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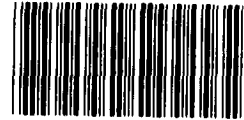
RESOURCES, COMMUNITY,
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B-209962

NOVEMBER 24, 1982

The Honorable Howard M. Metzenbaum
United States Senate



120089

Dear Senator Metzenbaum:

Subject: Valuation of the Alaska Railroad
(GAO/RCED-83-61)

On July 29, 1982, you asked us to prepare a report on the market value of Alaska Railroad assets proposed to be transferred at no cost to the State of Alaska under provisions of S. 1500, 97th Congress, first session. In subsequent discussions with your office, we narrowed the request to (1) determining the land value, especially the value of timber and mineral rights, on the Railroad's 38,000 acres and (2) identifying existing contracts, and contracts under negotiation, that might affect the Railroad's future profitability. We agreed that (1) we would rely on existing land valuations and information on timber and mineral rights that were readily available from Federal, State, and private sources and (2) the report would contain no conclusions or recommendations. Also, your office requested that we not obtain comments on this report from the Federal Railroad Administration, Department of Transportation.

On November 15, 1982, we briefed your office on our review results. We explained that although we could not find a well-documented estimate of the value of Railroad lands, three valuations of Railroad lands exist. These range between \$180 million and \$307 million, but each is highly qualified. The three valuations and the results of our other inquiries are summarized below.

--On October 8, 1982, the Railroad valued its 38,000 acres at about \$232 million based on liquidation value--the highest price the property may bring in the market under certain criteria--and the assumption that the Railroad holds a clear title to all its lands. However, because rail use may not bring the highest price for the land, this value has little relationship to market values for an ongoing concern. Also, the Railroad does not appear to hold clear title to all its lands.

--In February 1981 the Railroad calculated the estimated market value of its lands at \$180 million based on the 1979 value of private lands at each location along the

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rail belt. However, the value was developed by Railroad staff without any appraisals or calculations of the Railroad as an ongoing concern.

--In June 1980 the Secretary of Transportation reported to the Chairman, Senate Committee on Commerce, Science, and Transportation, that as of the end of February 1980, the estimated market value of the Railroad, consisting of land and investment in buildings, facilities, and equipment at depreciated value, was \$427 million. The Railroad's September 30, 1980, balance sheet showed that the depreciated value of its buildings, facilities, and equipment was about \$120 million. The remaining \$307 million was land value.

--Appraisals by commercial appraisers of about 1,000 acres of Railroad land leased to private concerns indicated a market value for this land of about \$49 million. However, land leased by the Railroad is appraised on a 5-year staggered cycle, so some of the appraised market values are over 4 years old.

--According to officials of the Department of the Interior's Bureau of Land Management and the Department of Agriculture's Chugach National Forest and data prepared by the University of Alaska's Arctic Environmental Information and Data Center, the Railroad's lands contain no appreciable volume of merchantable timber.

--The value of mineral rights on Railroad lands can not be determined without further exploration. However, officials of several Federal and State organizations told us that Railroad lands have (1) prospects for oil, gas, and coal deposits, (2) gravel and rock reserves valued at about \$111 million dollars in 1979 dollars, and (3) no significantly valuable hardrock (metallic) mineral deposits.

Regarding contracts affecting future profitability, the Railroad has five annual contracts primarily to ship between 150 and 300 freight cars of building materials. As of early October 1982, an additional contract was being negotiated with a Korean shipping company which would increase the Railroad's annual coal shipments.

The following sections discuss in more detail the information we gathered.

ALASKA RAILROAD

The Alaska Railroad is an operating element of the Federal Railroad Administration. The Railroad was authorized by the Alaska Railroad Act of March 12, 1914, as amended (43 U.S.C. 975 et seq.).

The Railroad operates 654 miles of track. Freight and passenger service use 478 miles of single mainline track extending from the deepwater ports of Seward and Whittier through Anchorage to Fairbanks. Branch lines use about 48 miles of track, while the balance is used for sidings, spurs, passing, and yard track.

The Railroad holds about 38,000 acres of land. It uses about 12,000 acres for main line and branch line rights-of-way. The estimated 26,000 acres of non-right-of-way lands are located at 27 locations adjacent to the rights-of-way and 3 smaller locations off the rail belt. Land parcels range from 0.4 acres to 5,830 acres. These lands are used for the following purposes:

- About 1,000 acres are leased to businesses which provide lease revenue and generate some freight business.
- About 9,000 acres are used as active gravel pits or rock quarries or are held for future gravel and rock needs.
- About 300 acres are used for operating a barge line and 570 acres are part of the Seward and Whittier port and terminal facilities.
- About 15,000 acres of mostly vacant land are held for controlling watershed and for providing gravel resources and room for future Railroad development or expansion.

