



2013 Alaska Railroad Corporation Report TO THE State



(Photo by Frank Keller)

Board of Directors

Chair Linda Leary



Susan Bell



John Binkley



Jack Burton



Jon Cook



Pat Kemp



Bill Sheffield



Strategic

Leadership's Outlook

In accordance with state law (Alaska Statute 42.40.290), the Alaska Railroad Corporation (ARRC) annually adopts a long-range capital improvement plan and shares this with the governor and legislature. This report presents our 5-year outlook for capital investment and operations, 2013-2017.

Capital and operating plans are driven by our mission, as defined in the Alaska Railroad Transfer Act (U.S. Code) and the Alaska Railroad Corporation Act (Alaska Statute). ARRC's two-fold purpose is to:

- 1 provide safe, profitable, high-quality services to freight, passenger and real estate customers; and
- 2 to foster Alaska's economic development.

In recent history, the Alaska Railroad has been fortunate to report robust capital programs that stem from healthy operations and federal grants that have enabled modernization of an otherwise aging infrastructure. This year is different. Unforeseen and sizeable declines in two major business lines, a serious and ongoing threat to federal capital grants, coupled with an extensive unfunded federal regulatory mandate have created challenges ahead.

Ironically, the year 2012 began with promise for business line growth and capital investment. But by the end of the first quarter, sobering financial challenges began to unfold, dramatically changing the outlook for 2012 and several years beyond.

The North Pole Refinery closed the second of its three crude petroleum processing towers in July 2012, effectively cutting our fuel-hauling business to its lowest volume in two decades. For 2013, we anticipate an additional 10% reduction in the petroleum business line. During the last half of 2012, we also learned the global coal market had weakened considerably. The coal mine in Healy now forecasts at least a 30% drop from 2012 export coal shipping levels. Together, these reductions equate to about a \$10 million drop in revenue for 2013, compared to 2011.

Severe revenue reductions figure into a 2013 budget that indicates a \$5.1 million loss from train operations. Thanks in large part to railroad real estate revenues and FTA grant funds, net income for 2013 is budgeted to be \$3 million. This compares to a forecasted \$11.1 million net income for 2012 and over \$13 million actual net income for 2011. Railroad "net income" is used to fund major capital repairs and replacements for both train operation activities and to improve infrastructure for our real estate customers.

The 2013 capital budget is profoundly impacted not only by grim operating numbers, but also the status of federal grants that have traditionally enabled the railroad to modernize aging infrastructure over the past decade. The federal MAP 21 Transportation Reauthorization Law that passed in mid-2012 projected to reduce ARRC's Federal Transit Administration (FTA) formula funding from \$36 million a year to \$31 million. In October 2012, we learned that a technical error in MAP 21 could further reduce FTA funding to \$27 million for 2013. Alaska's congressional delegation is working to

Outlook

correct this error, but there are no promises. The new law also stipulates FTA grants require a 20% local match as opposed to 9% previously. This means cash match outlay increases from \$3.5 million in 2011 and 2012 to \$7.2 million in 2013. The reduction in net income coupled with the increased match requirement means we have about 50% fewer internally-generated funds to dedicate to capital projects compared to 2012. In the 5-year capital improvement tables that follow in this report, you will notice many critical capital improvements that remain unfunded.

Much of our limited capital resources will be absorbed by an unfunded federal mandate to develop a Positive Train Control (PTC) system designed to prevent train-to-train collisions and derailments caused by human error. The U.S. Rail Safety Improvement Act of 2008 requires PTC implementation by December 31, 2015. We have already invested more than \$50 million and we estimate substantial additional costs to fully implement PTC, creating a critical financial dilemma for the Alaska Railroad.

We must think creatively and make bold adjustments that can substantially reduce expense. This will likely entail efforts to restructure our services and our organization in a way that can absorb some of the losses today, while leaving us prepared should our revenue picture improve. We'll be working on this task through February 2013. In this vein, we recently instituted a new fuel-conservation effort that could save nearly a million dollars annually through an additional locomotive idle-reduction initiative. Such innovation has been our hallmark in the past, and our employees, management team and Board of Directors remain committed to developing smart solutions for the future.



Christopher Aadnesen, President & CEO

Alaska's Railroad

The Alaska Railroad was built by the U.S. government between 1914 and 1923 and operated by the federal government until January 1985, when the State of Alaska purchased the railroad for \$22.3 million. The Alaska State Legislature created the Alaska Railroad Corporation (ARRC) to own and operate the railroad and to manage railroad property with the overriding goal to serve Alaska businesses and communities as an engine for community development and economic prosperity.

