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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Alaska Railroad: Federal Role Should End; Some Management Problems Remain

Factors leading to the Federal Government's ownership and operation of the Alaska Railroad have changed considerably, making the Federal role no longer justified. Moreover, Federal ownership inhibits actions needed to improve the Railroad's profitability and raises questions about the appropriateness of the Federal Government competing with private industry.

The Railroad should be sold or otherwise transferred to the State or a private entity, but several issues must be resolved before such a transfer can be effected.

Although substantial improvements have been made, some management weaknesses continue. Regular, thorough audits would provide a basic management control mechanism and will be needed regardless of who runs the Railroad.

UNITED STATES GENERAL ACCOUNTING OFFICE

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the Federal Government's role in owning and operating the Alaska Railroad and improvements that have been made or are still needed in the Railroad's management. We conducted our review because of congressional interest in the Railroad and because of widespread management weaknesses we reported in 1978.

We are sending copies of this report to the Secretaries of Transportation and Defense; the Director, Office of Management and Budget; and the Governor of Alaska.

Charles A. Bowsher
Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

ALASKA RAILROAD: FEDERAL ROLE SHOULD END; SOME MANAGEMENT PROBLEMS REMAIN

D I G E S T

In July 1978, GAO reported on widespread management weaknesses in the Alaska Railroad and on the need to decide whether the Federal Government should continue to own and operate it. Because of management weaknesses' pervasiveness and recent congressional interest in the Railroad, GAO followed up on its 1978 recommendations and re-examined the question of the Railroad's ownership. (See p. 3.)

FACTORS JUSTIFYING THE FEDERAL GOVERNMENT'S ROLE HAVE CHANGED

The major factors supporting the Federal Government's role in the Alaska Railroad--national defense needs, Alaska's territorial status, extensive Federal land ownership, and Federal responsibility for economic development--have all changed considerably. Federal ownership of the Railroad now conflicts with or inhibits actions needed to improve its profitability.

For many years after its completion, the Railroad had an irreplaceable role in transporting military personnel and material. Development of other transportation modes such as highways and airplanes has made the Railroad one of several acceptable alternatives rather than the only practical source of transportation. Military officials said that, if attacked, some sections of the Railroad, as well as nearby highways, would be impossible to defend adequately. (See p. 7.)

During the early period of the Railroad's operation, Alaska was a territory rather than a State, and the Federal Government was responsible for its government and owned almost all of its land. The situation has changed. With statehood, Alaska now has a State government which has responsibilities and resources for the State's development. Also, the Federal Government no longer owns as much of the land in Alaska. (See p. 8.)

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Some of the Railroad's transportation services are also provided by alternate modes that are privately owned and operated, resulting in direct competition between Government and private industry. The Railroad's expanding marketing and other efforts to compete aggressively have been questioned because of the Government's policy of avoiding direct competition with privately operated carriers. However, such aggressive marketing is needed to improve the Railroad's profitability. (See p. 8.)

Other problems associated with the Railroad's continued Federal ownership include uncertain control over Railroad land because of possible claims against it under the Alaska Native Claims Settlement Act. If the land was transferred from Federal ownership, it would not be subject to Native claims. Also, the Railroad is a Government agency, and as such, personnel ceilings and reductions and difficulty in obtaining capital for expansion have limited its ability to respond to or fully exploit business opportunities. (See p. 9.)

The Railroad may be on the verge of long-term profitability because of developing export markets for Alaskan coal and barley. (See p. 10.)

GAO believes the Congress should end the Federal Government's role in the Railroad. The Congress will also have to decide whether to give the Railroad away or to sell it, how the price is to be established if the Railroad is to be sold, whether private or State ownership should be emphasized, and how such emphasis is to be effected. Legislation has been introduced that proposes solutions to all of these issues, but the Congress will have to decide whether the proposed solutions are the best ones. (See p. 11.)

Recommendation to the Congress

The Congress should enact legislation leading to termination of the Federal role in owning and operating the Alaska Railroad. (See p. 13.)

RAILROAD'S MANAGEMENT CAN BE FURTHER IMPROVED

GAO's 1978 report described numerous serious problems in the Alaska Railroad's management, including many financial and control weaknesses, inadequate marketing efforts and cost information on which to base marketing decisions, and unreasonably low rental rates for Railroad property leased to other parties. (See p. 14.)

The Railroad has improved its rental rate policy--resulting in higher rent income--(see p. 21) and its marketing activities, although it is just now implementing GAO's recommendation to produce complete cost and profitability information on which to base marketing decisions (See p. 20.)

Railroad management has also attempted to correct most of the financial and control weaknesses GAO and the Department of Transportation's Office of Inspector General brought to its attention and has had some success. However, management's efforts have not been completely effective. For example, GAO's current review showed some continuing weaknesses in accounting for and collecting accounts receivable and a 1980 Office of Inspector General report showed several weaknesses in the Railroad's management of supplies and materials. (See p. 14.)

Despite GAO's earlier recommendation to do so, the Department has not instituted an effective internal audit and review function for the Railroad. The Department's Office of Inspector General has occasionally reviewed specific aspects of the Railroad's operations, but has not conducted the in-depth reviews and regular complete audits envisioned by GAO's recommendation. GAO continues to believe that an effective internal audit and review function would provide a basic management control mechanism and will be needed regardless of whether the Federal Government's role is continued. (See p. 17.)

Recommendation to the Secretary of Transportation

The Secretary should institute a plan for periodic independent financial audits as well as other comprehensive audits necessary to identify and follow up on management problems. (See p. 22.)

AGENCY COMMENTS

The Department of Transportation agreed that the Federal Government's role in the Alaska Railroad should end and noted its support for the proposed legislation. (See p. 13.) The Department of Defense noted the possibility of rail service abandonments over low density branch lines to Defense installations and the need to provide for such lines' reversion to the Federal Government in the event of abandonment. GAO agrees. (See p. 13.)

The State of Alaska noted possible objections to limitations on the State in moving the Railroad into the private sector. GAO did not specifically suggest such limitations, but does note the need for provisions ensuring continued rail service and preventing unreasonable economic windfalls at Federal expense. (See p. 13.)

The Department of Transportation said that GAO's conclusion regarding audits is overstated. Although the Department recognized that greater audit attention would probably be helpful, it believed that past efforts had been adequate. GAO recognizes that other factors might affect Railroad management, but continues to believe that past audit efforts have not provided the needed management tool. (See p. 22.)

C o n t e n t s

ABBREVIATIONS

FRA	Federal Railroad Administration
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

On March 12, 1914, the Congress provided for construction of the Alaska Railroad authorizing

> "* * * a line or lines of railroad in the Territory of Alaska not to exceed in the aggregate one thousand miles, to be located as 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 so as to provide transportation of coal for the Army and Navy, transportation of troops, arms, munitions of war, the mails, and for other governmental and public uses, and for the transportation of passengers and property * * *." (43 U.S.C. 975-975g)

The Railroad's initial construction took 8 years to complete and cost about $65 million, exceeding the original estimate by some $30 million. The Railroad was completed in 1923, and responsibility for its operation was delegated to the Secretary of the Interior. The Railroad provided main line service from Seward to Fairbanks, carrying both passengers and freight a distance of 470.3 miles. Several branch lines and additional track along the Railroad have since been added to serve specific industries, gravel pits, public delivery tracks, sidings, and yards. The Railroad now has a total of 653.8 track-miles. (See map on p. 6.)

