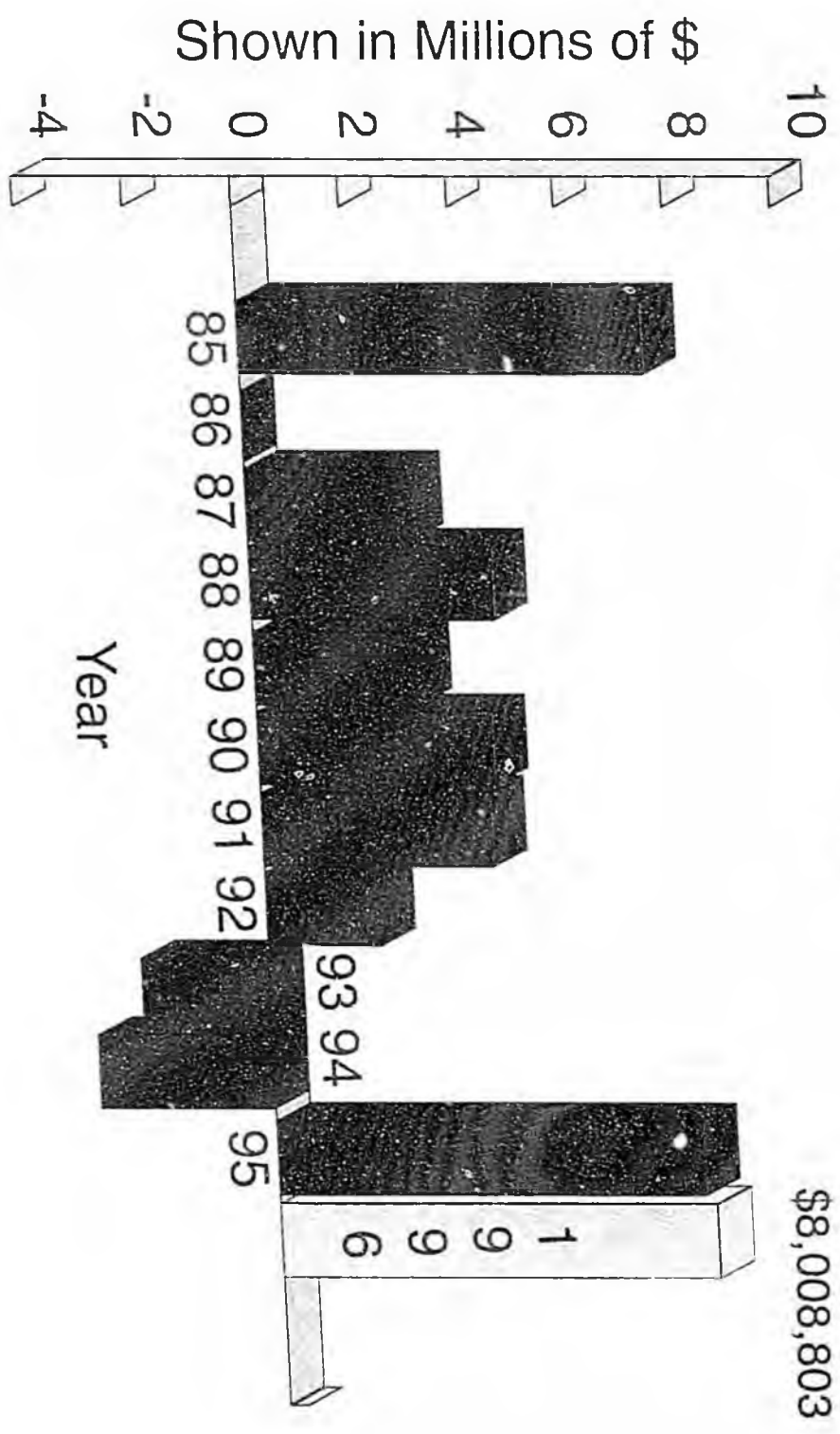
- Access to Kantishna via rail would cost more up-front than a road, but would likely be a better alternative from the standpoint of the environment and park management goals;
- Partnerships with mining interests could lead to expansion from Nenana to the Northwest Arctic;
- A rail link from Fairbanks to the pipeline corridor during construction and operation of a North Slope natural gas pipeline is an attractive expansion option from the Railroad's standpoint.

In all cases, expansion will occur when market conditions will support it, when communities and other public interests have their concerns met, and when revenue from operations will support the expanded line.

The Alaska Railroad's status positions the line to play a key role in the development agreements with both business and public agencies, gain access to public and private financing, and be responsive to public and legislative concerns.

