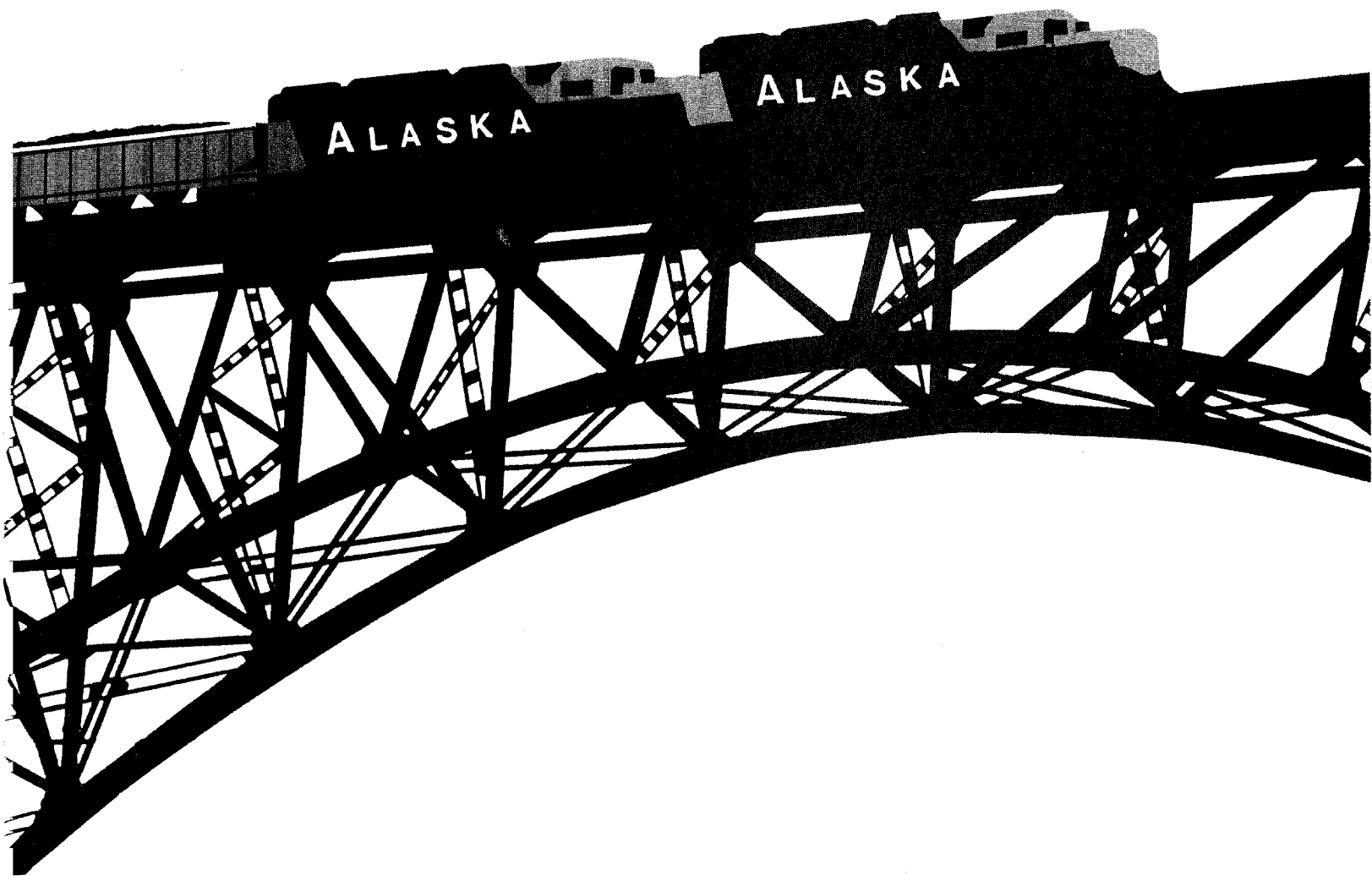

*The Alaska Railroad
and its
Future*



A Report by Commonwealth North

The Alaska Railroad and its Future

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

Introduction

In 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.

