



Chicago - June 20, 1966

Mr. C. E. Crippen:-

I have prepared the attached Summary of Alternatives Re Port Townsend Railroad to show the estimated ranking, from an economic standpoint, of four possible actions that have been studied or suggested for consideration.

In the preparation of this Summary I have examined the study report dated May 19, 1966, by Mr. R. G. Scott, and have reviewed again the Port Townsend Railroad financial statements which I used earlier this year to develop a fair price for possible use in connection with purchase negotiations. Data in the Summary were taken from these two sources without change or challenge on my part, but with rearrangement to facilitate analysis and decision.

Alternative 1 contemplates no change in the operation. I have, therefore, assumed in column 1 of the Summary that our take-over would produce added net income to the Milwaukee equal to earnings the present owners have been enjoying, plus the Port Townsend's traffic and general expenses, which I think could be absorbed by existing Milwaukee forces. Transportation expenses would eventually yield a further saving equal to the General Manager's \$10,000 salary, but this is not reflected in the Summary on the assumption that we would offer to carry the occupant until his retirement in order to facilitate purchase negotiations.

In keeping with the Milwaukee's current federal income tax posture, the Summary shows only pre-tax figures. It will be necessary to obtain additional data, particularly with respect to tax basis of the Port Townsend Railroad properties, in order to develop the picture on an after-tax basis, if that is deemed significant. On a judgment basis and using the information at hand, it appears that the total annual return as now shown would be reduced by 48 per cent and increased, in the case of Alternatives 2 and 3, by about \$5,000 for the tax benefit from depreciation on the Port Angeles landing facility. In addition, the investment required would be reduced for Alternatives 3(a) and 3(b) by the tax benefit

from retirement of the Discovery Jct. -Port Townsend Line. Assuming that the track and grading, upon our purchase, would have a stepped-up basis of at least \$150,000, there would be an apparent retirement loss of around \$100,000 and a tax benefit of approximately \$50,000.

So far as the relative ranking of the alternatives is concerned, it appears that an after-tax evaluation would make Alternatives 3(a) and 3(b) about equal to Alternative 1.

The Scott report notes that Alternative 2 is uncertain (at best) of attainment because of regulatory obstacles. This analysis indicates that it is also the least attractive from an economic standpoint. Purchase of the Port Townsend Railroad is likely to be a better investment both for the short-term (Alternative 1), and longer-term (Alternative 3) if it develops later that barge operation to Port Angeles has become advantageous. Barge operation has potential for converting fixed costs into variable costs and thus to protect earnings if business on the peninsula should decline or become unsteady.

Signed) R. F. KRATOCHWILL

CEC/bs