

ALASKA

RAILROAD

DATE: March 16, 2026
TO: Members of the Senate Resources Committee
FROM: Bill O'Leary, President and CEO, Alaska Railroad Corporation
SUBJECT: Follow-up information from February 11 presentation

At the February 11 Senate Resources Committee meeting, the Alaska Railroad (ARRC) presented an overview of how we are prepared to support the Alaska natural gas pipeline. During the presentation, we received two requests from committee members for further information:

- During the overview of ARRC's recent freight operations, Sen. Myers requested a chart of ARRC's freight revenues by category over the last 15 years.
- During the discussion of ARRC's ability to provide tax-exempt financing for the project and related facilities by the issuance of conduit bonds, Sen. Kawasaki requested to review legal analysis to the question of whether the debt obligation of such bonds could become a liability of the State.

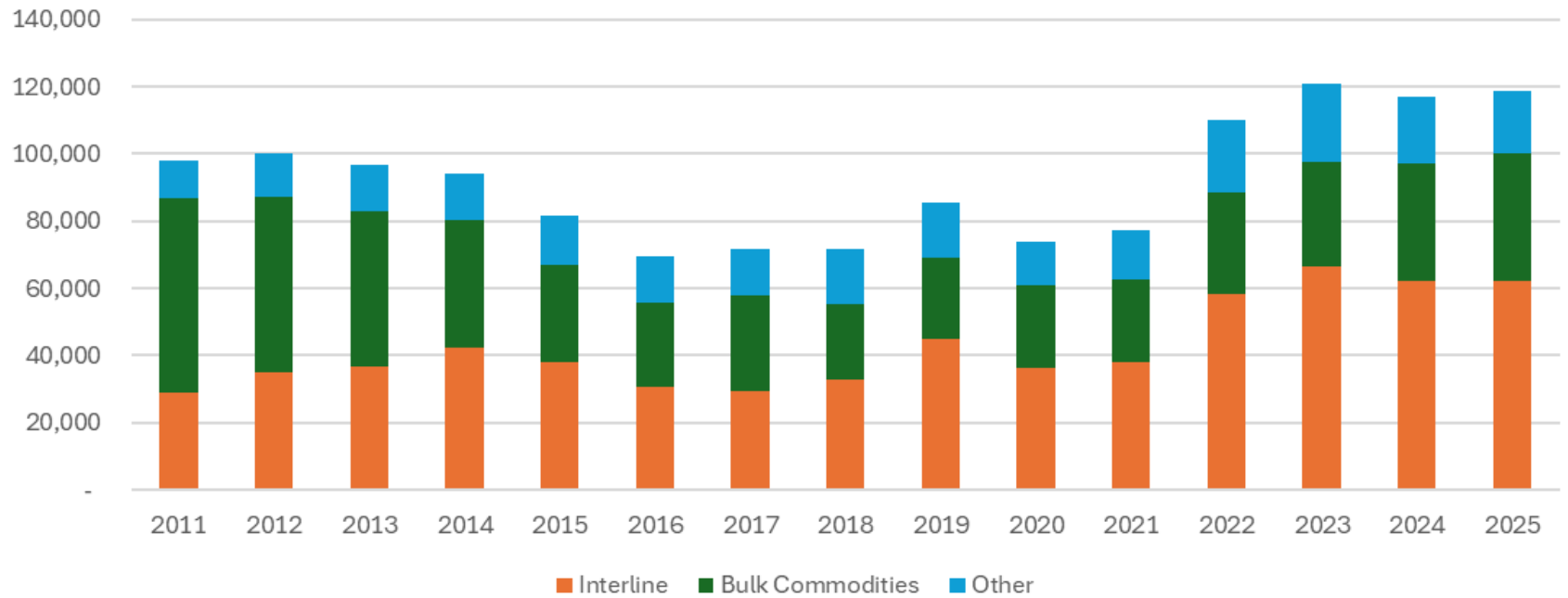
Committee members will find the requested information attached, with the legal analysis performed by national firm Eckert Seamans at ARRC's request. Please advise if there are further questions we can answer.

Sincerely,



Bill O'Leary
President and CEO
Alaska Railroad Corporation

Freight Revenue by Category *(in thousands)*



MEMORANDUM

TO: Alaska Railroad Corporation

FROM: Eckert Seamans Cherin & Mellott, LLC

RE: Conduit Bonds

DATE: March 4, 2026

This Memorandum is furnished to respond to your question concerning what, if any, obligation the Alaska Railroad Corporation (the “Railroad”) or the State of Alaska (the “State”) would have to pay debt service or any other amounts due with respect to any bonds issued by the Railroad as a conduit bond issuer for a project undertaken by a private entity (a “third party obligor”). The short answer to this question is that by virtue of state law, the legal documents that would govern the issuance by the Railroad of any conduit bonds, generally accepted accounting standards, and the requirements for marketing the conduit bonds (i) the State would have no liability for payment of debt service or any other amounts due with respect to any bonds issued by the Railroad as a conduit issuer for a third party obligor; and (ii) the Railroad’s sole liability for payment on conduit bonds issued by the Railroad would be limited to the amounts paid to the Railroad by the third party obligor under any loan of bond proceeds, lease or other agreement with a third-party obligor.

