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*The Alaska Railroad  
and its  
Future*

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*A Report by Commonwealth North*

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# **The Alaska Railroad and its Future**

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**A report by the Commonwealth North  
Railroad Committee  
April 1988**

## Introduction

**I**n January of 1988, the Board of Directors of Commonwealth North charged a seventeen-member committee to study the Alaska Railroad, present and future. The committee's assignment was to take a statewide view in examining:

The operations of the Alaska Railroad since the transfer from the federal government in 1985;

Whether or not the railroad should be sold to a private entity; and

How the railroad can be better utilized to assist with the diversification of the Alaska economy.

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## *Executive Summary*

To appreciate fully the importance of the Alaska Railroad, it must be understood that Alaska is different from other states in that government owns vast tracts of land while the private sector owns little. This land contains substantial resources which, by the foresight of the founding fathers, was seen as the economic salvation of a rather small group of people in a huge and undeveloped territory.

The framers of Alaska's Constitution (Article VIII) specifically directed state government to develop and use these resources and to become the driving force in the management and development of the state's natural wealth for the benefit of Alaska's citizens.

With the advent of Prudhoe Bay, oil dwarfed other resource development initiatives, and state government did not address its responsibility to diversify Alaska's basic resource industries. Fortunately, the opportunity has not yet passed. In the Alaska Railroad, the state has an instrument with which to implement a pro-active program. It has the genesis of a transportation system which can be the beginning of a new era in Alaska.

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*In the Alaska Railroad, the state has the genesis of a transportation system which can be the beginning of a new era.*

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### **The major conclusions are as follows:**

1. Since the transfer from the federal government three years ago, railroad management has brought a high degree of professionalism to a former governmental bureaucracy. The railroad has operated within its revenues and at no time has asked for additional funds from the legislature.
2. The leadership of Alaska must now accept the responsibility to fulfill the visionary purpose so eloquently stated in the 1914 law which established the Alaska Railroad.
3. With help from state government in terms of vision, financing and leadership, the railroad can assist with the challenge of truly diversifying Alaska's economy.

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## SECTION I

### *The History and Purpose of the Alaska Railroad*

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*The Alaska Railroad has helped shape Alaska from a raw territory to a state with great, albeit mostly unrealized, potential.*

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**T**he Alaska Railroad was created by a 1914 Act of Congress which was, in very real sense, visionary. The legislation was passed after an eloquent four-hour appeal to a joint session of Congress by Judge James Wickersham who envisioned the railroad as an instrument which would play a vital role in opening up the vastness of Alaska's wilderness. It would be a magnet to recruit pioneers of a future day to tap the enormous mineral resources of the land.

The Alaska Railroad Enabling Act (43USC 301) described the purpose of the railroad this way:

“...to connect one or more of the open Pacific Ocean harbors on the southern coast of Alaska with the navigable waters in the interior of Alaska, and with a coal field or fields so as best to aid in the development of the agricultural and mineral or other resources of Alaska, and the settlement of the public lands therein...and for other governmental and public uses, and for the transportation of passengers and property...”

In the intervening years, the Alaska Railroad has helped shape Alaska from a raw territory to a state with great, albeit mostly unrealized, potential. It has enjoyed a commanding presence in years of peace, war, depression and prosperity in southcentral and interior Alaska.

In the late 1970's the federal government proposed to transfer the railroad to the state. For six years Alaskans debated the pros and cons of assuming ownership of the railroad. Finally, with the signature of Governor William Sheffield on July 5, 1984, a value of \$22.3 million was placed on the facilities and details for the transfer were written in the federal Alaska Railroad Transfer Act. The Alaska Legislature responded by creating the Alaska Railroad Corporation Act of 1984. Alaska became the owner and operator of a railroad.

The state law addressed the role, mission and purpose of the railroad in this manner:

- “(1) It is the policy of the state to
- (A) provide safe, economical, and efficient transportation to residents, businesses, visitors, and military installations in the state;
  - (B) foster and promote the long-term economic growth and development of the state;
  - (C) develop and implement plans for a transportation network in the state;
  - (D) foster and promote the development of the state’s land and natural resources; and
- (2) The Alaska Railroad is an essential part of the state transportation network...”

The essential difference between the federal and state mission statements is that the federal act specifically described the purpose of the railroad. The State’s 1984 acceptance act outlined a policy but did not task the railroad with execution of that policy.

More specifically, under Article 2 of the 1984 legislation, neither management nor the Board of Directors was given the responsibility to implement the stated policies. Herein lies the basis for the lack of expansion orientation currently evident in the railroad’s operations and plans for the future. In addition, other than granting the railroad the right to issue bonds, there was no provision for how to access sufficient capital to undertake any growth efforts short of maintenance and upgrade of the rolling stock and track.

In other words, Alaska law, while touting a noble policy, created an inward-looking organization commissioned only to make itself self-sufficient.

While this might be appropriate in a mature economy, the Alaska Railroad was intended to have a more creative and nurturing role in this young, growing state.

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## **Conclusion**

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Alaska's state policy, as written in the Alaska Railroad Corporation Act of 1984, is "to foster and promote resource development," however there is no clear and written mandate for the railroad to provide leadership in this area.

## **Recommendation**

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It is recommended that to remedy this situation, the legislature should amend the implementing legislation as follows:

### **Mission and Purpose of the Alaska Railroad**

It shall be the purpose of the Alaska Railroad Corporation

- A. To provide safe and efficient transportation to residents, businesses, visitors and the military in the state, and
- B. In consonance with the plans and programs of the state
  - 1. To foster and promote the long-term economic growth of the state;
  - 2. To implement plans to open the state with a viable surface transportation network; and
  - 3. With sensitivity to legitimate regional and environmental concerns, to foster and promote the development of the state's land and natural resources.