Alaska Railroad Corporation

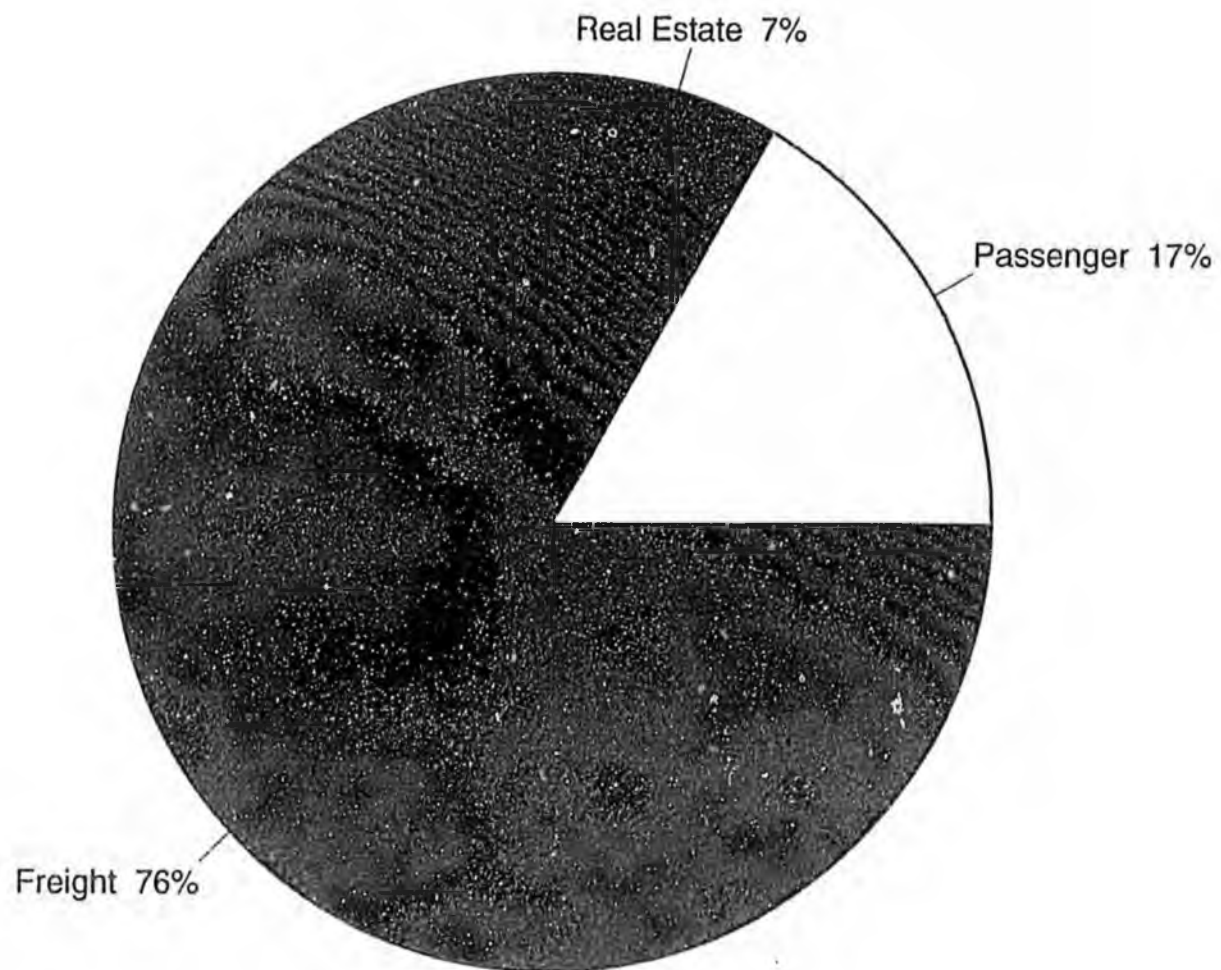
Annual Profit



Un-audited

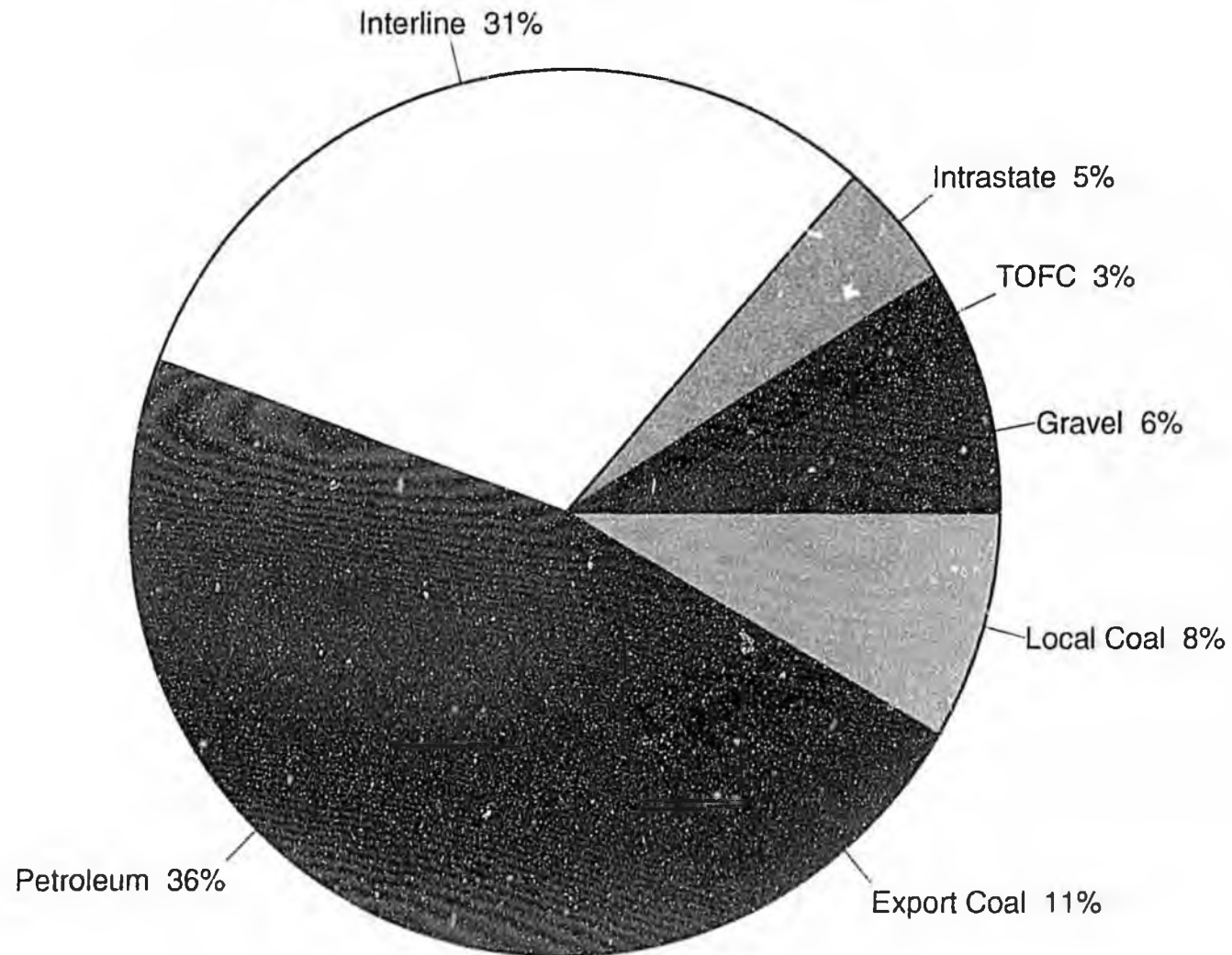
Alaska Railroad Corporation

1997 Projected Revenue



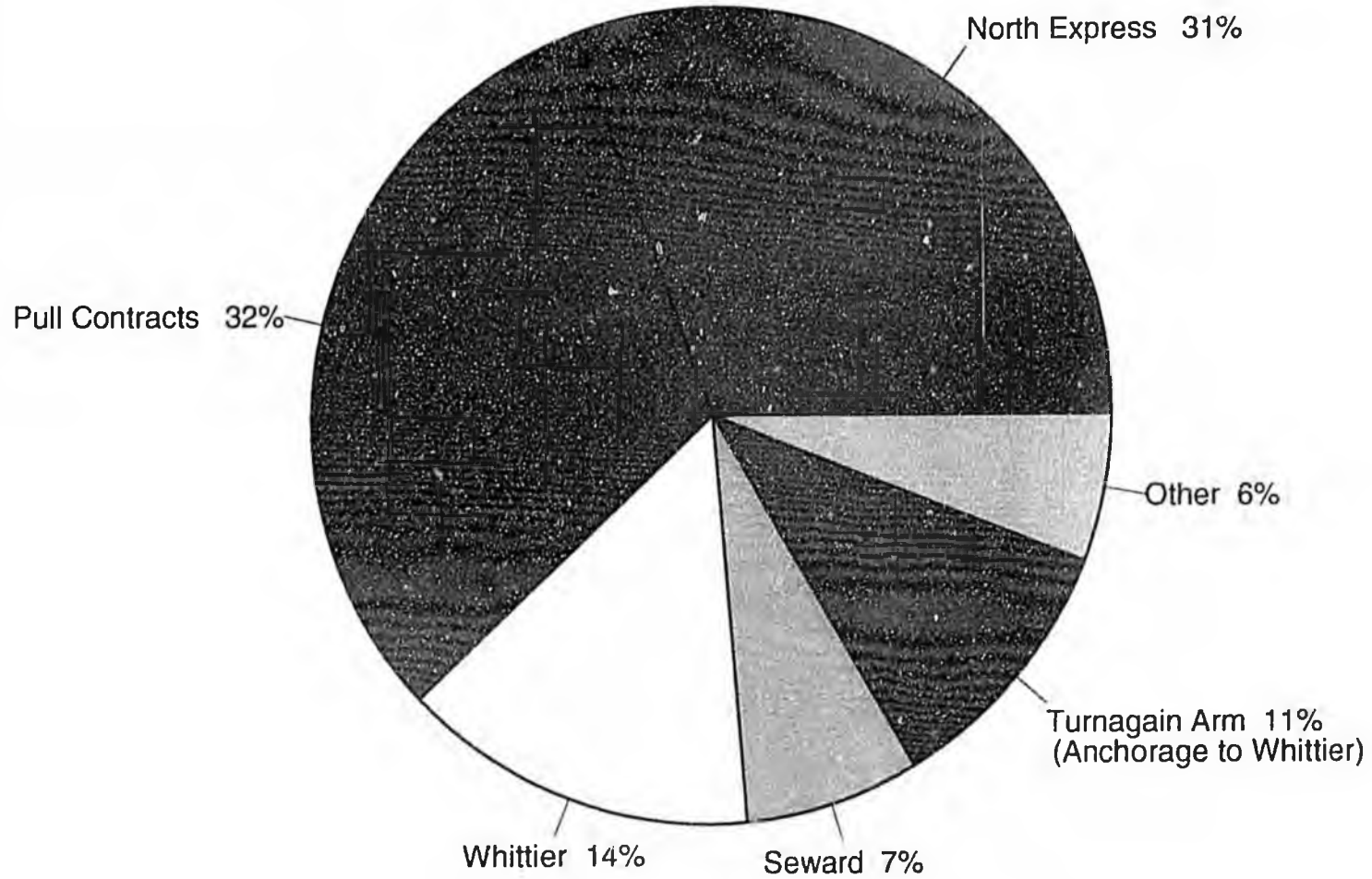
General Cargo and Carload Freight

1997 Projected Revenue



Passenger Services

1997 Projected Revenue



**Alaska Railroad Corporation
Five Year Capital Plan**

Project Description	1997	1998	1999	2000	2001
Ties and Ballast	\$7,750,000	\$5,300,000	\$5,300,000	\$5,300,000	\$5,300,000
Rail Replacement	1,150,000	1,350,000	1,350,000	1,350,000	1,350,000
Bridge Improvements	900,000	1,200,000	1,200,000	1,200,000	1,200,000
Siding & Track Improvements	0	755,000	1,134,100	1,452,400	200,000
Freight Terminal Improvements	900,000	600,000	1,300,000	700,000	0
Whittier Barge Slip	130,000	750,000	0	100,000	0
Equipment Replacements & Purchases:					
Locomotives	0	0	22,000,000	0	0
Track	469,000	1,115,000	1,697,000	1,200,000	1,200,000
Maintenance Shop	328,500	1,169,000	1,520,000	704,000	94,000
Passenger	0	575,000	125,000	350,000	150,000
Transportation	150,000	430,000	180,000	750,000	750,000
Environmental	155,000	75,000	75,000	75,000	75,000
Facility Improvements:					
Maintenance Shops	55,000	500,000	500,000	500,000	500,000
Passenger Depots	739,600	1,141,600	486,400	0	0
Port & Dock	650,000	600,000	400,000	200,000	200,000
Real Estate	425,000	200,000	500,000	500,000	200,000
Automated Track Control System	4,000,000	0	0	0	0
Communications & Computer Technology Upgrades	994,000	500,000	1,000,000	1,000,000	500,000
Total New Capital Projects	\$18,796,100	\$16,260,600	\$38,767,500	\$15,381,400	\$11,719,000
1997 FRA Grant	\$10,000,000				
Bank Financed			\$22,000,000		
ARRC Internally Funded	8,796,100	\$16,260,600	16,767,500	\$15,381,400	11,719,000
Total	\$18,796,100	\$16,260,600	\$38,767,500	\$15,381,400	\$11,719,000

