

Alaska Railroad Update

Presentation to
Joint House & Senate Transportation Committee
February 3, 2015

Bill O'Leary
President & CEO



AlaskaRailroad.com



Alaska Railroad Quick Facts

Organization (following State purchase)

- Independent corporation owned by State
- Managed by a seven-member board of directors appointed by Governor
- Mandated to be self-sustaining, responsible for financial and legal obligations

Operating Data

- 656 Total miles of track
- 1,381 Freight cars (owned & leased)
- 45 Passenger cars
- 51 Locomotives

Operating Statistics (Jan - Dec 2014)

- 468,661 passengers
- 4.92 million tons of freight

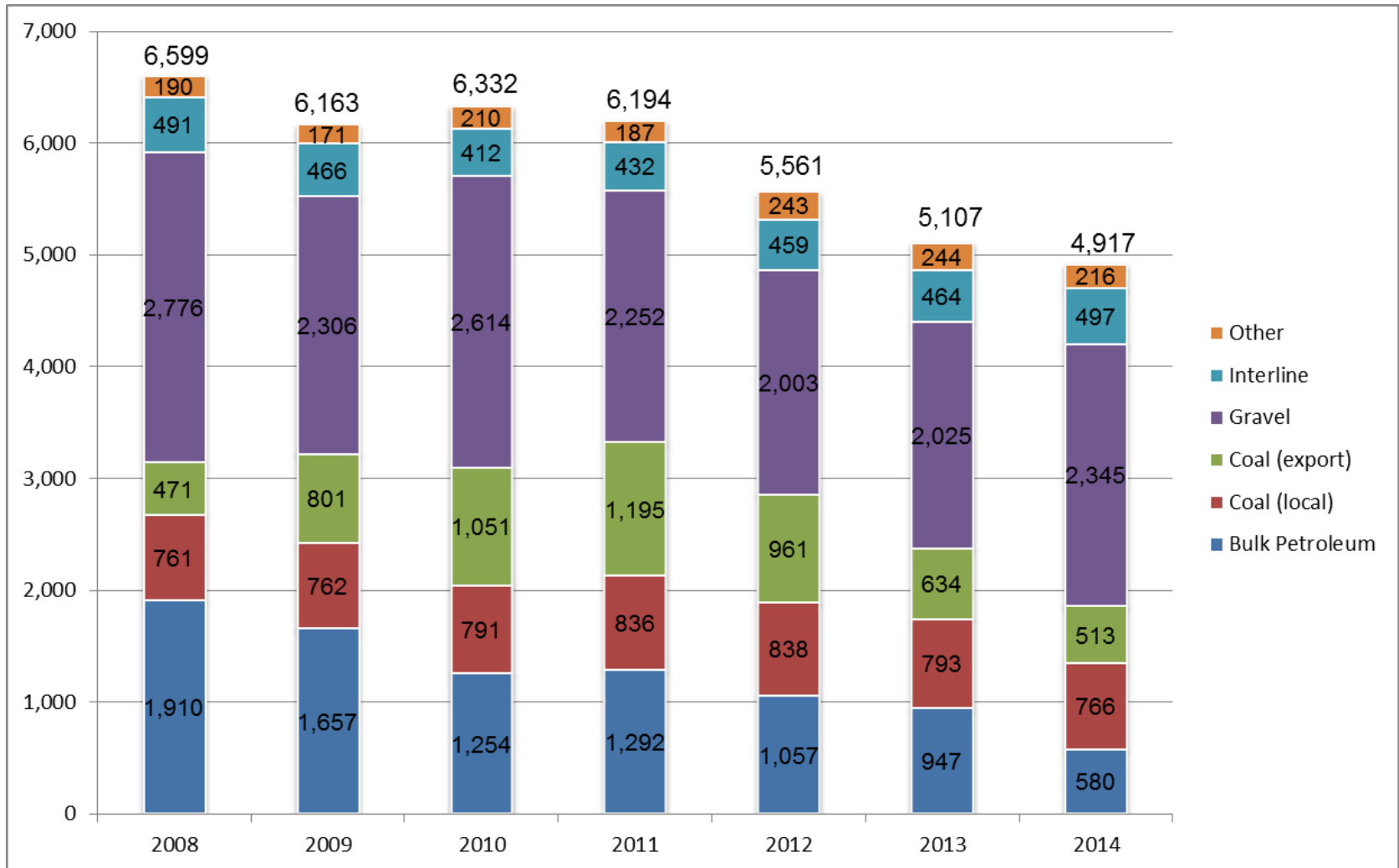
Employees (January 2014)

