



Ice Alaska and the Alaska Railroad

JUST THE FACTS

Why is the Railroad springing this rent increase on *Ice Alaska*?

The most current proposed fair market value (FMV) lease agreement has been a long time coming... more than a decade... and cannot be considered a surprise. See the separate fact sheet on the history of the Alaska Railroad and *Ice Alaska* relationship

The railroad is mandated by law to lease land at fair market value (FMV). Land values typically increase over time. To account for these increases the Alaska Railroad conducts a re-appraisal of land values every 5 years for the typical long-term lease. This allows tenants to plan ahead. The Alaska Railroad has twice drafted lease agreements, which *Ice Alaska* has declined to sign. Instead, the Railroad and *Ice Alaska* have come to various agreements over the years to *Ice Alaska's* clear benefit. Between 1996 and 2003, *Ice Alaska* paid no rent in exchange for promised property improvements and recognition of the Railroad as a sponsor, among other conditions. In 2004, *Ice Alaska* paid rent for a short time at a reduced rate with the promise that future rental rates would meet FMV. The agreed upon FMV rents never came to pass. More recently, the Railroad and *Ice Alaska* came to an agreement in 2007 that hinged upon *Ice Alaska* finding a new home and vacating the land in three years time — by a deadline of April 1, 2010. In the meantime, *Ice Alaska* paid rent at 1997 levels. During the past three years, the Alaska Railroad has

been in frequent contact with *Ice Alaska* and has actively engaged in finding a solution. The most recent correspondence for *Ice Alaska* indicated they were continuing their efforts to strike a deal with the Fairbanks North Star Borough (FNSB).

Why is the Railroad unwilling to work with *Ice Alaska* to resolve the problem?

The Railroad has been working on many fronts for years to assist *Ice Alaska* in its quest to find a permanent, stable home.

Within the past year alone, the Alaska Railroad has worked closely on two feasible options:

- 1) More than a year ago, ARRC began discussions with then Fairbanks North Star Borough Mayor Whitaker (and subsequently current Mayor Hopkins) to negotiate a pre-paid lease between the borough and the Railroad. In effect, the borough would take over the lease and provide the land to *Ice Alaska*.
- 2) Several months ago, ARRC coordinated with the state and borough on the possibility of moving *Ice Alaska* operations to Pioneer Park, which is not used during the winter time, and offers the space and infrastructure to support *Ice Alaska* events.

The Alaska Railroad has offered an additional two-month extension (beyond the April 1 deadline) to provide the time needed to finalize these or other options.

***Ice Alaska* contends that moving to Pioneer Park is too large and too expensive an undertaking. Does the Railroad agree?**

While moving is always a challenge, it would also present an opportunity to organize and consolidate equipment and supplies. Given the level of volunteer support that *Ice Alaska* enjoys, we presume such a move can be accomplished with volunteer forces, along with reasonable hard costs. *Ice Alaska* received a grant of \$2 million from the State of Alaska in 2006 to support capital improvements. This funding could be used to underwrite the move and upgrade park buildings if need be.

If *Ice Alaska* moved, wouldn't it lose access to the high-quality ice that it currently extracts from the pond on the railroad's property?

The Alaska Railroad has already agreed to provide a permit for *Ice Alaska* to access the pond to retrieve the ice it needs to facilitate the competition.

If *Ice Alaska* Moved to Pioneer Park, the ice from the pond would need to be trucked to the park. Doesn't this put an undue burden on *Ice Alaska*?

Ice Alaska has extensive experience in transporting the pond ice. Currently *Ice Alaska* extracts and ships ice from the pond to other parts of the City of Fairbanks, as well as locations around the nation and the globe. A move to Pioneer Park would require trucking the ice a few blocks.

Recent correspondence indicates the Railroad wants to lease the land at \$2.25 per square foot (psf), while the borough values the land at \$1.25 per square foot. Why the discrepancy in value?

The Borough land assessment lease values of adjacent properties confirm the ARRC valuation of \$2.25 psf is more than reasonable. The Borough did retain an appraiser who use comparable sales of *undeveloped* property *outside of the city limits* which ARRC does not agree with. The Chena Landings property has been developed for commercial occupancy with paved roads and utilities. These are not reflected in the borough appraisal. The 30 acres the Borough is pursuing is encompassed by a paved road, in a desirable location near downtown Fairbanks and has all utility services on site. Similar Railroad property leases near the *Ice Alaska* site along Phillips Field Road have appraised values ranging from \$3.00 to \$3.75 psf within the past year. Considering the Borough assessment values of neighboring property, recent commercial land transactions, and other independent appraisers' valuation of ARRC property, ARRC does not accept the \$1.25 psf value stated. Please keep in mind the appraisal is intended to reflect at what value a willing buyer and seller would exchange ownership. Recent transactions for commercial property on Peger Road have exceeded \$5.00 psf.

Why do some leaseholders like Flowline pay so much less for their land?