During World War II, the Railroad carried construction materials, supplies, and soldiers to Army bases at Anchorage and Fairbanks and kept the military storage tanks replenished with fuel for the air ferry to Russia.

At the end of World War II, the military decided that Alaska should remain a major outpost and that the Railroad's facilities should be available to the military on a daily basis as well as in the event of a national emergency. Accordingly, a rehabilitation program was initiated. Most of the Railroad was rehabilitated during the 1948-1952 period. The Seward line, which was not included in this rehabilitation plan, was rehabilitated in 1959 after a Department of Defense decision to maintain port facilities there.

After more than 50 years under the Department of the Interior's control, the Alaska Railroad was transferred in 1966 to the Department of Transportation and subsequently became the responsibility of the Department's Federal Railroad Administration (FRA). Although the Secretary of Transportation is responsible for the Railroad's operations, his authority has been delegated to the Railroad's General Manager in Anchorage. However, decisions regarding general rate changes, extensions and abandonments, large sole-source procurements, and final approval of collective bargaining agreements remain with the Secretary. FRA's monitoring of Railroad management and operations is done primarily by the Alaska Railroad Management Committee. This Committee consists of a chairman and four members from FRA and the Railroad's General Manager. The Committee meets quarterly to discuss various phases of the Railroad's operations and provide advice to the Railroad on matters affecting its efficiency.

The Railroad transports hundreds of products in widely differing quantities from innumerable origins. During construction of the trans-Alaska oil pipeline (1974-77), the Railroad played a vital and profitable role in transporting construction equipment, supplies, and minerals. Railroad-reported financial results from 1974 to 1981 are summarized below.

Fiscal year	Federal appropriations	Total revenues	Net profit or (loss)
	(millions)		
1974	$ -	$21.5	$(1.1)
1975	6.0	42.3	5.8
1976	9.0	63.7	3.0
1977	6.0	34.8	(1.0)
1978	3.0	29.1	(4.5)
1979	9.3	25.2	(6.6)
1980	a/6.5	28.9	(5.8)
1981	12.6	43.9	3.3

a/Includes a one-time passenger train subsidy of $1.5 million.

The increase in cash flow due to increased traffic from the pipeline's construction permitted substantial capital improvements and major maintenance to the Railroad's facilities. During the 3-year period, fiscal years 1975-77, a total of $33.5 million in improvements was accomplished, of which $21 million came from congressional appropriations and $12.5 million from Railroad earnings.

Just as quickly as revenues increased, traffic decreased and profits disappeared. The pipeline was completed by the summer of 1977, and the Railroad showed a nearly $1 million loss for fiscal year 1977. For fiscal year 1978, the only commodities that had traffic increases were sand, gravel, and coal.

The Railroad has reported a deficit from passenger operations of about $1.4 million in 1980 even though passenger traffic has been increasing since 1975. Passenger service is provided with old equipment, largely built in the 1950's for the Union Pacific Railroad, which is expensive to maintain. The cars are in need of substantial modernization, including the installation of electric heat and air-conditioning and interior refurbishing. The State of Alaska, in recent years, has subsidized the passenger service between Anchorage and Whittier in the winter months to maintain more frequent service than the Railroad could economically provide. In addition, the Congress provided a one-time subsidy of $1.5 million in fiscal year 1980 to support passenger train operations.

For fiscal year 1981, the Railroad made a profit of over $3 million. As discussed later in the report, the Railroad has improved its marketing efforts and may acquire additional business that would lead to its long-term profitability.

OBJECTIVES, SCOPE, AND METHODOLOGY

In our July 1978 report 1/ to the Congress, we discussed several problems needing management attention, including

--lack of an effective marketing plan for maximizing revenues;

--lack of specific guidelines for leasing and managing real estate;

--an inadequate system of internal controls for protecting Railroad assets, ensuring collection of amounts due, and preventing improper transactions;

--an incomplete cost data base being used for rate-setting; and

--inadequate financial management procedures and practices in several other areas.

In addition, we discussed the need to decide whether the Federal Government should continue to own and operate the Railroad.

Because of these problems and congressional interest in the Railroad, we initiated a followup review in October 1980. Our review was performed in accordance with our "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." Our objectives were to

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1/"The Alaska Railroad: Its Management Is Being Improved; Its Future Needs To Be Decided" (CED-78-137, July 27, 1978).

--evaluate the corrective actions taken to resolve the problems we previously reported,

--examine the Federal Government's future relationship with the Railroad, and

--review the Railroad's ratesetting practices.

We eliminated the final objective because of subsequent legislation requiring the Interstate Commerce Commission to review the Railroad's rates.

Most of our information was obtained through interviews with

--the General Manager and numerous other officials and personnel at the Alaska Railroad;

--members of FRA's Alaska Railroad Management Committee, its special project staff, and its Director, Office of Management Systems;

--the Interstate Commerce Commission's Anchorage district supervisor and its headquarters cost development section personnel;

--the Air Force's Alaskan Air Command Comptroller, Director of Plans and Requirements, Director of Logistics, and other transportation specialists at Elmendorf Air Force Base, Alaska;

--the Army's Director of Plans, Training, and Security; Director of Industrial Operations; and others in the 172d Infantry Brigade at Fort Richardson, Alaska;