Balance Sheet as of DEC 1996

	12/31/1996	DEC, PRIOR YEAR
Assets		
Cash	4,813,735	3,895,628
Accounts Receivable	11,160,062	12,079,580
Materials and Supplies	3,345,833	3,271,536
Other Current Assets	317,695	441,949
	-----	-----
Total Current Assets	19,637,325	19,688,693
Road & Roadway Structures	72,869,195	64,623,609
Inventory - Road Materials	1,268,520	1,039,812
Equipment	41,863,015	41,485,742
Accumulated Depreciation	(46,131,089)	(44,331,286)
	-----	-----
Construction in Progress	69,869,641	62,817,877
Land	3,138,348	838,726
	-----	-----
Total Road & Equipment	86,857,989	77,506,603
Other Assets	13,082,851	15,934,781
	-----	-----
Total Assets	119,578,165	113,130,077
	=====	=====
Liabilities & Equity		
Short Term Notes Payable		
A/P - Interline	1,584,080	2,402,269
A/P - Trade	2,282,207	2,051,240
Payroll Payable	5,523,005	4,471,200
Unearned Revenue	1,455,212	1,220,255
Current Portion, LT Debt	3,598,061	4,952,576
Other Current Liabilities	904,717	1,434,067
	-----	-----
Total Current Liabilities	15,747,282	16,531,607
Long Term Debt	3,513,818	14,114,776
Def. Revenue, FRA Grant	7,708,718	
Def. Revenue, Wishbone Hill	12,832,038	12,125,360
Environmental Claims		
Post Retirement Med. Benefit	6,325,893	4,916,721
	-----	-----
Total Liabilities	46,127,749	47,688,464
Equity		
Investment - State of Alaska	34,173,555	34,173,555
Retained Earnings	39,276,860	31,268,057
	-----	-----
Total Equity	73,450,415	65,441,612
	-----	-----
Total Liabilities & Equity	119,578,164	113,130,076
	=====	=====

Income Statement for the Month Ended DEC 1996

	DEC, 1996	YEAR TO DATE	DEC, PRIOR YR	YTD, PRIOR YR
Operating Revenue:				
Freight	4,743,543	61,690,979	4,775,191	48,807,420
Freight Related	82,508	556,399	104,147	356,339
Dock	16,187	1,169,122	34,121	1,085,956
Passenger	28,497	10,594,323	86,666	9,749,206
Other	36,654	500,221	72,825	273,505
	-----	-----	-----	-----
	4,907,389	74,511,044	5,072,950	60,272,426
Transportation Services				
Transportation	1,271,051	15,253,249	1,206,143	14,541,101
Passenger Services	66,878	2,690,957	62,076	2,280,749
VP & Staff	169,428	2,107,340	158,696	2,119,129
Freight Services	1,113,987	14,754,178	262,691	2,112,461
	-----	-----	-----	-----
	2,621,344	34,805,724	1,689,606	21,053,440
Operations				
Mechanical	1,135,755	8,793,422	1,044,016	9,060,582
Engineering	1,248,470	13,007,003	1,309,112	13,031,331
Operations Admin	117,151	1,513,319	99,191	1,193,026
	-----	-----	-----	-----
	2,501,376	23,313,744	2,452,319	23,284,939
Depreciation	533,617	6,089,907	522,173	6,132,806
General & Administrative				
Finance	204,714	2,602,523	242,222	2,571,039
Corporate Overhead	(218,427)	436,794	(274,038)	(406,337)
Exec & Board of Directors	205,995	1,473,532	144,516	1,257,671
Legal	196,956	1,782,236	171,369	2,258,411
	-----	-----	-----	-----
	391,238	6,295,085	284,069	5,680,784
Total Operating Expense	6,047,575	70,504,460	4,948,167	56,151,969
Net Income from Operations	(1,140,186)	4,006,584	124,783	4,120,457
Other Income (Expense)				
Real Estate Income	454,887	5,403,639	478,622	5,254,462
Real Estate Expense	(2,305)	(968,533)	(104,230)	(686,626)
	-----	-----	-----	-----
	452,582	4,435,106	374,392	4,567,836
Interest Income	(26,915)	429,911	2,133	190,567
Interest Expense	(38,233)	(862,798)	(78,139)	(1,007,579)
	-----	-----	-----	-----
	(65,148)	(432,887)	(76,006)	(817,012)
Other Inc (Exp), Net	387,434	4,002,219	298,386	3,750,824
Net Income (Loss)	(752,752)	8,008,803	423,169	7,871,281
	=====	=====	=====	=====

Senator Randy Phillips
Chairman

Rep. Terry Martin
Vice-Chairman

Sen. Al Adams
Sen. Dave Donley
Sen. Rick Halford
Sen. Drue Pearce
Sen. John Torgerson
Rep. Con Bunde
Rep. Eric Croft
Rep. Mark Hanley
Rep. Jeannette James
Rep. Gene Therriault

State of Alaska



Legislative Budget and Audit Committee

Session
Rm 103
State Capitol
Juneau, AK 99801
(907) 465-4949

Interim
P.O. Box 142
Eagle River, AK 99577
(907) 694-4949

Memorandum

TO: Senator Jerry Ward, Chair
Senate Transportation Committee

FROM: Senator Randy Phillips, Chair *REP*
Legislative Budget and Audit Committee

DATE: January 13, 1997

RE: Senate Bill 42
"An Act relating to the fiscal operations of the Alaska Railroad Corporation and to land acquired by the State of Alaska under the Alaska Railroad Transfer Act of 1982 or otherwise acquired for railroad purposes."

Senate Bill 42 has been referred to the Senate Transportation Committee.

Please consider this as my formal request that Senate Bill 42 be scheduled before your committee for an early hearing.

If you have any questions or comments do not hesitate to call me at 4949. Your cooperation is appreciated.

ALASKA STATE CHAMBER OF COMMERCE

Position 97-2

Privatization of the Alaska Railroad

WHEREAS, the Alaska Railroad Corporation is a non-profit corporation owned by the State of Alaska; and

WHEREAS, the Alaska Railroad Corporation has been important in the development of Alaska since it was completed in 1923; and

WHEREAS, the Alaska Railroad Corporation is currently a critical part of Alaska's transportation infrastructure; and

WHEREAS, the Alaska Railroad Corporation must continue to expand and improve in order for Alaska to pursue its economic development; and

WHEREAS, the Alaska Railroad Corporation requires large amounts of capital funding in order to properly maintain its present system; and

WHEREAS, the Alaska Railroad will need even more capital funding in order to expand aggressively its system into areas of natural resource/economic development; and

WHEREAS, the State of Alaska continues to face declining revenues and will be unable to sustain an aggressive development agenda for the Alaska Railroad Corporation; and

WHEREAS, every plan dealing with Alaska's budget gap recommends the privatization of appropriate state agencies; and

WHEREAS, privatization has historically been a primary objective of the Alaska State Chamber of Commerce; and

WHEREAS, the Alaska State Chamber of Commerce sincerely believes that there are numerous advantages to privatization including:

- 1. Better management performance with profit responsibility and motivation**
- 2. Better capitalization on entrepreneurial opportunities**
- 3. Better responsiveness to customer requirements**
- 4. Increased tax revenues to state and local governments**

THEREFORE, BE IT RESOLVED that the Alaska State Chamber of Commerce urges the Administration of Governor Knowles and the Alaska State Legislature begin immediately the process of investigating the potential privatization of th

Railroad Corporation in order to promote the maximum amount of economic development of Alaska's resources for the overall benefit of Alaska's residents.