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

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.

SECTION I

The History and Purpose of the Alaska Railroad

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

The 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.

Alaska law, while touting a noble policy, created an inward-looking organization.

Conclusion

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

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.

Section II

The Long-term Role of the Alaska Railroad

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.

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)

One 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.

The railroad does not operate in a vacuum. Its actions and activities dramatically impact nearly all of Alaska and its people.

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.

Leadership structure

Central to successful evaluation and promotion of expansion of the railroad will be a leadership structure which embraces the necessity for economic expansion in general and the resolve to accomplish it.

This leadership structure must have the authority to develop detailed plans and recommendations to be submitted to the governor and the legislature for approval. An Alaska Development Board* should be created to examine the feasibility and recommend major rail extensions that would assist the statewide economy. Once a plan for economic expansion of the railroad is developed and approved, then the Alaska Railroad administration must be charged with the responsibility to carry out the project.

Currently, the railroad has no staff, budget nor mandate to examine and implement major expansion. The legislature must assist with the financing strategy to cover the cost of a line extension or other major development. In essence, this is the seed money required to develop our country. Unless this type of arrangement is established, the Alaska Railroad will never grow beyond the original 541 miles of track which were laid down early in the century, and the state's healthy economic diversification will be forever stifled.

Taking the shortest route

In reviewing the possibilities for development options for the Alaska Railroad, one must keep in mind that the goal is not limited to improving the bottom line of the railroad's financial statements. Rather, the goal is the economic good of the State of Alaska. For this reason the committee has looked at numerous opportunities which from strictly a railroad income stream point of view might not be acceptable.

In reviewing opportunities for economic expansion of the railroad within the social, economic and political framework of all the diverse groups and regions involved in the State of Alaska, several conclusions become obvious. The first of these is the realization that in many cases the most logical expansion does not necessarily mean a contiguous extension of the existing track.

As mining engineers understand, rocks don't get pleasure out of riding on trains. The idea is to get them to water as quickly and inexpensively as possible because waterborne transportation is the least costly by far.

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

An Alaska Development Board should be created to examine the feasibility and recommend major rail extensions that would assist the statewide economy.

The most logical expansion does not necessarily mean a contiguous extension of the existing track.

Therefore, the most attractive development schemes are those in which resources are taken by the shortest route from mine sites or forests to deep water ports. In many cases, especially in Northwestern and Western Alaska, this means that noncontiguous sections of track are far more attractive than attempting to link up to the existing rail network.

Once this aspect of the situation is accepted, numerous possibilities for development railroads become feasible.

Alaska's primary rail corridors run north/south as opposed to east/west.

Another truism is that, in general, Alaska's primary rail corridors run north/south as opposed to east/west. This north/south pattern results from several conditions, one of which is that many of the major drainages which provide the best routes flow north/south or northeast/southwest. Secondly, but equally as important, is the already noted need to establish direct routes to natural port locations.

Access to Alaska's mineral potential

Mining in Alaska will generate annual gross sales of over \$1 billion by 1992. Projects which are in production now, committed to go to production or in the permitting stage include:

<u>Project</u>	<u>Projected Annual Sales (millions)</u>
Cominco-NANA Red Dog	\$300
Amselco Greens Creek	\$200
Diamond Shamrock Beluga Coal	\$200
Placer U.S. Beluga Coal	\$100
Usibelli Healy Coal	\$ 39
Inspiration Nome Onshore	\$ 30
Valdez Creek Mines	\$ 15
Alaska Gold Nome Onshore	\$ 10
Present rate gravel mining	\$125
Placer mining	\$ 60

Placer mining is estimated at the 1985 rate of production (\$60m) because of the present water quality and reclamation regulations. This industry could grow to the range of \$100 to \$300 million dollars in the next 5 to 10 years if proper, attainable economic standards were developed by the State of Alaska and the federal government. With proper laws and regulations, government leadership and some engineering help, most of these people can operate in a professional, environmentally responsible, profit-making manner.

