

1/28/03

**OVERVIEW:
AEROSPACE
ASM, ARRRC**

HFIN

FILE

HOUSE FINANCE COMMITTEE
January 28, 2003
AGENDA

January 28, 2003 - Tuesday

Agency Overviews:

Alaska Aerospace Development Corp.

Pat Ladner, President & CEO, Alaska Aerospace Dev. Corp
(Power Point)

Alaska Seafood Marketing Institute

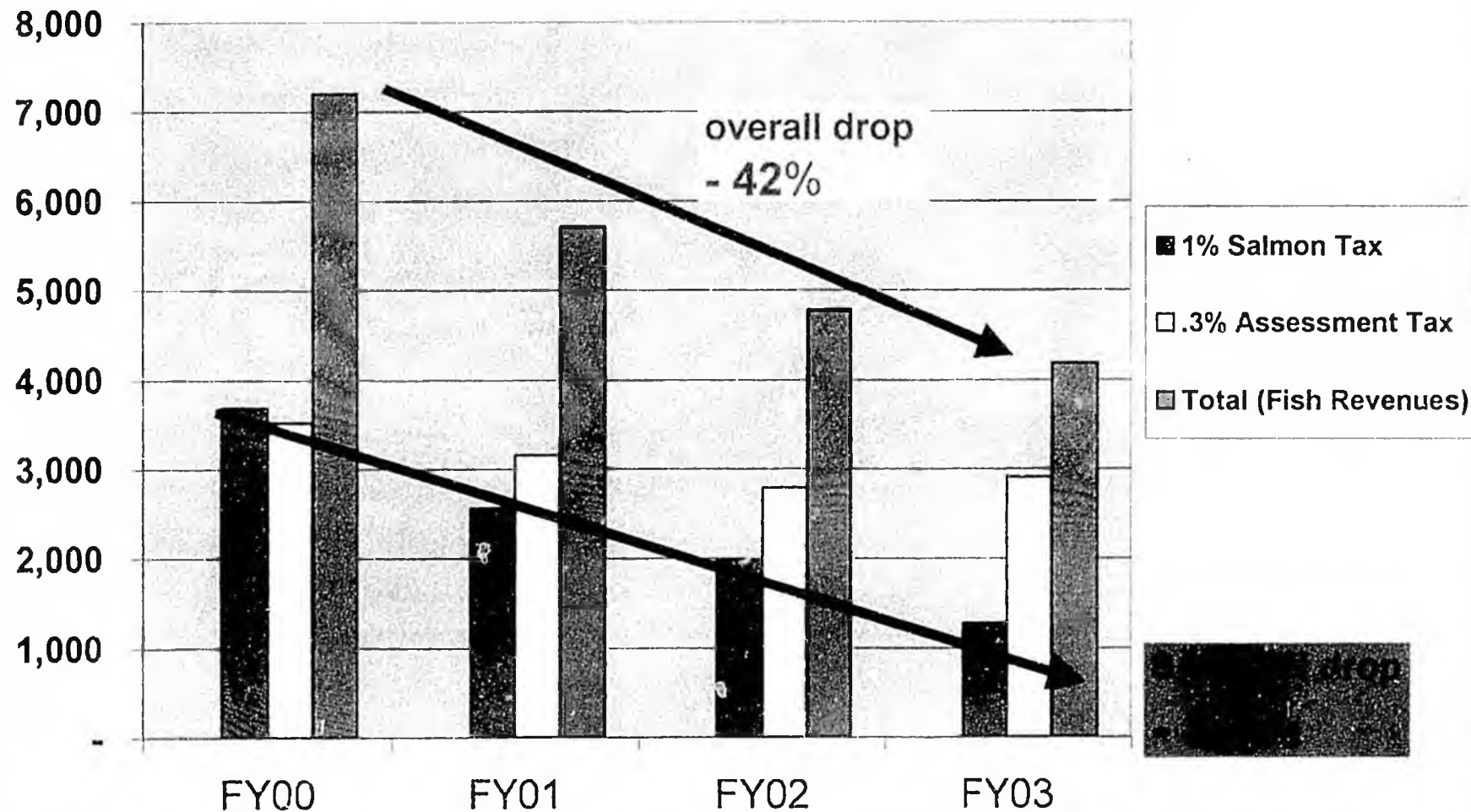
Ray Riutta, Executive Director, Alaska Seafood Marketing Ins.

Alaska Railroad Corporation

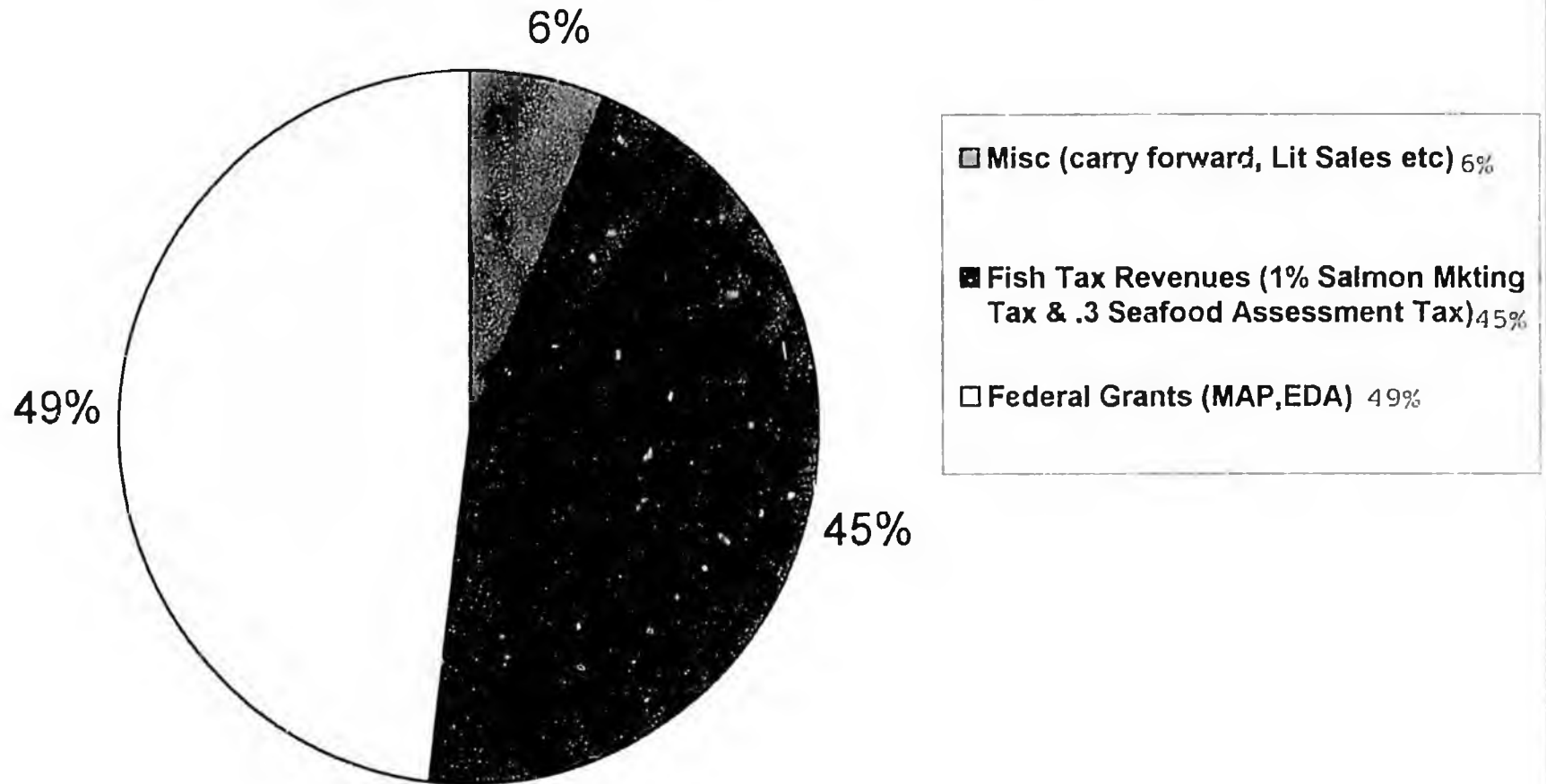
Patrick Gamble, President & CEO, Alaska Railroad Corporation
Bill O'Leary, Vice President, Finance, Alaska Railroad Corp.

ASMI Base Funding FY 03 (Fish Revenues)

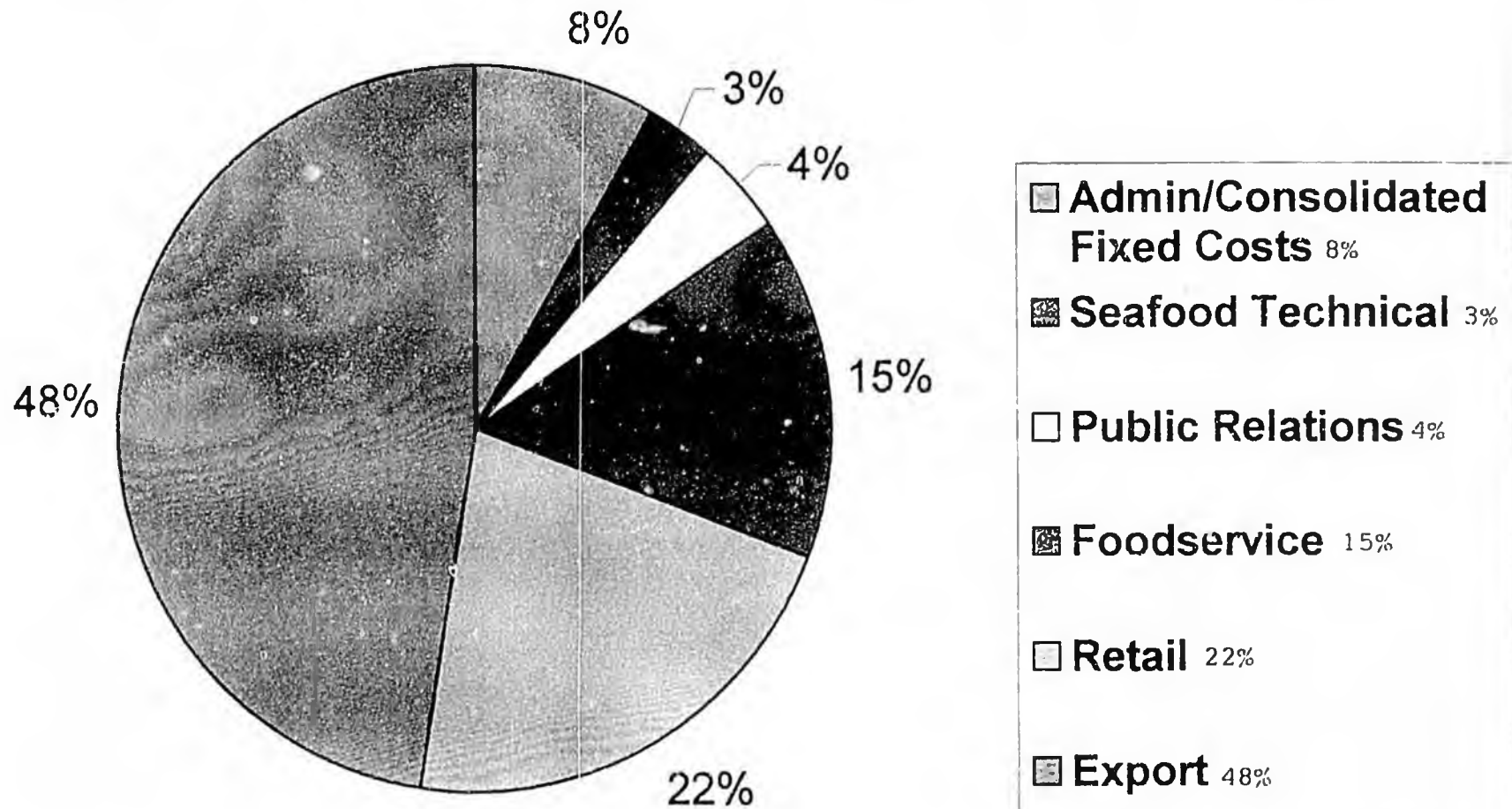
in millions



Sources of Anticipated ASMI Revenue FY03 \$9.2 million



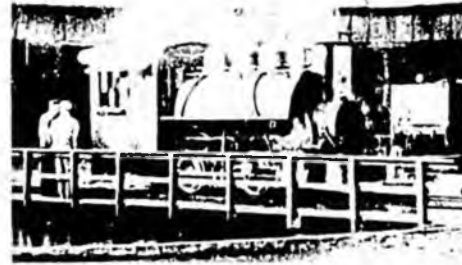
ASMI Budget Disbursement FY03 (\$ 9.2 million)





Alaska Railroad Corporation

Special Report to the Legislature and Administration State of Alaska



January 2003



Introduction

January 2003

The Alaska Railroad shared in the country's economic roller coaster ride during 2002. Like so many businesses in nearly every sector, we experienced a reduction in operating revenues and a steep rise in certain costs of doing business. Through a rigorous budget process last year we had anticipated most of these fiscal impacts. However, there were a few surprises. As a result, the second half of this year has been a time of regrouping and strategizing. I am pleased to report that, through effective negotiations, the Railroad management team was able to prevail in certain important civil and federal reimbursement issues that bolstered the bottom-line for 2002.