ADOPTED

Dec. 6, 1996

BY

Pamela LaBolle

Pamela LaBolle
President

BY

Kathryn Thomas
Kathryn Thomas
Chair, Board of Directors

ALASKA STATE LEGISLATURE
LEGISLATIVE BUDGET AND AUDIT COMMITTEE
Division of Legislative Finance



P.O.Box 113200
Juneau, AK 99811-3200
(907) 465-3795
FAX (907) 463-4885

MEMORANDUM

DATE: January 28, 1997

TO: Representative Terry Martin
House Finance Committee

FROM: Mike Greany, Legislative Fiscal Analyst
Division of Legislative Finance

BY: Dave Tonkovich, Fiscal Analyst
Division of Legislative Finance

SUBJECT: State Appropriations to the Alaska Railroad

A handwritten signature in black ink, appearing to be "Mike Greany", written over the "FROM:" line of the memorandum.

At your request we've prepared a list of state appropriations to the Alaska Railroad:

SLA84, Ch. 171, Sec. 319 (Department of Commerce and Economic Development)

Alaska Railroad Acquisition	\$22,271,000 GF
Alaska Railroad Capital Equipment and Improvements	6,000,000 GF
Railroad Working Capital Fund	4,900,000 GF

SLA90, Ch. 208, Sec 145

Locomotives, Rolling Stock, and associated equipment cost (Associated with Wishbone Hill Coal Project)	\$9,000,000
---	-------------

FY 1997

110 STAT. 2962

PUBLIC LAW 104-205—SEPT. 30, 1996

PUBLIC LAW

HIGH-SPEED RAIL TRAINSETS AND FACILITIES

For the National Railroad Passenger Corporation, \$80,000,000, to remain available until September 30, 1999, to pursue public/private partnerships for high-speed rail trainset and maintenance facility financing arrangements.

RAILROAD REHABILITATION AND IMPROVEMENT PROGRAM

The Secretary of Transportation is authorized to issue to the Secretary of the Treasury notes or other obligations pursuant to section 512 of the Railroad Revitalization and Regulatory Reform Act of 1976 (Public Law 94-210), as amended, in such amounts and at such times as may be necessary to pay any amounts required pursuant to the guarantee of the principal amount of obligations under sections 511 through 513 of such Act, such authority to exist as long as any such guaranteed obligation is outstanding: *Provided*, That no new loan guarantee commitments shall be made during fiscal year 1997.

NEXT GENERATION HIGH-SPEED RAIL

For necessary expenses for Next Generation High-Speed Rail studies, corridor planning, development, demonstration, and implementation, \$24,757,000, to remain available until expended: *Provided*, That funds under this head may be made available for grants to States for high-speed rail corridor design, feasibility studies, environmental analyses, and track and signal improvements.

TRUST FUND SHARE OF NEXT GENERATION HIGH-SPEED RAIL

(LIQUIDATION OF CONTRACT AUTHORIZATION)

(HIGHWAY TRUST FUND)

For grants and payment of obligations incurred in carrying out the provisions of the High-Speed Ground Transportation program as defined in subsections 1036(c) and 1036(d)(1)(B) of the Intermodal Surface Transportation Efficiency Act of 1991, including planning and environmental analyses, \$2,855,000, to be derived from the Highway Trust Fund and to remain available until expended.

ALASKA RAILROAD REHABILITATION

To enable the Secretary of Transportation to make grants to the Alaska Railroad, \$10,000,000 shall be for capital rehabilitation and improvements benefiting its passenger operations.

RHODE ISLAND RAIL DEVELOPMENT

For the costs associated with construction of a third track on the Northeast Corridor between Davisville and Central Falls, Rhode Island, with sufficient clearance to accommodate double stack freight cars, \$7,000,000 to be matched by the State of Rhode Island or its designee on a dollar for dollar basis and to remain available until expended: *Provided*, That as a condition of accepting such funds, the Providence and Worcester (P&W) Railroad shall enter

Cont. act.

into an agreement with the Federal Railroad Administration up to the first \$13,000,000 action initiated by the P&W with Amtrak relating to the Davisville and Central Falls freight operations.

GRANTS TO THE NATIONAL RAILROAD PASSENGER CORPORATION

To enable the Secretary of the National Railroad Passenger Corporation, U.S.C. 24104, \$566,450,000 of which \$342,000,000 shall be for mandatory passenger improvements shall be for capital improvements before July 1, 1997: *Provided*, That appropriated shall be used for the purchase of passenger vehicles or for the hire of an employee, other than the employee, while in official travel status.

FEDERAL TRAVEL EXPENSES

ADMP

For necessary administrative expenses of the Administration's program: United States Code, \$41,450,000.

F

For necessary expenses of sections 5311, and 5336, to remain available until expended: *Provided*, That no more than \$400,000,000 may be derived from the Highway Trust Fund: *Provided*, That assistance provided in areas of less than 200,000 square miles shall be five percent of the amount eligible to receive under

ties when the limitation is operating in the area.

FY 1996
Oct 1 - Sept 30th

seq.) and 49 U.S.C. 24909, \$115,000,000, to remain available until September 30, 1998.

RAILROAD REHABILITATION AND IMPROVEMENT PROGRAM

The Secretary of Transportation is authorized to issue to the Secretary of the Treasury notes or other obligations pursuant to section 512 of the Railroad Revitalization and Regulatory Reform Act of 1976 (Public Law 94-210), as amended, in such amounts and at such times as may be necessary to pay any amounts required pursuant to the guarantee of the principal amount of obligations under sections 511 through 513 of such Act, such authority to exist as long as any such guaranteed obligation is outstanding: *Provided*, That no new loan guarantee commitments shall be made during fiscal year 1996.

NATIONAL MAGNETIC LEVITATION PROTOTYPE DEVELOPMENT

(LIMITATION ON OBLIGATIONS)

(HIGHWAY TRUST FUND)

None of the funds in this Act shall be available for the planning or execution of the National Magnetic Levitation Prototype Development program as defined in subsections 1036(b) and 1036(d)(1)(A) of the Intermodal Surface Transportation Efficiency Act of 1991.