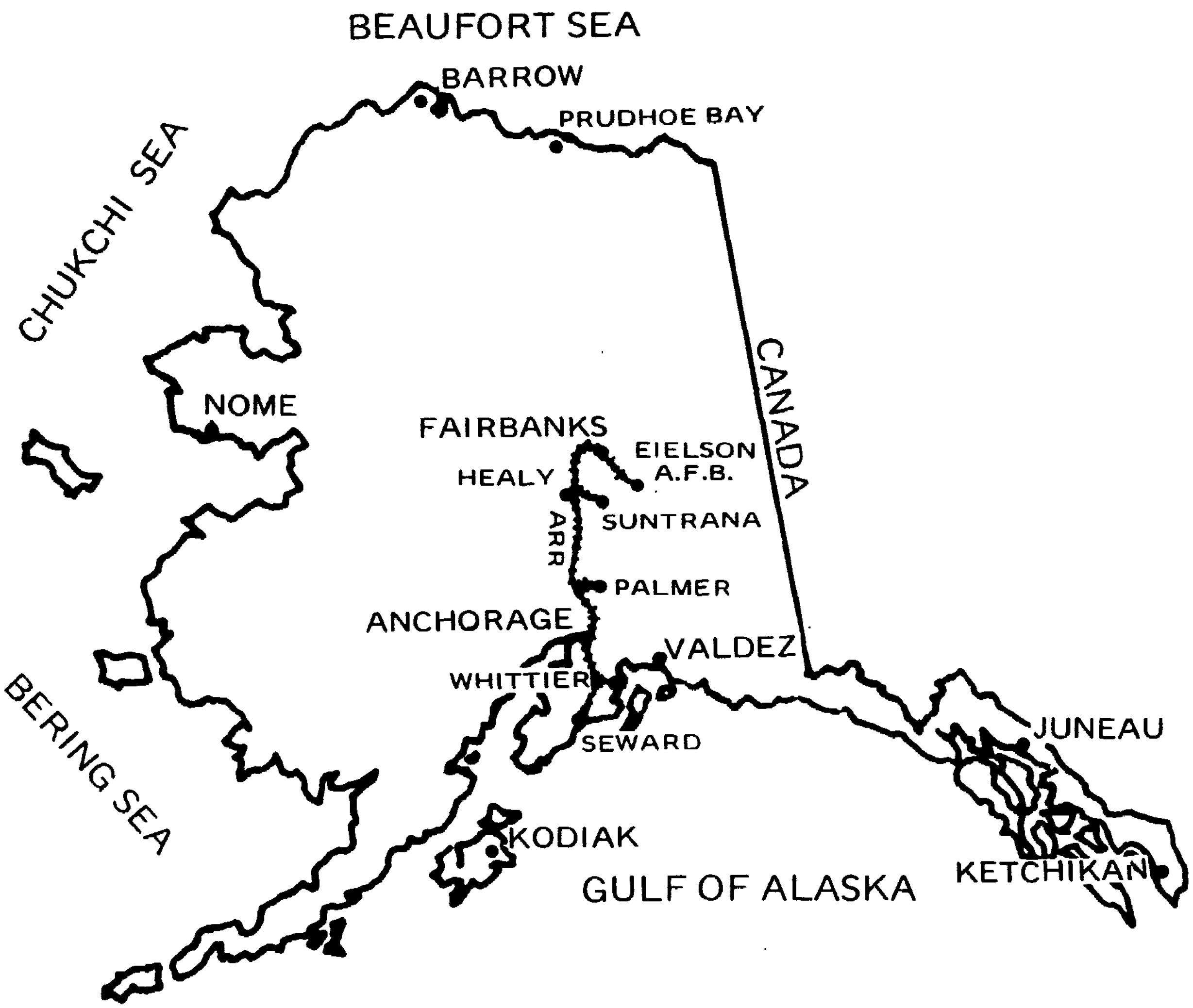
--personnel in Alaska's Departments of Commerce and Economic Development (Division of Economic Enterprise), and Transportation and Public Facilities (Planning and Programming Division);

--the land manager and other members of Cook Inlet Region, Incorporated, an Alaska Native corporation; and

--the office of a State senator who has introduced legislation that would authorize the State to take over the Railroad.

We did not believe it was cost effective to conduct in-depth examinations of records and observations of Railroad operations to test the various corrective actions in response to our numerous earlier findings and recommendations. Instead, we conducted extensive interviews, as indicated above, to obtain information about corrective actions taken and their effectiveness, and we examined pertinent documents in some cases. We also obtained information from the Department of Transportation's Office of Inspector General reports. We then used this information to evaluate the corrective actions' likely effectiveness in resolving the problems discussed in our earlier report.

Regarding the Railroad's future, we researched the Railroad's authorizing legislation and history and available literature. We also interviewed interested parties as indicated on page 4 and reviewed corroborating documents.


BEAUFORT SEA
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PRUDHOE BAY
CHUKCHI SEA
CANADA
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EIELSON A.F.B.
HEALY
SUNTRANA
ARR
PALMER
ANCHORAGE
VALDEZ
WHITTIER
SEWARD
JUNEAU
BERING SEA
KODIAK
GULF OF ALASKA
KETCHIKAN

CHAPTER 2

SHOULD THE FEDERAL GOVERNMENT BE RUNNING THE RAILROAD?

Most of the factors originally leading to the Federal Government's role in building and operating the Alaska Railroad have changed. The Railroad's role in national defense has changed substantially with improved air and highway transportation and different military needs and capabilities. Alaska is now a State, consequently, the State government has a role in and responsibility for determining its future development, including its transportation system. Some transportation needs can now be met by private businesses which are in direct competition with the Railroad.

The Railroad's profitability has varied considerably and its need for subsidies continues, but some of the steps needed for the Railroad to improve its profitability are inhibited by its Federal ownership. Moreover, the appropriateness of a Government-owned and financed organization competing with private businesses has been questioned.

In our 1978 report, we recommended that the Congress decide whether the Federal Government should continue to own and operate the Railroad. The Congress has not acted on this recommendation, although legislation has been introduced that would authorize transferring the Railroad to the State.

THE RAILROAD'S CHANGING DEFENSE ROLE

When the Congress authorized the construction of the Alaska Railroad, it determined that having a railroad was critical to the Alaskan defense strategy. Because a private railroad was not a viable alternative at the time, the Government built the Alaska Railroad. A 1976 Department of Transportation report indicated that

> "* * * the railroad provided a relatively high level of transport services into Alaska in comparison to the existing modes of the time--foot, horseback, dog sled, and riverboat."

The Railroad, therefore, had an important and almost irreplaceable defense role during its early years.

Today, this strategy has been changed because the Railroad is only one of several ways personnel and materials can be transported. Alaska's present road system and the reliability of aircraft provide alternatives that were not available when the Railroad was built. All-weather roads now parallel the Railroad's main line between Seward and Fairbanks. The Railroad's defense role now is one of a peacetime carrier and wartime alternative as opposed to the military's only means of transportation. This role would be the same regardless of who owned the Railroad because national defense needs can preempt other uses in emergencies.

According to several military officials in Alaska, military vulnerability is also a factor in the Railroad's altered defense role. For example, Ft. Richardson's Director of Plans, Training, and Security told us that one railroad bridge, with estimated reconstruction time in excess of 1 year, is almost impossible to defend; furthermore, if the structure were destroyed, the Railroad would lose most of its defense role, probably for the duration of the emergency. Some highway sections near the Railroad would be equally difficult to defend.

THE RAILROAD'S CHANGED SETTLEMENT AND DEVELOPMENT ROLE

During the early period of the Railroad's operation, almost all of Alaska's land was owned by the Federal Government. Also, because Alaska was a territory and not a State, the Federal Government was responsible for its government and development; the Railroad, through its congressional mandate, helped encourage such development.

The Railroad has led to substantial settlement and development along its Seward to Fairbanks route, commonly known as the railbelt. (See map on p. 6.) About 70 percent of the State's population lives near this route. Anchorage, the largest city in the State, actually began as a construction site for the Railroad.