VALUATIONS OF RAILROAD LAND HOLDINGS

We found two pre-1982 valuations of Railroad lands--\$180 million and \$307 million. These amounts do not include the value of the buildings, facilities, and equipment located on the land. We could neither confirm nor refute these estimates, but we noted their preparers heavily qualified the estimates. As of October 8, 1982, the Railroad valued its lands at about \$232 million, but this value was also qualified.

October 1982 valuation

As of October 8, 1982, the Railroad valued its 12,000 acres of right-of-way lands at about \$29 million while the 26,000 acres of non-right-of-way lands were valued at about \$203 million, or a total of \$232 million. Average per-acre values varied significantly by location. For example, non-right-of-way land values ranged between \$500 and \$108,900 per acre.

According to a Federal Railroad Administration representative, these values were derived by comparing Railroad lands with adjoining State or privately held lands that had been appraised. Also, the Railroad valued the land based on (1) liquidation value--the highest price the property may bring in a competitive and open market under all conditions--and (2) assumption of clear title. However, this value has little relationship to market value of an ongoing railroad because rail use for the property may not bring the highest price.

Also, the Railroad's land titles are questionable because of the Alaska Native Claims Settlement Act of 1971, as amended (43 U.S.C. 1601 et seq.). Any assumption about the Railroad's land title must consider the potential impact of this act. Claims made under this act, if upheld, could result in the Railroad's losing a considerable amount of land, including extensive gravel reserves, rights-of-way, and leased lands.

The act set up private regional and village corporations and authorized them to select certain Federal and State lands which fall within their selection areas. In a February 1981 report, the Federal Railroad Administration reported that about 30 percent of the Railroad's right-of-way and 18 percent of its other lands lie within these selection areas. Claims have been filed for nearly all these lands. The Secretary of the Interior will decide the extent to which these lands will be conveyed. Section 3(e) of the act sets narrow standards for determining which lands are actually used by the Railroad and thus exempt from selection. According to a July 1981 study done for the Alaska Department of Transportation and Public Facilities, the Railroad, under these standards, would not retain any leased land, gravel reserves, or rights-of-way claimed by the Natives. 1/ The Railroad's rights-of-way would be converted to a limited easement.

1/"An Assessment of the Alaska Railroad: Ownership and Operational Alternatives," Bivers and Associates, Inc., July 1981, p. 31.

The first claim for Railroad lands was filed by the Eklutna Village Corporation. Indications are that the Corporation may get a favorable ruling. The Federal-State Land Use Planning Commission, an advisory body established by the act, recommended that 90 percent of the lands claimed by the Corporation should be conveyed. The conveyed lands would include all leased lands and rights-of-way as well as nearly all gravel reserves in the Corporation's selection area.

The Federal Railroad Administration reported that Department of the Interior officials in Alaska and Washington, D.C., have shown a willingness to accept most Commission recommendations. Decisions on other Native claims, including those selecting Railroad lands, are expected to follow the Eklutna decision.

If all Native claims were upheld, the Railroad could lose about 7,600 acres, including 19 million cubic yards of gravel and rock reserves and about \$230,000 per year in leased land revenues based on 1979 rental values.

Previous evaluations

In February 1981 the Railroad prepared a document "Profile of Alaska Railroad Lands" which included the following estimated value of all Railroad landholdings based on the average 1979 market values of private land at each location along the rail belt.

<u>Landholdings</u>	<u>Acres</u>	<u>Value</u>
		(000 omitted)
Rights-of-way	12,003	\$ 28,996
Other lands	<u>26,220</u>	<u>151,314</u>
Total	<u>38,223</u>	<u>\$180,310</u>

This document was furnished to the Chairman, Subcommittee on Public Lands and National Parks, House Committee on Interior and Insular Affairs, at his request in early June 1982. In the transmittal letter, the Administrator, Federal Railroad Administration, cautioned that the value estimates provided were not an accurate valuation of the Railroad's land because they (1) were based on values of nonrailroad land near the right-of-way, (2) were developed by Railroad staff without any appraisals or calculations of the Railroad as a ongoing concern, and (3) did not consider discounts for cost of sales or for defects in title. The Administrator concluded that these figures were not reliable.

