



# About the Alaska Railroad

A Presentation to the Alaska Senate Finance Committee

February 3, 2010

[AlaskaRailroad.com](http://AlaskaRailroad.com)

# ARRC Guiding Principles

Alaska Railroad Mission  
Safety... Service... Profitability

Alaska Railroad Vision  
Building a great Railroad  
across the Greatland.

An important element in fulfilling this vision is ARRC's success since 1996 in qualifying for federal funding...an entitlement afforded by the railroad's public status and its passenger service mission. As a result, ARRC has been able to greatly accelerate long overdue mainline maintenance and upgrades.

## ARRC Core Values

- Integrity
- Service
- Excellence

## ARRC Operating Style

- Safe
- Secure
- Customer responsive
- Financially solid
- Environmentally sound
- Employee friendly corporation

*"We must provide a stable, reliable foundation that can be counted on to enhance the future economic growth of the state and the municipalities we support,"*  
*Pat Gamble, President and CEO.*



# Alaska Railroad Quick Facts

## Purchase Price (January 5, 1985)

Paid to federal government	\$ 22.3 million
Start-up costs & contributed capital	\$ 11.9 million
Total Investment-State of Alaska	\$ 34.2 million

## Organization (following State purchase)

- Independent corporation owned by State
- Managed by a seven-member board of directors. Position qualifications are spelled out in law, members appointed by the Governor.
- Mandated to be self-sustaining, responsible for all its own financial and legal obligations

## Financial Statistics\* (Jan. 1 - Dec. 31, 2009)

Total Assets	\$ 863 million
Total 2009 revenues	\$ 169.5 million
Total 2009 expenses	\$ 155.9 million
2009 net income	\$ 13.6 million
2010 net income forecast	\$ 8.4 million

## Operating Data

Miles of main line	467
Miles of branch line	54
Miles of yards and sidings	130
Total miles of track	651
Freight cars (owned & leased)	1,160
Passenger cars	47
Locomotives	51

## Operating Statistics (Jan. 1 - Dec. 31, 2009)

Passenger ridership	470,180 passengers
Freight tonnage	5.36 million tons

## Employees (as of January 2009)

Number of year-round employees	657
Average years of service	12.3
Average age	46
Male	541
Female	116

## Unions (as of January 2009)

Most ARRC employees are members in 1 of 5 unions:

United Transportation Union	125
Transportation Communication Union	41
International Association of Machinists	63
American Federation of Govt. Employees	254
American Train Dispatchers Association	8

## Benefits

- Corporation provides a defined benefit pension plan
- Corporation provides health and life insurance
- Corporation provides retiree medical benefits

\* Financial Statistics are unaudited.  
ARRC audits are normally completed by March 31



# Different from Other State Agencies

The Alaska Railroad Corporation Act of 1984 established an independent state-owned corporation that is governed by a seven-member board of directors appointed by the Governor. The President and CEO of the corporation reports to the board. Although ARRC is not covered under the State's Executive Budget Act, the state government ensures oversight of ARRC's operation and management practices through the following controls:

- The ARRC Board of Directors is responsible for initiating both a financial and a performance audit each year conducted by independent auditors and management companies. The annual performance audit is conducted by a recognized railroad management expert to ensure that ARRC is being managed and operated effectively and efficiently.
- The Legislative Budget and Audit Committee can review ARRC's operation, management and financial practices.
- ARRC must file an oversight report with the Legislature and Governor before it undertakes certain expansion, reduction, or diversification of services.
- Legislative approval is required for certain corporate actions, such as sale or transfer of the Railroad's entire interest in land, or leasing land for longer than 55 years.
- ARRC's procurement procedures are required to be substantially equivalent to state procurement requirements.
- ARRC employees and directors are subject to the Executive Branch Code of Ethics.
- ARRC's spill prevention and response plans are filed and regulated by the State and ARRC is required by state law to show sufficient financial responsibility to respond to spills.
- Bond authorizations must be approved by the Legislature.
- ARRC is required by law to submit an annual report with audited financial statements
- ARRC is required by law to adopt a long-range capital improvement plan each year and shall share that plan with the Governor and Legislature.
- ARRC is defined as an interstate commerce carrier by the Federal Alaska Railroad Transfer Act of 1982 (ARTA).



# Alaska's Railroad

- Contributes to health care, business services, and retail payrolls
- Principal transport for heavy and/or bulk interior commodities down to tidewater
- Major mover of hazardous, heavy and/or bulk materials from tidewater headed for the North Slope
- Major mover of jet fuel to Anchorage International Airport.
- Viable passenger alternative to long-distance driving
- Supports the U.S. military with the transport of equipment to and from the “DOD Strategic Port” of Anchorage
- Potential to reduce pressure on State road system ... commuting
- Potential to significantly contribute to the Alaska Natural Gas Pipeline

**Creates 3,000 jobs and \$150 million in payroll across the State**

*Source: “Economic Significance of Alaska Railroad”, December 2004, ISER report, University of Alaska*



# Safety

- All time record low number of injuries
- 22% reduction in lost days over 2008
- 48% reduction in medical claim dollars
- Completed first full year of new hearing conservation program
- Upgraded shop fall protection equipment



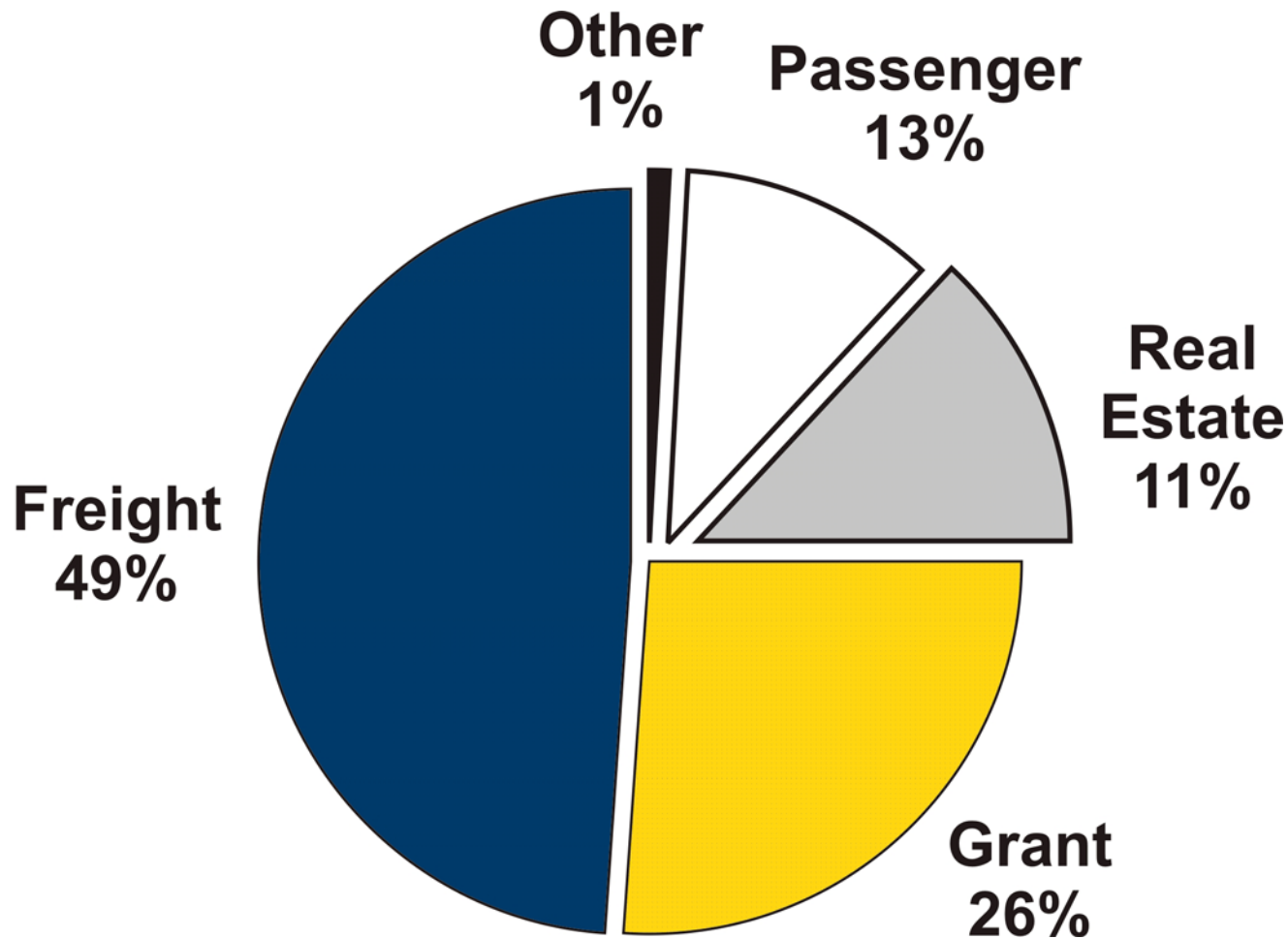
# Security

- **Funding:** \$700,000 + from FTA and Coast Guard
  - Special Agents
  - Fencing
  - Explosives Detection
- **Enhancements:**