Future mines that could be on stream by 1997 include U.S. Borax Quartz Hill, GCO Lik, Doyon Alaska Asbestos, Sohio-Kennecott Bornite Arctic, Nerco Delta, Hanson Goodnews Bay, CIRI Johnson River, Echo Bay Alaska Juneau-Treadwell, Berners Bay, Queenstake West Chichagof, Union Pacific Wishbone Hill coastal, Chugach Bering River (coal), Lost River (tin), Alaska Apollo Unga Island, additional offshore dredging, additional placer mines and possibly three or four small to medium size hard rock gold mines.

For some perspective on mining in other states and provinces Arizona has \$1.483 billion dollars in sales per year, Wyoming \$3.231b, California \$2.003b, Texas \$1.715b, Nevada \$.616b, Idaho \$.412b, Utah \$.524b, British Columbia \$2.398b. These figures do not include coal, uranium and gravel in some cases.

It is important to note that Alaska has close to \$100 billion dollars in drilled mineral reserves at this time. This incredible total of proven resources, sometimes compared in size to South Africa's, includes base metals, precious metals, strategic and industrial minerals, coal and gravel. At the present rate of mining, this represents approximately 500 years of reserves. At \$1 billion per year, it represents 100 years of reserves and at \$3 billion per year, it represents 33 years.

Since much of Alaska is as yet unexplored, the state has the potential to develop many times this reserve in the future under proper state and federal policies. The key is access and a surface transportation system that can move these minerals to market.

Alaska is one of the few places in the world where a wealth of mineral resources has failed to develop significant railroad activity since the early 19th Century. Railroads are the key to developing northern countries. Canada and Russia both have demonstrated this. Only in Alaska have we been slow to take advantage of this fundamental economic truth.

Hesitancy and hope in rural villages

A number of Native village populations are hesitant to connect with major transportation systems which would link them to the rest of the state. They fear an invasion by outsiders which could overwhelm them.

"We still have images in our minds of passengers shooting buffaloes out of railroad car windows," a Native legislator told the committee.

Currently, village leaders are fighting against the influences of alcohol and drugs in their small communities. Additional transportation

It is important to note that Alaska has close to \$100 billion dollars in drilled mineral reserves at this time.

"...passengers shooting buffaloes out of railroad car windows."

links may make bootlegging more difficult to control. Finally, there is the concern of the Native corporations and Native leadership about retaining control of their own destiny financially, politically and culturally.

However, in many cases these concerns make the railroad an attractive option, certainly more so than a highway. Railroads are easier to control in terms of who uses them and frequency of operation. In addition, local people can be trained and provided jobs operating the equipment utilized on the railroad.

*The infusion of
railroad related
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of alcoholism.*

Some observers believe that the Native community is evolving in its reaction to this type of connection. Population pressures are real, but social problems may be more effectively addressed if steps are taken to improve local economies. The infusion of railroad related jobs may help stem the epidemic of alcoholism and attendant suicide. Some Native spokesmen recognize that in the long run, natural resource development provides what may be the only real hope to improve those economies and generate the revenues necessary to meet the needs of the local peoples.

Development possibilities without line extensions

There are numerous opportunities for “economic expansion” without physical line extensions. New services, policies, rate structures, leasing and land management policies are all possible. The railroad needs to strengthen its strategic planning in these areas.

During the course of this study, an exciting opportunity for the Alaska Railroad was identified—to move the central railyard from Anchorage to Eagle River. This prospect opens up a whole range of possibilities for enhancing the land assets owned by the railroad in the heart of downtown Anchorage. A similar situation exists in Fairbanks.

Line extension proposals

When considering a decision on a line extension, numerous political, economic, and terrain conditions play a part. Enormous investments are required and paybacks on a railroad balance sheet basis are long term.

However, when looking at total benefits to the State of Alaska, many line extension proposals have the possibility of making sense.