These one-time outcomes were entirely unpredictable a year ago when 2002 began, and therefore were not included during the budget process. In fact, the resolution of these items occurred only within weeks or days of year-end. Adding to the positive financial picture was the Railroad's safety improvement in 2002; we beat our workers compensation budget by over half a million dollars and employee healthcare utilization was down. In short, we offset a flat revenue year by the collective successes of several deliberate efforts. A good team makes its own luck.

We've remained on course in the areas of employee safety and training. Better prepared workers translate into higher productivity, while safety consciousness ultimately avoids the high cost of accidents and injuries. We have also taken significant steps to better our position with regard to the Railroad's environmental responsibilities. For example, our investment in reduced locomotive diesel emissions has been substantial.

In 2003, our objective is to continue a strategy of steady, measurable operational improvement. We will continue to make important improvements to our infrastructure. We will take full advantage of technology to enhance safety and customer service. We will seek to better train quality employees and we will put the emphasis on their productivity. We will continue our commitment to work proactively with our partners – communities, agencies, organizations, and leaders like yourselves who have Alaska's developmental interests at heart.

Respectfully,

Patrick K. Gamble, President & CEO



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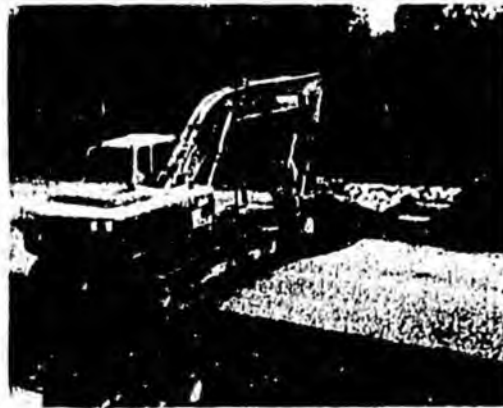
Guiding Statements

Vision:

Building a Great Railroad across the Great Land

Mission:

Be profitable by focusing on safe, high quality service to our freight, passenger, and real estate customers. Foster the development of Alaska's economy by integrating Railroad and railbelt community development plans.





Alaska Railroad "Quick Facts"

PURCHASE PRICE: (Jan. 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 of Alaska
- Managed by a seven-member board of directors appointed by the Governor
- Mandated to be self-sustaining, responsible for all financial and legal obligations

FINANCIAL STATISTICS: (Preliminary, Unaudited)

(Jan. 1-Dec. 31, 2002)

Total Assets \$366.3 million
 Total 2002 revenues \$101.9 million
 Total 2002 expenses \$ 93.5 million
 2002 net income \$ 8.4 million
 Budgeted 2003 net income \$ 5.5 million

OPERATING DATA:

Miles of main line 466
 Miles of branch line 59
 Miles of yards and sidings 86
 Total miles of track 611
 Freight cars (owned & leased)..... 1,625
 Passenger cars..... 43
 Locomotives..... 53

OPERATING STATISTICS:

(Jan. 1-Dec. 31, 2002)

Passenger ridership480,049
 Freight tonnage7,450,875
 Revenue car loads89,978

EMPLOYEES: December 31, 2002

Number of year-round employees 644
 Average years of service 11.2
 Average age 43
 Male 543
 Female 101

UNIONS: A majority of ARRC employees are members of five unions, including:

United Transportation Union 112
 Transportation Communication Union 41
 International Association of Machinists..... 63
 American Federation of Government Employees... 264
 American Train Dispatchers Department 12



RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original documents after microfilm reproductions have been made.

William J. Carter

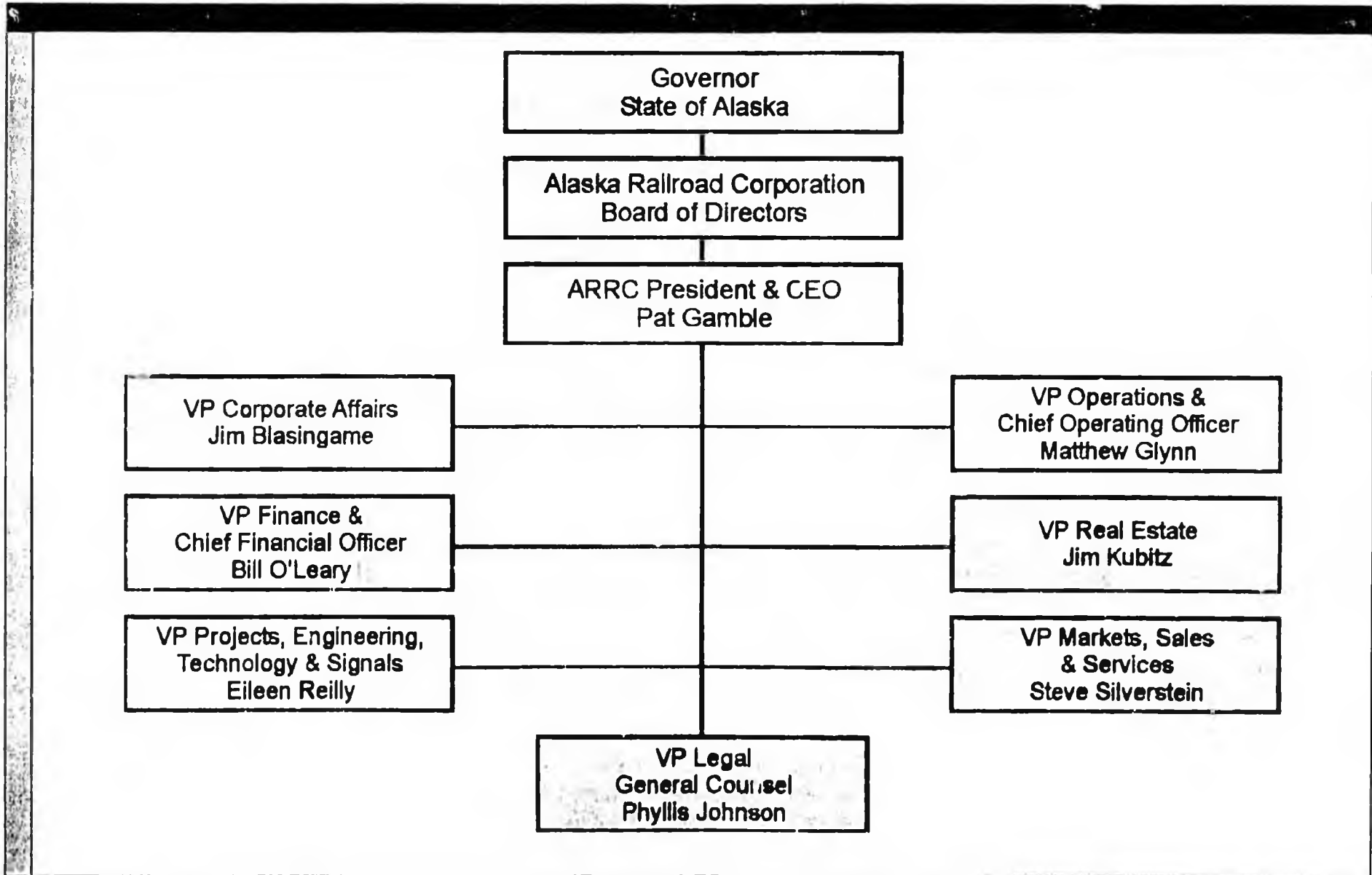
Signature of Camera Operator

5/18/2005

Date



Corporate Organization





Alaska Railroad Corporation "At A Glance"

Corporate History

The Alaska Railroad was built between 1914 and 1923 by the U.S. government. It was operated by the federal government until January 1985 when it was purchased by the State of Alaska for \$22.3 million to serve Alaska businesses and communities as an engine of community development and economic growth. The Alaska State Legislature created the Alaska Railroad Corporation (ARRC) in 1984 as an independent entity to own and operate the Railroad and to manage Railroad property after transfer.

The legislature appropriated \$11.9 million to the new corporation for start-up costs because the U.S. government retained control of the Railroad's bank accounts at the time of transfer (January 5, 1985). The legislative appropriation was sufficient to cover two payrolls and the costs of several on-going capital projects. The U.S. government retained control of the cash because it also retained responsibility for all payables and other liabilities that had arisen during the period of federal ownership (including, for example, worker's compensation claims).

Board of Directors

ARRC is a statutory corporation, managed by a board of directors appointed by the Governor. The seven-member governing board consists of the Commissioner of Transportation & Public Facilities, Commissioner of Community & Economic Development, and five other members appointed by the Governor. One member of the board must have at least 10 years of management experience on a U.S. railroad. Another director must be an employee-member of ARRC's labor unions. Two positions are designated for residents of the two judicial districts in which the Railroad operates.

Business Facts

While wholly owned by the State of Alaska, the Alaska Railroad is an independent authority responsible for all of its own financial and legal obligations. According to statute, ARRC is mandated to be a self-sustaining corporation – required to conduct its business without operating subsidies from the state. ARRC serves ports and communities from the Gulf of Alaska to Fairbanks. It is the only full-service railroad in the United States providing both year-round freight and passenger services. From tidewater at Whittier and Seward to the heart of Interior Alaska, ARRC's route covers 466 miles (with 611 total miles of track including spurs, industrial and yard track).

ARRC's operations are supported through revenues generated by freight, passenger and real estate services. Maintenance and operations centers are located in Seward, Whittier, Anchorage, Healy and Fairbanks.

ARRC has a fleet including:

- 53 locomotives
- 43 passenger cars
- 1,625 freight cars (740 owned, 235 leased, 441 customer leased and 209 Maintenance of Way rolling stock)

Employees

As of December 2002 ARRC employed 644 full-time employees with an additional 100 seasonal employees from May through September. ARRC employee wages and benefits are paid for through earned corporate revenues (approximately \$55.8 million in 2002).

The enabling act of the Alaska Railroad Corporation (AS 42.40) specifies that the employees of the corporation are not state employees. ARRC employees are not covered by state public employee contracts, nor do they receive state-funded benefits. Five different unions that negotiate contracts with the corporation represent 492 ARRC employees.

Finances

With total revenues of \$101.9 million and total expenses of \$93.5 million, the Alaska Railroad netted \$8.4 million in 2002. Transportation of petroleum products, gravel, coal, oilfield and mining supplies, chemicals and consumer goods account for 75 percent of ARRC's gross revenues. ARRC serves almost a half million passengers each year, accounting for approximately 14 percent of gross revenues.

ARRC owns approximately 36,000 acres of land. Of that, 14,000 acres are right-of-way and 4,500 acres are used in operations. The remaining land can be leased or permitted to help generate revenue for ARRC. Real estate revenues generally account for about 10 percent of the corporation's gross revenues.

The Railroad invests all cash flow from its annual net earnings and depreciation on capital improvements to its 611 miles of track, 169 bridges, 79 crossing signals, the roadbed, and other assets. Additionally, significant amounts of operating dollars are spent on maintenance of rail cars, locomotives, and rail infrastructure.

ARRC Mission

"Be profitable by focusing on safe, high quality service to our freight, passenger, and real estate customers. Foster the development of Alaska's economy by integrating Railroad and railbelt community development plans."

ARRC's mission stems from language found in the Alaska Railroad Corporation Act of 1984 that clearly defines why the State believed ARRC has played, and will continue to play, an important role in Alaska's economy.

ARRC Vision

"Building a Great Railroad across the Great Land."

An important element in realizing this vision is ARRC's success since 1996 in qualifying for federal funding due to the Railroad's public status and its passenger service mission. As a result, ARRC has been able to accelerate regular maintenance and repair centered on aggressive improvements to the roadbed and track structure.

Other federal funds for facility improvements, such as intermodal facilities and docks, as well as improved technology, have come to ARRC in recent major federal transportation and transit bills.

How ARRC Differs from 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 Railroad reports to the Board.

Unlike other independent state corporations (such as the Alaska Housing Finance Corporation and the Alaska Industrial Development and Export Authority), ARRC's enabling statute specifically requires that all revenue earned by the Railroad be retained by the Railroad. The federal transfer legislation also contains this requirement. The intent was to ensure the Railroad had the money it needed to meet basic maintenance needs, improve the asset for safety and increased profitability, and to avoid tapping into the state general fund. The Railroad's annual net operating dollars are invested back into the rail line.

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:

- The ARRC Board of Directors is responsible for initiating both a financial and performance audit each year conducted by independent financial 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.
- 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 disposing of the Railroad's entire interest in land, or leasing land for longer than 55 years.
- The Legislative Budget and Audit Committee regularly reviews ARRC's operation and management practices.
- 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.



2002 Year in Review

By Patrick Gamble, President & CEO

Even as the State economic climate flattened, as expenses increased, and as key revenue sources derailed, the Alaska Railroad Corporation (ARRC) remained steadily on track in terms of safe day-to-day operations, imbedding efficiency and productivity in our train operations, and upholding our commitment to investing for the future. In other words, we stuck to our strategy of continuous, steady improvement.