Lease rents and land values are dependent upon several factors, including the level of development, quantity of land leased and protection afforded by a lease contract. In the case of Flowline, much of the land this company leases is not developed (without

utilities and limited access). Flowline leases a larger area of land, and therefore, receives a benefit of lower value per square foot afforded by economies of scale. Perhaps most importantly, Flowline is protected by a long-term lease that includes a maximum increase cap on lease rent increases that result from property re-appraisals every five years. If property values increase double over that 5-year time period, the lessee will pay no more than 35% over the prior lease rent currently in force. The Alaska Railroad has offered *Ice Alaska* two long-term leases over the past 10 years, but *Ice Alaska* has refused to sign a lease.

Why doesn't the Railroad just give the land to *Ice Alaska*?

In 1995, the Alaska Railroad spent more than \$2 million to develop Chena Landings as a commercial development suitable for business use. ARRC constructed a paved, city-quality road through the property and made other improvements to attract business leases. Over the years, many businesses have expressed interest in leasing this land, to include restaurants, office buildings, condominiums and major retailers. We have been unable to lease the land to these potential tenants, because the disposition of the land has been in limbo with *Ice Alaska*. The property represents a substantial investment in the Railroad's financial well-being. We cannot legally give it away, nor would that be prudent as stewards of the state's land resources.

How much has *Ice Alaska* had to pay for its use of the land?

Between 1997 and 2003, *Ice Alaska* paid no rent, promising to make land improvements in lieu of rent and to come up with a business plan. *Ice Alaska* did

improve electrical utility connections and tied into the municipal sewer and water systems. Tenants are typically required to pay for fundamental utility improvements to the land, including bringing electricity, gas, sewer and water connections. At ARRC's request *Ice Alaska* also installed the privacy fence on a portion of the property for aesthetic purposes. Regarding financial payments, between 2004 and 2010, *Ice Alaska* paid approximately \$222,000 dollars total in rents. Fair market value rent for the land used during the same period is approximately \$1.2 million. In effect, *Ice Alaska* has received what amounts to a million-dollar subsidy.

The Alaska Railroad has provided public entity leases before, providing free land for public uses. Why can't they do that for *Ice Alaska*?

A public entity lease is a mechanism for leasing railroad property to certain organizations for less than FMV. Public entity leases are rare because criteria established in ARRC Board Rule 15 limit the circumstances that allow them. The requesting organization must be a "public entity", meaning a state agency, department or division, or a local government entity, such as a borough or municipality. Federal agencies and non-profit organizations, such as *Ice Alaska*, are not included, as dictated by statute. One authorized use of railroad property under this Rule, called "public amenity use", is restricted to non-exclusive public purposes, such as parks, historic landmarks and trails. "Public service" is another acceptable use, to include non-revenue generating uses for public benefit, such as highways, police or fire stations and communication sites. Some commercial uses are allowed, such as ports, airports, parking and utilities. However, only

public amenities or public service uses qualify for rent reduction. The amount of rent reduction varies from a nominal administrative fee to 50% of market value. If currently leased property is requested for a public entity use, the user must pay 100% of the existing rent to replace that revenue stream to the corporation.

Why has the Railroad been willing to grant public entity uses in southcentral Alaska but very few in on the northern end, and none at all in Fairbanks.

On the north end of the Alaska Railroad corridor, we have provided public entity leases in and around Healy for a park and cemetery. In Nenana, we've donated the depot and other buildings to the city. In Talkeetna, we've provided land for a town square, parking, for flood control and a boat launch. Within Fairbanks, the Railroad has contributed public use of our land at no cost for a trail. We provided a public use easement to build a trail alongside the Chena Landing Loop road. Just over 3 acres is involved in this easement. We also built a pedestrian bridge across the Chena River that connects to this trail easement. The \$2 million cost was born entirely by the Railroad. Public entity leases come at the request of a public entity.

Why does the Railroad need non-essential real estate?

Essential is a relative term. Clearly operating land — track right-of-way and rail yards — are essential to operate trains. However, land that is available for lease is just as essential as an economic buffer. Real Estate net income has averaged about \$10 million per year for the past few years. Meanwhile train opera-

tions have typically generated just enough revenue to cover the expenses associated with train transportation... track maintenance, train crews, locomotive and railcar maintenance, fuel, supplies, etc. Without real estate income, the Railroad would have few resources to provide the mandatory match to federal grants, nor could we invest adequately in capital improvements that are not eligible for federally-funded grants. Net income is also used to fund employee retirement plans and other benefits.

Real Estate lease income is absolutely essential to the railroad's ability to be self-sufficient. ARRC does not request funding from the state to operate. The railroad does not pose a financial drain on the people of Alaska. Rather, the Railroad operates as an economic engine. Financial stewardship requires prudent use of our real estate resources to maintain self-sufficiency.

Why does the Railroad have to charge fair market value?

When the federal government owned the railroad, lease agreements for Railroad land were not always equitable among lessees. When the state purchased the Alaska Railroad in 1985, the Legislature had the foresight to continue land leases as a means to generate income for the Alaska Railroad, and to ensure those leases were equitably administered and based on fair market value.