The Railroad's role in future development and settlement is now less clear because of two factors. First, the Federal Government no longer owns as much of the land in Alaska and second, Alaska is now a State; consequently, the State government is responsible and has resources for development.

Land ownership has changed with the passage of the Alaska statehood law in 1958 and the Alaska Native Claims Settlement Act in 1971. These laws provided for millions of acres of Alaskan land to be transferred from Federal ownership to the State and to Native corporations. With these land transfers went the responsibility to develop, or not develop, the land. The Federal Government's responsibility is therefore no longer as great as before these laws were enacted.

SHOULD THE RAILROAD COMPETE WITH PRIVATE BUSINESSES?

Some of the transportation service the Railroad provides is also provided by other transportation modes operated by private businesses, resulting in direct competition. Determining the extent of this competition was beyond the scope of our review, but such competition could increase as Alaska's economy develops.

For example, the Railroad, in conjunction with a barge carrier, moves freight from Seattle, Washington, to Anchorage by loading railcars onto barges for the Seattle to Whittier, Alaska, segment, then moving the cars over Railroad tracks to Anchorage. At least two private businesses provide similar service by moving containers or trailers by water directly to Anchorage. Generally, using the Railroad is cheaper for shipments north of Anchorage, but highways are also used for some of these shipments. These competing transportation services are offered throughout the year, despite some weather delays in winter.

Private businesses have complained of unfair competition by the Railroad, especially for the Seattle to Anchorage shipments. We did not investigate the specific complaints, but the Federal Government's policy is to avoid direct competition with private industry. As discussed in chapter 3, however, the Railroad will have to compete aggressively if it is to break even or become profitable (see p. 18).

PROBLEMS ASSOCIATED WITH FEDERAL OWNERSHIP OF THE RAILROAD

Because it is a Federal agency subject to most Government policies and regulations, the Railroad has limited flexibility in taking full advantage of business opportunities and changing its operations to improve its profitability. Also, its future ownership of and full control over its real estate is uncertain because of the Alaska Native Claims Settlement Act.

Lack of flexibility could inhibit profitability

As a Federal agency, the Railroad lacks the flexibility needed to take maximum advantage of business opportunities, especially when additional expenditures are involved. Federal policies such as personnel reductions and ceilings and hiring freezes have inhibited the Railroad's efforts to provide new and improved services that would improve its profitability. The Railroad has not had enough money to even seriously consider major expansions, even though they might be profitable, and has had to defer routine maintenance that is needed to provide reliable, efficient service. The Railroad's primary sources of funds are its generated revenues, income from leased properties, and Federal appropriations. Its authorizing legislation did not authorize it to borrow money, from either the U.S. Treasury or private sources.

As discussed in chapter 3 (see p. 18), the Railroad has adopted a much more aggressive approach in its marketing since our July 1978 report. However, this effort to increase its business creates a conflict with Federal requirements to reduce employment levels. To adequately serve the traffic increases resulting from better marketing, the Railroad needs to hire additional employees but is restricted from doing so because of the Government's effort to reduce the employment level.

Federal requirements for freezing and/or reducing personnel levels have been a continuing problem for the Railroad but could become critical in the near future because of developing export markets for Alaskan coal and grain. Railroad employees are subject to most of the requirements on Federal employees, including hiring freezes.

Coal has been mined near Healy, Alaska, (see map on p. 6) for some time, and an agreement is being negotiated to begin exporting substantial amounts of this coal to the Far East. The coal would have to move over the Railroad to a port for loading onto ships. Also, barley is now being grown near Fairbanks and an export market for it is developing. This new business could turn the Railroad into a profitable operation for a long time, but for the Railroad to take maximum advantage of these opportunities, it will need the flexibility to hire additional employees and make the necessary improvements.

Other opportunities for increased revenues and profits may be possible if the Railroad could extend its tracks beyond their present termini. Alaska has enormous potential for economic development, especially in minerals that require rail transportation. There are many obstacles to such development, including high costs and risks, environmental considerations, and lack of transportation. The Railroad's continued Federal ownership inhibits its even seriously exploring the feasibility of development projects because the needed capital would have to come from Federal appropriations, a long and uncertain process.

As is common with railroads that are short of money, the Alaska Railroad has frequently deferred needed maintenance and rehabilitation work. This practice eases short-term financial difficulties but creates its own set of problems. Sooner or later, the deferred maintenance affects the quality of the railroad's services and increases its day-to-day operating costs. For example, track that deteriorates because of deferred maintenance is subject to "slow orders," severely limiting trains' speed over the track. Slow orders obviously result in less timely service, but they also increase the railroad's costs because employees must be paid for longer hours and expensive equipment is not used efficiently. Other types of deferred maintenance have similar effects. Eventually, deferred maintenance must be performed for the railroad to continue operating. Although the Alaska Railroad has had several major rehabilitation projects over the years to correct problems caused by deferred maintenance, Railroad officials estimate that at the beginning of fiscal year 1981 at least $63 million in deferred maintenance needed to be performed.

Native claims cloud future ownership of Railroad real estate

The Alaska Native Claims Settlement Act authorized Native corporations to claim Federal lands not being directly used for specifically authorized Federal purposes. This legislation's exact effect on lands owned by the Alaska Railroad is unclear, but, as discussed below, Railroad land might be claimed by Native corporations under the act because of its Federal ownership.

Department of the Interior regulations implementing the act contain several policies that might have adverse effects on the Railroad. For example, the regulations provide that lands being used primarily to derive revenues, rather than directly for authorized purposes, may be claimed. This raises a question concerning whether Native corporations can claim Railroad land leased to other parties. The Railroad's Chief Counsel and other Railroad and Interior officials are also concerned that, under other provisions of the regulations, the Railroad might lose land from which it obtains gravel used under the track and might even lose title to the Railroad right-of-way, retaining only an easement. FRA's Office of the Chief Counsel has noted that retaining only an easement could adversely affect Railroad operations. For example, the Railroad's ability to cut trees, cut and fill for track maintenance, and bar trespassers from the right-of-way would be limited.

ISSUES THAT NEED TO BE RESOLVED BEFORE THE RAILROAD IS TRANSFERRED

In the past, both the Federal and Alaska governments have considered transferring the Railroad to the State, and the Congress is now considering legislation authorizing such a transfer. However, several issues must be resolved before such a transfer is effected, including whether the State is the most appropriate transferee and whether the Railroad should be sold or given away.

The State had a study performed to evaluate its existing rail network and refine its statewide rail planning process. The study results, issued in December 1980, discussed the advantages and disadvantages of State ownership but made no recommendations in this regard.

A bill has been introduced in the Congress (S. 1500) that would authorize the Secretary of Transportation to transfer the Railroad's rail properties to Alaska if the State agreed to operate it. The State would not be required to pay the Federal Government for the Railroad. If the State did not agree, within 1 year, to operate the Railroad and comply with the bill's other requirements, the Secretary would be authorized to transfer or sell the Railroad to other entities. In such a sale or transfer, the Secretary would be required to give preference to a buyer or transferee that would continue to operate rail service, but no other conditions would be required.