More than 44 cameras installed between Seward and Fairbanks
- **Inspections / Exercises:**
  - Seward cruise ship, coal, freight docks – no write-ups
  - Whittier barge dock – no write-ups
  - ARRC, TSA, USCG joint exercises during passenger season, Northern Edge (ALCOM)



# 2009 Sources of Revenue





# Freight and Passenger Service

## Freight Service in 2009:

- 5.36 million tons moved

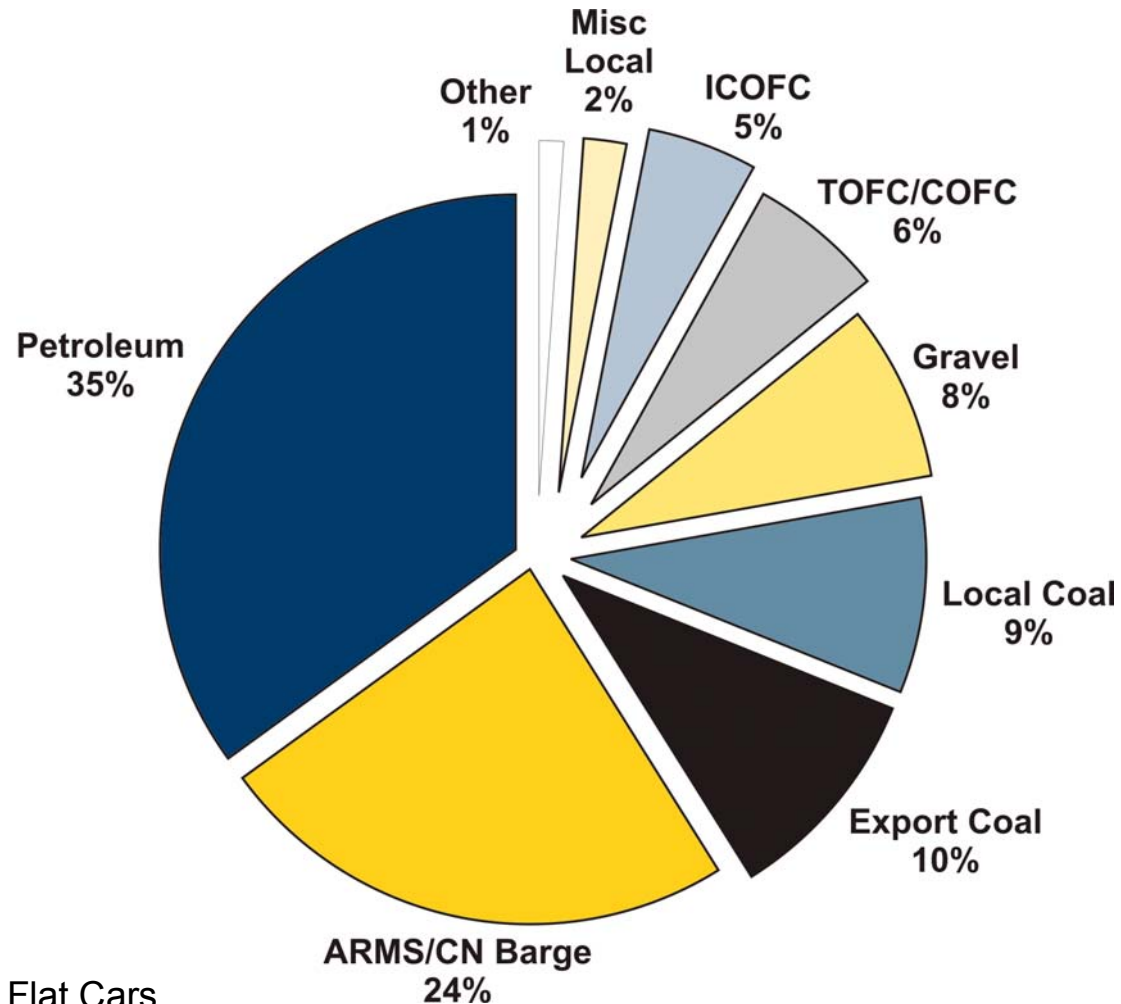


## Passenger Service in 2009:

- 470,180 passengers moved
- Award Winning Service



# 2009 Freight Revenue Mix



TOFC: Trailers on Flat Cars

COFC: Containers on Flat Cars

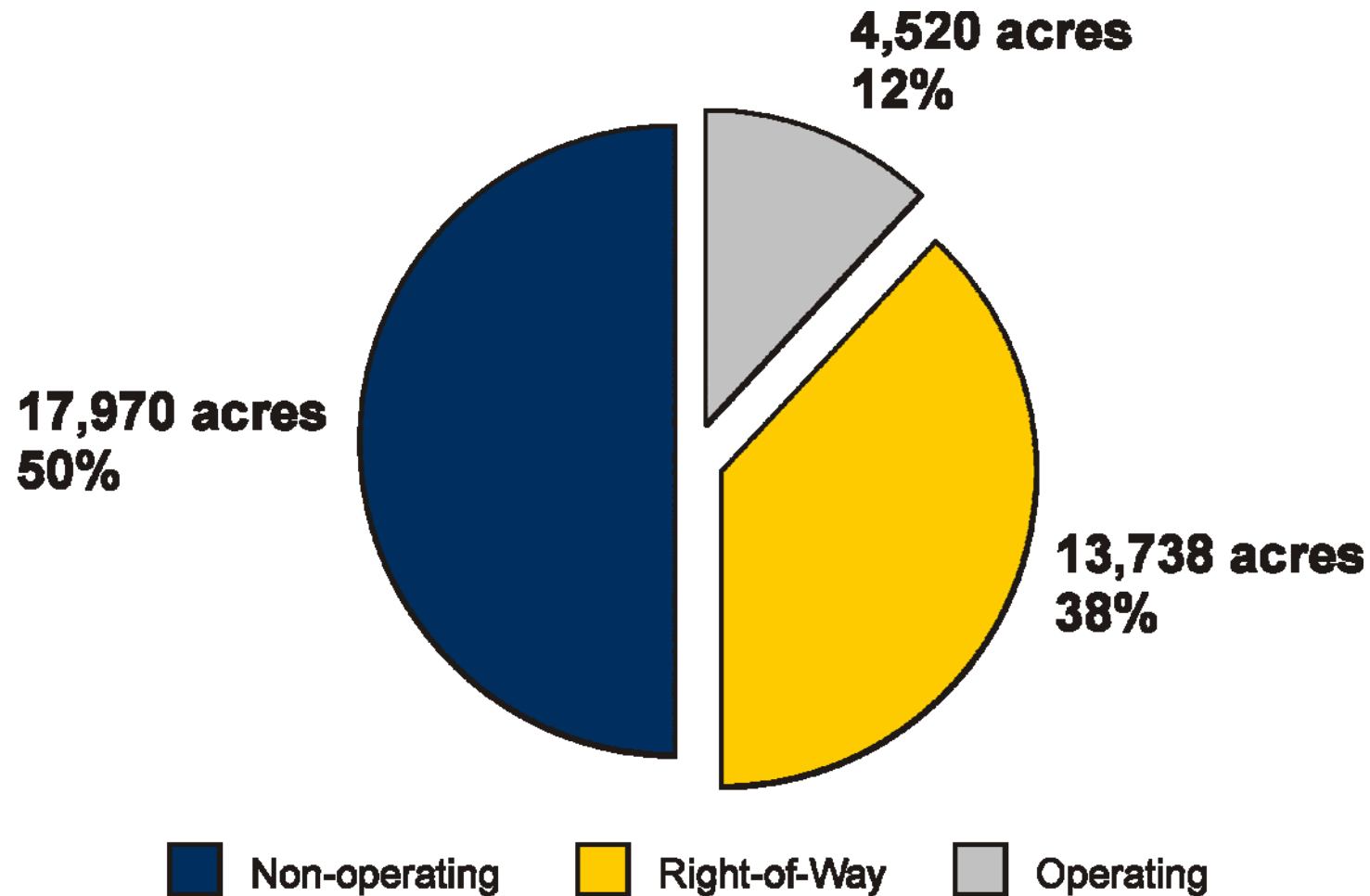
# Real Estate

- Property Development
- Leases and Permits
- Dockage and Wharfage
- Facilities Maintenance and Management



**Clockwise from bottom left: New depot in Fairbanks; Ship Creek basin includes highly valuable leasable land; upland from the Seward freight dock is being developed**

# Distribution of Land By Category



# 2009 Budget Background

- Unsettled environment coming off of 2008
  - Record high fuel costs experienced in 2008
  - Volume drop by largest customer (Flint Hills Resources)
- Expectation: 2009 corporate net earnings budgeted at \$16.8 million
  - Flint Hills seen as stabilizing
  - Continued passenger growth – new bi-level dome cars available for service
  - Moderation of diesel prices
  - Impact of position eliminations / expense reductions in place