Financial Picture

Similar to the economic landscape across Alaska, many segments of ARRC's business remained flat. In addition to the unexpected cancellation of Korean export coal, fuel shipments from the North Pole Refinery were interrupted for one month. At the same time, ARRC saw a significant increase in employee retirement benefit costs. Unexpected expenses also came in the spring when severe flooding caused track damage and resulted in several days of costly service delays. Even so, ARRC went to work quickly to offset what could have been a marginal financial year with substantial reductions in corporate expenses, still preserving wage and benefit increases agreed to during labor negotiations.

Safety & Environmental

Our people made admirable strides in the area of safety. This year, ARRC reduced its injury frequency rate by 63 percent from 1997, marking our lowest corporate injury frequency rate to date. In 2002, ARRC's Mechanical and Transportation departments have injury rates that rank them among the safest in the country and ARRC's 2002 derailment record also bettered the national average.

During the year, ARRC developed and completed both our oil spill contingency plan (C-Plan) and an environmental management system that goes beyond regulatory requirements. The C-plan is filed with the Alaska Department of Environmental Conservation and it has been tested through a number of spill response drills that have actively engaged state and federal regulatory agencies, as well as the Department of Defense.

With regard to equipment upgrades, the Railroad initiated a program in 2002 to install auxiliary power units and software technology on locomotives that will reduce diesel emissions and noise. The Railroad worked with petroleum customers to repair fuel tank car wheel assemblies as part of a preemptive program to enhance safety by reducing the risk of derailment.

Customers & Revenues

Freight: 2002 saw overall freight revenue below last year's level. Helping to offset coal revenue loss, gravel came on strong in the latter part of the year, surpassing 2001 levels. Petroleum shipments from North Pole Refinery came in under the expected mark.

Passenger: Early predictions that September 11 would have a big impact on tourism activity in Alaska were wrong with regard to our passenger business. Rail passenger revenue grew more than 4% over last year. Passenger purchases reflected changing economic factors, however, as shorter, less expensive packages were most popular.

Real Estate: This important segment continues to perform well, with revenues exceeding \$11 million for the first time. During its first full year of operation, the new Seward freight dock generated promising new business.

Capital Projects

Infrastructure improvements continued at an accelerated pace throughout the year.

Construction on the Rail Depot at Ted Stevens Anchorage International Airport was completed in November, on time and on budget. Ribbon cutting occurred in December. Ground broke on both the new Fairbanks and Denali Depot projects this fall.

Several miles of new track alignment came on-line from the Anchorage yard onto the military installations this year. The environmental process to gain approval for curve-straightening efforts between Eagle River and Knik River was also complete in 2002. To date, about one-fourth of the 70 curves to be straightened through the Anchorage-to-Wasilla track realignment projects have been accomplished.

Construction of a new bridge over Campbell Creek during the winter is the final step to finishing the South Anchorage Double Track and Signalization Project, which will ease congestion along this busy 5-mile stretch.

In Whittier, the Railroad constructed new side-unloading barge dock that is allowing more efficient transfer operations for this growing segment of ARRC's freight business. The Pedestrian Underpass, traversing the rail yard underground, opened this summer to provide safe passage for residents and visitors who want to travel between the harbor and town site. The Railroad also continued work on the DeLong Dock's electrical system and installed a water line to provide fresh water to ships and fishing boats. The DeLong Dock was put into operation at Railroad expense to temporarily offset the loss of the 1,100 foot Marginal Wharf, which had reached the end of its useful life. The Railroad has plans to rebuild the Marginal Wharf.

Pedestrians near the Anchorage rail yard saw improvements this year. The plaza at the corner of North C Street and Ship Creek Avenue was completed and landscaped. Sidewalk and lighting projects around the plaza area continued through the summer, complementing construction of the new Ulu Factory, which is going up adjacent to the plaza. Assisted by the new Ship Creek Shuttle bus service, we are seeing greater visitor interest in visiting Ship Creek as it becomes more pedestrian friendly.

Community Cooperation

As a busy partner in the economic well-being of railbelt communities, ARRC coordinated future transit plans, and facilitated an improved regional transportation planning process. The Railroad became an official member of the Anchorage Metropolitan Area Transportation System (AMATS) technical committee, Fairbanks Metropolitan Area Transportation System (FMATS) technical committee, Fairbanks Rail Task Force Committee, Palmer Urban Revitalization Steering committee, and the Anchorage-Mat-Su Regional Transportation Steering Committee. Additionally, the ARRC sits on the State Chamber of Commerce Board, the Anchorage Chamber of Commerce Board, Anchorage Economic Development Corporation, Resource Development Board, and Vision Anchorage, adding to the numerous community-based groups our employees participate in each year.

ARRC continued to support local school business partnership programs and non-profit efforts through a generous corporate giving program. In addition, many parks and public use areas are located on ARRC lands – leased to communities well below market value.

Labor Relations

An important milestone was reached in 2002 when the Alaska Railroad signed labor contracts with three of five unions – the United Transportation Union, the Alaska Railroad Workers, and the Transportation Communication Workers unions. New agreements secured strategic goals for the corporation, while providing workers with very competitive wage packages and reasonable, predictable wage increases.

Specifically, these contracts discontinued the unpopular wage tier system that had resulted in pay differentials between employees performing the same work. In two of three unions, profit-sharing was eliminated and replaced by a more reliable 401K employer match program. Contract negotiations also resulted in separate benefit plans for non-represented and represented employees, providing ARRC with greater flexibility in tailoring these plans for employees.

Looking Ahead

Although ARRC has significantly improved its personnel safety record, safety improvements will still remain the top priority. The ARRC will continue to invest heavily in safety training in 2003, having set ambitious goals to achieve a 15% decrease in both lost time and derailments.

ARRC's freight business is expected to remain flat in 2003. The Railroad's focus will be on customer service, velocity, and on-time performance. On the passenger side, ARRC will introduce a new day trip service to Southcentral Alaska's Spencer Glacier and Grandview Pass, actually a continuation of the *Glacier Express* train currently serving Whittier. Beginning in May 2003, the new airport rail depot will serve cruise ship customers traveling between Anchorage and Seward.



2002 Recap: Health, Safety and Environment

Recap of major events in health, safety and environment

1. *Reductions in derailment risk*

- a. Overhaul of the entire Williams Petroleum Alaska tank car fleet was completed. The trucks on 110 ITLX tank cars were replaced this spring, completing a coordinated effort between ARRC and Williams. The effort began in 2001, when 274 GATX car trucks were overhauled, based on a derailment risk audit that identified a worn truck part, causing a risky condition with greater potential for derailment.
- b. ARRC and federal investment in rail, ties, and ballast continues to pay big safety dividends. In 2002, there was only one reportable (more than \$6,700 in damage) mainline track derailment. And, for the second consecutive year, of the derailment events that did occur (on sidings or in yards), less than 10 percent were caused by a failure in the track structure. This compares to a much higher historical average of 35% through 1998.

2. *Reportable injuries at an all-time low*

- a. Year to date, ARRC has the lowest reportable injury frequency rate in the corporation's history. The current 4.2 frequency rate represents a 63% reduction from 1997.

3. *Enhanced emergency planning tools*

- a. In 2002, ARRC implemented its improved Oil Spill Prevention and Response Plan, which meets statutory requirements. The Plan underwent a public review process, including five public hearings in railbelt communities and a public comment period this spring, under the auspices of the Alaska Department of Environmental Conservation.
- b. In 2002, the ARRC completely revised and upgraded its federal spill and stormwater plans, and implemented an Environmental Management System to track compliance.

4. *Equipment improvements to reduce emissions*

- a. In 2002, ARRC initiated a program to install start/stop engine control technology on our locomotives for use in cold weather. These enhancements will reduce emissions and noise pollution.



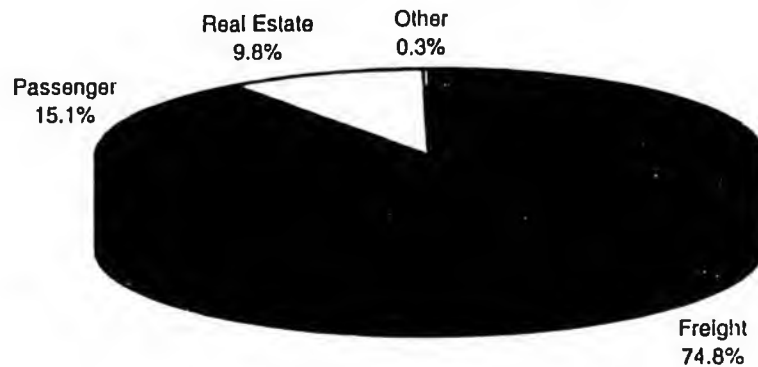
ARRC Five-Year Objectives

- Reduce employee injuries to achieve an average of no more than 2.0 injuries per 200,000 man hours
- Invest an average of 20 percent of annual revenue in infrastructure maintenance
- Grow overall revenue two to four percent per year
- Successfully complete our federally-funded capital construction program
- Redesign and build Anchorage and Fairbanks yard facilities to meet business, growth, and community requirements
- Consistently run trains between Anchorage and Fairbanks under twelve hours
- Achieve and sustain an annual real estate income of at least \$10 million per year
- Establish a formal railroad recruitment and training program
- Eliminate 25 percent of at-grade highway/railroad crossings in Alaska
- Fund and apply technology to train dispatching, signals and switching
- Achieve and sustain an operating ratio of 0.95 by 2006

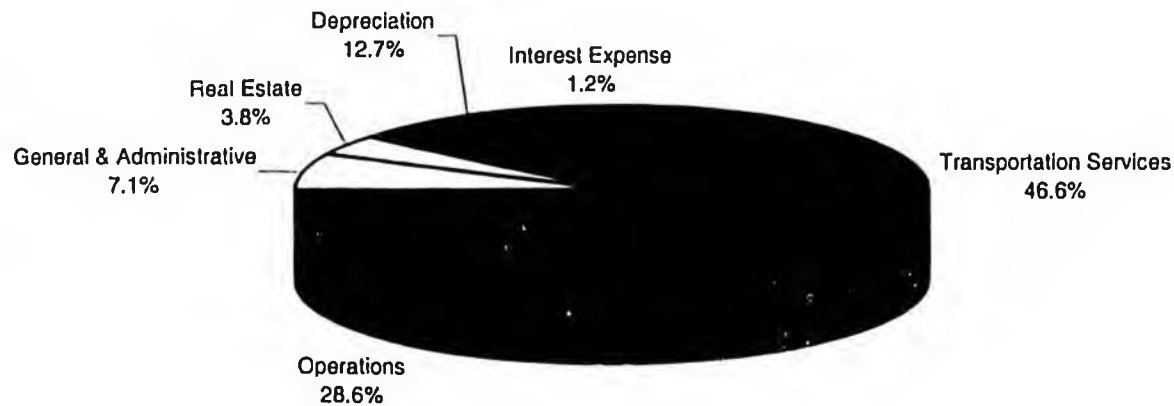




2003 Budgeted Revenues and Expenses



Budgeted Revenues
\$99.0 million



Budgeted Expenses
\$93.5 million



5-Year Forecast – Revenue

<i>in millions)</i>	2003 Budget	2004 Forecast	2005 Forecast	2006 Forecast	2007 Forecast
Freight	\$ 74.04	\$ 76.81	\$ 77.53	\$ 77.66	\$ 80.45
Passenger	14.95	15.27	15.58	15.90	\$ 16.16
Real Estate	9.69	10.00	10.21	10.55	\$ 10.76
Other	0.32	0.45	0.30	0.31	\$ 0.30
Total	\$ 99.00	\$ 102.53	\$ 103.62	\$ 104.42	\$ 107.67



5-Year Plan – Operating Budget

<i>(in millions)</i>	2003 Budget	2004 Plan	2005 Plan	2006 Plan	2007 Plan
Operating Revenues	\$ 89.11	\$ 92.1	\$ 93.11	\$ 93.55	\$ 96.61
Operating Expenses	(81.40)	(79.19)	(76.35)	(75.78)	(78.25)
Net Income – Operations	7.71	12.89	16.76	17.77	18.36
Net Income – Real Estate	6.14	6.27	6.30	6.70	6.81
Other Income	0.20	0.21	0.23	0.25	0.27
Net Income (before depreciation and interest)	14.05	19.38	23.29	24.72	25.44
Depreciation	(11.85)	(12.50)	(13.00)	(13.50)	(14.00)
Interest Expense	(1.09)	(1.05)	(0.98)	(0.89)	(0.79)
Net Income (earned without Federal 5307 Funds)	\$ 1.11	\$ 5.83	\$ 9.31	\$ 10.33	10.65
Federal 5307 Funds	4.43	4.80	4.80	4.80	4.80
Net Income	\$ 5.54	\$ 10.63	\$ 14.11	\$ 15.13	\$ 15.45



5-Year Forecast – Capital Budget

<i>(in millions)</i>	2003 Budget	2004 Forecast	2005 Forecast	2006 Forecast	2007 Forecast	TOTAL
ARRC Internally Generated	\$ 18.3	\$ 31.0	\$ 23.8	\$ 18.6	\$ 14.0	\$ 105.7
Federal Railroad Administration	* 33.0	*28.0	*28.0	20.0	20.0	\$ 129.0
Federal Transit Administration	** 20.4	9.9	15.3	14.6	9.4	\$ 69.6
Total	\$ 71.7	\$ 68.9	\$ 67.1	\$ 53.2	\$ 43.4	\$ 304.3
* Includes \$8.0 million in funding from the Department of Defense						
** Includes \$0.4 million in funding from the U.S. Fish & Wildlife Service						