With Alaska's economic development and population growth, the State government seems capable--both economically and politically--of operating the Railroad if it is to remain in the public sector. Also, if the grain- and coal-hauling business materializes as some expect, the Railroad may even become profitable enough to attract private ownership.

Private ownership of the Railroad might have some advantages over State ownership, but it might also have some disadvantages. For example, the issue of a public organization competing with private industry would disappear if the Railroad were privately owned. Also, private ownership could make it easier to decide whether to give the Railroad away or to sell it; a sale would seem appropriate to a private entity, while either a sale or a gift to the State might be justified. Private ownership, however, might inhibit efforts to encourage economic or resource development by extending Railroad lines. Private owners might not want to take the risks involved. Also, private entities might not be interested in buying the Railroad, although such interest would be more likely if the Railroad becomes profitable.

Of course, any transfer or sale would have to include conditions to assure continuation of basic rail services and to prevent unreasonable economic windfalls at Federal expense. A private buyer or transferee, for example, should not be permitted to abandon rail service and sell the associated right-of-way soon after obtaining it.

CONCLUSIONS

The major factors supporting the Federal Government's role in the Railroad--Alaska's territorial status, extensive Federal land ownership, national defense needs, and Federal responsibilities for economic development--have changed so much that continued Federal ownership and operation of the Railroad are no longer justified. Also, Federal ownership conflicts with actions needed to make the Railroad profitable and to expand it as a means of encouraging economic development.

Extending the Railroad beyond its present termini could spur development of the State's abundant natural resources. Such extensions would be expensive and economically risky and might be subject to environmental objections, but all of these issues seem to be within the State's and/or private owners' purview.

Issues that the Congress will have to decide, in addition to determining whether to end the Federal Government's role in the Railroad, include whether to give the Railroad away as provided in proposed legislation or to sell it; how a selling price will be determined if it is to be sold; whether to emphasize State or private ownership and/or operation; and how such emphasis is to be effected. Senate bill 1500 proposes solutions to all of these issues, but the Congress will have to decide whether the proposed solutions are the best ones.

RECOMMENDATION TO THE CONGRESS

We recommend that the Congress enact legislation leading to termination of the Federal Government's ownership and operation of the Alaska Railroad.

AGENCY COMMENTS AND OUR EVALUATION

We requested comments on a draft of this chapter, including the conclusions and recommendations, from the Departments of Transportation and Defense and the State of Alaska. Their comments are summarized below and are reproduced in appendixes I, II, and III, respectively.

The Department of Transportation said that the report was balanced and generally accurate. It concurred fully that Federal operation of the Railroad should end and expressed support for Senate bill 1500 to accomplish it.

The Department of Defense noted that service over low-density branch lines to defense installations could prove not to be economically viable and might be abandoned. Under such circumstances, the Federal Government might have to purchase such lines to prevent their abandonment. The Department suggested that we recommend that a reversion clause be included in any legislation transferring the Railroad, whereby property would revert to the Federal Government if it were converted to a use adversely affecting Railroad operations within 10 years of the transfer. Senate bill 1500 includes such a provision.

We agree that such a reversion clause should be included. As discussed previously, ensuring continuation of rail service and preventing unreasonable economic windfalls at Federal expense are issues that would need to be resolved before the Railroad is transferred (see p. 12).

Alaska suggested several areas of possible improvement in the report and noted possible objections to limitations on the State in moving the Railroad into the private sector. Although we did not specifically suggest such limitations, we noted the need for provisions to ensure continuation of basic rail services and to prevent unreasonable economic windfalls at Federal expense. We continue to believe that such provisions are needed.

CHAPTER 3

SOME MANAGEMENT PROBLEMS HAVE BEEN CORRECTED BUT OTHERS REMAIN

Our 1978 report described numerous serious problems in the Railroad's management, including many financial management and control weaknesses, inadequate marketing efforts and cost information on which to base marketing decisions, and unreasonably low rental rates for Railroad property leased to others. Some improvements have been made in each of these areas, but the recurrence of some of the same financial management and control weaknesses we discussed in our 1978 report indicates that management actions to correct reported deficiencies in these areas have not been completely effective.

As we recommended in 1978, the Railroad needs an internal review function to help management evaluate its corrective actions' effectiveness and to promptly detect and urge correction of other weaknesses. The Railroad also receives no independent audits except for occasional audits of specific areas by us and the Department of Transportation's Office of Inspector General. Reviews and audits provide a basic management control mechanism and will be needed regardless of whether the Federal Government's role is continued.

IMPROVEMENTS IN FINANCIAL MANAGEMENT AND CONTROLS HAVE BEEN ATTEMPTED, BUT A BASIC PROBLEM REMAINS

Our 1978 report described numerous weaknesses in the Railroad's financial management procedures and controls. These procedures and controls are intended to protect Railroad assets, ensure collection of appropriate fees and charges, and prevent improper transactions. Railroad officials attempted to correct these weaknesses, but several important ones continued, indicating a basic management problem. The weaknesses discussed in our 1978 report included:

--Inadequate separation of duties between individuals, resulting in inadequate checks and controls to prevent improper and/or inaccurate transactions.

--Absence of a proper system to authorize, record, and document receipts and disbursements.

--Lack of systematic verification of shipment weights.

--Infrequent revisions to charges for and failure to recover all costs of reimbursable work.

--Failure to validate and properly authorize reductions in billings.

--Allowing customers to exceed their credit limits and failing to assess service charges on delinquent accounts.

--Unaccounted for equipment and supplies.

--Lack of an accounting for Railroad property in the custody of employees leaving the Railroad.

--Allowing employees to pick up other employees' paychecks without accountability.

--Lack of a formal capital planning system and financial analysis of proposed capital spending projects.

--Inaccurate and unreliable accounting data.

--Irregular billings and weak and untimely efforts to collect overdue accounts receivable, caused by a decentralized billing and control system.

--Poor authorization and control procedures over restoration of employees' forfeited annual leave.

--Questionable justification of certain aspects of employees' official, Government-paid travel expenses.

--Unaccounted for Government transportation requests.

--Unreasonably high pay levels.

--Poor position management resulting in inefficient organizational arrangements and retention of unneeded positions.

--Improper use of temporary positions.

--Inadequately documented and noncompetitive procurements.

In addition, the Railroad had no internal audit or review function and no regular independent outside audits. Regular audits probably would have detected many of the weaknesses disclosed by our earlier review.

To correct these weaknesses, we recommended that the Secretary of Transportation direct the Railroad's General Manager to implement effective procedures and controls designed to ensure reliable accounting data, adequate control over expenditures, and compliance with Federal regulations. The internal controls needed to include:

--A plan of organization that segregates duties and responsibilities to properly control transactions.

--A system of authorization and recording procedures to provide accounting control over assets, liabilities, revenues, and expenses.

--An established system of practices to be followed in the performance of duties.