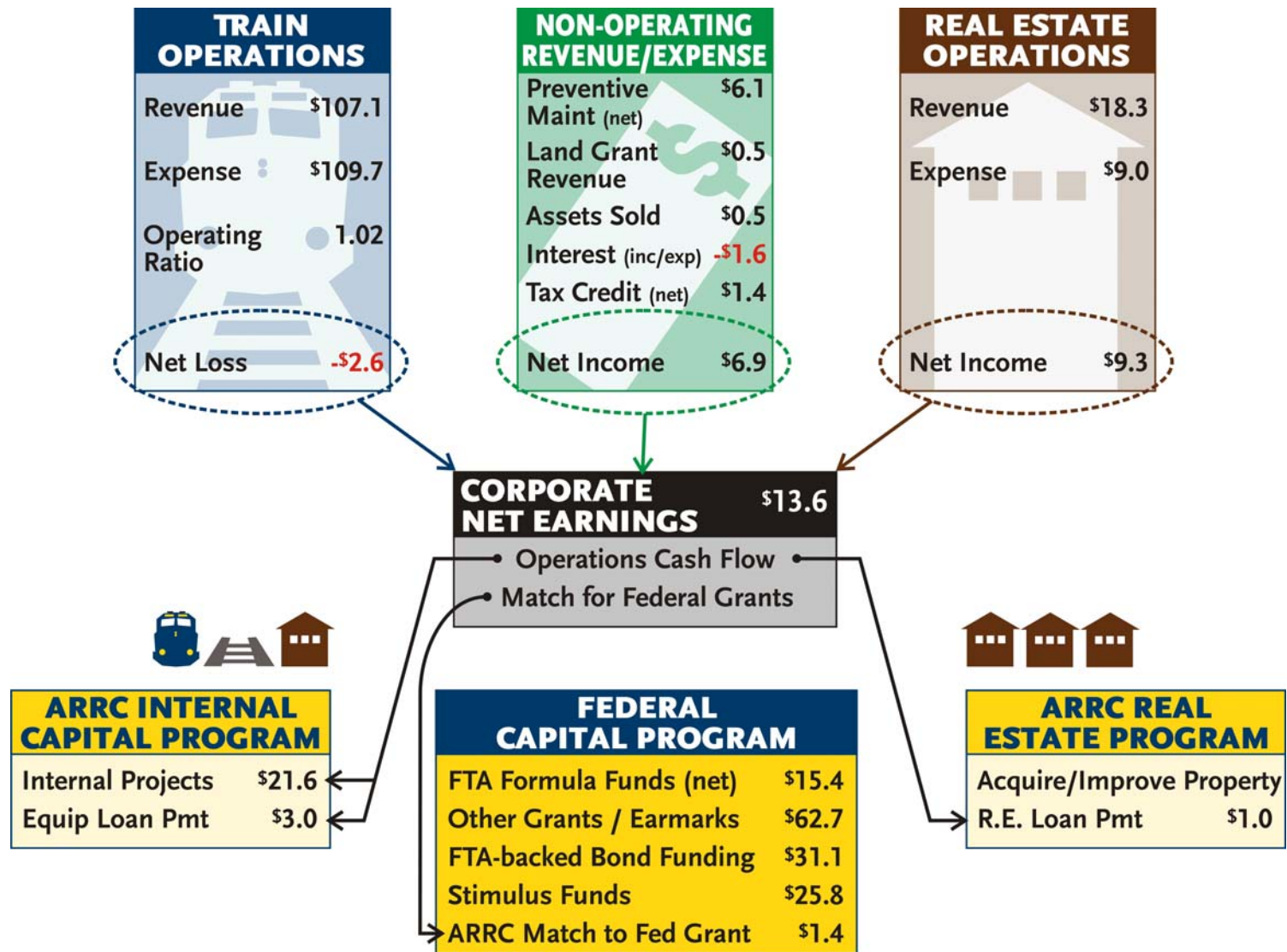
# Personnel Impacts

- Total position reductions 2007-2009 reached nearly 200
  - 41 % full time managers
  - 35% full time labor
  - 24% seasonal
- Pink Slips - 56
- Management: 8 positions were AVPs or Directors
- Management Pay Freeze: extended into 2010
- Major departmental reorganization



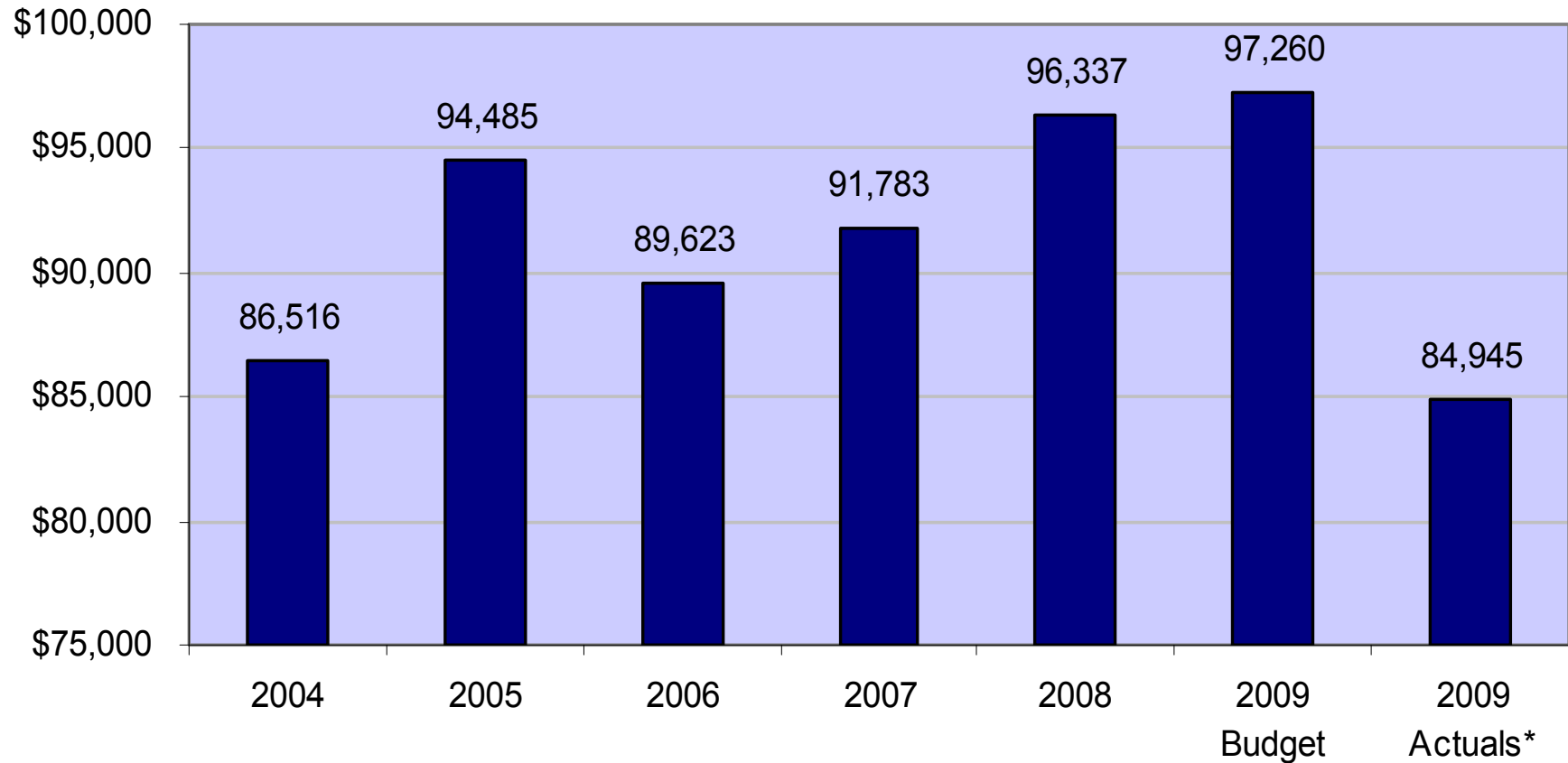


# ARRC Fund Flow Model: 2009 Data



# Freight Revenue

(in thousands)