Unlike other state business enterprises (such as the Alaska Housing Finance Corporation and the Alaska Industrial Development & Export Authority), ARRC's enabling statute specifically requires that all revenues earned by the railroad be retained by the railroad. The federal transfer act also includes this provision. The intent was to ensure the railroad had the funding it needed to meet basic maintenance and capital needs, to improve safety and increase profitability, thereby avoiding dependence on the state's general fund. The corporation's annual earnings are invested entirely into its capital program.

The state-owned corporation is governed by a seven-member board of directors appointed by the governor. The president and CEO of the corporation reports to the board.

Management Team

Chris Aadnesen



President & CEO
Chris Aadnesen

Engineering and Maintenance
VP Tom Brooks

General Counsel / Legal
VP Bill Hupprich

Real Estate and Facilities
VP Jim Kubitz

Corporate and Government Affairs
VP Wendy Lindskoog

Chief Financial Officer / Finance
VP Bill O'Leary

Information Services, Telecommunications and Signal
VP Eileen Reilly

Mechanical and Transportation
VP Patrick Shake

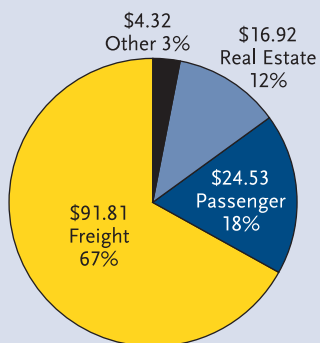
Business Development
VP Dale Wade

2013 ARRC

OPERATING PLAN

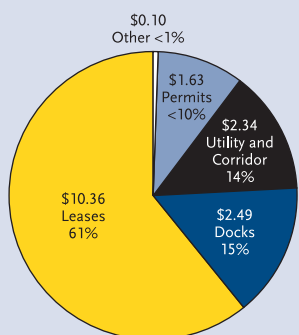
2013 Budget Revenue Sources

(in millions of dollars)



2013 Budget Real Estate Revenue

(in millions of dollars)



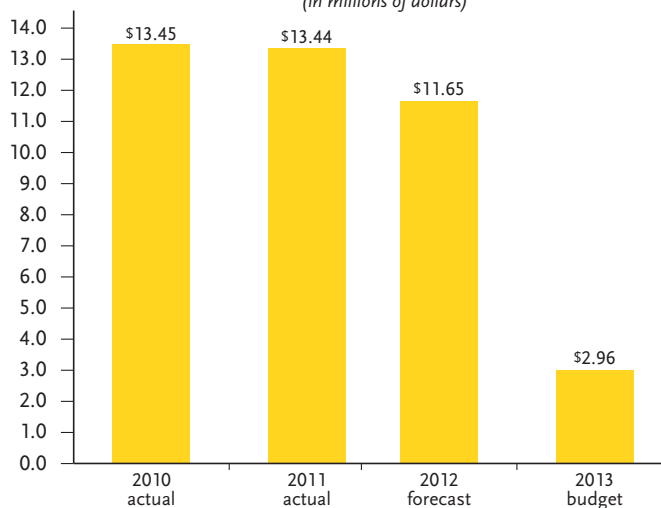
Five-Year Operating Plan

(in millions of dollars)

	2013	2014	2015	2016	2017
Operating Revenue	\$ 120.42	\$ 128.74	\$ 131.29	\$ 133.89	\$ 136.56
Operating Expense	125.54	129.01	130.48	131.84	132.95
Net Operating Income	(5.12)	(0.27)	0.81	2.05	3.61
Net Real Estate Income	9.38	9.69	9.96	10.92	11.36
Net Other Income (Expense)	(1.30)	(1.11)	(0.98)	(0.77)	(0.46)
Net Income	\$ 2.96	\$ 8.31	\$ 9.79	\$ 12.20	\$ 14.51

Alaska Railroad Net Income

(in millions of dollars)



(Photos by Judy Patrick)

AND OPERATING STATISTICS

Operating Assets and Infrastructure

- Miles of main line: 467
- Miles of branch line: 54
- Miles of yards and sidings: 135
- Total miles of track: 656
- Freight cars (owned/leased)*: 1,219
- Passenger cars: 45
- Locomotives: 51

* 928 revenue cars and 291 maintenance cars; not including 311 tanker cars owned by Flint Hills Resources

2012 Train Service Activity

- 2012 Ridership**: 414,700 passengers
- 2012 Freight tonnage**: 5.7 million tons

** January 1 - Dec. 31, 2012, Projected



(Photo by Judy Patrick)



(Photo by Judy Patrick)

Employees (November 2012)

- Year-round employees: 685
- Additional seasonal employees: ~100
- Average years of service: 12.4
- Average age: 46.2
- Male: 571
- Female: 114
- Percentage of Alaska Hire: 92%