5-Year Forecast – Capital Investment Program

ALASKA RAILROAD CORPORATION Five-Year Capital Plan		2003	2004	2005	2006	2007	Total
2003 Project ID							
R-01	FRA Base Line Change Base Line Changes	8,000,000	8,000,000	8,000,000			24,000,000
	FRA Track Program: Pending 2003 Appropriation						
	<u>Siding Access Program</u>						
R-50	Power Switch - Sunshine		1,676,789				1,676,789
R-51	Power Switch - Willow		1,676,789				1,676,789
R-05	Goldstream - New	2,000,000					2,000,000
R-52	Install CTC between Palmer Jct and Pittman		1,524,709				1,524,709
R-53	Install CTC between Anchorage and Palmer Jct	400,000					400,000
R-54	Siding Extension - Mantley	800,000					800,000
R-56	Fairbanks Passenger Track		2,900,000				2,900,000
R-57	Fairbanks Loop Track	2,400,000					2,400,000
R-58	Denali siding	800,000					800,000
	<u>Track Rehab Program</u>						
R-59	Anchorage Operations Center	4,500,000					4,500,000
R-26	Rail	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	15,000,000
R-39	Ballast/Surfacing	2,600,000	2,600,000	2,600,000	2,600,000	2,600,000	13,000,000
R-27	Ties	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	12,500,000
R-29	Drainage Improvements/Slope Stabilization	1,300,000	2,300,000	2,300,000	2,300,000	2,300,000	10,500,000
R-60	Resurrection River Bridge - MP 3.2	2,300,000					2,300,000
R-28	Bridge Program	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	7,500,000
R-32	Healy Canyon Stabilization/Realignments	500,000					500,000
R-61	2004 Engineering/NEPA/SHPO	400,000					400,000
	<u>Siding Access and Track Rehab Programs</u>		321,713	8,100,000	8,100,000	8,100,000	24,621,713
	Subtotal FRA Track Program	25,000,000	20,000,000	20,000,000	20,000,000	20,000,000	105,000,000
	Total FRA Funding	33,000,000	28,000,000	28,000,000	20,000,000	20,000,000	129,000,000
E-1	US Fish and Wildlife Service Fish Passage Improvements	400,000					400,000

ALASKA RAILROAD CORPORATION
Five-Year Capital Plan

2003 Project ID		2003	2004	2005	2006	2007	Total
	FTA 5309 Earmark Projects: Pending 2003 Appropriation						
<u>I-01</u>	Fairbanks Intermodal/Depot	2,500,000					2,500,000
<u>I-09</u>	Wasilla Intermodal Facility	900,000					900,000
<u>I-11</u>	Ship Creek Intermodal	5,000,000					5,000,000
<u>I-57</u>	Anchorage Airport Rail Station	2,500,000					2,500,000
	Subtotal FTA 5309 Earmark Projects	10,900,000	-	-	-	-	10,900,000
	FTA 5309 New Start Projects						
<u>I-55</u>	Nenana Realignment	-	750,000	6,000,000	5,250,000	-	12,000,000
	Subtotal FTA 5309 New Start Projects	-	750,000	6,000,000	5,250,000	-	12,000,000
	FTA 5309 Fixed Guideway Modernization Projects: Pending 2003 Appropriation						
	<u>Passenger Power & Equip and Safety</u>	1,300,000	1,220,834	1,314,459	1,410,893	1,510,220	6,756,406
<u>I-01a</u>	Fairbanks Intermodal Facility	1,029,936					1,029,936
<u>339</u>	Denali Depot Interior Remodel	200,000					200,000
<u>I-54</u>	Ship Creek Trail	-	1,000,000	500,000			1,500,000
<u>I-55</u>	Nenana Realignment	500,000	-	-			500,000
<u>I-14</u>	Rail Capacity Improvements	-	900,000	1,400,000	1,900,000	1,900,000	6,100,000
	Subtotal FTA 5309 Fixed Guideway Modernization Projects	3,029,936	3,120,834	3,214,459	3,310,893	3,410,220	16,086,342
	FTA 5307 Projects: Pending 2003 Appropriation						
	<u>Planning</u>						
<u>338</u>	Talkeetna Depot Planning	30,000					30,000
<u>I-17</u>	Transit Security	48,257	48,257	48,257	48,257	48,257	241,285
	<u>Construction</u>						
<u>I-10</u>	Denali Depot (construction)	266,400					266,400
<u>I-23</u>	Whittier Transit Shed Demolition	150,000	-				150,000
<u>I-56</u>	<u>Preventive Maintenance</u>	5,537,468	5,983,868	5,983,868	5,983,868	5,983,868	29,472,940
	Subtotal FTA 5307 Projects	6,032,125	6,032,125	6,032,125	6,032,125	6,032,125	30,160,625
	Total FTA Funding	19,962,061	9,902,959	15,246,584	14,593,018	9,442,345	69,146,967
	Vehicle/Equipment Program						
	<u>Vehicle Program</u>		245,000	400,000	400,000	400,000	1,445,000
<u>300</u>	District 4 Inspector's Truck	65,000					65,000
<u>302</u>	Transportation Suburban	38,000					38,000
<u>303</u>	Telecommunications Truck - Replacement	75,000	75,000				150,000
<u>357</u>	Signal Maintainer Vehicle	65,000					65,000
<u>304</u>	Wasilla Section Truck	85,000					85,000
<u>53</u>	15 Passenger Hy-Rail Bus	57,000					57,000
<u>301</u>	Bunny Tractor - Anchorage TOFC		80,000				80,000
	Subtotal	385,000	400,000	400,000	400,000	400,000	1,985,000

ALASKA RAILROAD CORPORATION
Five-Year Capital Plan

2003 Project ID		2003	2004	2005	2006	2007	Total
Equipment Program							
23	Heavy Equipment Lease Buyout		350,000	200,000			550,000
374	Whittier Overhead Crane - Maintenance Facility	35,000					35,000
50	Locomotive LC107 Crane Rebuild	250,000	400,000	400,000	400,000	400,000	1,850,000
381	Equipment Capital Rebuilds	300,000	300,000	300,000	300,000	300,000	1,500,000
20	Ballast Regulator	350,000		350,000		350,000	1,050,000
311	Brush Cutter	375,000					375,000
310	Purchase Lowboy Trailer	80,000	80,000				160,000
305	Fairbanks Overhead Crane - Heavy Equip Shop	80,000					80,000
380	Car Mover	150,000	250,000				400,000
308	Purchase Boom for 290 Hoesch Truck	60,363					60,363
306	Forklift for Box Car		43,000				43,000
307	Purchase 4X4 Gator utility vehicle for Fairbanks shop.		7,847				7,847
47	Speed Swing		300,000				300,000
	Anchor Machine				100,000		100,000
45	D-6 Cat		300,000	300,000			600,000
	Spike Driver		200,000				200,000
	Spike Puller			150,000			150,000
	Tie Handler				100,000	100,000	200,000
	Tie Inserter			200,000		200,000	400,000
	Wheel Crane				400,000		400,000
51	Hi Rail Boom Truck (Tundra Type)				250,000	-	250,000
46	Snow blower			350,000			350,000
37	Tampers		400,000		400,000		800,000
	Subtotal	1,680,363	2,630,847	2,250,000	1,950,000	1,350,000	9,861,210
	Total Vehicle & Equipment Program	2,065,363	3,030,847	2,650,000	2,350,000	1,750,000	11,846,210
Maintenance							
10	Bridge Replacements	480,000	3,050,000	3,900,000	2,050,000	6,200,000	15,680,000
12	Branch Line Rehabilitation	800,000	1,205,000	200,000	200,000	200,000	2,605,000
2	MOW Section Improvements	200,000	200,000	200,000	200,000	200,000	1,000,000
18	Roofs - Anchorage Shops	500,000	500,000	250,000	250,000	250,000	1,750,000
312	Avalanche Control - Howitzer Purchase	40,000					40,000
220	Generator Replacement @ Hurricane	80,000					80,000
22	Yard Track Improvements	800,000	950,000	250,000	250,000	250,000	2,500,000
15	Rip Rap Placement	400,000	150,000	150,000	150,000	150,000	1,000,000
7	Electric System Rehabilitation - Anchorage & Fairbanks shops	600,000	750,000	750,000	750,000	750,000	3,600,000
32	Yard Paving - Anchorage/Fairbanks	100,000	100,000	100,000	100,000	100,000	500,000
291	Walkways & Yard Footing Conditions	200,000	150,000	150,000	150,000	150,000	800,000
17	Hydraulic Tools for MOW Sections	80,000	80,000	80,000	80,000	80,000	400,000
43	HE Repair Shop Tools/Equipment - Continued purchase of shop tools	30,000	30,000	30,000	30,000	30,000	150,000
67	Facilities Overhead Doors	40,000	40,000				80,000
76	Fencing	50,000	50,000	50,000	50,000	50,000	250,000
280	Phase II Warehouse 3 - asbestos removal	-	525,000				525,000
21	Mainline Switch Rehabilitation	-	100,000	100,000	100,000	100,000	400,000

ALASKA RAILROAD CORPORATION

Five-Year Capital Plan

2003 Project ID		2003	2004	2005	2006	2007	Total
	Maintenance - Continued						
<u>313</u>	Mull-agency Avalanche Center	-	400,000				400,000
<u>38</u>	Purchase Ballast Cars		700,000				700,000
<u>57</u>	Avalanche Program - GIS		50,000	60,000	60,000		170,000
<u>55</u>	Heavy Equipment Shop Relocation			7,000,000	7,000,000		14,000,000
<u>41</u>	Switch & Crossing Grinder		2,500,000				2,500,000
<u>33</u>	Slide Zone Detection/Mitigation			250,000	250,000	250,000	750,000
<u>36</u>	MOW Work Tracks		200,000	100,000	100,000	100,000	500,000
<u>39</u>	Crossings		75,000	75,000	75,000	75,000	300,000
<u>375</u>	Locker Room/Toilet Upgrade Program		100,000	100,000	100,000	100,000	400,000
<u>65</u>	Facilities North						
<u>69</u>	Boiler Control	40,000					40,000
<u>315</u>	Fairbanks Car Shop Locker Room/Toilet Room	159,000					159,000
<u>314</u>	Interior Lighting	30,000	30,000				60,000
<u>6</u>	Equipment Shed		530,000				530,000
<u>66</u>	Fairbanks Mechanical Shops Electrical Upgrade		75,000	50,000	50,000	25,000	200,000
<u>316</u>	Fairbanks Roof Drains, Windows, ETC.		40,000	40,000	40,000	40,000	160,000
<u>70</u>	Fairbanks Scale Rehab		25,000				25,000
<u>71</u>	Section - Cantwell Garage		40,000				40,000
<u>72</u>	Facilities South						
<u>79</u>	Whittier - Electrical Distribution and Lighting	40,000	135,000	120,000	120,000	40,000	455,000
<u>73</u>	Anchorage Shop Sprinklers	75,000	75,000	75,000	75,000	75,000	375,000
<u>82</u>	Anchorage Shop Water systems upgrade	80,000	80,000	80,000	80,000	80,000	400,000
<u>81</u>	Anchorage Storm Drain System Upgrade	150,000	50,000	50,000	50,000	50,000	350,000
<u>317</u>	Heat System Traps & HRUs Program	75,000	75,000	75,000	75,000	75,000	375,000
<u>74</u>	Diesel Repair Shop - Windows	50,000	75,000	50,000	50,000	150,000	375,000
<u>75</u>	Car & General Repair Shops - Roof Drains	-	75,000	125,000	125,000	175,000	500,000
<u>80</u>	Sanitary Sewer - trunk extensions - Anchorage		50,000	50,000	50,000	50,000	200,000
	Total Maintenance	5,099,000	13,260,000	14,510,000	12,660,000	9,795,000	55,324,000
	Mechanical						
<u>319</u>	Overhaul Trucks for 6 locomotives	164,014	164,014	164,014	164,014	164,014	820,070
<u>320</u>	Progressive Overhaul 6 locomotives	868,449	674,854	674,854	674,854	674,854	3,567,865
<u>329</u>	General Repair luncheon/locker improvements	15,000					15,000
<u>19</u>	Locomotive Fueling & Servicing Facilities	1,000,000	3,000,000				4,000,000
<u>318</u>	Install toilets, insulation, and heat in 7 locomotives	208,024	208,024	208,024			624,072
<u>322</u>	Rebuild trucks on 63 - 100 ton steel hoppers (16000,16100)	365,831	365,831				731,662
<u>321</u>	Purchase automatic toilet washer	74,663					74,663
<u>323</u>	Huck Machine for Car Shop	28,974					28,974
<u>326</u>	Plasma Cutter for Car Shop	7,244					7,244
<u>324</u>	Rebuild 5 - 17000 series flat cars	64,038	64,038	51,230			179,306
<u>325</u>	Purchase and install 6 air dryers for locomotives per year, 32 total proj	99,371	132,495	132,495			364,361