- 575 year-round employees
- 425 members of 5 unions

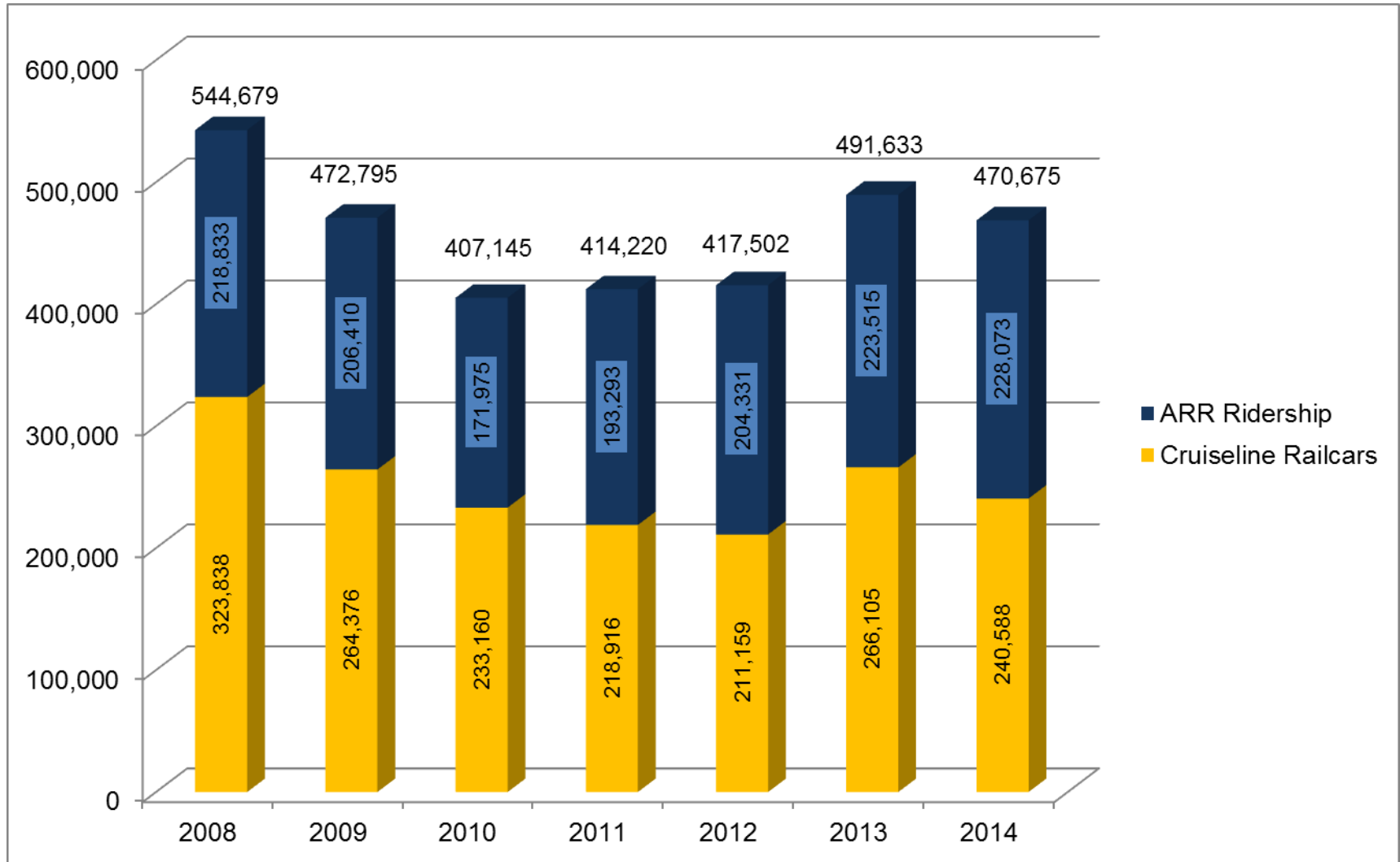


ARRC Freight

(in thousand tons)



ARRC Passenger Service



Alaska Railroad Real Estate

- Property Development
- Leases and Permits
- Dockage and Wharfage
- Facilities Maintenance and Management
- Revenue from Real Estate activities allow ARRC to weather financial cycles.
 - 2014: 75% of corporate net income derived from real estate. (Unaudited)



Top: Ship Creek basin includes highly valuable leasable land. Bottom: Seward freight dock viewed from waterside catwalk.