NEXT GENERATION HIGH SPEED RAIL

For necessary expenses for Next Generation High Speed Rail studies, corridor planning, development, demonstration, and implementation, \$19,205,000, to remain available until expended: *Provided*, That funds under this head may be made available for grants to States for high speed rail corridor design, feasibility studies, environmental analyses and track and signal improvements.

TRUST FUND SHARE OF NEXT GENERATION HIGH SPEED RAIL

(LIMITATION OF CONTRACT AUTHORIZATION)

(HIGHWAY TRUST FUND)

For grants and payment of obligations incurred in carrying out the provisions of the High Speed Ground Transportation program as defined in subsections 1036(c) and 1036(d)(1)(B) of the Intermodal Surface Transportation Efficiency Act of 1991, including planning and environmental analyses, \$7,118,000, to be derived from the Highway Trust Fund and to remain available until expended: *Provided*, That none of the funds in this Act shall be available for the implementation or execution of programs the obligations for which are in excess of \$5,000,000.

ALASKA RAILROAD REHABILITATION

To enable the Secretary of Transportation to make grants to the Alaska Railroad, \$10,000,000 shall be for capital rehabilitation and improvements benefiting its passenger operations.

RHODE ISLAND

For the costs associated on the Northeast Corridor Rhode Island, with sufficient freight cars, \$1,000,000 to its designee on a dollar until expended: *Provided*, funds, the Providence and into an agreement with the or the Federal Railroad Administration up to the first \$6,000,000 action initiated by the P& with Amtrak relating to the Davisville and Central Fall freight operations.

GRANTS TO THE NATIONAL

(INCLUDES)

To enable the Secretary of the National Railroad Passenger U.S.C. 24104, \$635,000,000 of which \$305,000,000 shall be for mandatory passenger costs \$230,000,000 shall be for up to \$15,000,000 of the for capital improvements: be transferred to the National *Provided further*, That funds shall not be made *further*, That none of the for lease or purchase of of vehicle operators for president of the Corporation vehicles for those officers:

FEDERAL TRUST

ADMINISTRATIVE

For necessary administrative Administration's program: United States Code, §42,0

For necessary expenses 5311, and 5336, to remain *Provided*, That no more shall be available for the the funds provided under than \$400,000,000 may

),0

ALASKA RAILROAD REVOLVING FUND

ESTIMATES		APPROPRIATIONS	
1975	\$6,500,000	1975	\$6,031,000
1976	0	1976	9,000,000
1977	5,000,000	1977	5,000,000
1978	3,000,000	1978	3,000,000
1979	3,000,000	1979	9,300,000
1980	5,000,000	1980	6,500,000
1981	10,640,000	1981	10,640,000
1981 (Supp.).....	2,000,000	1981 (Supp.).....	2,000,000
1982	6,160,000	1982	6,160,000
1983	0	1983 (2nd Cont. Res.).....	7,600,000
1984	0	1984	0

Martin's House bill would make railroad give excess land to state

By DIRK MILLER
The Associated Press

JUNEAU — Frequent railroad critic Rep. Terry Martin is behind a bill that would require the Alaska Railroad to hand over some of its excess land to the state.

The bill, sponsored by Martin's Legislative Budget and Audit Committee, also would put the state-owned railroad's budget under legislative scrutiny.

Last year, Martin, R-Anchorage,

helped lead an effort to consider selling the railroad, which the state bought from the federal government in 1985. That bill eventually passed the Legislature in the final days of the last session but was vetoed by Gov. Tony Knowles.

The new bill would leave lands necessary for the railroad's business under its control. Other lands, though, would be managed by the Department of Natural Resources.

The railroad is run by the Alaska

Railroad Corp., which is chaired by former Gov. Bill Sheffield. Sheffield is also the corporation's acting chief executive.

Sheffield said Martin's bill would cripple the railroad, taking away much of its profit-making ability and making it difficult to do business without seeking legislative permission.

"We need the land to make the railroad pay. Right now, we couldn't exist without the real estate,"

Sheffield said. "This would be the beginning of the end."

The railroad made an \$8 million profit last year, Sheffield said, and about \$5 million of that came from real estate deals.

The 525-mile railroad runs from Seward to Fairbanks with a spur to Whittier. Sheffield said the bulk of the railroad's lands are within towns along the line, including Fairbanks,

Please see Page B-3, RAILROAD

RAILROAD: Measure goes after land

Continued from Page B-1

Anchorage and Whittier.

Martin said two experts hired by the committee last summer determined that the railroad had about 36,000 acres of land, though it only needed some 22,000 acres. The bill also would help speed up any uncompleted transfers of land from the federal government, Martin said.

Communities are interested in acquiring some of the excess railroad land, Martin said.

Over the summer, legislative auditors criticized the railroad's handling of the sale of gravel from some of the corporation's lands in Anchorage. The railroad defended the deal, calling the audit biased.

Martin said the bill grew out of his frustrations over the gravel sale and auditors' frustrations over dealing with the railroad.

"It's an overall desire to place them under a little closer scrutiny, keep them mindful of whose railroad it is," said Randy Welker, legislative auditor.

Martin said he expected the railroad to oppose the bill, which he said could be a preliminary step to selling the railroad.

"It's the only corporation we have that's not under the executive budget act," Martin said.

"We have no control over what they're spending."

The railroad legislation was filed in both the Senate and the House this week.

Alaska Railroad Corporation

Financial Audits

- The financial affairs of the Alaska Railroad Corporation are audited annually by a public accounting firm. The corporation typically receives a "clean" opinion on its financial statements.

Performance Audits

- Alaska statute also requires the corporation to have an annual performance audit conducted by a recognized railroad management expert. This audit is conducted presently by Mercer Management Consulting and is presented to the Board of Directors of the corporation annually.

Significant Special Audits

Ship Creek Redevelopment Follow-up, November 17, 1994

- This audit was conducted to follow up on the findings and conclusions we made in our original review (1992) of this project. Several of the issues we initially raised appeared to have been satisfactorily resolved. Our concern in this review was whether the development would be successful.
- The redevelopment project had yielded little construction to date. None of the four centerpiece projects envisioned had commitments in place.