ALASKA RAILROAD CORPORATION
Five-Year Capital Plan

2003 Project ID		2003	2004	2005	2006	2007	Total
Mechanical - Continued							
<u>327</u>	Convert 4 MOW friction bearing cars to roller bearing trucks per year.	45,070	144,507	200,000	45,000		434,507
<u>328</u>	GG Bearing conversion for 8 GP locomotives	105,000	117,564	117,564			340,128
<u>330</u>	Purchase 2 Air Turbine EOT Devices	-	32,828	32,828	32,828	32,828	131,312
376	Purchase/install wheel boring machine.			550,000			550,000
377	Bearing Tapered Roller (BTR) Assembly Rebuild System for SD70 MACs.		500,000				500,000
	Total Mechanical	3,045,608	5,404,155	2,131,009	916,696	871,696	12,369,164
Transportation Projects							
<u>131</u>	Head in Williams Loop	1,032,000					1,032,000
<u>336</u>	Whittier barge slip dolphin	270,000					270,000
<u>133</u>	Automatic Low Banner Switch	30,000	20,000	20,000	20,000		90,000
<u>A.1</u>	North Ship Creek Bluff Phase 2		1,000,000				1,000,000
<u>204</u>	Anchorage Yard Track	800,000	973,000				1,773,000
<u>290</u>	Springer Loop Access Road	75,000	-	-	-		75,000
155	Whittier yard improvements		500,000	500,000			1,000,000
	Total Transportation	2,207,000	2,493,000	520,000	20,000	-	5,240,000
Markets, Sales & Services							
<u>Passenger</u>							
<u>145</u>	Baggage Bin Replacement		10,000		10,000		20,000
<u>342</u>	Grandview Coach Seating Remodel (551 & 552)		310,962				310,962
<u>343</u>	Grandview Coach Seating Remodel (553 & 554)		310,962				310,962
344	Seward Porch/Shelters		50,000				50,000
345	Seward Baggage Conveyor			200,000			200,000
346	Seward Baggage Storage		15,000				15,000
347	Anchorage Baggage Conveyor			250,000			250,000
348	Talkerina Porch				50,000		50,000
349	Galley Remodel ARR 451			225,500			225,500
350	Galley Remodel ARR 452			225,500			225,500
351	Galley Remodel ARR 300		215,250				215,250
352	Galley Remodel ARR 301		215,250				215,250
<u>136</u>	Wheelchair lifts		15,000		15,000		30,000
<u>Freight</u>							
<u>146</u>	Container cars - new/used	325,000	550,000	575,000	400,000		1,850,000
<u>148</u>	Convert 3 per year - 19100 flats to 480 volt	84,508	140,846	140,846	56,338		422,538
<u>147</u>	Chain equipped flat cars - new/used 5		150,000	150,000			300,000
	Total Markets, Sales and Service	409,508	1,983,270	1,766,846	531,338	-	4,690,962

ALASKA RAILROAD CORPORATION
Five-Year Capital Plan

2003 Project ID		2003	2004	2005	2006	2007	Total
Information Services							
<u>Infrastructure</u>							
163	CMMS Preventative Maintenance (with FTA participation)		635,000	100,000	50,000	50,000	835,000
157	Network Services	70,000	100,000	100,000	150,000	75,000	495,000
158	Wide Area Network	80,000	70,000	100,000	95,000	70,000	415,000
159	Tape Library System	31,850	25,000	15,000	60,000	30,000	161,850
161	Network Printer Upgrade Program	19,500	11,508	11,508	3,508	17,508	63,532
160	Hot Site (Disaster Dispatch Backup)	-	50,000	100,000	100,000	75,000	325,000
171	OIS System HW Upgrade		200,000				200,000
170	Financial System HW Upgrade		20,000	200,000			220,000
<u>Corporate Development</u>							
353	I/T Delivery and Portal Services	-	105,000				105,000
169	Online Freight Quotes	20,000	20,000				40,000
354	Car Inspection - Handheld project	60,000	30,000	30,000	30,000	10,000	160,000
355	Electronic Yard Repair AAR Billing	48,290					48,290
167	GIS Track and Watershed DB	16,000	16,000	15,000			47,000
	Total Information Services	345,640	1,282,508	671,508	488,508	327,508	3,115,672
Telecommunications and Signals							
<u>Signals</u>							
218	Replace Crossing Signal battery & Install monitoring	50,000	50,000	50,000	50,000	50,000	250,000
173	Replace Dragging Equipment Detectors	92,517	92,517	92,517	-		277,551
178	Replace Hot Bearing Detector systems	23,043	23,043	115,215	115,215	69,129	345,645
176	Replace Obsolete Defect Detector Systems	31,567	31,571	-	-		63,138
359	Small Tools and Test Equipment - Signal	11,000					11,000
378	New Detectors Whittier Tunnel and North Healy	40,000					40,000
379	ITS Video Feeds	25,000					25,000
179	Type "A" dragging equip detectors		34,000	34,000	34,000		102,000
214	Crossing signal electronic upgrade::		20,000	20,000	20,000		60,000
<u>Telecommunications</u>							
172	Radio Telephone Replacements	50,000	-	-	-	-	50,000
359	Storage battery replacements-Microwave sites	24,500	25,000	25,000	25,000	25,000	124,500
360	Small Tools and Test Equipment - Telecom	-	10,000	10,000	10,000	10,000	40,000
180	Telephone Switch		200,000		200,000		400,000
361	Upgrades to ARRC owned communication sites		30,000	30,000	30,000	30,000	120,000
	Total Telecommunications and Signals	347,627	516,131	376,732	484,215	184,129	1,908,834
Corporate							
192	Records Retention Program		30,000	30,000			60,000
362	Training Center	130,000					130,000
373	GIS	226,000					226,000
371	Locomotive Simulator	-	350,000				350,000
	Total Corporate	356,000	380,000	30,000	-	-	766,000

ALASKA RAILROAD CORPORATION

Five-Year Capital Plan

2003 Project ID		2003	2004	2005	2006	2007	Total
Real Estate							
<u>190</u>	Utility Projects - 2003	200,000	200,000	200,000	200,000	200,000	1,000,000
<u>366</u>	GOB Building Improvements	50,000	50,000	50,000	50,000	50,000	250,000
<u>367</u>	Signs - Fairbanks Chena / RR Ind Subdivisor	25,000	25,000				50,000
<u>195</u>	Leasehold Improvements	-	500,000	500,000	500,000	500,000	2,000,000
<u>205</u>	Chena Pond	50,000					50,000
<u>191</u>	Freight House - Ph 1 Improvement	10,000	1,500,000				1,510,000
<u>363</u>	Delong Dock - Fenders	275,000					275,000
<u>364</u>	Delong Dock - Cathodic Protection	100,000					100,000
<u>365</u>	Delong Dock - Remove Abandoned Pipe & Install Water Svc	75,000					75,000
<u>368</u>	Odom Fee Simple Purchase	750,000					750,000
	Total Real Estate	1,535,000	2,275,000	750,000	750,000	750,000	6,060,000
Health, Safety and Environmental							
<u>202</u>	Fairbanks Terminal Fuel Facility Compliance	50,000					50,000
<u>203</u>	Fuel Facility Compliance - Railbelt	25,000	150,000	150,000	150,000	150,000	625,000
<u>370</u>	Mobile Command Center	35,000					35,000
<u>372</u>	Yard Lighting	250,000					250,000
<u>197</u>	Safety Committee Funding	200,000	200,000	200,000	200,000	200,000	1,000,000
	Total Health, Safety and Environmental	560,000	350,000	350,000	350,000	350,000	1,960,000
	Total ARRC Internal	15,970,746	30,974,911	23,756,095	18,550,757	14,028,333	103,280,842

ALASKA RAILROAD CORPORATION

Five-Year Capital Plan

2003 Project ID		2003	2004	2005	2006	2007	Total
	Funding Summaries:						
	<u>Federal Funding</u>						
	FRA/DOD	8,000,000	8,000,000	8,000,000	-	-	24,000,000
	FRA	25,000,000	20,000,000	20,000,000	20,000,000	20,000,000	105,000,000
	US Fish and Wildlife Service	400,000	-	-	-	-	400,000
	FTA 5309 Earmark	10,900,000	-	-	-	-	10,900,000
	FTA 5309 New Start	-	750,000	6,000,000	5,250,000	-	12,000,000
	FTA 5309 Fixed Guideway Modernization	3,029,936	3,120,834	3,214,459	3,310,893	3,410,220	16,086,342
	FTY 5307	6,032,125	6,032,125	6,032,125	6,032,125	6,032,125	30,160,625
	Total Federal Funding	53,362,061	37,902,959	43,246,584	34,593,018	29,442,345	198,546,967
	<u>Internally Funded</u>						
	Vehicle / Heavy Equipment Program	2,065,363	3,030,847	2,650,000	2,350,000	1,750,000	11,846,210
	Maintenance	5,099,000	13,260,000	14,510,000	12,660,000	9,795,000	55,324,000
	Mechanical	3,045,608	5,404,155	2,131,009	916,696	871,696	12,369,164
	Transportation	2,207,000	2,493,000	520,000	20,000	-	5,240,000
	Markets, Sales & Services	409,508	1,983,270	1,766,846	531,338	-	4,690,962
	Information Services	345,640	1,282,508	671,508	488,508	327,508	3,115,672
	Telecommunications and Signals	347,627	516,131	376,732	484,215	184,129	1,908,834
	Corporate	356,000	380,000	50,000	-	-	766,000
	Real Estate	1,535,000	2,275,000	750,000	750,000	750,000	6,060,000
	Health, Safety and Environmental	560,000	350,000	350,000	350,000	350,000	1,960,000
	Subtotal Internal Projects	15,970,746	30,974,911	23,756,095	18,550,757	14,028,333	103,280,842
	2002 Carryover Projects	2,287,509					
	Total Capital Projects	71,620,316	68,877,870	67,002,679	53,143,775	43,470,678	301,827,809



Program of Capital Projects

The Alaska Railroad continues to pursue a comprehensive program of capital improvements. The Railroad is investing heavily in rail, ties, bridges and ballast to completely renovate its infrastructure. Safety and efficiency upgrades include projects to straighten the main track between Anchorage and Wasilla, build or rehabilitate sidings (railroad "passing" lanes) and add automated and heated switches. The Railroad is also capitalizing on opportunities to better serve Alaskans through new depots, passenger services, and equipment. Detailed descriptions of these projects are available on the Railroad's website: www.alaskarailroad.com.

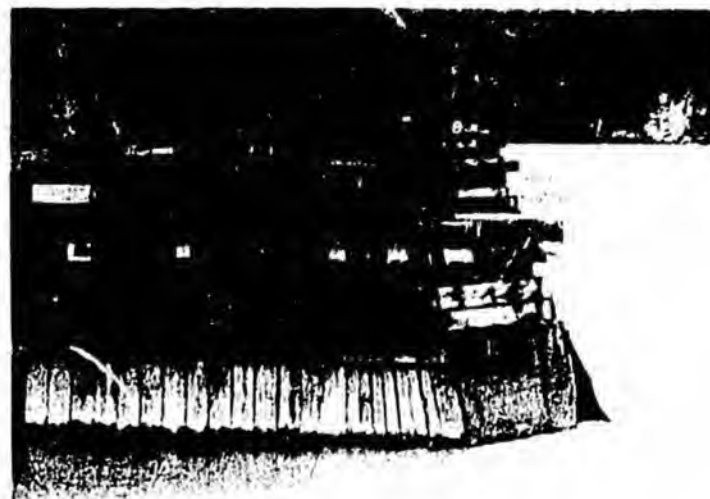
Funding for much of the capital projects program comes from more than \$233 million in federal grants received since 1996. Funds have come from the Federal Railroad Administration (FRA), Federal Transit Administration (FTA), Federal Highway Administration (FHWA) and Congressional earmarks through various agencies, such as the U.S. Forest Service. FTA-funded projects require 20% matching funds, which must be provided by the Railroad. In addition to providing the match for federal funds, ARRC is investing an additional \$18 million of internally generated funds in numerous other non-federal improvement projects for 2003.

Note: Action on appropriation bills remaining in Congress prior to the November 2002 election have been deferred into 2003. New bills will need to be introduced. There is some expectation that the new Congress will use this past year's committee-reported versions of Transportation Appropriation bills as starting points. This means that at least until mid-February, all ARRC projects that requiring FRA and FTA FY 2003 appropriations and earmarks are on hold.

Projects Under Construction/Design in 2003

R-28 Bridge Program

The Alaska Railroad's nearly 500 miles of mainline track includes 169 bridges that cross barriers ranging from streams to canyons. The Railroad's 2003 Bridge Program includes \$1.5 million tentatively funded by FRA, and \$480,000 from ARRC internal funds for major maintenance, overhaul and replacement projects that are necessary to maintain Railroad integrity, safety and efficiency. An additional \$2.3 million is allocated to lengthen Resurrection River Bridge. The replacement is tentatively funded by the FRA.



R-50 Siding Improvements

In 2000, the Railroad developed a five-year Siding Access Plan to place remote control power switches and heaters at about 40 sidings between Seward and Fairbanks, to extend 13 existing sidings and to build seven new sidings. The program has been funded by FRA earmarks. The 2003 \$6.4 million program for 2003 includes a new siding at Goldstream, extending sidings at Denali and Manley, building a loop track at the Fairbanks yard, and signalize the Palmer / Anchorage corridor.