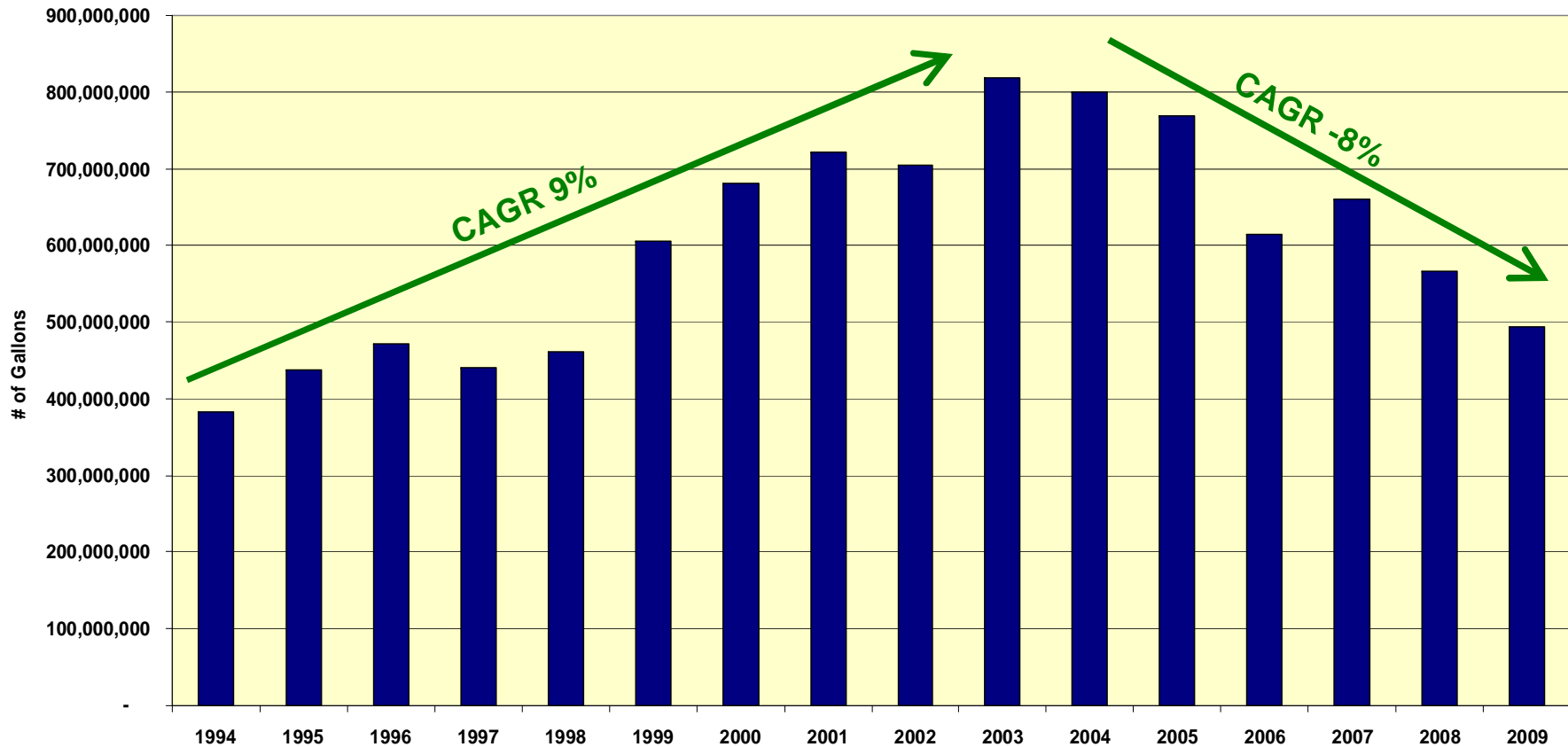
\*Unaudited.





# Fuel Shipment History

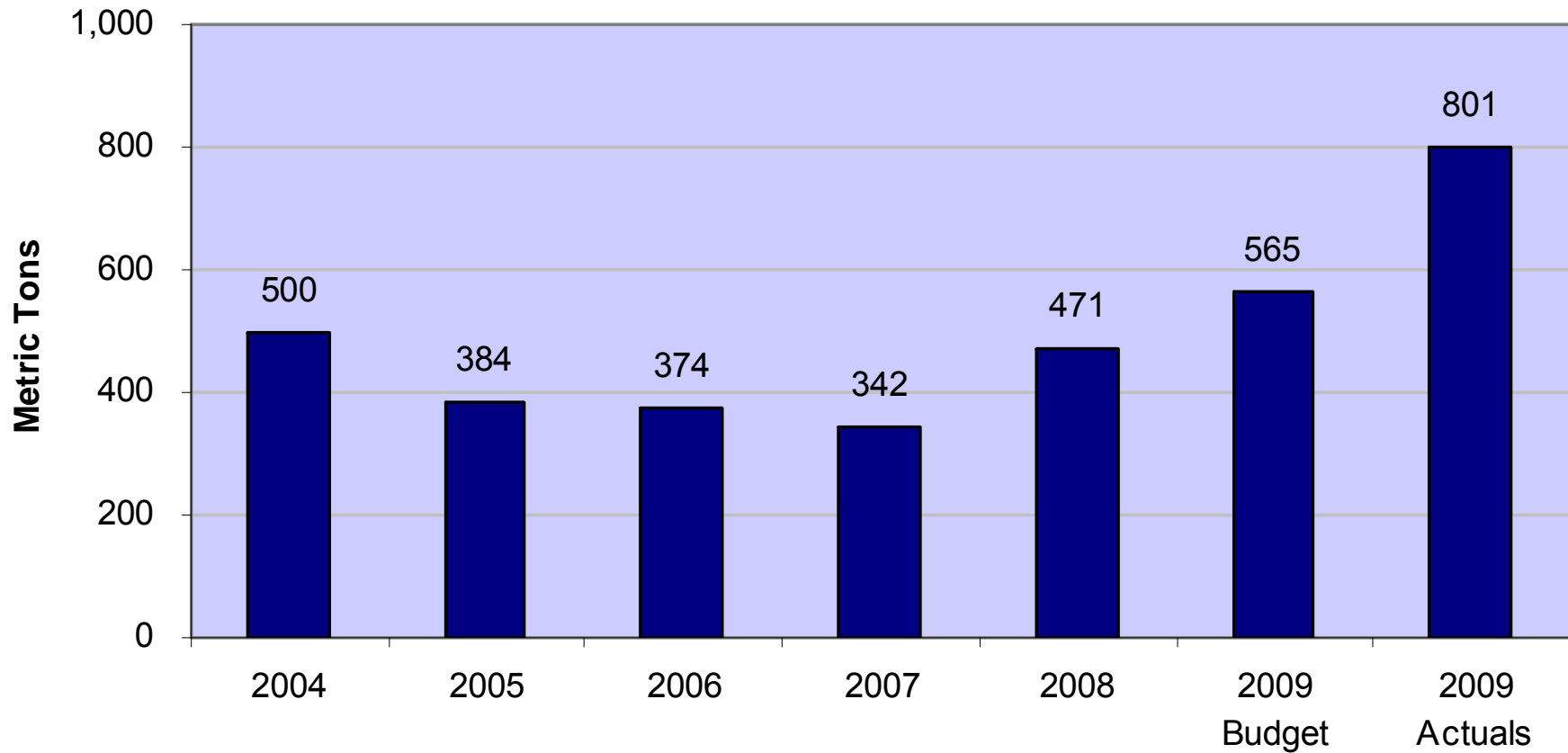
Gallons Shipped by Mapco, Williams Petroleum and Flint Hills Resources  
1994-2008, forecast 2009