FTA Formula Funds

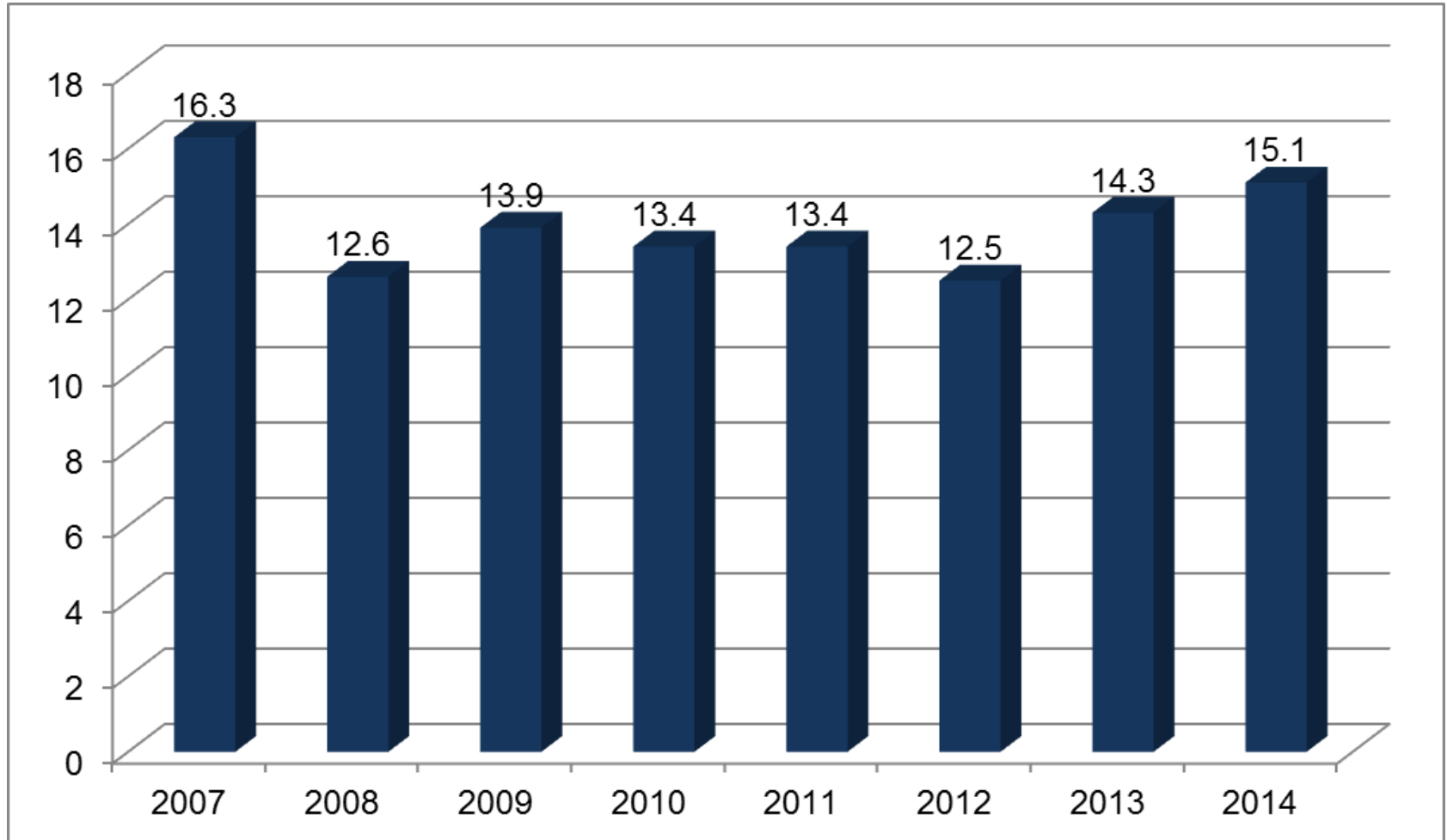
- Provided to ARRC for our year-round regularly-scheduled passenger service.
- Significant reduction for 2013 and moving forward (MAP-21)
- Cut was only to Alaska Railroad and did not reduce federal budget.
- Part of the reason behind the cut was ill will towards Senator Stevens' legacy.
- Will be up again in 2015