C-1 Collision Avoidance System

Work is scheduled on a system that will provide a foundation for Positive Train Control in the future. Continuation of the project includes installation of on-board computers in our locomotive fleet and use of global positioning system (GPS) technology to provide on-track location and track movement information to guarantee train separation and/or train stop in the event of an authority violation. The \$6 million project is funded by FRA and is expected to be substantially complete in 2004.

T-11 Seward Intermodal Program

A continuation of the converted passenger dock project (2002), this project calls for passenger dock resurfacing and new lighting. Passenger terminal improvements include concrete flooring, interior wall upgrade, exterior siding replacement, restroom enlargement and office space conversions. In the "uplands" area, Port Avenue will be extended and upgraded, and a paved vehicle staging area developed north of the passenger dock. The \$3.47 million project is funded 80% by FTA and 20% ARRC. Substantial completion is expected in 2003.



T-24 Whittier Maintenance Facility

Ground broke in 2002 on a new equipment maintenance building in Whittier. Located in the southeast corner of the rail yard, the 4,793-square-foot building will store and maintain heavy equipment, such as graders and bulldozers. Funded 80% by the FTA and 20% by the Railroad, the \$2.22 million project is scheduled for completion in fall 2003.

T-15 South Anchorage Double Track

Nearly five miles of second mainline track has been added to the 5.7 miles of new signalized mainline track between 120th Avenue (near Klatt Road) and the Minnesota Drive overpass, within the Railroad's existing right of way. Construction of the second track bridge over Campbell Creek will take place in winter 2002-03. The project is expected to be completed in Summer 2003. The second track and signalization will improve efficiency and safety along this congested corridor through Anchorage. The \$11.8 million project is funded 80% by FTA and 20% by ARRC.

T-11 Ship Creek Intermodal

Planning is underway on a Ship Creek area transportation hub that provides bus and rail facilities, pedestrian improvements, new rail platforms, bus/van stops, retail development, a parking garage, airport accommodations and visitor information. In 2002, the Railroad pursued preliminary concept work, organized public and agency scoping meetings, and conduct pre-NEPA (National Environmental Policy Act) studies and documentation. Completion of the preliminary engineering and environmental documentation is expected by late spring 2003. Pending FTA approval of environmental documentation in the fall of 2003, final Design and initial construction may start as soon as 2004. Funded 80% by FTA and 20% by ARRC, \$11.5 million is budgeted for preliminary design, environmental documentation, final design and initial phases of construction.

T-09 Wasilla Intermodal Planning

The Alaska Railroad, Alaska Dept. of Transportation & Public Facilities (ADOT/PF), City of Wasilla, Matanuska-Susitna Borough, and the Mat-Su Community Transit (MASCOT), joined forces in 2002 to form a regional planning organization tasked with analyzing various transit plans and associated federal funding sources. The joint organization has hired an engineering firm to study proposed projects. In 2003, the Steering Committee will determine project priorities, initiate preliminary engineering, the public involvement process and final design. The study budget is \$900,000, funded 80% by FTA and 20% by all of the participating planning organizations.

T-55 Nenana Rail Realignment

The Railroad initiated efforts to define the project scope and environmental impacts of realigning of the mainline track in the Nenana area. Preliminary engineering, environmental fieldwork and documentation are included in the current scope of work. Potential benefits of the realignment project include reduced running time by 10 minutes, eliminating six at-grade crossings, straightening 12-degree and 9-degree curves, and reducing flood hazards. The \$500,000 study is 80% funded by FTA and 20% funded by ARRC.

F-1 Fairbanks / North Pole Rail Realignment

The Railroad will continue to work on alternatives to realign the mainline track around the more urban areas of Fairbanks and North Pole. A reconnaissance study was completed in March 2002. Additional research investigated project phasing, joint funding and project strategies with the Department of Transportation and Public Facilities. FRA funded the \$350,000 budget for conceptual design and research. The Railroad has requested funding to proceed with preliminary engineering, final engineering and construction alternatives.

T-05/06 Anchorage to Wasilla Track Alignment

Efforts to straighten the track from Anchorage to Wasilla are underway, which will increase train speeds, increase efficiency and improve safety along this stretch. Funded by the Department of Defense and administered by the FRA, the \$54 million Anchorage to Eagle River phase started construction in 2001 and should be complete in 2006. Funded 80% by FTA and 20% by the Railroad, the \$23.8 million Eagle River to Wasilla project will also be complete in 2006.

A-1 North Ship Creek Yard Expansion

The Alaska Railroad Anchorage Yard is congested, inefficient and inadequate to meet current and future business demands. The North Ship Creek Expansion project is the first step to upgrade and expand the yard. This project will construct a 6,000 foot track alignment and allow for additional track to be added along the bluff. Cost for this project funded by ARR will be \$3.6 million.

T-14 Anchorage Capacity Improvements

The Alaska Railroad is investigating alternatives to increase capacity along the mainline track from the Anchorage International Airport spur (near MP 110) to the Anchorage Rail Yard (MP 114). The capacity improvement alternatives currently under consideration include additional sidings (passing lanes), installing automated signals and switches, and/or extending the double track currently under construction in South Anchorage. Funded 80% by FTA and 20% by the Railroad, \$1 million has been allocated for preliminary engineering, environmental studies and public involvement activities, which are currently ongoing.



Program of Capital Projects Project Timeline

Project ID	Legend	xx	ARRC Internal		R-xx	Federal Railroad Administration				T-xx	Federal Transit Administration				Concept Engineering			
		C = Completed Work																
		2002				2003				2004				2005	2006			
		1 ^u	2 ^u	3 ^u	4 ^u	1 ^u	2 ^u	3 ^u	4 ^u	1 ^u	2 ^u	3 ^u	4 ^u					
R-28	Bridge Program																	
Siding	Siding Improvements																	
C-1	Collision Avoidance System												C					
T-32	Seward Intermodal Program													C				
T-24	Whittier Maintenance Facility									C								
T-07	South Anchorage Double Track												C					
T-57	Anchorage Airport Rail Station							C										
A-1	North Ship Creek Yard Expansion																	
R-59	Anchorage Yard Operations Center											C						
19	Anchorage Yard Locomotive Fueling & Servicing Facilities												C					
T-05	Anchorage to Eagle River Realignment														C			
T-05/06	Eagle River to Wasilla Realignment														C			
T-10	Denali Depot												C					
T-01	Fairbanks Intermodal Facility and Depot													C				

Projects in the Planning Phase

		2002				2003				2004				2005	2006
		1 ^u	2 ^u	3 ^u	4 ^u	1 ^u	2 ^u	3 ^u	4 ^u	1 ^u	2 ^u	3 ^u	4 ^u		
T-14	Anchorage Capacity Improvements														
T-11	Ship Creek Intermodal														
T-09	Wasilla Intermodal Planning														
T-55	Nenana Rail Realignment														C
F-1	Fairbanks/North Pole Realignment														



Issues: Railroad Positions on Hot Topics

Transportation Equity Act for the 21st Century (TEA-21) Reauthorization

- **Background:** When the State of Alaska purchased the Alaska Railroad in 1985, it received a railroad in disrepair. The Railroad was fully rehabilitated in the 1950s, but received very little capital funding under federal ownership after that effort. Alaska's congressional delegation has worked to ensure that the ARRC is on equal footing with other Lower 48 rail operations that provide passenger services. As a result, TEA-21 provided an authorization to ARRC for annual appropriations for capital grants for its passenger operations.
- **Position:** ARRC supports continued capital grant assistance from the federal government to rehabilitate infrastructure and to improve passenger services, including commuter rail. As TEA-21 is reauthorized in FY 2003, ARRC will work with Alaska's congressional delegation to maintain grant recipient status and to develop a coordinated federal agency approach to grant administration.

Federal Transit Administration (FTA) Match

- **Position:** Railroad matching funds for FTA grants currently stands at a 20% rate. We have an ongoing initiative before the Congress to reduce this match requirement to 9%, the same percentage as ADOT/PF is required to provide in match for Federal Highway Administration funds. The reduction in match benefits the Railroad by allowing the corporation to continue to pursue additional grant opportunities.

Executive Budget Act

- **Position:** The ARRC business model as it exists works very well. Language in the transfer legislation was written by legislators who understood the need for the Railroad to operate independently, and for business, safety and environmental decisions to be made based on the facts and merits of both business and market demands not unduly biased or encumbered by political considerations. Under Federal ownership, Railroad operations were dependent on decisions made in Washington D.C. which was the reason for its failure during that ownership period. Any dependence on the state's general fund automatically brings with it additional state legislative oversight. This oversight would introduce the slower pace of politics into the high tempo day-to-day decision-making of a very complex and dynamic transportation business. ARRC customers depend on the ability of the Railroad to respond quickly to market demands. Our management team / Board of Directors relationship is well suited to the task. The model has worked very well for nearly 18 years. As a result, the Alaska Railroad has not requested state dollars and will not in the future.

Taxing the Railroad

- **Position:** ARRC invests its entire net earnings back into the Railroad to improve its capital infrastructure and provide matching funds for federal grants. The backlog of ARRC capital needs is several hundred million dollars. Until such time as the ARRC is able to clear this backlog and generate sufficient net earnings in excess of annual sustainment requirements, we believe that taxing the corporation would be premature and unwise.

Privatization

- **Position:** In our opinion, privatization incurs considerable risk. A private owner would have to pay taxes, would receive no federal grant money, and would undoubtedly not receive the entire 36,000 acres of state land ARRC currently owns for exclusive right-of-way and lease revenue. Those key elements in concert with one another are essential factors contributing to ARRC's ability to function without having to go to the state for general fund subsidy. In our opinion, a private owner could not continue the present level of service to all our state customers and be profitable at the same time just based on operational revenues. The economics simply do not "pencil out." Failure of privatization would eventually force the state to take on the dysfunctional remnant of the former corporation, rebuild it at great cost, and make it a ward of the state subsidized from the state's general fund.

Railroad Tax-Exempt Bonding Authority

- **Position:** ARRC supports the use of its tax-exempt bonding authority to build projects that benefit the economic development of the State of Alaska – such as a gas pipeline project. This type of project falls in line with the Railroad's mission to foster and promote state economic development. Fees associated with the costs of administering such bonds are appropriate. Any proceeds generated from administrative fees over the bonds' lifetime should be invested back into railroad infrastructure to ensure the Railroad can offer robust capacity and support for future development of Alaska resources.

Public Involvement Policies

- **Position:** The Alaska Railroad is committed to coordinating our planning, projects and real estate activities with railbelt communities to reflect community-planning efforts and needs.
 - We emphasize a proactive public involvement process to allow communities to actively participate in ARRC decisions. This process includes "heads up" direct mail correspondence, open house events, up-to-date information on our web site, a dedicated public involvement e-mail address, public comment hotlines, and community meeting presentations.

Regional Transportation Planning

- **Position:** ARRC fully supports local regional transportation planning and serves on a number of planning groups including AMATS, FMATS, the Regional Transportation Planning Organization (Mat-Su and MOA), and the Fairbanks-North Star Borough Rail Task Force. The Railroad believes that local officials need to have a broader perspective on state transportation – one that extends beyond just their local region. ARRC believes projects sell better when they are discussed in the context of a regional plan. Accordingly, we advocate transportation analysis focused on transportation node linkages, and the intermodal transition points between them. ARRC methodology promotes more rigorous examination of the effect and unintended consequences of state transportation projects.

Rail Extensions

- **Position:** ARRC will take its lead from state and federal policy makers regarding rail extension initiatives. ARRC supports extending or building new railroad lines and believes this falls under its mission to foster state and community economic development. ARRC does not generate the capital funding necessary to proceed with some of the proposed rail extension projects (\$3-\$8 million/mile), but stands ready to provide technical, engineering and operational expertise should funding be identified. Once constructed, the ARRC must generate sufficient revenues to pay the operating expenses.
 - Canadian Rail Extension: To reach the Alaska/Canadian border, approximately 270 miles of track would need to be constructed. ARRC has been supportive of recent legislative and congressional efforts to study such an initiative and will continue to lend its planning expertise to the process.
 - Rail Extension to Fort Greely: We believe it is appropriate to extend the railroad to Fort Greely to support national defense objectives. This extension conveniently aligns with proposed legislation to extend the rail to Canada.
 - Northwest Arctic Rail: Hugely expensive, this initiative nonetheless opens up previously inaccessible resources to developers. Should such an initiative take root, ARRC would be pleased to be a member of the planning group.

Rail Realignments

- **Position:** ARRC supports realigning its main track around Alaska communities that have developed closely along the rail line. The issue is one of enhancing both safety and efficiency. Fairbanks and Wasilla realignments would each eliminate numerous dangerous at-grade crossings and reduce the running time of our trains. Both realignments are significant undertakings, and the Railroad does not yet have internal or federal funding to proceed with these projects on its own. We will continue working to integrate with community planning efforts, the Alaska Department of Transportation and Public Facilities (ADOT/PF) and be ready with plans when federal funding becomes available.
 - Fairbanks Realignment: Eliminates 48 crossings
 - Wasilla Realignment: Eliminates 11 crossings
 - Nenana Realignment: Reduces potential for crossing accidents at six grade crossings when the main line becomes a spur.