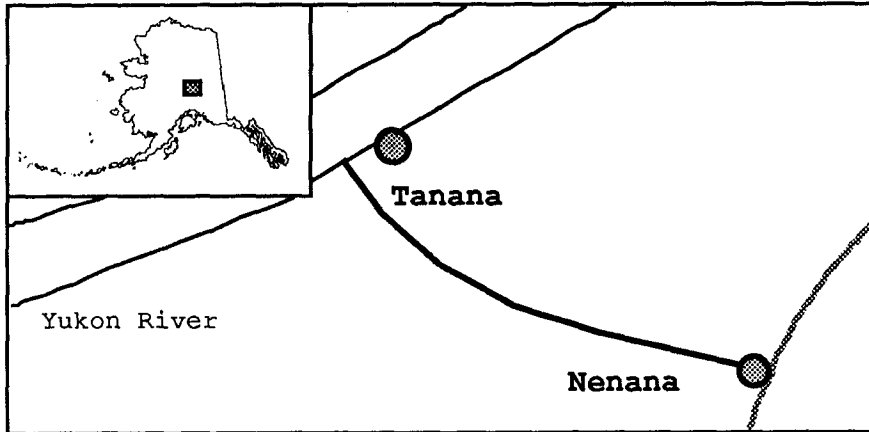
(*see the Commonwealth North report, *Redesigning the Front Door to Anchorage*, April 1988)

Some of the more attractive extension opportunities for the railroad that have been identified over the years include:

Nenana to Tanana

130 miles

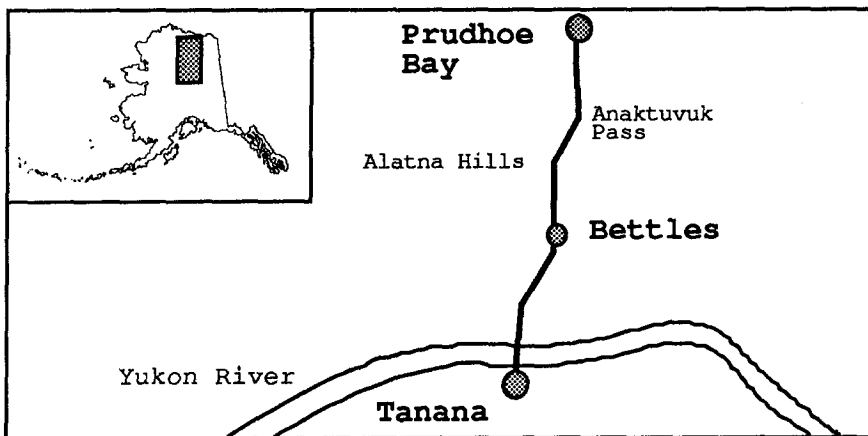
Connection of the current system to the Yukon River, adding six weeks to the shipping season for moving freight in and minerals and timber out.



Tanana to the North Slope

400 miles +/-

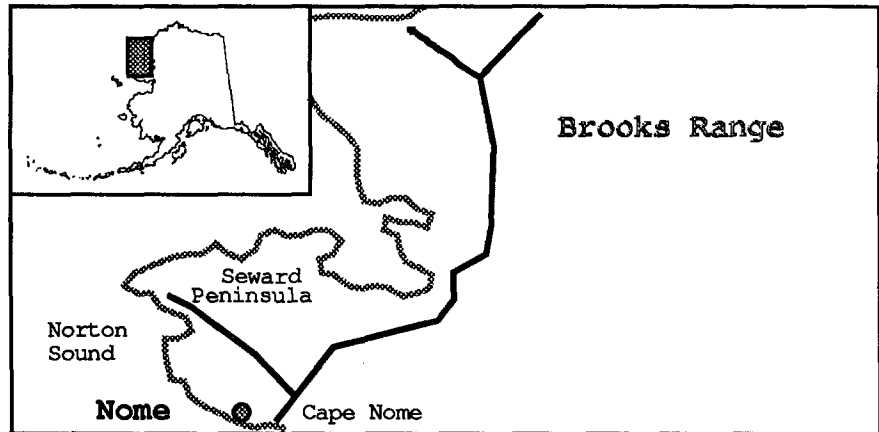
Exciting touring possibilities in the Gates of the Arctic National Park and access to numerous mineral deposits in the northern region in addition to the opportunities of a rail link to Prudhoe Bay.