CAGR = Compounded annual growth rate

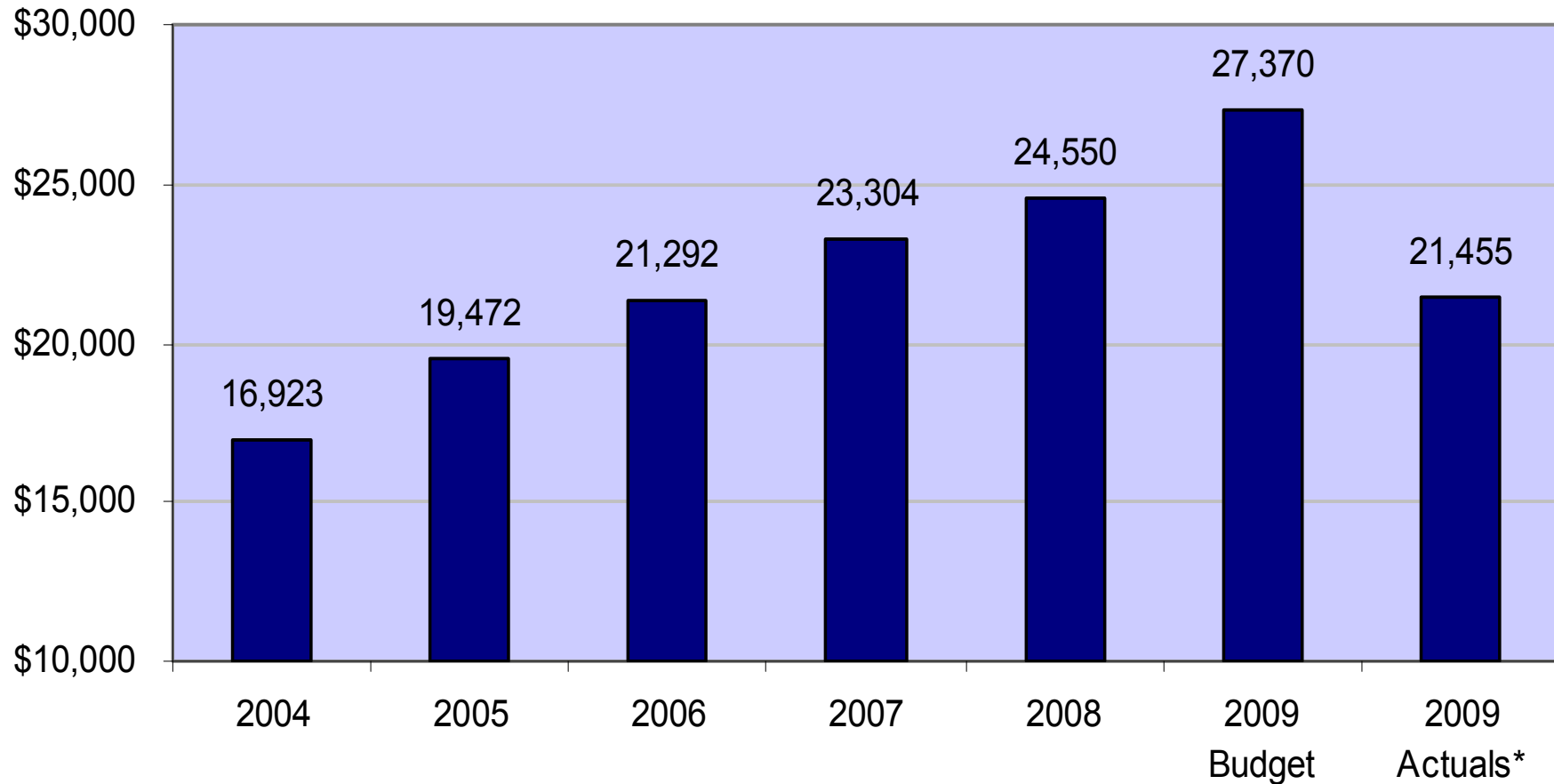
# Export Coal

(in thousands)



# Passenger Revenue

(in thousands)

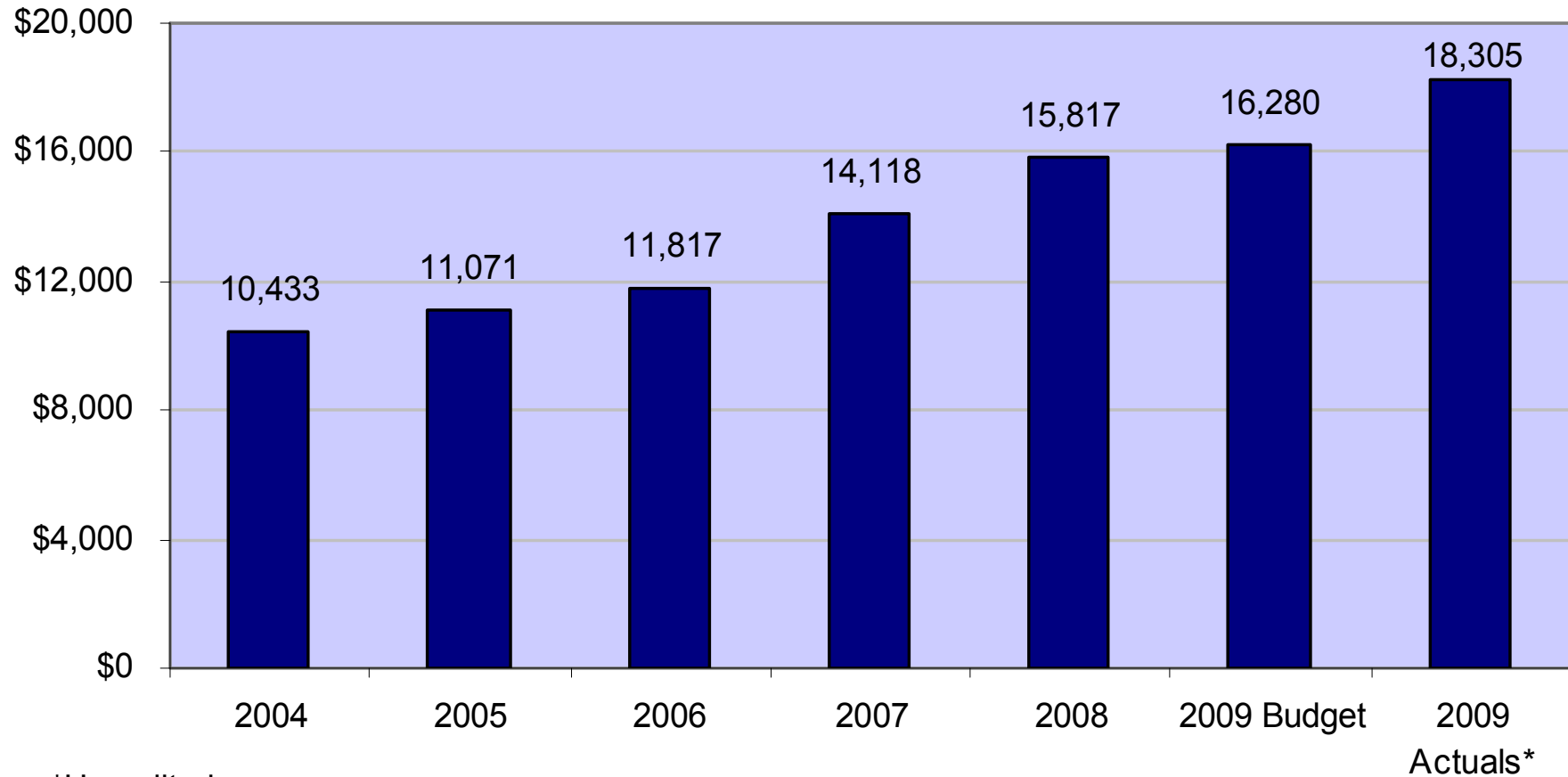


\*Unaudited.



# Real Estate Revenue

(in thousands)

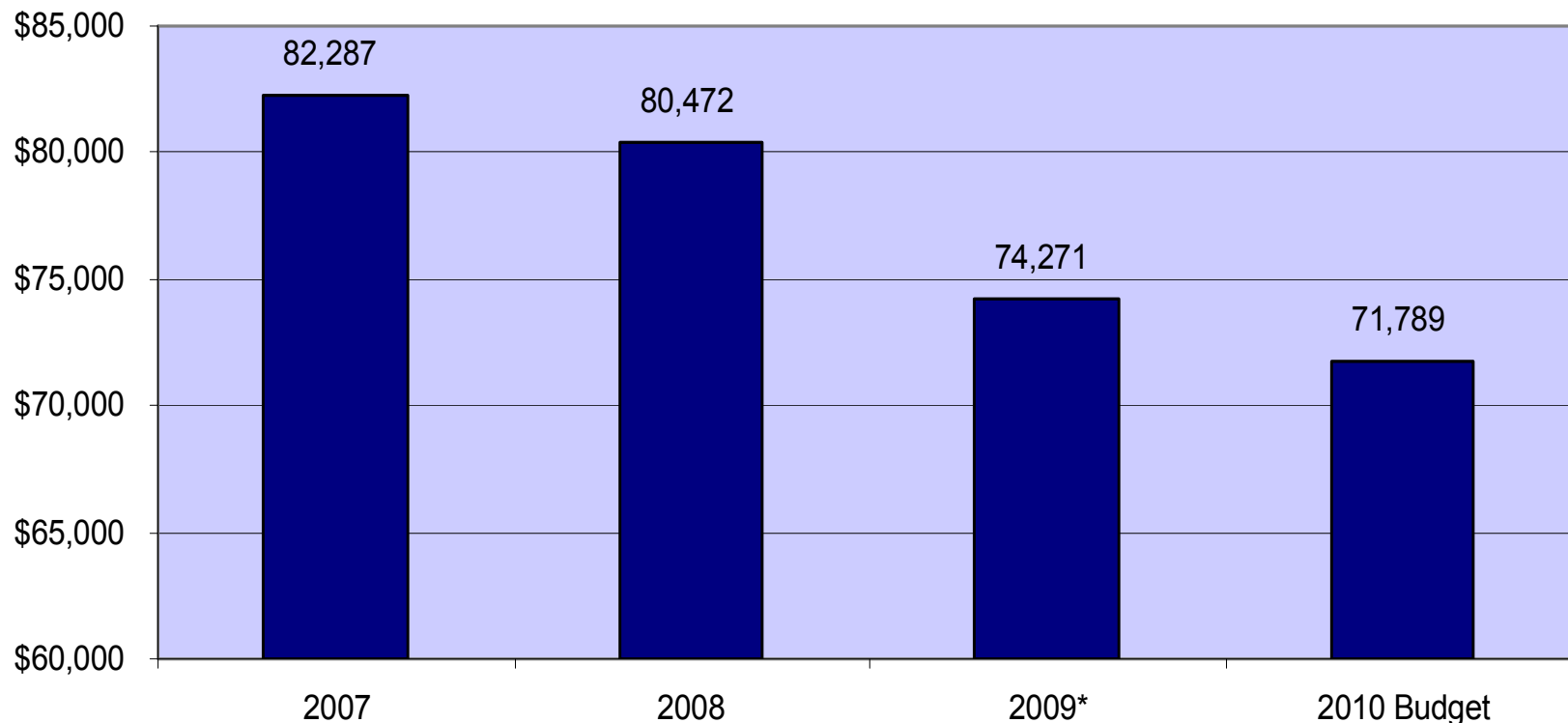


\*Unaudited.