In June 1980, pursuant to a request from the Chairman, Senate Committee on Commerce, Science, and Transportation, the Secretary reported that the Railroad's estimated market value as of February 29, 1980, was \$427 million. This value consisted of land at fair market value and investment in buildings, facilities, and equipment at depreciated value. The Railroad's balance sheet showed that as of September 30, 1980, buildings, facilities, and equipment had a depreciated value of about \$120 million. Thus, the value attributed to the land was about \$307 million.

The Secretary added that a study of the Railroad's value showed it could not be sold to a private buyer as a continuing railroad operation unless financial or tax benefits were provided. The Secretary concluded that for a sale to realize anything close to the present value of the Federal investment, it would require discontinuing rail operations. 1/

Leased land valuations

The Railroad's real estate officer told us that the Railroad's leased lands are appraised by commercial licensed appraisers on a 5-year cycle and that the first appraisals were made in 1978. The real estate officer said that the Railroad did not have a summary listing of leased lands and their appraised value, but he did provide us with books of appraisals purportedly containing all Railroad leased lands.

According to these books, most leased parcels are in Anchorage and Fairbanks. The parcels generally are less than 1 acre, but several are over 30 acres each. Lessees use these lands for warehouses and storage yards, buildings and facilities, and cold storage buildings.

The following is a summary of the appraisals. The appraised value of \$48,676,176 is understated because, as shown, most of the appraisals are from 1 to 4 years old.

1/The Secretary of Transportation reported that as of February 29, 1980, the Federal Government's investment in the Railroad was \$148,317,400.

<u>Place and year appraised</u>	<u>Number of parcels</u>	<u>Appraised market value</u>	<u>Appraisers' suggested annual rental value</u>
Anchorage			
1982	51	\$12,497,500	\$1,223,274
1981	24	5,295,400	370,678
1980	10	4,939,077	424,552
1979	17	6,077,329	425,412
1978	<u>44</u>	<u>10,239,350</u>	<u>705,661</u>
Total	<u>146</u>	<u>39,048,656</u>	<u>3,149,577</u>
Fairbanks			
1982	40	1,639,000	153,102
1981	23	1,319,800	118,827
1980	3	236,820	16,580
1979	5	369,250	29,540
1978	<u>25</u>	<u>1,358,240</u>	<u>117,000</u>
Total	<u>96</u>	<u>4,923,110</u>	<u>435,049</u>
Other (note a)	<u>17</u>	<u>4,704,410</u>	<u>347,495</u>
Total	<u>259</u>	<u>\$48,676,176</u>	<u>\$3,932,121</u>

a/Includes leased parcels at Eagle River, Nenana, Seward, Valdez, and Whittier.

In fiscal year 1982 these leased lands produced about \$2.9 million in rental income for the Railroad.

MINERALS AND TIMBER

The value of minerals on Railroad lands can not be determined without further exploration. Federal and State officials we talked with generally agreed that Railroad lands do not have any significantly valuable hardrock mineral deposits or merchantable timber. However, prospects for oil, gas, and coal do exist, but without further exploration it can not be determined if they are present in commercial quantities. The only proven resource is gravel and rock, which the Railroad values at about \$111 million. The gravel and rock is used by the Railroad for roadbed maintenance and construction; it is not sold commercially.

Oil, gas, and coal

An official of the Minerals Management Service, Department of the Interior, told us that the amounts of oil, gas, and coal that may be on Railroad lands are not quantifiable and a dollar value can not be placed on them. The Service examined Railroad lands and reported that

--prospectively valuable oil and gas lands underlie 7,256 acres of Railroad land and

--prospectively valuable coal lands underlie 12,749 acres of Railroad land.

The official described "prospectively valuable" lands as those that have known potential and should be explored to determine if commercial quantities are present.

Gravel and rock reserves

The Railroad reports that it owns about 82 million cubic yards of gravel and rock valued at about \$111 million in 1979 dollars. The gravel and rock reserves are located at 13 sites scattered along nearly the full length of the right-of-way. The reserves are used according to the Railroad's current needs and budget.

The following table shows the location and estimated volume and value of these reserves.

<u>Location</u>	<u>Material</u>	<u>Volume in cubic yards</u>	<u>Dollar value</u>
---(000 omitted)---			
Whittier	rock	150	\$ 300
Eagle River	gravel	9,000	9,900
Birchwood	gravel	1,800	1,980
Eklutna	gravel	2,950	3,245
"	rock	1,000	3,000
Pittman	gravel	2,100	2,310
Gravel Pit	gravel	2,200	2,420
Curry	rock	10,000	30,000
Chulitna	gravel	1,500	1,650
Midway	gravel	3,900	4,290
Colorado	gravel	650	715
Broad Pass	gravel	1,600	1,760
Healey	gravel	5,200	5,720
Clear	gravel	40,000	44,000
Total		<u>82,050</u>	<u>\$111,290</u>

The Railroad uses these reserves for railbed maintenance and construction. The Railroad reported that in fiscal year 1981, it used about 137,400 cubic yards of gravel and 3,800 cubic yards of rock. At this rate, if the Railroad keeps its reserves, it should have enough gravel and rock for years.