Nome to the North Brooks Range and Western Seward Peninsula

400 miles +/-

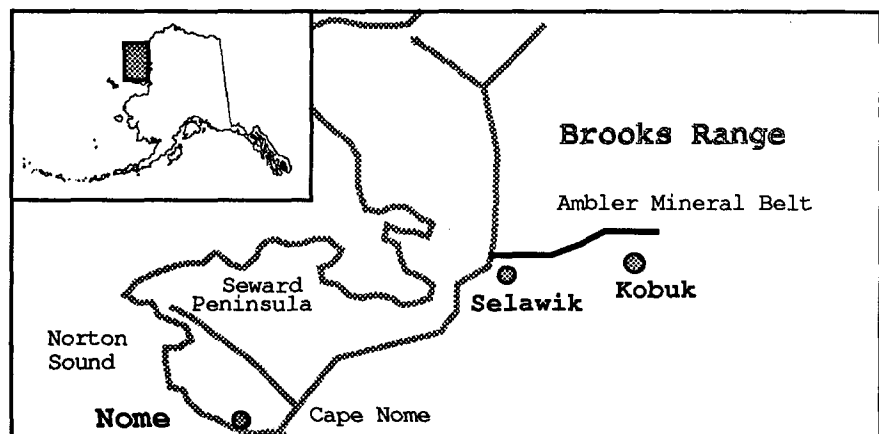
A surface system to numerous mineral deposits in the North Brooks Range and along the anticipated route to a future deep water port at Cape Nome or Port Safety with year-round usage.



Selawik to Kobuk

150 miles

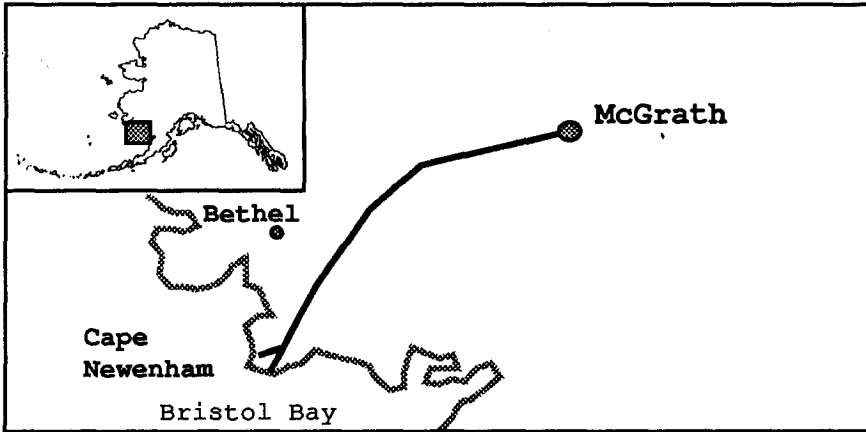
Route to the famous Ambler mineral belt, known for its enormous high grade copper resources as well as for a variety of strategic minerals.



Kuskokwim Drainage
(McGrath to Cape Newenham)

400 miles +/-

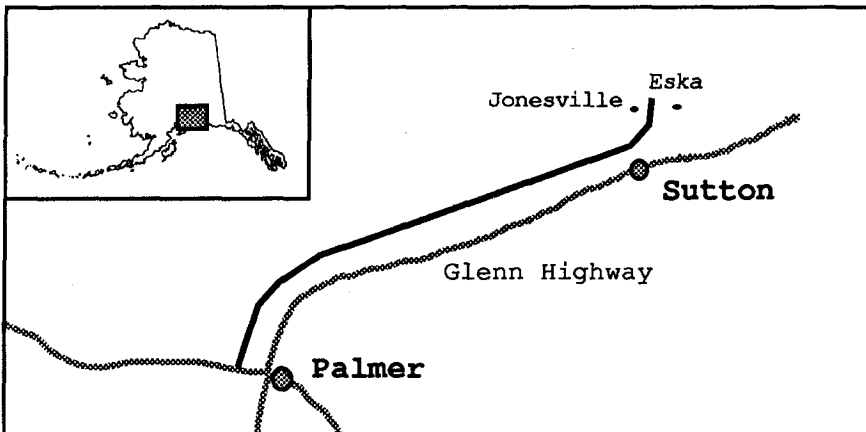
Outlet for numerous strategic and critical mineral deposits and timber along the track corridor to an excellent deep water port site at Cape Newenham.