# Controllable Expenses: Reduced by \$8 million over last two years

(in thousands)

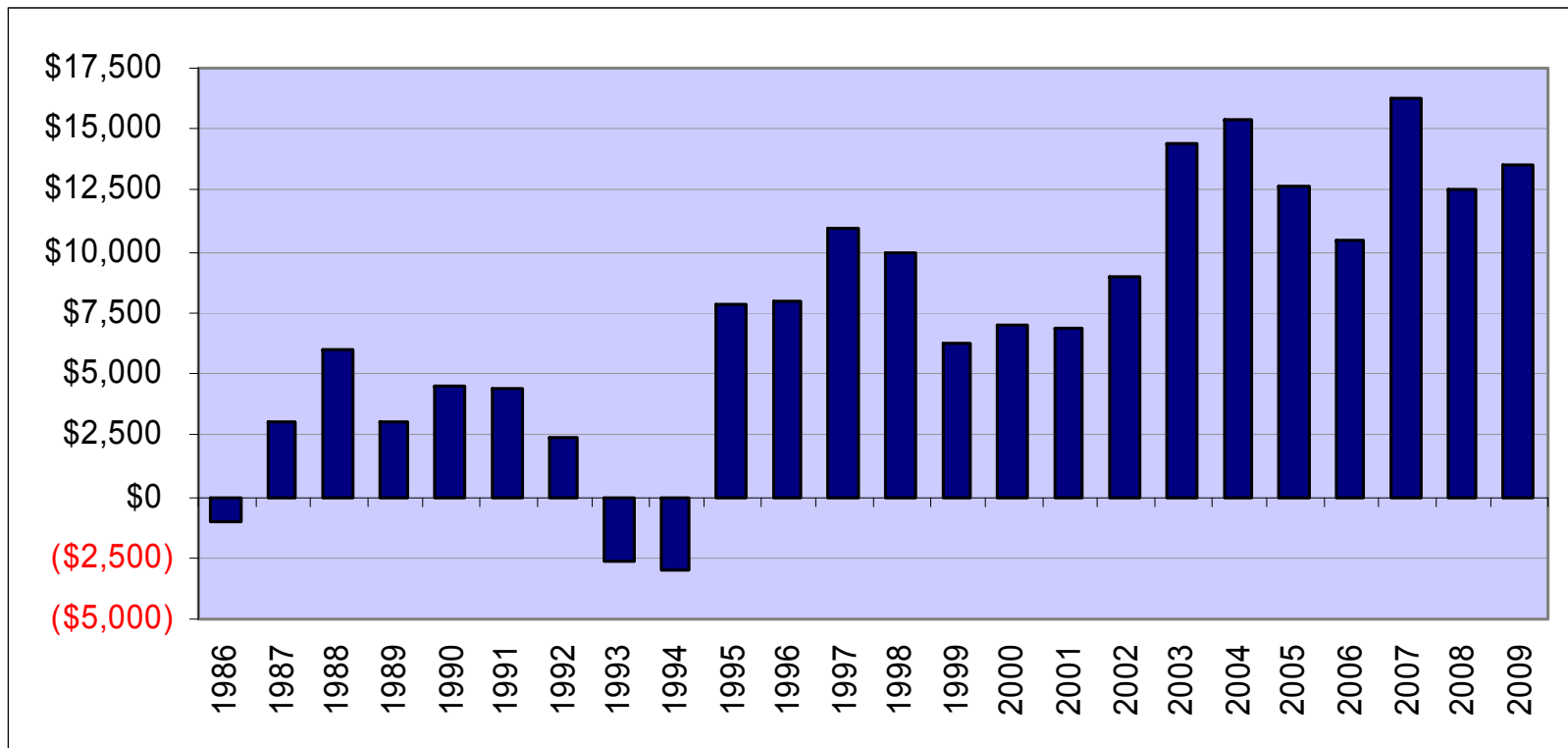


\* Unaudited.

Expenses included in this graph include those over which management has an ability in the short run to impact expense levels. Examples of items excluded are fuel, barge expense, benefit costs, depreciation, etc.

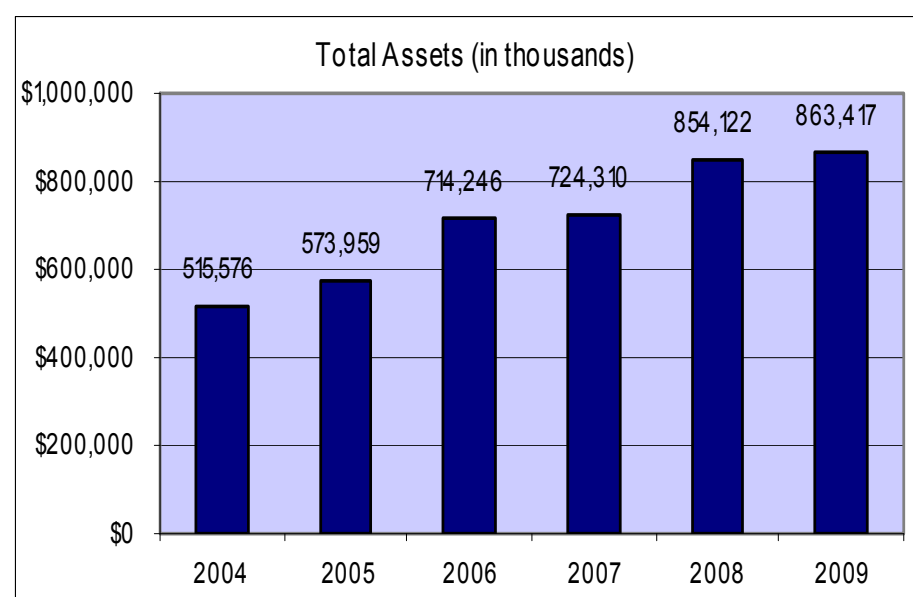
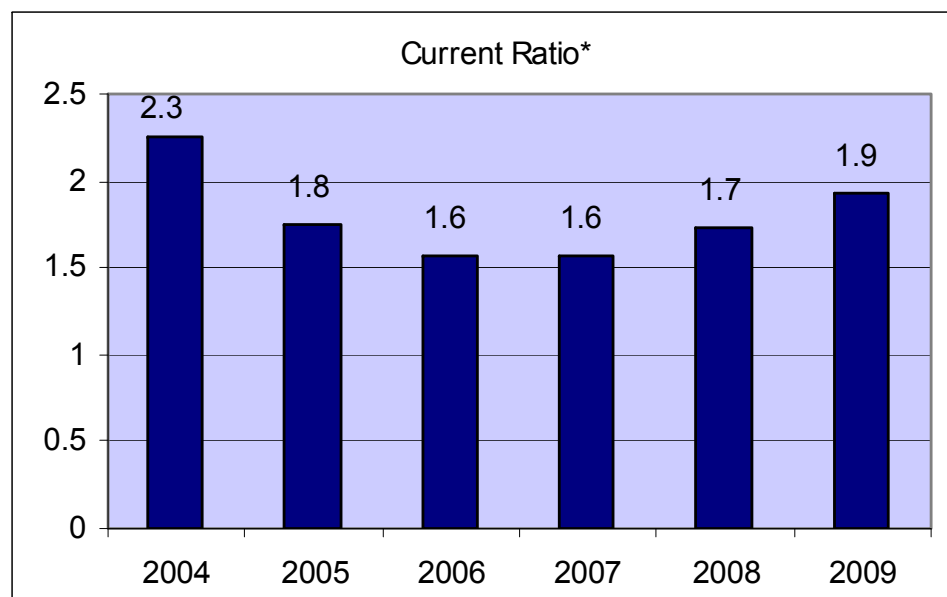


# Net Income



- 1999 & 2000 net income was adjusted by grant revenue/expense recovery related to a Winter Storm disaster
- Unaudited 2009 net income of \$13.6 million

# Balance Sheet Highlights



Current ratio is calculated by dividing current assets by current liabilities. The ratio is a measurement of an entity's liquidity and ability to meet current obligations.

*Conservative capital structure:* At year-end 2009, ARRC's recourse debt is \$27 million, with a debt to capital ratio of 23%, reflecting relatively modest use of debt instruments.