Hardrock minerals

According to Federal and State officials, there is little likelihood that Railroad lands contain significantly valuable hardrock mineral deposits.

- Minerals Management Service officials said that the Railroad does not appear to occupy land containing any prospectively valuable minerals.
- Alaska State Division of Geological and Geophysical Survey officials told us that an examination of mineral assessments of Railroad lands indicated little chance for any significantly valuable hardrock mineral deposits.
- The Department of the Interior's U.S. Geological Survey's Alaska Mineral Research Assessment Program officials said that, based on their general knowledge of Railroad lands, there is very little likelihood that significantly valuable hardrock mineral deposits exist on Railroad lands.

Timber

Our discussions with Federal officials and University of Alaska data indicated that no appreciable volume of merchantable timber exists on Railroad lands.

- Bureau of Land Management, Division of Natural Resources, officials do not believe Railroad lands contain any commercial timber.
- Chugach National Forest officials said there is no timber on Railroad lands between Portage and Whittier, and although the Railroad goes through heavy timber country between Moose Pass and Seward, the Railroad does not own the land; it has only an easement for its right-of-way.
- The University of Alaska's Arctic Environmental Information and Data Center reported that no timber exists on Railroad lands.

RAILROAD'S SHIPPING CONTRACTS
AND FUTURE FREIGHT PROSPECTS

As of early October 1982, the Railroad had five shipping contracts and prospects for a sixth. The Railroad has contracted with four companies for minimum shipments of 150, 150, and 300 freight cars of building materials and 250 freight cars of beer a year. The Railroad has another contract to move trailers and containers on flat cars between Anchorage and Fairbanks at volume discount rates established in the contract.

The Railroad has prospects for a 5-year contract with a Korean shipping company to move coal from the Susitna mine area to Seward. The proposed contract calls for moving 220,000 metric tons the first year, increasing to 880,000 metric tons by the fifth year. A Railroad official told us that everything was at a standstill waiting for the shipping company to contract with Korea for the coal.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to determine the land value, especially the value of timber and mineral rights, on the Railroad's 38,000 acres and to identify contracts that might affect the Railroad's future profitability. We relied on existing land valuations and information on timber and mineral rights that were readily available from Federal, State, and private sources. We obtained information on the Railroad's contracts from Railroad officials.

We met with officials from the Federal Railroad Administration in Washington, D.C., and Anchorage, Alaska. We also met in Anchorage with officials from the Alaska Railroad, U.S. Geological Survey, Bureau of Land Management, Bureau of Mines, Minerals Management Service, Chugach National Forest, and the State of Alaska's Department of Transportation and Public Facilities and Division of Geological and Geophysical Survey.

We met with the Anchorage Borough property tax assessor and examined borough tax records and contacted tax assessors from the Boroughs of Fairbanks, Matanuska-Susitna, and Kenai to try to determine if these sources had information on Railroad land values. Although some of the boroughs had appraised some of the Railroad's land, the data was incomplete and fragmented. We also reviewed data prepared by the University of Alaska's Arctic Environmental Information and Data Center.

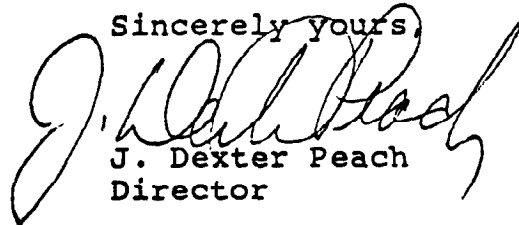
We reviewed Alaska Railroad land description records and, where available, the assessed valuation of those lands. We matched railroad land inventories to Federal agency assessments of potential mineral and petroleum deposits and discussed with Federal and State officials the value of any estimated minerals; oil, gas, and coal; or timber on Railroad lands.

We found that neither the Federal Railroad Administration nor the Alaska Railroad had a complete and accurate inventory of all Railroad lands. However, the Railroad's estimate of 38,000 acres appears to be the only available information on Railroad land holdings.

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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. We will then send copies to the Department of Transportation and other interested parties and make copies available to others upon request.

Sincerely yours,



J. Dexter Peach
Director