Anchorage Gravel Activities, July 3, 1996

- The report addresses our concerns that the Alaska Railroad Corporation's (ARRC) agreement with the Flamingo Brothers Partnership to market and extract gravel from the corporation's Anchorage property may not have been in the best interest of the corporation.
- ARRC's public procurement process was not followed. In the corporation's opinion, the gravel agreement was the disposal of real property and therefore, not subject to public procurement rules. We believe it was a commodity sale that should have followed the provisions of those rules.
- ARRC's real estate leases are inappropriately offered on a "first come, first served" basis.
- ARRC's justification of the project was unclear.

- ARRC's lack of public process excluded the community.
- We recommended ARRC improve its monitoring of employee conflict of interest disclosure statements.

Chena Landings Development, August 20, 1996

- This audit reviewed ARRC's management of the development project related to utility procurement, leasing, and public amenities.
- The utility project was delayed by planning and design difficulties.
- Request for proposal criteria and evaluation procedures were inadequate.
- The corporation lacked documentation regarding project development planning.
- Leases are not competitively offered; ARRC inappropriately uses a "first come, first served" approach to leasing property.

Ongoing or Pending Audits

Alaska Railroad Corporation, Equipment Purchases/Disposals

Alaska Railroad Corporation, Real Estate Appraisal Methodology

Auditor Observations

The Alaska Railroad Corporation has been under the "legislative microscope" for the last few years. The Audit Division has conducted five audits of the corporation since 1992 and has one audit in progress and another pending. Of those seven audits, two deal with rail operations, and five involve the corporation's management of real estate.

During the interim, the Legislative Budget and Audit Committee also pursued a greater understanding of the corporation and its assets. We believe that it is important that the Legislature understand the operation of the corporation and be aware of issues that impact its operation. The Legislative Budget and Audit Committee appears to be the primary vehicle currently available to provide that oversight.

The Alaska Railroad Corporation finds itself in an unenviable position. On one hand, it is operating under a statutory mandate to generally manage the corporation on a self-sustaining basis. On the other hand, as a corporation wholly owned by the State, the corporation must be

held to certain standards of openness and public accountability. It is in this vein that we often find ourselves at odds with the corporation. We believe that as long as the corporation is owned by the public, public accountability must come first.

We also believe that the corporation can be run in an efficient manner and still uphold those public accountability standards. Management by corporate officers and policy direction by the board of directors should strive for the appropriate balance. In our opinion, we have seen recent signs of improvement in this effort by the board, primarily through our contact with the chairman. We are hopeful that the appointment of a new chief executive officer will further foster these goals.

Without going into great detail on issues we remain concerned about regarding the Alaska Railroad Corporation, we offer these summary observations and would be happy to discuss them further with any member or committee of the Legislature. They are in no particular order of significance.

- The corporation's budget is not subject to the Executive Budget Act. We see no reason why the corporation should be exempt or even whether constitutionally, it can be. Similarly, significant federal funds have been received by the corporation for capital rehabilitation and improvements without any legislative oversight.
- The corporation has shown a profit for the last two fiscal years (calendar year end). Total net income for 1996 (unaudited) and 1995 was \$8.0 million and \$7.9 million, respectively. The net income from operations represented \$4.0 million and \$4.1 million, respectively. Approximately half of the corporation's income is generated from management of its real estate. The majority of this real estate is considered non-rail use property.
- A much talked about concern is deferred maintenance, however, little is factually known about the extent or estimated cost of that maintenance. We believe that a serious discussion needs to take place. It is possible, or even likely, that without the federal funding authorized the last two years (\$10 million per year) the railroad's income statement would look significantly different. Neither the financial statements nor the notes to the financial statements reflect any estimate of the amount of deferred maintenance.
- An observation that is important to understanding the fragile nature of the corporation's financial health is its dependence on two major customers. As disclosed in the notes to the financial statements for 1995, these two customers accounted for the corporation's revenue. The corporation's existence is dependent on those two customers.
- Through a combination of statute and corporation rules, the salary of railroad employees is confidential and therefore can not be disclosed to the public. Statute provides that the corporation may by rule designate and withhold public disclosure of matters of a

privileged or proprietary nature. Statute goes on to describe matters as including personnel records. Corporation rules include salary as a personnel record.

- Alaska Statute 42.40.260(b) requires the annual report of the corporation to include an analysis of potential sale arrangements whereby the corporation may be transferred into private ownership. The corporation has not pursued sale discussions with potential or interested buyers. The corporation has gone so far as to notify interested parties that the Board of Directors is not interested in selling the railroad.
- Statute requires the corporation to have an annual performance audit conducted by a recognized railroad expert to assure that the railroad is being managed and operated effectively and efficiently. There are two reports generated from this review. A confidential report is produced for the use of railroad management. A public version of the report is issued that does not go into nearly as much detail. We recommend that the legislature annually request a confidential briefing on the detail version of the performance report.

Martin's House bill would make railroad give excess land to state

By DIRK MILLER
The Associated Press

JUNEAU — Frequent railroad critic Rep. Terry Martin is behind a bill that would require the Alaska Railroad to hand over some of its excess land to the state.

The bill, sponsored by Martin's Legislative Budget and Audit Committee, also would put the state-owned railroad's budget under legislative scrutiny.

Last year, Martin, R-Anchorage,

helped lead an effort to consider selling the railroad, which the state bought from the federal government in 1985. That bill eventually passed the Legislature in the final days of the last session but was vetoed by Gov. Tony Knowles.

The new bill would leave lands necessary for the railroad's business under its control. Other lands, though, would be managed by the Department of Natural Resources.

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Railroad Corp., which is chaired by former Gov. Bill Sheffield. Sheffield is also the corporation's acting chief executive.

Sheffield said Martin's bill would cripple the railroad, taking away much of its profit-making ability and making it difficult to do business without seeking legislative permission.

"We need the land to make the railroad pay. Right now, we couldn't exist without the real estate,"

Sheffield said. "This would be the beginning of the end."

The railroad made an \$8 million profit last year, Sheffield said, and about \$5 million of that came from real estate deals.

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Please see Page B-3, RAILROAD

New York Times
1/15/97

Rapist won't see his son graduate

By DANIELLE STANTON
Daily News reporter

Alaska's newest Rhodes scholar wants his father — convicted serial rapist Dr. Kenneth Ake — to see him graduate from West Point this year.

In an e-mail message via the Internet on Wednesday, Adam Ake asked Gov. Tony Knowles to grant his father a leave from Hland Mountain Correctional Center, where the gynecologist is serving a 10-year sentence for raping five of his patients on his examining room table. He began serving the sentence in 1991.