--Provisions for effective internal review.

We also recommended that FRA monitor the Railroad's actions and work closely with the Railroad in making the needed improvements.

Some weaknesses continue despite management efforts

Generally, FRA and Railroad officials have attempted to correct the management deficiencies brought to their attention. In most cases, their efforts were effective but, as discussed below, some weaknesses continue despite management's efforts.

During our recent followup, we examined a small number of transactions in the accounts receivable area to determine if the Railroad's corrective actions, based on our earlier findings and recommendations, were effective in correcting weaknesses. As a result of our re-examination, we found several deficiencies. For example, interest on past due accounts was being billed to customers but was not being recorded. Thus, when Railroad employees failed to collect the interest--as sometimes happened--the financial records and statements did not show the failure. Also, the Railroad's collection of overdue accounts was still weak and some accounts continued to be shown as receivables even after the statute of limitations on their collection had expired.

A November 1980 Office of Inspector General report showed several weaknesses in the Railroad's management of supplies and materials. For example, it noted poor controls over diesel fuel and shortages disclosed by the Railroad's physical inventories. Although the Railroad was not taking physical inventories as often as its policy requires--about once every 2 years instead of twice a year as required--the last inventory showed a 1 million-gallon shortage at two locations. A Railroad employee later discovered an additional 18,000-gallon shortage. Weaknesses in control would permit diesel fuel thefts, leaks, misuses, or unrecorded usages to go undetected for extended periods.

The Inspector General's report also showed weaknesses in controls over (1) small purchases at one location, (2) passenger revenues, (3) conductor's blank tickets, and (4) passenger ticket stock. These weaknesses would also permit abuses and errors to remain undetected. The report also noted that required spot checks and inspections were not being conducted on certain shipments to assure that appropriate revenues were being collected.

Railroad officials were generally very cooperative in initiating action to correct the deficiencies we and the Office of Inspector General brought to their attention, as they were during our earlier review and after our 1978 report. They seemed genuinely concerned about such deficiencies and anxious to operate the Railroad as efficiently as possible. Nevertheless, recurring similar deficiencies over such an extended period indicated that management actions to correct reported deficiencies have not been completely effective.

Audits could help correct weaknesses

Although we recommended in 1978 that the Department of Transportation institute an effective internal review function for the Railroad, the Railroad has received only occasional reviews of specific aspects of its operations. An effective internal review function could help the Railroad's management by following up on corrective actions taken and by reviewing the Railroad's financial controls and other operations to identify weaknesses and urge correction. Such reviews could advise management if corrective actions had not been properly implemented or if they were not proving effective and needed revision. Regular, independent outside audits could also help management in this regard, but on a broad rather than a specific, day-to-day basis. Independent audits would also evaluate the reliability of the Railroad's reported financial data.

Although the Department's Office of Inspector General has reviewed specific aspects of the Railroad's operations occasionally, it has not conducted the indepth reviews and regular complete audits envisioned by our 1978 recommendation. The Inspector General's reviews that were conducted and our recent followup review showed enough recurring and/or continuing weaknesses and breakdowns--despite management action to prevent them--to reinforce our earlier conclusion that regular, thorough reviews and audits are important to the Railroad's efficient management.

The Railroad's Administration Department Chief and other officials pointed to personnel limitations and reductions as important factors contributing to the continuing deficiencies. We did not specifically evaluate the Railroad's personnel needs but, as discussed earlier (see p. 9), it lacks the flexibility to hire personnel to fully exploit business opportunities. Although personnel shortages may have contributed to the Railroad's financial control and other weaknesses, we believe that the lack of regular audits is clearly a major shortcoming in its management.

We did not obtain information on the specific cost and benefits of audits for the Alaska Railroad, but audits are generally believed to result in savings exceeding their costs. We saw nothing indicating that the Railroad would be an exception to this belief.

THE RAILROAD'S MARKETING ACTIVITIES HAVE IMPROVED

Before our 1978 report, the Alaska Railroad had no specific overall marketing plan for reducing or eliminating operating losses by increasing revenues. Opportunities for increasing revenues existed, but the Railroad needed to improve its timeliness, services, and tariffs to compete more effectively and become financially self-sufficient. For example, the Railroad had not analyzed existing markets to assess whether changes in services were needed and generally had not performed marketing studies evaluating its competitive position. The Railroad lacked a comprehensive marketing approach that recognized where business opportunities existed and developed ways to provide marketable services. The Railroad's marketing policy to meet competitive challenges for its customers seemed to be established on a case-by-case basis.

Furthermore, the Railroad did not have information on the cost of transporting specific commodities to use in setting rates and making other marketing decisions.

In our 1978 report, we recommended that the Secretary of Transportation direct the General Manager of the Railroad to:

--Periodically make a systematic assessment of transportation needs in its service area.

--Develop an effective plan for actively marketing its services.

--Determine the actual cost of providing service on specific commodities so that its tariffs could be set fairly.

--Evaluate the effect of the Railroad's marketing and rate policies on consumers and competitors in light of Alaska's changing transportation system.

Market assessment, planning, and evaluation improvements have been implemented, and an improved cost information system was being designed and partially implemented at the time of our followup.

Marketing has improved, but planning is not formalized

The Railroad has not developed a formal marketing plan, as we recommended. However, as noted in the minutes of the Alaska Railroad Management Committee's quarterly meetings, Railroad management points to aggressive marketing practices and techniques as achieving the results intended by our recommendations. One major area of review by the Committee has been the Railroad's assessment of transportation needs and marketing plans to meet these needs.

Railroad management is actively pursuing contacts with interested parties, especially on intermediate and long-range development of natural resources and related traffic. For example, the Railroad continues to participate in package proposals for moving gas pipeline freight (pipe, drilling equipment, and supplies), anticipating the construction of a natural gas pipeline from Alaska's North Slope. The Railroad's marketing efforts have expanded to cover new markets and/or increase revenue in existing markets through such activities as advertising, contacts with tourism and industrial groups, better train scheduling, and special contract rates.

In 1979, the Railroad initiated a marketing program to develop additional traffic. Intermodal operations were expanded, rail-barge and trailer-container services were offered, and innovative full-service tariffs were initiated. Through innovative ratesetting--annual volume rates, multiple carload rates, and shipper pick-up and delivery allowances--the Railroad can be more competitive with other modes and attract increased traffic.

The Railroad is trying to obtain large volume coal shipments for the export market. The General Manager believes that, if successful in developing the coal export business, the Railroad could reverse its financial losses and become profitable for a long time.

The Railroad's Administration Department Chief said that the Railroad's future economic viability depends on attracting more business, and that the General Manager is committed to continued aggressive marketing. As discussed in chapter 2, however, these efforts have been or might be inhibited by the Railroad's uncertain future funding and status, constraints on its ability to respond to changing market conditions and business opportunities, and potential policy conflicts with a Government organization competing aggressively with private businesses.