Handling Downturns

- Started in 2008
- 300 positions cut in 3 separate downsizings
- Streamline Operations
- Still experiencing downturns in two largest freight lines
- Ensure the Railroad doesn't look different from the outside
- Seek out new lines of business

ARRC Net Income

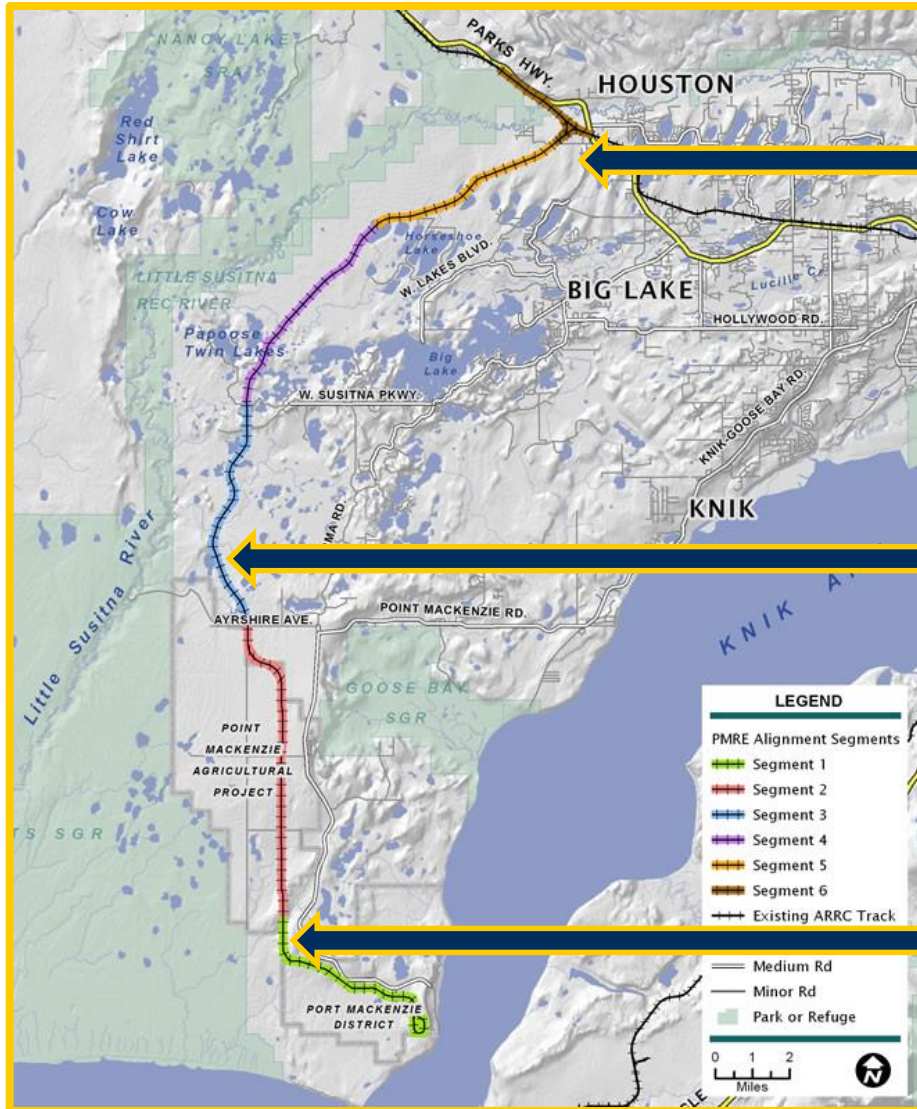
(in \$ millions)