Sutton to Palmer

20 miles

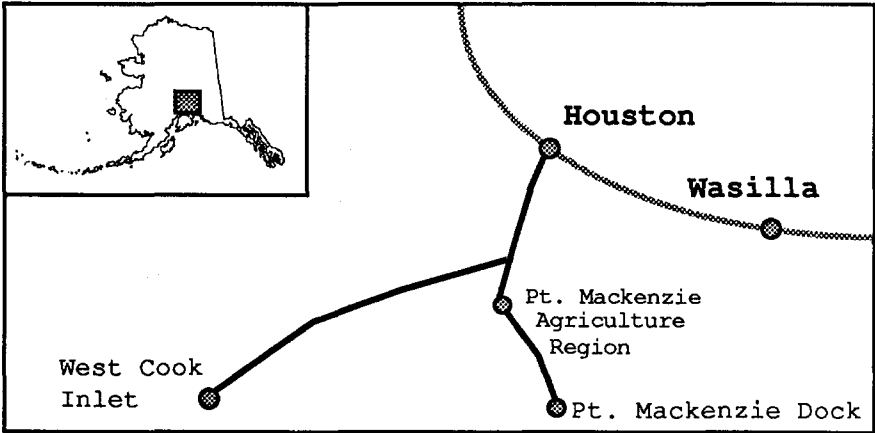
Feeder line from the Sutton coal fields.



Houston to West Cook Inlet

40 miles

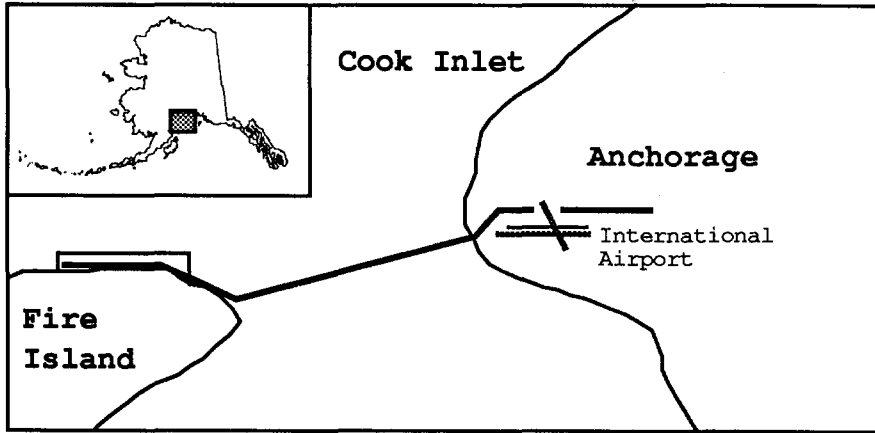
Extension from the main line to the Pt. Mackenzie agriculture project and mineral deposits of West Cook Inlet.



Anchorage Mainland to Fire Island

7 miles

A track on a gravel causeway across the shallow mud flats enabling the creation of a year-round regional port on Fire Island.



Estimating costs

In discussing the cost of line extensions in Alaska, one must be cautious. Over the years, there have been numerous estimates of various track extensions with estimated costs ranging from \$1 million to \$8 million per mile. It is tempting for researchers with limited knowledge of railroading or Alaska civil construction to publish such ballpark numbers. There are two dangers in this approach. The first is that the "rough cost" numbers may be insufficient due to unknown terrain features such as river crossings, grades and curves.

The greater danger is the likelihood that estimates are so high that further consideration is precluded. This has happened in the past particularly with regard to the 1970 North Commission routes which were highly recommended and should have been pursued at that time. Had the opportunity been embraced when that report was published, Alaska would indeed have a more diversified economy today.