The Railroad has evaluated its marketing and rate policies' effects on consumers and competitors to some extent. Efforts are being made to implement a new accounting system (see p. 20) which will permit the Railroad to better analyze its costs so that tariffs can be set fairly. Since the completion of the oil pipeline, business has decreased and most transportation companies in Alaska have excess capacity. To increase business, some of the carriers have cut prices and are operating at a deficit. Because these rates have been so low, the Railroad has found it difficult to price its services lower than its competitors. The General Manager and other Railroad officials believe their rates are fair to their competitors because all of their rates equal or exceed their variable costs. An accepted standard in railroad rate regulations is that individual rates are presumed to be high enough to be fair to competitors if variable costs are covered.

Improved cost information being planned

In a March 1956 report (B-114886), we said that Railroad rates did not cover its costs for all commodities transported. In our 1978 report, we noted that the Railroad did not have adequate information on total costs on which to base rate decisions. We noted that total cost information could improve the Railroad's marketing efforts because it would identify profitable commodities. Also, good cost information is needed for realistic budgeting and identifies areas for potential cost reduction.

The Railroad has made special cost and rate studies occasionally, but even these studies were sometimes not used to change the Railroad's rates. A 1976 study showed that the Railroad was losing money on some commodities.

Problems identified with costing in our 1978 report continued to hamper the Railroad's ability to make sound financial decisions, although improved cost information began being produced as of December 1981. For example, officials involved in the ratesetting process at the Railroad (the Traffic Officer and the Assistant to the General Manager) told us that it is almost impossible to identify total costs associated with some rail shipments, but they generally believe the present rate system covers most direct variable (incremental) costs.

Efforts to improve cost information delayed

In response to our 1978 recommendation that better cost information be used in setting rates and a 1975 Department of Transportation management review, FRA and the Railroad initiated a project in March 1979 to review and improve the Railroad's accounting system. This special project was to develop and implement a new integrated accounting and information system which would serve as a model for the railroad industry. The project cost was originally estimated at $1 million, to be provided by FRA over a 3-year period. The new system was to permit management to trace the elements of costs to their related function or location and provide management an ability to estimate how costs would vary because of changes in the level of activity. It was also supposed to automate the Railroad's billing and revenue accounting and provide detailed information on the costs and profitability of shipping each commodity. The project's three phases were to cover general accounting, revenue accounting, and measurement of cost and profitability.

According to the Railroad's Administration Department Chief, this project was later limited to designing a new computerized revenue accounting system because of the time and expense associated with the original project. This revenue accounting system will also include commodity costing which, combined with certain revenue information, will identify those markets and commodities contributing the most toward profits so that marketing can be directed toward that business.

In March 1981, the Assistant Chief of the Railroad's Administration Department told us that after approximately 2 years and expenses of $750,000, FRA had withdrawn its support of this project, even though the system design had not been completed. The Railroad's General Manager recognized the inadequacy of the old accounting system and is determined that the new system will be implemented. The Railroad began collecting data for a new revenue accounting system on October 1, 1981, and began producing its first series of reports, including manually produced commodity cost reports, as of December 31, 1981.

The Railroad also hopes to be able to eventually computerize its accounts receivable, including automated billing.

We have not evaluated the benefits that will be derived from the specific system the Railroad is developing, but we continue to believe that complete cost information is crucial to an effective marketing program. An FRA rate consultant stated that rates are determined by the market conditions, not by costs. Our previous reports stated that Alaska Railroad's rates should be based primarily on costs, but even if they are based on market conditions, as the consultant suggests, complete cost and revenue information is needed to determine which business is the most profitable and should therefore be emphasized and encouraged through marketing efforts.

IMPROVEMENTS IN THE MANAGEMENT OF RAILROAD REAL ESTATE

In our 1978 report, we said that the Railroad could substantially increase its revenues by charging full fair market value for Railroad-owned land leased to other parties. During our previous review, the Railroad announced a new policy under which it would charge fair market value for use of its land. We recommended that FRA monitor implementation of the new policy to make sure the policy was consistent with Government-wide policies and maximized the property's revenue-generating potential.

FRA has monitored the new policy's implementation through its Alaska Railroad Management Committee. Our followup review showed that rental rates are now based on appraisals of the properties' fair rental value and that rental revenues have increased far beyond what would have otherwise taken place.

CONCLUSIONS

The major management problem remaining unresolved is the Railroad's lack of regular, comprehensive audits, both by an internal review staff and by independent, outside auditors. Audits could evaluate corrective actions' implementation and effectiveness and promptly detect other deficiencies and suggest actions to correct them. Such audits will be needed regardless of whether the present Federal role is continued.

Either internal or outside audits would help in finding and urging correction of financial management and control weaknesses, but the most effective approach would be to have both. Having two types of audits would not necessarily be duplicative or inordinately costly because independent, outside auditors customarily consider work done by internal audit and review groups in determining the amount of audit work they need to perform. An overall audit plan for the Railroad could provide direction on who should perform the different audits and exactly when they should be conducted.

Although the Railroad management's efforts to improve financial management and control have not been completely effective, its actions to improve marketing and real estate leasing seem to have been more successful. Marketing efforts should become still more profitable as the Railroad further improves its cost information.

RECOMMENDATION TO THE SECRETARY OF TRANSPORTATION

We recommend that the Secretary institute a plan for periodic independent financial audits of the Railroad's operations as well as other comprehensive audits necessary to identify and follow up on management problems.

AGENCY COMMENTS AND OUR EVALUATION

In its comments (see app. I), the Department of Transportation said our conclusion that the lack of regular audits is a major shortcoming in the Railroad's management is somewhat overstated. The Department noted the Office of Inspector General reviews and stated that an independent audit firm had recently been retained to determine the reliability of the Railroad's financial data. It said further that the Railroad would have to compete with other Department activities for available audit resources and that, although greater audit attention would probably be helpful, it believed past efforts had been adequate.

We believe that past audit efforts have not provided Railroad management all the tools needed to manage effectively. The Department's actions to retain an independent audit firm to determine the reliability of the Railroad's financial data is a step in the right direction. However, we firmly believe that the Department needs an audit plan for the Railroad under which financial audits and other reviews would be performed as necessary to ensure that the Railroad's operations are performed economically, efficiently, and effectively.

We recognize that other factors might affect Railroad management and did not intend to imply that increased audit efforts would automatically resolve all the Railroad's management problems. We continue to believe, however, that audits and/or internal reviews are important management tools that are needed for the Alaska Railroad.

U.S. Department of Transportation

Assistant Secretary for Administration

400 Seventh St., S.W.
Washington, D.C. 20590

DEC 1 1981

Mr. Henry Eschwege
Director, Community and Economic
Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

This is our reply to the General Accounting Office (GAO) draft report, "The Alaska Railroad: Federal Role Should End; Management Should Be Further Improved," dated October 22, 1981.