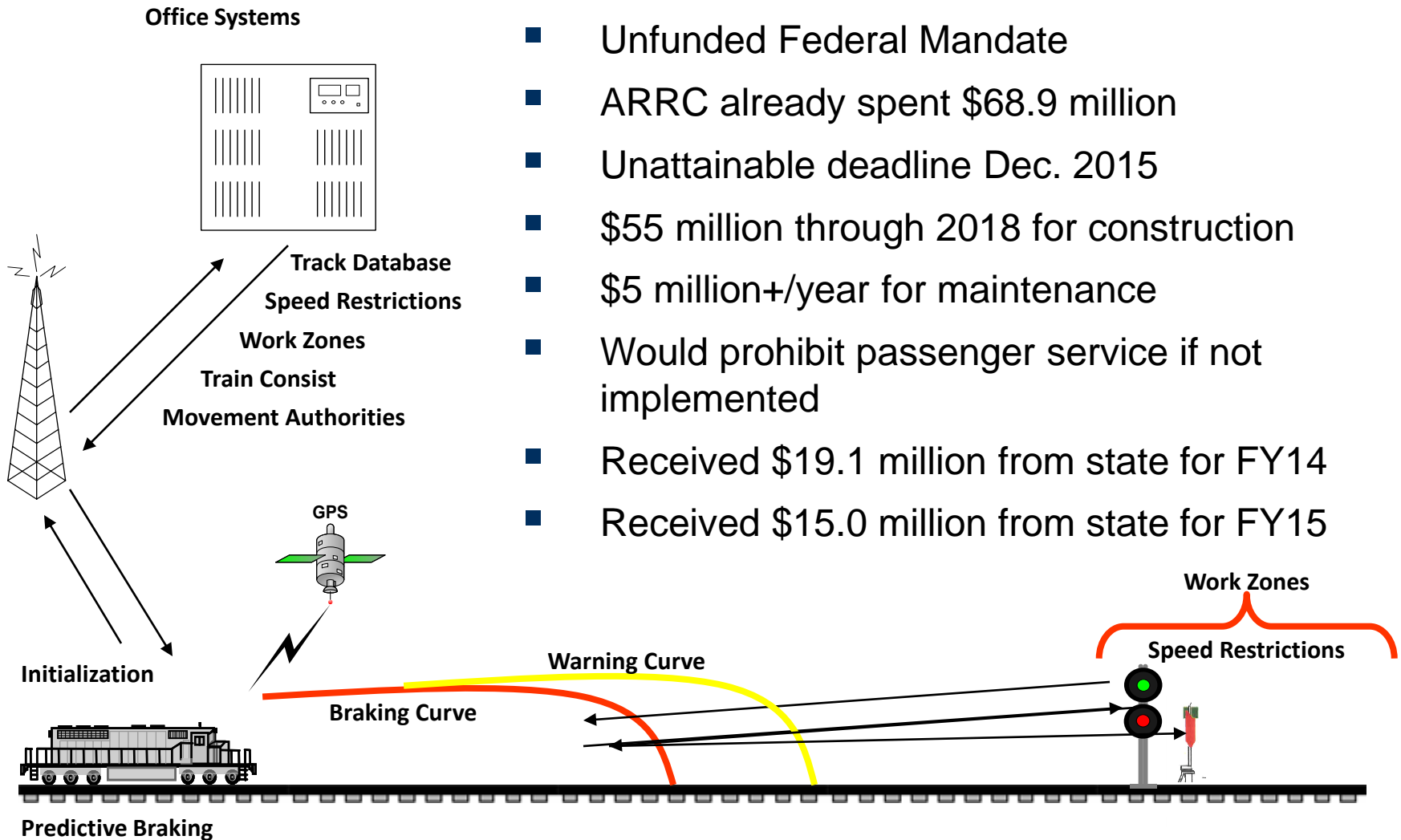
Northern Rail Extension



Port MacKenzie Rail Extension



Positive Train Control



What is PTC?

PTC is a safety overlay system that reduces human factor errors and must reliably and functionally prevent:

- Train-to-train collisions by enforcing authority limits;
- Overspeed derailments;
- Trains entering maintenance of way work zone limits; and
- Train movement through a main line switch in the improper position.