At this time, we have not been advised as to any specific transaction that the Railroad is contemplating to finance. However, it is our understanding that any bonds issued by the Railroad for a natural gas pipeline and related facilities (the “Project”) would be issued in a conduit bond structure where the Railroad would issue bonds pursuant to a trust indenture or similar agreement and then loan the proceeds of such bonds to a third party obligor pursuant to a loan, lease or other agreement, and that third party obligor would be the “obligor” on such debt, obligated to make payments under the loan, lease or other agreement in amounts sufficient to pay all debt service on the bonds and any other related amounts (administrative fees, for example). The payments by the third party obligor to the Railroad as the issuer of the conduit bonds would be the sole source of security for the payment of the bonds, and the marketing of the conduit bonds would clearly state that purchasers of the bonds have no claim against the general credit of the Railroad or the State of Alaska.

Analysis

1. Governmental Accounting Standards Board's statements relating to conduit debt.

The transaction structure described in the preceding paragraph is a typical conduit bond transaction structure, and debt issued in accordance with such structure satisfies the Governmental Accounting Standards Board's ("GASB") definition of a conduit debt obligation as set forth in GASB Statement No. 91, which Statement "provides a single method of reporting conduit debt obligations by issuers" and establishes that a "conduit debt obligation is not a liability of the issuer" of such debt. GASB interpretations further explain that "*although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan agreement with the third party on whose behalf they are issued.*" (emphasis added).

Statement 91 defines a conduit debt obligation as:

"a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer [here, the Railroad], (2) a third-party obligor [the private entity borrowing the proceeds of the bonds], and (3) a debt holder or a debt trustee [the bond trustee].
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer [it is contemplated that any transaction undertaken by the Railroad would satisfy this requirement].
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance [this would occur pursuant to the loan or lease agreement].
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments) [this would be a required provision in any trust indenture or similar agreement, the loan or lease agreement and also would be described in any marketing documents for the bonds]."

2. The Alaska Railroad Corporation Act

The Alaska Railroad Corporation Act, AS 42.40 ("ARCA"), the Railroad's governing statute, provides that the Railroad is exclusively liable for its own debt and that the credit of the State is not pledged for debts of the Railroad. Specifically, Section 42.40.690 of ARCA provides:

"(a) The state and its political subdivisions are not liable for the debts of the corporation. Bonds issued under this chapter are payable solely from the revenue or assets of the corporation and do not constitute a

- (1) debt, liability, or obligation of the state or of a political subdivision of the state;

(2) pledge of the faith and credit of the state or of a political subdivision of the state.

(b) The corporation may not pledge the credit or the taxing power of the state or its political subdivisions. Each bond issued under this chapter shall contain on its face a statement that

(1) the corporation is not obligated to pay it or the interest on it except from the revenue or assets pledged for it; and

(2) neither the faith and credit nor the taxing power of the state or of a political subdivision of the state is pledged to the payment of it.”

Section 42.40.500 of ARCA further provides:

“A liability incurred by the corporation shall be satisfied exclusively from the assets or revenue of the corporation and no creditor or other person has a right of action against the state because of a debt, obligation, or liability of the corporation.”

Accordingly, any bonds issued by the Railroad, including conduit bonds, cannot, by statute, become liabilities of the State.

3. Marketing the Bonds.

To sell conduit bonds in the bond market, the issuer must be able to show investors that revenues generated by the financed project will be sufficient, together with any other moneys pledged by a borrower of the bond proceeds, to pay debt service on the bonds and all other related costs. The marketing of the bonds will be done pursuant to a prospectus, known as an official statement, that will describe, inter alia, the project financed, the borrower, and the sources of repayment for the bonds. That official statement and any statements made to the market in connection with the marketing of the bonds are subject to the anti-fraud provisions of the federal securities laws (including Section 17(a) of the 1933 Act and Section 10(b) of the Exchange Act), which prohibit the making of any untrue statement of a material fact or the omission of a material fact in connection with the purchase or sale of any security, such as a conduit bond.

Therefore, the bond documents used to structure a bond deal and the official statement will all carefully describe the security structure for the bonds, and those documents will clearly state that the only source of repayment for the bonds will be amounts paid by the private borrower pursuant to a loan or lease agreement or some other form of contract and that neither the Railroad (except to the extent of receipt of any such payments) nor the State will be liable for repayment of the bonds. Moreover, according to ARCA, as described in Section 2 above, any bond issued to evidence the contemplated indebtedness will contain on the face of such bond the following statements:

“(1) the corporation is not obligated to pay it or the interest on it except from the revenue or assets pledged for it; and

(2) neither the faith and credit nor the taxing power of the state or of a political subdivision of the state is pledged to the payment of it.”