SUMMARY OF GAO FINDINGS AND RECOMMENDATIONS

Factors leading to Federal ownership and operation of The Alaska Railroad have changed so much that the Federal role is no longer justified. Moreover, Federal ownership inhibits actions needed to improve the Railroad's profitability and raises questions about the appropriateness of Government competition with private industry. The GAO recommends that Congress enact legislation leading to termination of the Federal role in owning and operating The Alaska Railroad.

Railroad management has attempted to take action to correct all management deficiencies brought to their attention. In most cases their efforts were effective but some weaknesses continue despite management's effort. Railroad officials were generally very cooperative in initiating action to correct the deficiencies that the GAO and the Department of Transportation (DOT) Office of Inspector General brought to their attention, as they were during GAO's earlier review and after issuance of the GAO's 1978 report. They seem genuinely concerned about such deficiencies and anxious to run the Railroad as efficiently as possible. Nevertheless, recurring similar deficiencies over such an extended period indicated that management actions to correct reported deficiencies have not been completely effective.

The fact that some weaknesses continue despite management efforts reaffirms GAO's 1978 recommendation for regular, thorough audits to help management evaluate its corrective actions. Such audits have not been instituted, although there have been occasional audits of specific areas. Audits provide a basic management control mechanism and will be needed regardless of who runs the Railroad. GAO recommends that the Secretary institute an internal audit and review function for The Alaska Railroad and that he have independent outside financial audits performed regularly.

DEPARTMENT OF TRANSPORTATION POSITION STATEMENT

The report is balanced and generally accurate. While there are some minor inaccuracies, they do not affect the thrust of the report; that Congress should enact legislation leading to termination of the Federal role; and that, while some weaknesses remain, railroad management has made effective efforts to correct weaknesses and deficiencies revealed in earlier reports.

We fully concur that the Federal operation of The Alaska Railroad should come to an end and we support Senate bill S. 1500 which would accomplish this.

We are pleased that the GAO has recognized the efforts made by railroad management to eliminate deficiencies. We must point out that when the GAO report was being prepared in 1978, The Alaska Railroad had total authorized permanent positions of 786. The authorized full-time permanent positions at the end of FY 1981 totaled 490. Thus in the three years since 1978, The Alaska Railroad has reduced its full-time employment by more than 1/3, has corrected most of the management deficiencies noted in earlier reports and has turned a profit for the first time since 1976. Railroad management is working on the remaining weaknesses and while no organization will ever be perfect, the known weaknesses will be corrected in the very near future.

As to the conclusion that the lack of regular audits is a major shortcoming in its management, we feel that this is somewhat over-stated. There have been reviews of selected railroad activities by the DOT Office of Inspector General. In addition, the Inspector General has recently retained an independent audit firm to determine the reliability of the railroad's financial data. The Alaska Railroad must compete with other DOT activities for Office of Inspector General reviews. Internal audits will be planned and carried out within available resources and other workload priorities. Overall, while greater audit attention would probably be helpful, we feel that the reviews of The Alaska Railroad have been adequate and we believe that the findings in this Report support this conclusion.

Sincerely,

Karen S. Lee

for Robert L. Fairman

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

MANPOWER,
RESERVE AFFAIRS
AND LOGISTICS

7 DEC 1981

Mr. Walton H. Sheley, Jr.
Director, Mission Analysis and
Systems Acquisition Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Sheley:

This is in reply to your letter dated October 22, 1981, to the Secretary of Defense forwarding your draft report, "The Alaska Railroad: Federal Role Should End; Management Should Be Further Improved," OSD Case #5809.

In the report, you state that the Alaska Railroad is not economically viable under Federal ownership and operation. You also suggest state or private ownership as a means to reduce Federal costs, to generate regional development, and to develop a self-sustaining railroad. In our opinion, regardless of the transfer of ownership and operation, rail service provided to defense installations over low-traffic density branch lines could prove not to be economically viable. Consequently, the Federal Government (Department of Defense) could find itself in the position of having to re-purchase such a line in order to preclude its abandonment. To avoid this possibility, past legislation has included a reversion clause whereby, if within 10 years the property transferred is converted to a use which would adversely affect railroad operation (e.g., abandonment), that property and improvements would revert to the United States Government. We, therefore, suggest that your recommendation to Congress be revised to incorporate the 10-year reversion clause.

Sincerely,

James N. Juliana

James N. Juliana
Principal Deputy Assistant Secretary of Defense
(Manpower, Reserve Affairs & Logistics)

JAY S. HAMMOND
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

December 10, 1981

Mr. Henry Eschwege, Director
Community and Economic
Development Division
United States General
Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Eschwege:

I would like to thank your agency for providing the State of Alaska an opportunity to review your draft report regarding the future of the Alaska Railroad. The timing of this effort is most opportune given the pending federal legislation to transfer the railroad to the State.

The two enclosed chapters of your report appear to provide an accurate representation of the general status of the Alaska Railroad. The following comments reflect specific reactions to certain portions of the report:

(1) Chapter 1, Introduction, page 3: The discussion relative to cost of passenger service does not incorporate an assessment of the "real" or "total" costs of such service. I would direct your attention to Chapter 3.5 of the enclosed report on the Alaska Railroad.

(2) Chapter 2, Government Role, page 7: It is not entirely clear which elements of the private sector are in direct competition with the Alaska Railroad. This section could be revised to more carefully reflect the competitive conditions in Alaska.

(3) Chapter 3, Alaska Railroad's Development Role, page 8: The statement relative to attaining the Alaska Railroad's settlement and development goals is hard to document conclusively. An argument could be raised to the contrary with respect to the development of hard-

rock mineral activities within the Railbelt. Moreover, even with the conveyance of the State's land entitlement, the federal government will continue to own the majority of land in Alaska.

(4) Chapter 2, Alaska Railroad's Competition, page 9: It is not totally correct that the rail/car barges represent a similar service to the containerized traffic via Anchorage. Additionally, if the issue of unfair competition is to be mentioned, then it is only appropriate to include a brief summary of the two recent ICC studies on this matter.

(5) Chapter 2, Federal Ownership, page 10: The discussion on expansion leaves the impression that continued federal ownership has been one of the major deterrents to expansion of the Alaska Railroad. It ought to be included that mineral extraction costs and high transportation costs relative to the world market conditions of supply and demand are more realistic explanations of this condition.

(6) Chapter 2, Federal Ownership, page 10: It might be useful to review Chapter 3.3 of the enclosed report with respect to the question of deferred maintenance versus delayed capital expenditures.

It is also fair to say that the State might take issue with the assessment on page 12 of the private ownership option particularly with respect to the suggested limitations on the State in moving the railroad into the private sector. If the federal government intends to divest itself of responsibilities for the Alaska Railroad, and the State is willing to assume the general responsibilities of ensuring some ongoing operation, then it would not be appropriate to include a series of more specific conditions unless there is an exhibited willingness to pay for them.

I hope these comments are useful to you. Once again, I would like to thank your agency for the opportunity to comment on this document.

Sincerely,

Jay S. Hammond
Governor

Enclosure

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