No Way Out

- \$12 billion to \$15 billion industry cost
 - \$160 million for ARRC
- Congressional Delegation
- Alaska Attorney General
- NTSB Most Wanted List – 2012 & 2014
- Association of American Railroads

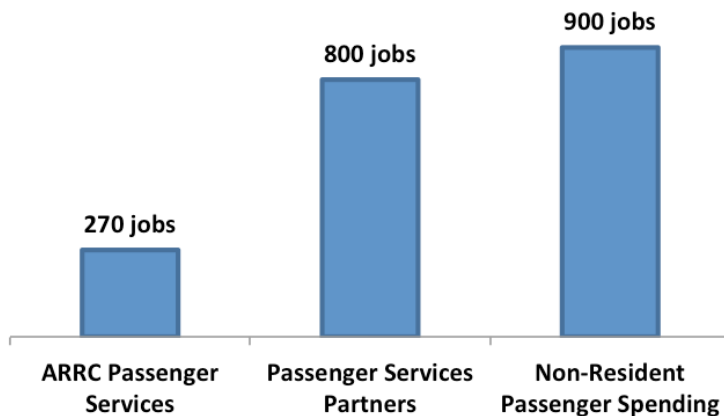
What if ARRC Does Not Comply?

Federal law provides penalties for non-compliance:

- FRA authority to fine 61 different PTC-related violations
- Maximum FRA fine for failure to complete PTC installation by December 31, 2015, is \$16,000 per violation and \$25,000 for each “willful” violation. A separate violation is issued for each day the violation occurs. The FRA can fine up to \$100,000 per day as it deems warranted.
- FRA rail safety law compliance pertains to “persons” so both the corporation and individuals are on the hook.
- Prohibit passenger service

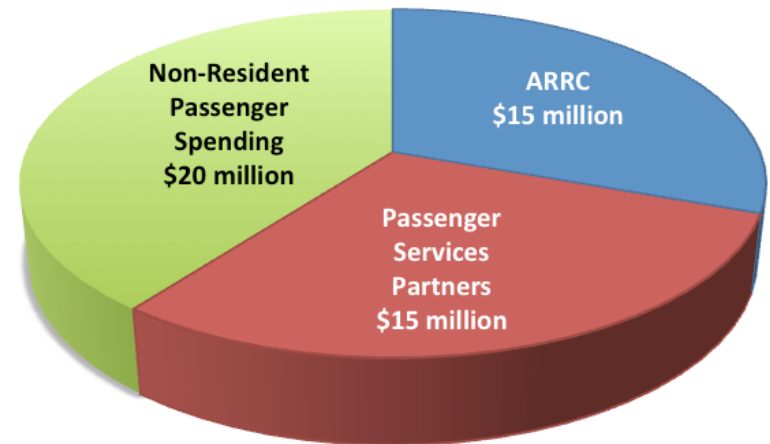
Loss of Passenger Service

A total of just under 2,000 jobs are connected in some way to Alaska Railroad's passenger services.



ARRC Passenger Services-Related Employment, 2012

Approximately \$50 million in labor income is related to Alaska Railroad's passenger services.



ARRC Passenger Services-Related Labor Income, 2012

PREPARED BY
McDowell
G R O U P

Loss of Passenger Service

Discontinuation of Alaska Railroad's passenger services would have significant impacts not only on the Railroad, but on the Railbelt's visitor economy and infrastructure.

- Loss of all ARRC jobs and wages associated with providing passenger services.
- Loss of all ARRC passenger-related income, jobs, and wages in 275 businesses that provide goods and services to ARRC in support of its passenger operations.
- Unknown economic effects on ARRC's visitor industry partners, who would be challenged to replace the popular, scenic, high-amenity-value rail service with some other form of transportation with equal customer appeal.
- Loss of federal funding opportunities available to public transportation providers.
- Unknown, but certain redistribution of (and potential loss of) visitor spending in the region, as railroad passengers seek to replace their rail experience.
- Estimated 3,700 additional motorcoach trips along the Parks and Seward Highways and other areas served by the Railroad, with traffic congestion and highway maintenance impacts. There could also be increases in RV, van, rental vehicle, personal vehicle, and/or airplane usage as a large number of visitors will be forced to find alternative transportation methods.