*Significant cash flow generated:* ARRC generated \$31.2 million in cash flow from activities. Uses of funds include ARRC internal capital projects, debt repayment, grant match requirements, and funding the post-retirement medical trust fund.

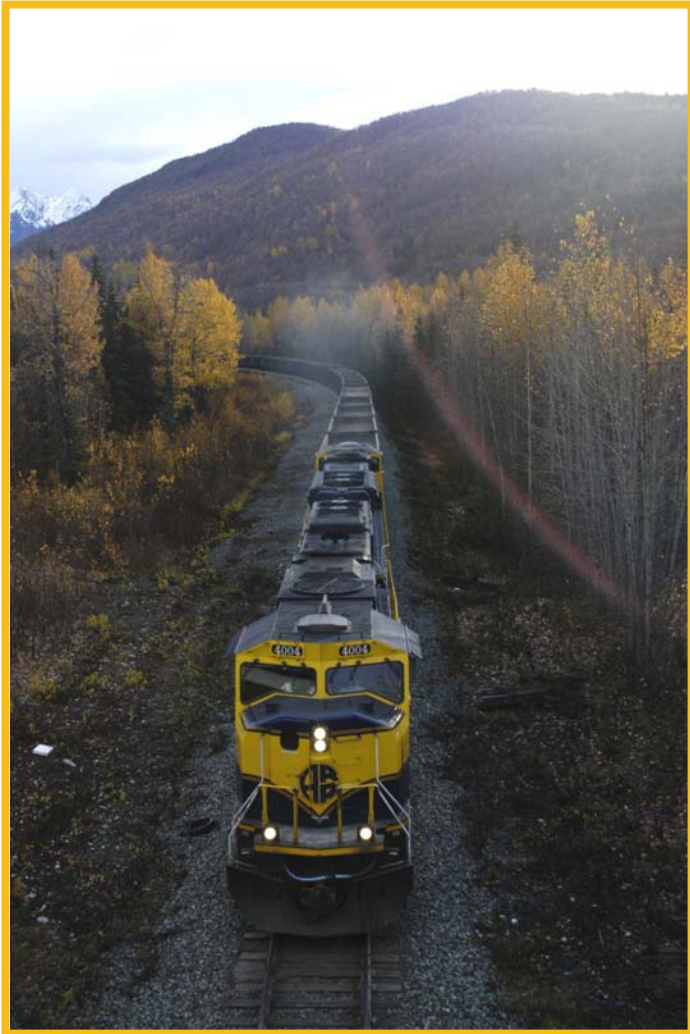
# 2010 Preview

- Tough year on the horizon
- Uncertainty abounds in freight
  - Flint Hills continues decline
    - Planning to move less than half of 2003 volume
  - Lawsuit threatening viability of export coal
- Passenger planned to drop again
  - Decrease in cruise ships, continued soft national economy
- Continued expense reductions in effort to offset revenue declines
- **Operating:** Net Income budget of **\$8.4 million**
- **Capital:** All funding sources total **\$43.1 million**





# Building a Great Railroad



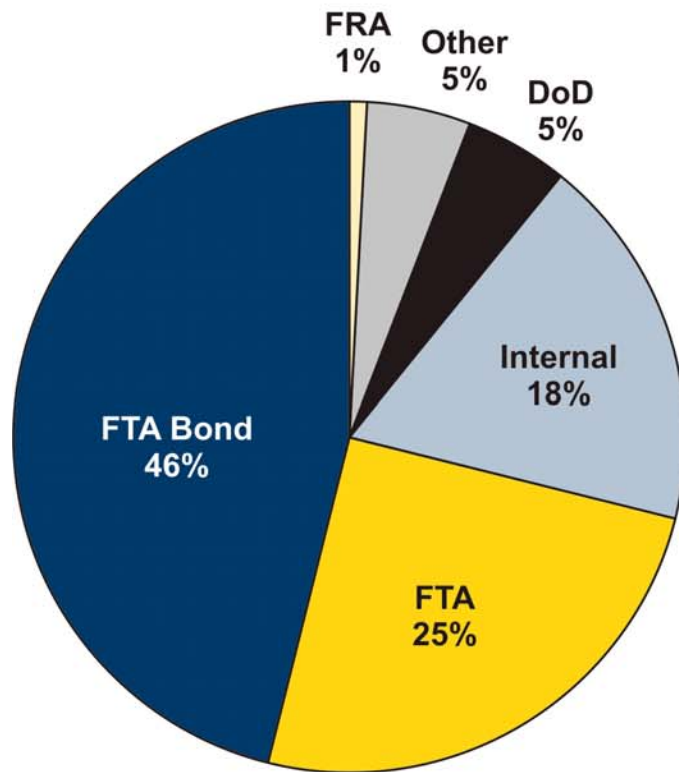
## Capital Investment (2010-2014) Five-Year Plan

- Total Federal Grants Expenditure  
\$167 million
- Total ARRC Capital Expenditure  
\$109 million

***Note: Federal Funds appropriated to the Alaska Railroad do not affect federal funding for other state transportation projects. ARRC matches federal dollars from corporate net earnings.***

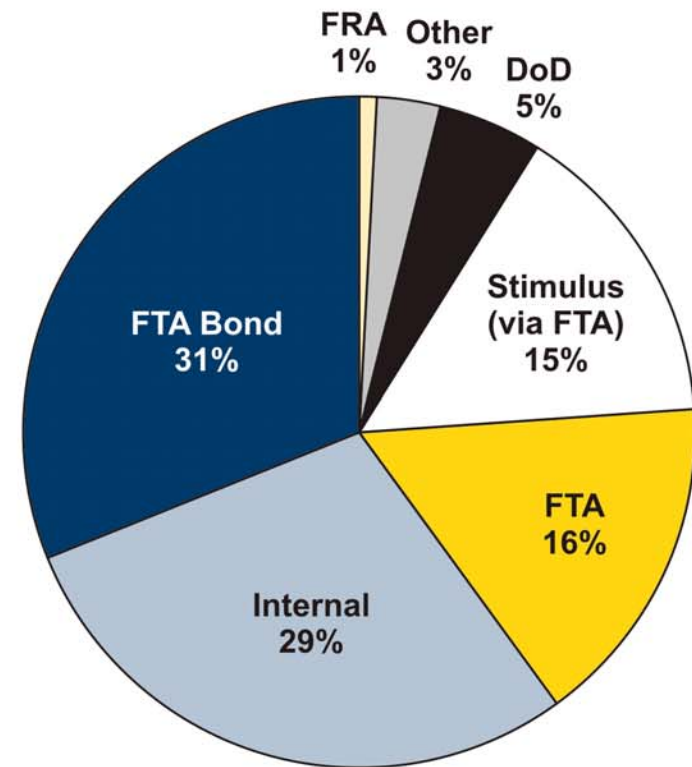
# Capital Spending by Fund Source

**2008**



2008 Total: \$92.1 million

**2009**



2009 Total: \$77.3 million

# Capital Funding Sources

- ARRC Internal Funding
- DOT/Federal Railroad Administration
  - Alaska Railroad Track Rehabilitation funds
  - Department of Defense Allocations
- DOT/Federal Transit Administration
  - Formula Funds; Grants
  - 9-20% ARRC Match Required
- DOT/FHWA
- Federal funds allocated to ARRC do not routinely affect federal funding for other state transportation projects
- ARRC federal match is *not* from State of Alaska general fund or gas tax...match is solely from ARRC earnings.
- ARRC does not receive operating funds or reimbursements from the State Budget.



## Five-Year Capital Project Plan-Internal Funding

	2010 Budget	2011 Plan	2012 Plan	2013 Plan	2014 Plan	5-YEAR TOTAL
Nondiscretionary Projects	\$ 13,762,958	\$ 11,368,378	\$ 10,577,417	\$ 14,029,413	\$ 15,580,477	\$ 65,318,643
Continuing Program Projects	\$ 2,312,950	5,592,009	5,700,000	5,011,500	5,130,500	\$23,746,959
Strategic Business Initiatives	\$ 236,100	1,539,125	2,875,000	275,000	275,000	\$5,200,225
Ranked Projects	\$ —	1,629,489	2,837,981	3,414,998	3,691,273	11,573,741
<b>Total - Internal Funding</b>	<b>\$ 16,312,008</b>	<b>\$ 20,129,001</b>	<b>\$ 21,990,398</b>	<b>\$22,730,911</b>	<b>\$ 24,677,250</b>	<b>\$ 105,839,568</b>

## Five-Year Capital Project Plan — Debt Financed Real Estate Projects

	2010	2011	2012	2013	2014	5-YR TOTAL
Acquire Gillman Property - Whittier	800,000	—	—	—	—	800,000
Freight Shed Tenant Improvements	2,000,000	—	—	—	—	2,000,000
<i>Total-Debt Financed Real Estate Projects</i>	<u>2,800,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,800,000</u>