Federal impediments exist

Under current federal law, few extensions of the Alaska Railroad are possible without the concurrence of the U.S. Congress. Title 11 of the Alaska National Interest Lands Conservation Act of 1980 supposedly provides "fast track" mechanisms to facilitate future transportation corridors throughout the state. In reality, the system is tortuous and virtually assures that any such corridor be decided by the U.S. Congress.

The Act does not "pre-select" routes. It sets up procedural guidelines for the administration of a system to approve transportation routes. It includes time lines for preparation of an Environmental Impact Statement and consideration of an application by the President and by Congress.

If there is already applicable law in place, Congress does not have to be consulted unless the system crosses wilderness areas. However, anti-development advocates within the federal agencies have skillfully cut off nearly all natural access routes with wilderness classifications, a process which is ongoing to this day.

The following factors must be taken into consideration in determining whether to grant or deny an application for a transportation system through a wilderness area:

1. Need and economic feasibility.
2. Alternate routes and modes of access, especially the existence of

The system is tortuous and virtually assures that any corridor be decided by the U.S. Congress.

Anti-development advocates within the federal agencies have skillfully cut off nearly all natural access routes with wilderness classifications.

an economically feasible and prudent alternative to routing a system through or within a conservation system unit.

3. Feasibility and impacts on different transportation utility systems.
4. Short and long term social, economic and environmental impact.
5. Impacts, if any, on national security interests.
6. Impacts that would affect the purpose for which the respective unit was established.
7. Measures to avoid or minimize negative impacts.
8. Short and long term public values.

If there is applicable law on a particular corridor then, in making a favorable recommendation, an agency must first determine that the system will be compatible with the conservation unit in question and, further, that there is no economically feasible alternative route. This latter criteria is an extremely high hurdle to overcome.

The agency's favorable recommendation is then forwarded to the President. If he approves, the appropriate permits are to be issued. If he denies the application, an applicant can appeal to a federal court. If an agency does not make a favorable finding, an applicant must appeal to the President before suing in federal court.

If there is no law applicable, federal agencies again report their finding to the President. If he approves, he sends the recommendation to Congress. If Congress approves the application within 120 days of receipt, the necessary permits are issued.

***...a cumbersome
procedure replete
with opportunities
for political
dealings.***

Obviously this is a cumbersome procedure replete with opportunities for political dealings which have little to do with the transportation corridor under consideration.

Those who study the pattern of ANILCA land selections and wilderness designations reach the inevitable conclusion that they were deliberately designed to obstruct the natural transportation corridors which are essential to develop the natural resources of Alaska. The state should examine that charge in the light of abrogation by Congress of the intent of the Statehood Act.

SECTION III

Should the Alaska Railroad Be Sold?

Conclusion 1

The Alaska Railroad should not be sold as long as its mission is to expand and help diversify the Alaska economy.

Conclusion 2

Among both the Alaskan public and the elected leadership of the state there is little understanding of the requirements written by Congress in the Federal Transfer Act of 1982. These provisions make it difficult and unwise for the state to sell the railroad to a private entity.

Conclusion 3

If the railroad, meaning all of its assets, is to be sold at any time, congressional action modifying or clarifying the current federal act will ultimately be necessary.

Conclusion 4

Maintaining the railroad in a state of readiness for sale to a private entity with corporate rather than governmental accounting, procurement and personnel procedures is one of the best methods of assuring that it will continue to be operated profitably.

Recommendation 1

As the expansion of the railroad is deemed in the public interest (see Section II of this report), the railroad ought to remain in public ownership in order to facilitate the financing for such expansion.

Recommendation 2

Because of the terms in the Federal Transfer Act, the railroad ought not even be considered for sale by the state under any circumstances prior to January 6, 1990.

Recommendation 3

The contemplation of a sale or sale option ought to be retained in some form without the expensive and unnecessary requirement of soliciting offers on a regular basis.

Recommendation 4

While the railroad continues as a public corporation, its operation and management ought to be insulated to the greatest extent possible from special interest and regional legislative influences and politicization.

Recommendation 5

If and when, in the public interest, it is deemed that the railroad should be transferred to the private sector, terms and conditions must include a continuation of the mission of the railroad as proposed in this report as well as requiring that all of the assets be kept intact.