Topline Opportunities



- Intermodal, Interstate & International Shipping
 - Supplies for exploration, drilling and development
 - OCS, ANWR, NPR-A Pipelines
 - Natural Gas Pipeline
- Pipeline on Rails
 - LNG
 - Crude Oil
 - Refined Oil
- Seward Master Plan
- Interline Growth
- Corridors to resources
 - Include rail, road, utilities, pipelines, etc.
 - Can build road to railroad geometry

Barge Service

Lower 48 and Canada to Alaska



- Seattle or Prince Rupert to Whittier
- Safe, Reliable, Affordable Service
- Increased demand in past 24 months driven by increased oil development on North Slope
- Longest Rail-Haul in North America
 - Alaska Railroad from Seattle to Fairbanks - 1815 Miles
 - Interline service from Panama City, Florida to Fairbanks - 4842 Miles

Pipeline on Rails

Moving LNG to Fairbanks

- ARRC could be an interim energy solution
- Experience handling bulk commodities
- Already provide-year round freight service Cook Inlet to Fairbanks
- Could have equipment in 12-18 months



Pipeline on Rails

Equipment Options – ISO Tanks

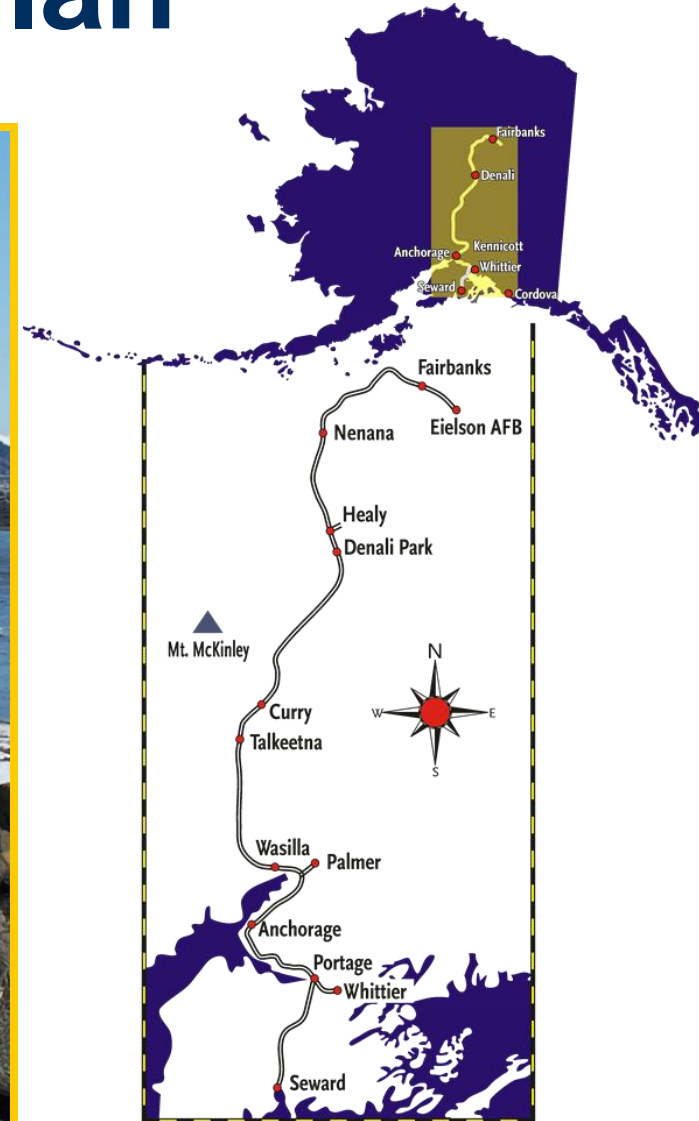
- 39,958 lbs. payload
- 11,000 gallons
- Can be double stacked from Port Mackenzie
- Cost of ISO tank container is \$150,000
- 18 months manufacturing time



Pipeline on Rails Summary

- Alaska Railroad has existing infrastructure.
- Extensive capacity to move bulk commodities
- Cost effective option to truck shipments
- Safe off highway transportation network
- ISO's offer effective asset utilization and resale option
- Available Alaska Railroad real estate
- Near term logistics solution

State Rail Plan



The Future

- Despite challenges, the Railroad will continue moving forward
 - Critical piece of transportation infrastructure in a state woefully lacking in such infrastructure
- Almost all large development projects in Alaska will need the Railroad
 - Gasline variations
 - Mining
- Alaska needs a strong Alaska Railroad
 - Externally sound
 - Internally sound