The governor denied the request, Knowles spokesman Bob King said.

Adam Ake is graduating first in his class from the U.S. Military Academy at West Point on May 31.

"I desire greatly that (Ken Ake) be able to share in the one last event that I will have as

a cadet," Ake wrote to the governor. "I realize that allowing a particularly notorious criminal like my father (to) enjoy the benefits of special attention may draw you fire. . . .

"nonetheless, I ask you as a fellow soldier, paratrooper, and Alaskan to consider this a favor granted to me not my father."

King said he called Adam Ake Wednesday to relay the governor's decision.

"The governor commends Adam Ake for his scholarship, source of pride to Alaska . . . and understands his need to share a moment of great pride with his family," King said during a telephone interview Wednesday. "However, as governor, he has to weigh that emotion against the facts of the crime. . . .

"Kenneth Ake is a serial rapist. It would be irresponsible to allow such a sexual predator on the streets prior to completion of his sentence."

RAILROAD: Measure goes after land

Continued from Page B-1

Anchorage and Whittier.

Martin said two experts hired by the committee last summer determined that the railroad had about 36,000 acres of land, though it only needed some 22,000 acres. The bill also would help speed up any uncompleted transfers of land from the federal government, Martin said.

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"We have no control over what they're spending."

The railroad legislation was filed in both the Senate and the House this week.



OFFICIAL BUSINESS

Alaska State Legislature
Senate
Office of the Secretary

STATE CAPITOL
JUNEAU, ALASKA 99801-1182
(907) 485-3701
FAX: 465-2832

FOR YOUR IMMEDIATE ATTENTION

DATE: January 14, 1997

TO: Transportation Committee
(Senator Ward)
Room 423

FROM: Office of the Senate Secretary

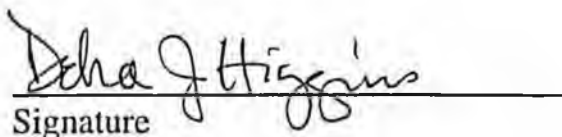
The Senate President has added/changed the referrai(s) on the following bill(s):

SENATE BILL NO. 42

“An Act relating to the fiscal operations of the Alaska Railroad Corporation and to land acquired by the State of Alaska under the Alaska Railroad Transfer Act of 1982 or otherwise acquired for railroad purposes; and providing for an effective date.”

Please give the bill file(s) and this signed note to the page delivering this message.

Thank you for your prompt attention.


Signature

Senator Randy Phillips
Chairman
Rep. Terry Martin
Vice-Chairman
Sen. Al Adams
Sen. Dave Dorley
Sen. Rick Halford
Sen. Drue Pearce
Sen. John Torgerson
Rep. Con Bunde
Rep. Eric Croft
Rep. Mark Hanley
Rep. Jeanette James
Rep. Gene Therriault

State of Alaska



Legislative Budget and Audit Committee

Session
Rm 103
State Capitol
Juneau, AK 99801
(907) 465-4949

Interim
P.O. Box 142
Eagle River, AK 99577
(907) 694-4949

Sponsor Statement

SB 42

"An Act relating to the fiscal operations of the Alaska Railroad Corporation and to land acquired by the State of Alaska under the Alaska Railroad Transfer Act of 1982 or otherwise acquired for railroad purposes; and providing for an effective date."

The Alaska Railroad has been a symbol of Alaska's history since the early 1920's and has been operating under state ownership for over 12 years. The federal government transferred the railroad to the State of Alaska in 1985 with a provision to transfer the 36,000 acres of railroad lands after the state operated the railroad for at least 10 years. While the railroad has continued to provide rail service for Alaska, no single financial or capital plan has been established for the railroad or its parent quasi-state owned corporation. During this 12 year span the corporation has had little state oversight. Currently, the Alaska Railroad Corporation (ARRC) is the only state owned corporation not under the Executive Budget Act (AS 37.07).

Senate Bill 42 will make two changes to the railroad and the corporation. The bill will place the Alaska Railroad under the Executive Budget Act, and will transfer land not needed for rail operations to the state's Department of Natural Resources (DNR). After numerous audit requests, OMB procurement investigations, and many Legislative Budget & Audit Committee hearings spurred by concerned citizens, the LB&A committee recommended and approved introduction of Senate Bill 42.

If enacted the bill will provide ARRC with the proper financial management exercised by the Governor and the Legislature by bringing the railroad corporation under AS 37.07. Under the Executive Budget Act, the railroad can apply for appropriation from the Legislature to fund the operating, capital and debt service expenditures of the corporation.

Enactment of SB 42 will strengthen the financial integrity of the Alaska Railroad Corporation by securing sound procurement practices, strong financial management, and sensible Alaskan resident plans for expansion and service.

Other state corporations placed under the Executive Budget Act have benefited greatly. For example, Alaska Housing Finance Corporation was placed under the Executive Budget Act in 1995. AHFC's recent audits show high profits while maintaining a stellar service for Alaska's housing needs. Up 30% from four years ago, AHFC received a perfect score of 100% in the Federal Department of Housing & Urban Development's (HUD's) annual evaluation of the agency. HUD's perfect score recognizes that AHFC has initiated annual budgeting procedures that resulted from the Executive Budget Act review.

There are about 36,000 total acres owned by the Alaska Railroad in Alaska. It is estimated ARRC only needs about 18,000 to 22,000 acres of land for rail operations and rights-of-way. Under SB 42, railroad lands would be transferred from the Federal Bureau of Land Management to DNR, not to ARRC. The railroad corporation would continue to control land needed for maintenance and operation of the rail lines.

In addition, lands not needed for operations can be selectively bought and traded from DNR by local governments like the City of Whittier, Denali Borough and the Municipality of Anchorage. Currently, the City of Whittier is in dire need of land for expansion and industrial growth, yet ARRC owns 52% of the city's core business area and 74% of the harbor's waterfront land; leaving no room for a planned expansion of their harbor and a plan for a new road.

SB 42 does not seek to privatize the railroad or in any other way diminish its existence as a public corporation of the state. The railway has become an integral part of Alaska's economy and folklore. Consequently, SB 42 is the right step forward to enhance the future of the railroad.

The legislation will not address every facet of the Alaska Railroad nor is it meant to. SB 42 will give Alaskans the ability to manage their railroad through the system of checks and balances only offered by a strong democracy and an open door policy.