A majority of employees are members of five unions:

- United Transportation Union: 127
- Transportation Communication Union: 45
- International Brotherhood of Teamsters Local 959: 66
- American Federation of Gov't Employees: 262
- American Train Dispatchers Department: 10



(Photo by David Blazejewski)

FIVE-YEAR CAPITAL PLAN: FEDERAL FUNDING

Federal Transit Administration (FTA) Formula Funds

	2013	2014	2015	2016	2017	5-Yr Total
Total FTA Formula Funds (including 20% match)	\$ 35,875,000	\$ 35,875,000	\$ 36,233,750	\$ 36,596,088	\$ 36,962,048	\$ 181,541,886
Less Programmed Items (PI):						
Preventive Maintenance	10,437,234	10,541,620	10,647,036	10,753,506	10,861,041	53,240,438
2007 Bond Principal & Interest	9,180,362	9,140,152	9,139,078	9,136,906	9,118,638	45,715,136
2006 Bond Principal & Interest	7,519,254	7,503,586	7,486,648	7,480,060	7,473,560	37,463,108
Transit Security	127,300	127,300	128,573	129,859	131,157	644,189
Transit Enhancement	127,300	127,300	128,573	129,859	131,157	644,189
Total Programmed Items (PI)	27,391,450	27,439,958	27,529,908	27,630,190	27,715,553	137,707,060
FTA Funds Available for Projects	\$ 8,483,550	\$ 8,435,042	\$ 8,703,842	\$ 8,965,897	\$ 9,246,495	\$ 43,834,826
Projects Funded by FTA Funds:						
Positive Train Control	5,078,400	5,000,000	5,000,000	5,000,000	5,000,000	25,078,400
Track Rehab Program	3,405,150	3,435,042	3,703,842	3,965,897	4,246,495	18,756,426
Total FTA Grant Projects (net PI)	\$ 8,483,550	\$ 8,435,042	\$ 8,703,842	\$ 8,965,897	\$ 9,246,495	\$ 43,834,826

Other Federal - Federal Highway Administration (FHWA), Department of Homeland Security (DHS)

Positive Train Control (FHWA)	\$ 2,500,000	\$ —	\$ —	\$ —	\$ —	\$ 2,500,000
Port Security Grant (DHS)	80,400	—	—	—	—	80,400
Total Other Federal Funds	\$ 2,580,400	\$ —	\$ —	\$ —	\$ —	\$ 2,580,400

Total Federal-Funded (net PI)*	\$11,063,950	\$ 8,435,042	\$ 8,703,842	\$ 8,965,897	\$ 9,246,495	\$ 46,415,226
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* Federal grant money minus funds allocated to Programmed Items (see above). This net amount equates to federal funds available for capital projects.



(Photos by Judy Patrick)

Replacing decades-old wooden ties is a critical component to the railroad's capital Track Rehabilitation efforts. Inset: Positive Train Control is a complex technology-based capital project aimed at eliminating train collisions and incidents caused by human error.