Partnering with Communities

- **Position:** ARRC is seriously committed to partnering. Collaborative support for important community, borough and private sector initiatives can enhance prosperity along the railbelt and create conditions for success that enable a more prosperous Alaska. *Examples of Partnering include the following:*

Anchorage Convention Center

ARRC believes a new Anchorage Convention Center located in the Ship Creek basin would spur long-awaited development of Ship Creek. The Railroad supports this project and will participate with advocacy groups and the Municipality of Anchorage in efforts that move development forward. Ways the Railroad might participate include:

- Financial assistance utilizing railroad tax-exempt bonding authority (with board and legislative approval)
- Funding assistance through federal grants to create intermodal connections, including commuter rail services, trails, roadways, and covered access to the downtown core
- Real estate lease agreements that promote stability and enhance prospects for private financing

Palmer Right-of-Way

The City of Palmer is working on an urban revitalization plan with a focus on building a bike path and other park amenities along ARRC's right-of-way, which currently runs through the middle of the city, north to south. The Railroad supports the revitalization efforts and is coordinating with city planners to ensure a satisfactory trail location that does not preclude future rail activities along this corridor.

Corporate Giving

The Railroad and its employees support communities through its charitable giving, school business partnership programs, and participation in many civic organizations. As permitted by a statutory provision, the Railroad leases land to many communities at less than fair market value for trails, parks and other public amenities.

Reversion of Right-of-Way

- **Background:** Under the Alaska Railroad Transfer Act (45 U.S.C. 1209), if the State of Alaska makes no use of ARRC's right-of-way land for "transportation, communication, or transmission purposes" for a continuous period of 18 years, the State's interest in the land reverts to the United States. Once this happens, the Secretary of the Interior must immediately convey the land to the adjoining landowners.
- **Position:** ARRC is reaching this 18-year limit along parts of the Palmer spur. If the Railroad is not successful in maintaining this right-of-way, the future opportunity to use rail for transporting coal out of Wishbone Hill will be lost. It would also negate the cooperative efforts among the City of Palmer, Mat-Su Borough, state agencies, and ARRC to establish a trail and greenbelt development along portions of the outer edge of the right-of-way.

Planning & Zoning Jurisdiction over the Railroad

- **Background:** Several federal laws contain language that essentially preempts or eliminates state and local regulatory authority over railroads except in very limited circumstances. For years, local governments and states have tried to restrict railroad hours of transportation, speeds, loading requirements, routes, etc., and the federal government has been vigorous in thwarting those efforts. In addition to these federal laws, ARRC is an instrumentality of the State of Alaska and shares the State's sovereign immunity. The Railroad's enabling act exempts ARRC from other statutes under which the State has waived its sovereign immunity from local planning and zoning. As a result, ARRC is currently immune from local planning and zoning ordinances.
- **Position:** The enabling act drafters wisely refrained from making ARRC subject to local planning and zoning regulation. ARRC travels through 13 recognized municipal and borough governments between Seward and North Pole. If both the federal and state exemptions were removed, local communities could dictate inconsistent and onerous planning and zoning restrictions which would negatively impact the Railroad's interstate commerce designation and ability to offer efficient, economical and reliable service to its freight and passenger customers.

Knik Arm Crossing

- **Position:** ARRC supports a Knik Arm Crossing. It must not become functionally obsolete once it is built, and therefore we believe it essential that the bridge be connected on each end via a high capacity, high-speed rail and road network interchange. ARRC is a big stakeholder and needs to have a seat at the planning table.

Anchorage International Airport Rail Station Operation and Marketing Plan

- **Position:** ARRC is working with its transportation partners and the Ted Stevens Anchorage International Airport to provide service to the airport that responds specifically to our customer needs. We expect the facility to be operational in spring 2003. Beginning with the 2003 season, we plan to run two trains five days per week to serve cruise ship passengers (the trips into and out of the facility are each considered a train). This current plan does not include shuttle services from ARRC's downtown depot or potential markets. However, the Railroad will remain flexible to customer and market demand. The ARRC and ADOT/PF are jointly funding construction of pullout lanes at the railroad crossing over International Airport Road. Vehicles required to stop at crossings will use these once the current exemption is lifted in spring 2003. This will avoid traffic delays and enhance safety for normal vehicle traffic not required to stop.

Commuter Rail Service

- **Position:** ARRC supports developing Alaska's intermodal and commuter rail services as a way of adding transportation options for the traveling public. We are prepared to assist the local communities if policy makers and residents make the decision to initiate commuter rail service. The Railroad will continue to plan and build infrastructure that can provide the ability to transition to such services when we are called upon to do so.

Coastal Trail Extension

- **Position:** For the Railroad, the issue is purely a matter of safety and financial risk. Because increased risk would be imposed upon ARRC, the trail must be constructed in a way to specifically mitigate the risks involved. Furthermore, such a trail must not negatively impact railroad operation. It must be maintained and insured by an entity other than the Railroad, and said entity must agree to indemnify ARRC for all related claims.

Iditarod Trail Reconstruction

- **Position:** ARRC has signed up to support the reconstruction of this historic route, much of which follows Railroad right-of-way. As stated above, as long as safety and liability issues are adequately addressed, the Railroad can be counted on to contribute to this State effort.

Testimony of Ray Riutta, Executive Director, ASMI

House Finance Committee, Tuesday, Jan. 28, 2003

The Alaska Seafood Marketing Institute was created twenty-one years ago as a cooperative partnership between the seafood industry and state government to advance the mutual goal of a stable seafood industry in Alaska. ASMI is the state's official seafood marketing arm, affiliated with the Department of Commerce, and established as a public corporation with a board of directors appointed by the governor. 12 fishermen, 12 processors, and one layperson constitute our board. Working with the board are also a number of industry committees, so all totaled about 80 seafood industry people provide guidance on the direction of ASMI's efforts.

ASMI's mission is to increase the worldwide consumption of Alaska seafood, and promote the quality and superiority of Alaska seafood products. We promote all species of Alaska seafood under the "Alaska" brand, with salmon as the lead.

We conduct promotional, public relations and market development activities. Our seafood technical program provides expertise on regulatory and scientific issues and conducts training on how to maintain seafood quality for harvesters, processors, and our customers.

ASMI promotions in the U.S. and overseas are conducted primarily through supermarket and restaurant chains. We work with the largest retail grocery chains in the country. This fall our retail program helped several innovative retail chains develop private label frozen seafood lines using Alaska seafood products, including Alaska salmon, cod, halibut, sole and crab. We moved Alaska seafood into deli counters and takeout operations. We boosted retail sales of canned salmon by introducing thousands of people to the product and its health benefits. This summer will mark our third annual promotion of Alaska Salmon with the nation's largest natural foods chain. (Whole Foods, 150 stores)

We help retailers, restaurant operators, and their customers to differentiate wild and natural Alaska Seafood from other products. We do this through educating the buyers, and educating the customers by means of materials in the stores and restaurants, and also through stories in the media.

Getting the primary buyers to purchase Alaska Seafood is what is known in market terms as the "push" part of the strategy, and using magazine and TV stories that prompt consumers to ask for Alaska Salmon and other Alaska Seafood products is an example of the "pull."

Most of our marketing falls into the "push" category, and that is driven in part by the amount of revenue available. A "pull" strategy is much more costly. It includes public relations and advertising. When we conduct media tours and bring in journalists, put them on fishing boats and feed them salmon, and they write about Alaska's wild salmon fishery, that is in the "pull" category. When we send press kits to 800 editors across the country, and they generate stories on wild Alaska salmon, that is part of the "pull" strategy. Many people ask us why we don't do a national television advertising campaign, or advertise in People magazine. The simple answer is that we don't have the kind of money that sort of an effort requires.

So we target the influencers, and they carry our messages to a wider audience. One example of this is the Alaska Seafood chef trainings we have conducted at the Culinary Institute of America.

The chefs we invite are top executive chefs with large companies: national restaurant and hotel chains, cruise ship lines, Walt Disney World. When they decide to put Alaska Salmon or Alaska Halibut on the menu, a lot of product is involved, and a lot of other chefs take note. That is part of the "push" strategy.

About a quarter of our foodservice partners are ranked in the top 100 chains. Some names most of us recognize are: Burger King, Hilton Hotels, Long John Silver's, Sizzler, Carrows, and Hyatt Hotels. We have conducted promotions with every major hotel chain in the country. We partner with the largest foodservice distributors in the country including Sysco, which expects to be a 50 billion dollar company within six years. As a result of many years of work, in the year 2000 the Alaska seafood brand became the third most popular brand on the menus of our country's top 500 restaurant chains.

Both in the U.S. and overseas, ASMI conducts chef education, seminars for seafood buyers, public relations activities that generate newspaper, magazine and television coverage, trade missions, and trade show exhibits that stimulate sales.

For example, ASMI's Alaska Pavilion at the European Seafood Exposition last spring resulted in on-site sales worth \$1.6 million, and projected future sales of \$6.7 million for Alaska seafood companies.

Our core funding comes from the Alaska seafood industry through a seafood marketing assessment paid by Alaska seafood processors - - .3% of the value of the seafood they purchase --- and a 1% salmon marketing tax paid by Alaska commercial salmon harvesters.

Most of our export marketing activities are federally funded through the USDA Market Access Program, with a match from the processor portion of ASMI revenue. The USDA funds are spent in specific export markets according to federal guidelines. We are very active in mature markets in the United Kingdom, Northern and Central Europe and Japan. We have activities in Australia, and do a few projects in Korea. We have been busy for years in Hong Kong, and the emerging markets of China and Southern Europe.

Domestic marketing activities for salmon are funded by seafood industry tax revenue. During the last couple of years, this core funding has been supplemented by a grant from the Economic Development Administration. We match that grant dollar for dollar.

I don't plan to get into details today of the markets for Alaska Seafood, or even the details of our marketing programs, but I want to provide you with an accurate sketch of our current outlook. There are many sectors of the Alaska seafood industry that are very healthy. The whitefish sectors are doing very well, and prices for shellfish are good despite the limits on commercial harvest sizes. But the downturn in the salmon sector is exerting a profound influence on our state, and on ASMI as well.

The fisheries tax revenues, which we rely on to fund our general operations and provide the cash match for federal dollars, are vulnerable to sharp variations. Fluctuations in commercial harvests, exchange rates, and global market conditions affecting demand and pricing all influence our revenue stream.

As you can see on the chart I brought along titled "ASMI Sources of Anticipated Revenues," for this fiscal year about half of our funding is federal dollars. Much of that is USDA grant dollars that support the export program. Our core funding, from fish tax revenues, accounts for a little less than half our anticipated revenues this year. Because of the way some of the fish taxes are collected, near the end of the fiscal year, we don't really know until the last quarter of the fiscal year whether the anticipated revenues will materialize. Most of the processor revenue doesn't even show up until April or May, close to the end of the fiscal year, and sometimes later. This makes the budgeting process a challenge. We used to soften the peaks and valleys in our revenue stream by carrying forward a chunk of revenue from the previous fiscal year, and this allowed our programs to proceed smoothly. We no longer have revenue to carry forward. This year our mid-course adjustments have taken the form of deep, mid-year cuts in our programs.

The budget disbursement chart shows how we spread the dollars among our various programs.

As you can see on the bar chart, since FY 2000 our fisheries tax revenues have dropped 42% overall, and our revenue from the 1% salmon marketing tax has dropped 66%. This is our funding base. From it we must conduct ASMI promotions and buy the federal dollars we use to increase our marketing presence. An important point to note is that federal dollars are not free . . . they all require a matching sum from our own money.

Most of the tax money is spent on marketing activities in the U.S. As a result of the prolonged downturn in industry tax revenues, the state's seafood marketing effort is hobbled. Our ability to buy available federal grant dollars to promote salmon is also in trouble: we will leave about a million dollars of federal grant money on the table this year for lack of a match – money earmarked by Congress to help the Alaska salmon industry in its time of need.

It's our job to know the market, to stay abreast of the trends, and to use that knowledge to show retailers and restaurant operators how to boost their bottom line while incorporating branded Alaska seafood products into their operations. We do that very well.

Last fiscal year 46.7 million pounds of branded Alaska Seafood was sold through ASMI promotions worldwide. ASMI focused heavily on canned salmon, too. Canned salmon sales in the U.S. increased from 1.8 to 2.2 million cases during that same period. Building the value of the "Alaska Brand" is the best way to raise our products from commodity status, and improve their position in the marketplace.

We are making the best use of the dollars that we have, and our marketing programs are conducting as many promotions as possible. ASMI has a terrific staff of talented and dedicated people who are poised to increase aggressive promotion of Alaska salmon and other seafood products as additional resources become available.

Thank you very much, Mr. Chairman.



Alaska Railroad Corporation

Special Report to the Legislature and Administration State of Alaska



January 2003



Introduction

January 2003

The Alaska Railroad shared in the country's economic roller coaster ride during 2002. Like so many businesses in nearly every sector, we experienced a reduction in operating revenues and a steep rise in certain costs of doing business. Through a rigorous budget process last year we had anticipated most of these fiscal impacts. However, there were a few surprises. As a result, the second half of this year has been a time of regrouping and strategizing. I am pleased to report that, through effective negotiations, the Railroad management team was able to prevail in certain important civil and federal reimbursement issues that bolstered the bottom-line for 2002.