This proposed mandate to the railroad to assume an active role in the development of the state represents a recognition of the railroad as a valuable resource and not just an entity solely oriented to making a profit.

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## **Section II**

### ***The Long-term Role of the Alaska Railroad***

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#### **Conclusion 1**

In a frontier, developing area, especially in the Arctic, a rail system provides the best year-round, most cost-effective surface transportation network.

#### **Conclusion 2**

Opportunities for expansion of railroad services must be evaluated not just in terms of the railroad's balance sheet but on a total statewide benefits and costs basis.

#### **Conclusion 3**

The railroad has no staff, budget or mandate to examine and implement major rail extensions.

#### **Conclusion 4**

Alaska's primary rail corridors run north/south; therefore logical expansions of the rail line do not necessarily mean east/west extensions of track from the main line.

#### **Conclusion 5**

The most attractive extension proposals are those in which resources are taken by the shortest rail route directly to deep water ports.

#### **Conclusion 6**

When a pioneer surface link is deemed in the public interest, a railroad is the most attractive option from an environmental point of view as well as from the standpoint of minimizing disruption of rural communities and wildlife populations.

#### **Conclusion 7**

As railroads run in two directions, expansion of the transportation network will result in substantial economies to serviced areas. Freight and passenger capabilities will make goods and services currently prohibitively expensive more accessible.

#### **Conclusion 8**

In the long run, natural resource development is the best way to improve rural economies, provide jobs and support local peoples and their needs.

## **Conclusion 9**

The obstacles to rail corridors placed in federal law are a great impediment to expanding Alaska's transportation system.

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## **Recommendation 1**

The legislature should create an Alaska Development Board\* which, in conjunction with the Alaska Railroad Board of Directors, examines the feasibility of major rail extensions that would enhance the statewide economy.

## **Recommendation 2**

The Development Board and the railroad should examine the eight extensions presented in this report and prioritize those which are feasible.

## **Recommendation 3**

For more effective land use and improved operations, the central railyard in Anchorage should be moved to Eagle River and the railyard in Fairbanks studied for relocation.

## **Recommendation 4**

The state administration and the legislature should review targeted resource commodities which require access to transportation systems in order to be competitive in world markets. State government should assist these industries through capital investments in rail infrastructure rather than subsidies through "development pricing" of freight rates.

## **Recommendation 5**

The Federal access restrictions in Alaska should be examined by the state to see if these obstructions abrogate the intent of Alaska's Constitution and the Statehood Act.

(\*see the Commonwealth North report, *Using the Permanent Fund as a Positive Counter-cyclical Force in the Alaska Economy*, February 1988)

**O**ne of the primary missions of the Alaska Railroad is to assist in the economic and resource development of the State of Alaska. Under federal ownership, the implementation of that congressional mandate lost its momentum after World War II. Now that the state owns the railroad and the Alaska Railroad Corporation has proven it can run the operation profitably, there are several promising courses of action which present themselves.

The Alaska Railroad has proven to be a key to the development of Alaska. Where the railroad goes, resource extraction and economic development follow. What's needed is a leadership structure and a philosophy which encourages the use of the Alaska Railroad for this purpose.

It is necessary for our leaders to look at how best to tap the tremendous wealth which lies in our land, resources and people by utilizing many tools, such as the railroad, with which to make the best use of this wealth. There are numerous opportunities for economic expansion listed in this section, few of which can be justified purely on the basis of railroad balance sheet analysis. What must be understood is that the railroad does not operate in a vacuum. Its actions and activities dramatically impact nearly all of Alaska and its people.

The following is a proposed benefits/cost model for analyzing potential railroad expansions. This model reflects the belief that in the real world we must look at all the benefits and costs which result from such investment.

### **Benefit/cost model for analyzing potential economic expansion**

In deciding whether to embrace a particular economic expansion strategy for the railroad, a model must be utilized which addresses all benefits and costs accruing to the State of Alaska, not just the Alaska Railroad itself. "Economic expansion" is defined broadly as any increase of service, whether involving actual physical track extensions or providing major new services within the existing operations area.

This model assumes that the Alaska Railroad is an instrument to be used by the State of Alaska for the benefit of the people through the encouragement of economic development.

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## THE MODEL

### Benefits

- B1** - Direct operating revenue to the Alaska Railroad
- B2** - Direct revenues to the state government
  - a. Royalty fees
  - b. Lease fees
  - c. Taxation
- B3** - Direct revenues to local governments
  - a. Property taxes
  - b. Sales taxes
- B4** - Indirect revenues to the state
  - a. Increased employment
  - b. Formation of successful businesses
  - c. Increased sales by existing businesses
  - d. Human resource development through job training and experience
  - e. Lower freight costs due to increased volumes

### Costs

- C1** - "First" cost of extension
- C2** - Operations cost to Alaska Railroad of providing service
- C3** - Increased fixed cost to Alaska Railroad of additional plant and equipment

$$\frac{\text{BENEFITS}}{\text{COSTS}} \geq 1$$

This model can be used to determine if a given expansion and/or extension project will derive benefits to the state which go beyond direct monetary returns to the railroad. The subjective value of benefits divided by costs should be a value greater than 1. In other words, the project should at least break even.