FIVE-YEAR CAPITAL PLAN: INTERNAL FUNDING

Non-discretionary Projects	2013	2014	2015	2016	2017	5-Yr Total
Bridge Program	\$ 4,900,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 16,900,000
Track Rehabilitation Program	1,454,850	9,944,958	12,136,158	13,284,103	13,003,505	49,823,574
Equipment Program	587,000	1,413,638	1,132,000	1,930,000	2,025,000	7,087,638
Passenger Equipment Rehab	550,000	528,000	512,000	500,000	500,000	2,590,000
Vehicle Program	323,000	840,000	950,000	990,000	1,035,000	4,138,000
Equipment Rebuild Program	90,000	500,000	500,000	500,000	500,000	2,090,000
Whittier Barge Slip Sewer Line Replace	20,000	—	—	—	—	20,000
Positive Train Control	—	9,948,383	13,065,852	6,355,789	7,887,686	37,257,710
Portage Section Facility	—	1,000,000	—	—	—	1,000,000
Total Nondiscretionary Projects	\$ 7,924,850	\$ 27,174,979	\$ 31,296,010	\$ 26,559,892	\$ 27,951,191	\$120,906,922
Continuing Programs						
Capital Locomotive Overhaul/PM	\$ 807,000	\$ 1,880,000	\$ 1,920,000	\$ 1,967,000	\$ 2,284,000	\$ 8,858,000
Dock & Slip Maintenance & Repairs	800,000	2,357,500	1,907,500	1,307,500	2,082,500	8,455,000
Rip Rap / Drainage / Avalanche	350,000	940,000	685,000	650,000	450,000	3,075,000
Seward Coal Loading Facility Upgrades	350,000	750,000	750,000	750,000	750,000	3,350,000
Healy Canyon Stabilization	250,000	500,000	750,000	750,000	750,000	3,000,000
191 Heavy Maintenance	200,000	215,000	215,000	—	—	630,000
Corporate-wide Network Services	200,000	500,000	500,000	500,000	500,000	2,200,000
SD70MAC 4300 Fire Screen Upgrade	180,000	—	—	—	—	180,000
Crossing Signal Event Recorders	150,000	310,000	310,000	—	—	770,000
Premises Equipment Refresh (Telecom)	143,000	140,000	—	—	—	283,000
Locomotive Truck Overhaul	120,000	180,000	180,000	180,000	180,000	840,000
Defect Detector Upgrades	90,000	258,400	258,400	258,400	258,400	1,123,600
Comm Site Battery Plant Replacements	90,000	80,000	80,000	80,000	80,000	410,000
Facility Energy Conservation	55,000	90,000	90,000	90,000	90,000	415,000
Tenant Improvements	40,000	50,000	50,000	50,000	50,000	240,000
Land and Utilities Improvements	40,000	75,000	75,000	75,000	75,000	340,000
Section Improvements	40,000	50,000	50,000	50,000	50,000	240,000
General Facility Repair	30,000	50,000	50,000	50,000	50,000	230,000
Trespass Mitigation	25,000	25,000	25,000	25,000	25,000	125,000
Access Plates for ASCTD	21,000	22,200	—	—	—	43,200
Facility Roofing Upgrades	—	375,000	350,000	275,000	—	1,000,000
Records Management Vital Records	—	469,000	21,600	—	—	490,600
Electrical Upgrades	—	165,000	100,000	100,000	100,000	465,000
Building Maintenance	—	50,000	50,000	50,000	50,000	200,000
Copier Fleet Replacement	—	30,800	68,200	—	—	99,000
Purchase End-of-Train Devices	—	—	—	36,000	36,000	72,000
Total Continuing Programs	\$ 3,981,000	\$ 9,562,900	\$ 8,485,700	\$ 7,243,900	\$ 7,860,900	\$ 37,134,400
Strategic Business Initiatives						
SD70MAC A/C Traction Pinion Puller	\$ 45,000	\$ —	\$ —	\$ —	\$ —	\$ 45,000
Crew Management & Timekeeping	—	500,000	—	—	—	500,000
Legacy Systems Conversions	—	150,000	184,500	—	—	334,500
Total Strategic Business Initiatives	\$ 45,000	\$ 650,000	\$ 184,500	\$ —	\$ —	\$ 879,500
Ranked Discretionary Projects						
Post Road Sewer Construction - Phase 4	415,000	\$ —	\$ —	\$ —	\$ —	\$ 415,000
Seward Pavement Replacement	40,000	—	—	—	—	40,000
Other Ranked Projects	—	—	—	—	—	—
Funds Available for Ranked Projects	\$ 455,000	\$ —	\$ —	\$ —	\$ —	\$ 455,000
Total Internal Capital Requests	\$ 12,405,850	\$ 37,387,879	\$ 39,966,210	\$ 33,803,792	\$ 35,812,091	\$ 159,375,822
Est. Funds from Internal Cash Flow	12,405,850	17,880,000	18,970,000	19,300,000	19,690,000	88,245,850
Funding Shortfall	\$ —	\$ 19,507,879	\$ 20,996,210	\$ 14,503,792	\$ 16,122,091	\$ 71,129,972
Debt-Financed Project						
Freight Car Replacement Program	\$ —	\$ 3,500,000	\$ —	\$ —	\$ —	\$ 3,500,000
Total Internal & Debt	\$12,405,850	\$40,887,879	\$39,966,210	\$33,803,792	\$35,812,091	\$162,875,822
Total Federal (net PI*)	\$11,063,950	\$ 8,435,042	\$ 8,703,842	\$ 8,965,897	\$9,246,495	\$ 46,415,226
Total Capital Requests	\$23,469,800	\$49,322,921	\$48,670,052	\$42,769,689	\$45,058,586	\$209,291,048

* Federal grant money minus funds allocated to Programmed Items (see previous page). This net amount equates to federal funds available for capital projects.

More detailed information about the Alaska Railroad's capital improvement program — including capital project fact sheets — is available on the Alaska Railroad's web site.



ALASKARAILROAD.COM

Contact and Connections

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(Photo by Judy Patrick)

Limited capital funding in 2013 will be focused in part on critical track repair and rehabilitation work.

(Photo by Judy Patrick)



Progress continues on the Northern Rail Extension Phase One — a Tanana River bridge and levee near Salcha. The \$188 million required for this first phase is fully funded. Above, construction on a temporary causeway in summer 2012 will allow pier installation across the river.