## Five-Year Capital Project Plan — Federal and Bond Funding

### Federal Transit Administration

Passenger Equipment: Rehabilitation	535,558	419,200	500,000	450,000	500,000	2,404,758
<b>Track Projects:</b>						
Depot Improvements	—	400,000	450,000	—	300,000	1,150,000
Track Rehabilitation	7,581,900	9,719,413	11,404,587	13,071,399	13,197,387	54,974,686
Siding Extensions/Shoulder Widening	198,142	—	—	—	—	198,142
<i>Track Project Subtotal</i>	<u>7,780,042</u>	<u>10,119,413</u>	<u>11,854,587</u>	<u>13,071,399</u>	<u>13,497,387</u>	<u>56,322,828</u>
<b>Bridge Replacements/Upgrades:</b>						
Bridge at Mile Post 25.7 Lower Trail Lake	—	—	—	100,000	300,000	400,000
Bridge at Mile Post 29.5 Trail Lake	600,000	378,980	—	—	—	978,980
Bridge at Mile Post 89 Indian	140,000	1,490,000	—	—	—	1,630,000
Bridge at Mile Post 199 Kashwitna River	—	—	—	—	452,000	452,000
Bridge at Mile Post 352.7 Sheep Creek	—	—	—	600,000	—	600,000
Bridge at Mile Post 422.9 Little Goldstream	—	600,000	—	—	—	600,000
Bridge 447.7 Permafrost Bridge	—	—	100,000	600,000	750,000	1,450,000
<i>Bridge Program Subtotal</i>	<u>740,000</u>	<u>2,468,980</u>	<u>100,000</u>	<u>1,300,000</u>	<u>1,502,000</u>	<u>6,110,980</u>

## Five-Year Capital Project Plan — Federal and Bond Funding (continued)

FTA... continued	2010	2011	2012	2013	2014	5-YEAR TOTAL
<b>Debt Service Subtotal:</b>						
2006 Bond Issue Debt Service	7,532,160	7,301,371	7,275,940	7,282,763	7,266,964	36,659,197
2007 Bond Issue Debt Service	9,165,184	8,913,501	8,891,659	8,896,554	8,856,361	44,723,259
Debt Service Subtotal	16,697,344	16,214,872	16,167,599	16,179,317	16,123,325	81,382,456
<b>Preventive / Safety / Security:</b>						
Preventive Maintenance Reimbursement	11,110,275	11,165,826	11,277,484	11,390,259	11,504,162	56,448,006
Slope Stabilization/Healy Canyon	1,500,000	950,000	800,000	300,000	800,000	4,350,000
Collision Avoidance-Phase II Completion	3,275,899	1,550,000	3,475,270	2,809,213	2,938,319	14,048,701
Transit Enhancements	217,581	224,109	230,832	237,757	244,890	1,155,169
Transit Security	217,581	224,109	230,832	237,757	244,890	1,155,169
Preventive/Safety/Security Subtotal	16,321,336	14,114,044	16,014,418	14,974,986	15,732,261	77,157,045
<b>Total Federal Transit Administration</b>	<b>42,074,280</b>	<b>43,336,508</b>	<b>44,636,604</b>	<b>45,975,702</b>	<b>47,354,973</b>	<b>223,378,067</b>
Less: Preventive Maintenance Reimbursement	(11,110,275)	(11,165,826)	(11,027,484)	(11,369,259)	(11,504,162)	(56,448,006)
Less: Debt Service Grants	(16,697,344)	(16,214,872)	(16,167,599)	(16,179,317)	(16,123,325)	(81,382,456)
<b>Total FTA for Federal Capital Projects</b>	<b>14,266,661</b>	<b>15,955,811</b>	<b>17,191,521</b>	<b>18,406,126</b>	<b>19,727,486</b>	<b>85,547,605</b>
<b>FTA Capital Grant Receipts Bonds</b>						
Track Rehabilitation Program	9,724,560	21,435,349	12,271,205	—	—	43,431,115
<b>Other Federal Funds</b>						
Tanana River Training-Fund Source Unidentified	—	38,000,000	—	—	—	38,000,000

## FIVE-YEAR CAPITAL PROJECT PLAN SUMMARY - TOTALS BY FUNDING SOURCE

(in millions)	2010 Budget	2011 Plan	2012 Plan	2013 Plan	2014 Plan	5-YEAR TOTAL
FTA Formula Funds (net of PM/Debt Svc)	\$ 14.27	\$ 15.96	\$ 17.19	\$ 18.413	\$ 19.73	\$ 85.56
FTA Bond Proceeds - 2007 issue	9.72	21.44	12.27	—	—	43.43
Other Federal (FHWA, DoD, FEMA, etc.)	—	38.00	—	—	—	38.00
Internal Funds (ARRC Revenue)	16.31	20.13	21.99	22.73	24.88	105.84
Debt Financed Real Estate Projects	2.80	—	—	—	—	2.80
<b>Total Capital Program</b>	<b>\$ 43.1</b>	<b>\$ 95.53</b>	<b>\$ 51.45</b>	<b>\$ 41.14</b>	<b>\$ 44.41</b>	<b>\$ 275.63</b>

# Employee Retirement Benefits



- Pension Plan
- Post Retirement Medical Program



# ARRC Corporate Pension Plan

Benefit	Provision
Employee Contribution	9% of earnings – Pre-tax
Vesting	Five Years of Vesting Service
Normal Retirement Age	Age 62 – although no reduction for retiring at age 58
Early Retirement	Age 55– benefit reduced by ½% per month or 6% per year for every year less than age 58
Benefit Formula	2% X Final Average Salary (any 3 consecutive years) X Years of Service; 2.5% for years over 10 and after 1/1/06



# ARRC Corporate Pension Plan

Benefit	Provision
Annual Cost of Living Increase	Lesser of 50% of CPI or 6%
Disability Benefits	40% of monthly salary (must be vested to be eligible)
Joint & Survivor Annuity	<b>50% Benefit</b> – retiree benefit reduced by 10%; spouse receives 50% of that amount <b>100% Benefit</b> – retiree benefit reduced by 20%; spouse receives 100% of that amount





# Plan Funding

## Employee Contributions

- Employees are required to contribute 9% of earnings (excludes overtime).
- Employee contributions are credited with interest at 4.5% (compounded annually).
- Employees may request a refund of contributions and interest in lieu of a retirement benefit.



# Plan Funding

## Employer Contributions

- Section 11 of the Plan Document
- Provides that the ARRC will make contributions to the Fund as it determines, with the advice of its actuary, to maintain the Plan on an actuarially sound basis
- The Fund is for the exclusive benefit of Plan Participants. No portion shall be diverted to or become the property of the ARRC prior to paying all liabilities with respect to Participants
- ARRC's funding policy is to contribute an amount each year equal to the Annual Required Contribution (ARC)



# Pension Plan Administration

- ARRC Pension and Represented 401(k) Committee
  - Two Union Members
  - Three Management Representatives
- Retirement Specialist in Human Resources



# Participant Services

- Pre-retirement Planning Seminars
- On-line access to pension fund balances, and estimates of pension benefits
- Summary Plan Description
- Annual Pension Report
- Annual Participant Statements, including projected pension benefits



# Post-Retirement Medical

- ARRC Labor Contracts (5 union contracts) provide that retirees can purchase ARRC medical insurance by paying 60% of the monthly premium.
- Non-represented employees are eligible for retiree medical coverage under ARRC policy
- Eligible retirees must be:
  - 62 or older under the ARRC Pension Plan (represented)
  - 58 or older under the ARRC Pension Plan (non-represented)
  - With the Civil Service Retirement System
  - On disability retirement



# Post-Retirement Medical

- Retirees who don't meet the criteria above can participate by paying 100% of the premium
- Certain surviving annuitants and family members can continue their participation following the death of the retiree on the same cost sharing basis
- Surviving dependent children of an ARRC pension plan participant are eligible to participate on the same cost sharing basis, without the requirement that there be a pension plan recipient



# Post Retirement Medical

- Deductible: \$500
- Co-insurance: \$80/20 up to \$1,500
- Includes prescription drug benefit
- Does not include audio, vision and dental coverage
- Medical Plan for retiree is identical to the plan for active ARRC employees



# ARRC Contributions

- In addition to the premium contributions, ARRC makes annual contributions to the Post Retirement Medical Trust based on the recommendations of the actuary. The 2009 contribution was \$5.2 million.





# 2009 Status of Benefit Trust Funds

- Defined benefit pension trust fund totaled \$75.0 million
  - Up \$14.0 million from year end 2008
- Retiree medical trust fund totaled \$25.8 million
  - Up \$9.0 million from year end 2008
- Considerable recovery from the down-market impact



# 2010 Wild Cards

## Possible Gains

- Gravel
- Coal
- Pipe
- Petroleum

## Possible Losses

- Petroleum
- Environmental
  - + Coal – air quality
  - + Coal – water quality
  - + Weeds - FRA
  - + Ship Creek – EPA
- Legislation
  - + EBA
  - + HB 313