These one-time outcomes were entirely unpredictable a year ago when 2002 began, and therefore were not included during the budget process. In fact, the resolution of these items occurred only within weeks or days of year-end. Adding to the positive financial picture was the Railroad's safety improvement in 2002; we beat our workers compensation budget by over half a million dollars and employee healthcare utilization was down. In short, we offset a flat revenue year by the collective successes of several deliberate efforts. A good team makes its own luck.

We've remained on course in the areas of employee safety and training. Better prepared workers translate into higher productivity, while safety consciousness ultimately avoids the high cost of accidents and injuries. We have also taken significant steps to better our position with regard to the Railroad's environmental responsibilities. For example, our investment in reduced locomotive diesel emissions has been substantial.

In 2003, our objective is to continue a strategy of steady, measurable operational improvement. We will continue to make important improvements to our infrastructure. We will take full advantage of technology to enhance safety and customer service. We will seek to better train quality employees and we will put the emphasis on their productivity. We will continue our commitment to work proactively with our partners – communities, agencies, organizations, and leaders like yourselves who have Alaska's developmental interests at heart.

Respectfully,

Patrick K. Gamble, President & CEO



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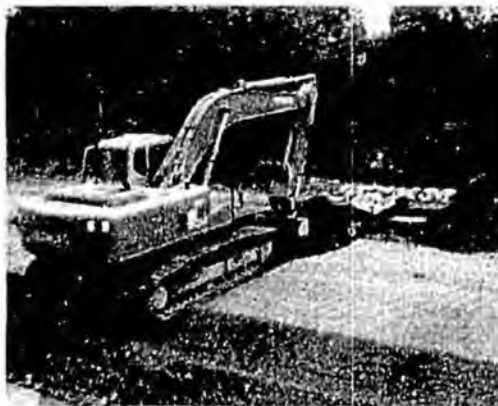
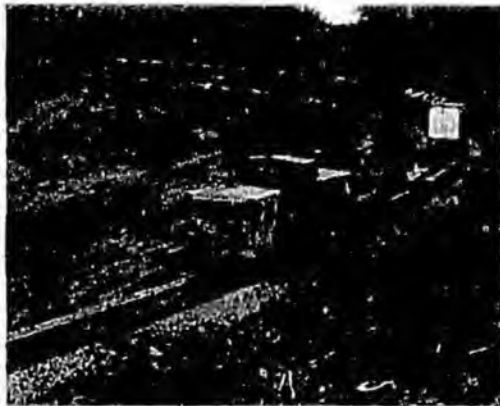
Guiding Statements

Vision:

Building a Great Railroad across the Great Land

Mission:

Be profitable by focusing on safe, high quality service to our freight, passenger, and real estate customers. Foster the development of Alaska's economy by integrating Railroad and railbelt community development plans.





Alaska Railroad "Quick Facts"

PURCHASE PRICE: (Jan. 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 of Alaska
- Managed by a seven-member board of directors appointed by the Governor
- Mandated to be self-sustaining, responsible for all financial and legal obligations

FINANCIAL STATISTICS: (Preliminary, Unaudited)

(Jan. 1-Dec. 31, 2002)

Total Assets	\$366.3 million
Total 2002 revenues.....	\$101.9 million
Total 2002 expenses	\$ 93.5 million
2002 net income	\$ 8.4 million
Budgeted 2003 net income	\$ 5.5 million

OPERATING DATA:

Miles of main line	466
Miles of branch line	59
Miles of yards and sidings	86
Total miles of track	611
Freight cars (owned & leased).....	1,625
Passenger cars.....	43
Locomotives.....	53

OPERATING STATISTICS:

(Jan. 1-Dec. 31, 2002)

Passenger ridership	480,049
Freight tonnage	7,450,875
Revenue car loads	89,978

EMPLOYEES: December 31, 2002

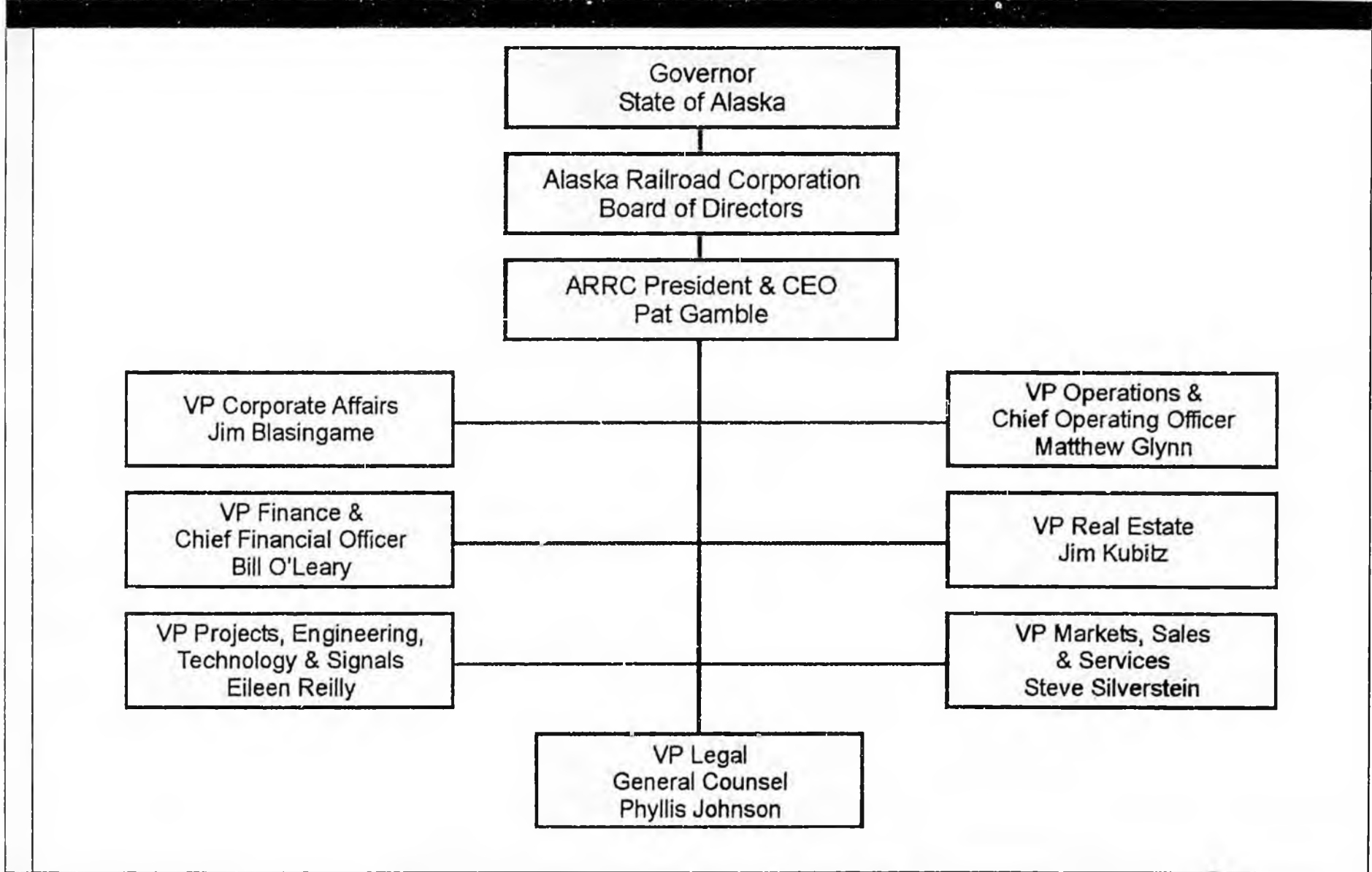
Number of year-round employees	644
Average years of service	11.2
Average age	43
Male	543
Female	101

UNIONS: A majority of ARRC employees are members of five unions, including:

United Transportation Union	112
Transportation Communication Union	41
International Association of Machinists.....	63
American Federation of Government Employees...	264
American Train Dispatchers Department	12



Corporate Organization





Alaska Railroad Corporation "At A Glance"

Corporate History

The Alaska Railroad was built between 1914 and 1923 by the U.S. government. It was operated by the federal government until January 1985 when it was purchased by the State of Alaska for \$22.3 million to serve Alaska businesses and communities as an engine of community development and economic growth. The Alaska State Legislature created the Alaska Railroad Corporation (ARRC) in 1984 as an independent entity to own and operate the Railroad and to manage Railroad property after transfer.

The legislature appropriated \$11.9 million to the new corporation for start-up costs because the U.S. government retained control of the Railroad's bank accounts at the time of transfer (January 5, 1985). The legislative appropriation was sufficient to cover two payrolls and the costs of several on-going capital projects. The U.S. government retained control of the cash because it also retained responsibility for all payables and other liabilities that had arisen during the period of federal ownership (including, for example, worker's compensation claims).

Board of Directors

ARRC is a statutory corporation, managed by a board of directors appointed by the Governor. The seven-member governing board consists of the Commissioner of Transportation & Public Facilities, Commissioner of Community & Economic Development, and five other members appointed by the Governor. One member of the board must have at least 10 years of management experience on a U.S. railroad. Another director must be an employee-member of ARRC's labor unions. Two positions are designated for residents of the two judicial districts in which the Railroad operates.

Business Facts

While wholly owned by the State of Alaska, the Alaska Railroad is an independent authority responsible for all of its own financial and legal obligations. According to statute, ARRC is mandated to be a self-sustaining corporation – required to conduct its business without operating subsidies from the state. ARRC serves ports and communities from the Gulf of Alaska to Fairbanks. It is the only full-service railroad in the United States providing both year-round freight and passenger services. From tidewater at Whittier and Seward to the heart of Interior Alaska, ARRC's route covers 466 miles (with 611 total miles of track including spurs, industrial and yard track).

ARRC's operations are supported through revenues generated by freight, passenger and real estate services. Maintenance and operations centers are located in Seward, Whittier, Anchorage, Healy and Fairbanks.

ARRC has a fleet including:

- 53 locomotives
- 43 passenger cars
- 1,625 freight cars (740 owned, 235 leased, 441 customer leased and 209 Maintenance of Way rolling stock)

Employees

As of December 2002 ARRC employed 644 full-time employees with an additional 100 seasonal employees from May through September. ARRC employee wages and benefits are paid for through earned corporate revenues (approximately \$55.8 million in 2002).

The enabling act of the Alaska Railroad Corporation (AS 42.40) specifies that the employees of the corporation are not state employees. ARRC employees are not covered by state public employee contracts, nor do they receive state-funded benefits. Five different unions that negotiate contracts with the corporation represent 492 ARRC employees.

Finances

With total revenues of \$101.9 million and total expenses of \$93.5 million, the Alaska Railroad netted \$8.4 million in 2002. Transportation of petroleum products, gravel, coal, oilfield and mining supplies, chemicals and consumer goods account for 75 percent of ARRC's gross revenues. ARRC serves almost a half million passengers each year, accounting for approximately 14 percent of gross revenues.

ARRC owns approximately 36,000 acres of land. Of that, 14,000 acres are right-of-way and 4,500 acres are used in operations. The remaining land can be leased or permitted to help generate revenue for ARRC. Real estate revenues generally account for about 10 percent of the corporation's gross revenues.

The Railroad invests all cash flow from its annual net earnings and depreciation on capital improvements to its 611 miles of track, 169 bridges, 79 crossing signals, the roadbed, and other assets. Additionally, significant amounts of operating dollars are spent on maintenance of rail cars, locomotives, and rail infrastructure.

ARRC Mission

"Be profitable by focusing on safe, high quality service to our freight, passenger, and real estate customers. Foster the development of Alaska's economy by integrating Railroad and railbelt community development plans."

ARRC's mission stems from language found in the Alaska Railroad Corporation Act of 1984 that clearly defines why the State believed ARRC has played, and will continue to play, an important role in Alaska's economy.

ARRC Vision

"Building a Great Railroad across the Great Land."

An important element in realizing this vision is ARRC's success since 1996 in qualifying for federal funding due to the Railroad's public status and its passenger service mission. As a result, ARRC has been able to accelerate regular maintenance and repair centered on aggressive improvements to the roadbed and track structure.

Other federal funds for facility improvements, such as intermodal facilities and docks, as well as improved technology, have come to ARRC in recent major federal transportation and transit bills.

How ARRC Differs from 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 Railroad reports to the Board.

Unlike other independent state corporations (such as the Alaska Housing Finance Corporation and the Alaska Industrial Development and Export Authority), ARRC's enabling statute specifically requires that all revenue earned by the Railroad be retained by the Railroad. The federal transfer legislation also contains this requirement. The intent was to ensure the Railroad had the money it needed to meet basic maintenance needs, improve the asset for safety and increased profitability, and to avoid tapping into the state general fund. The Railroad's annual net operating dollars are invested back into the rail line.

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:

- The ARRC Board of Directors is responsible for initiating both a financial and performance audit each year conducted by independent financial 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.
- 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 disposing of the Railroad's entire interest in land, or leasing land for longer than 55 years.
- The Legislative Budget and Audit Committee regularly reviews ARRC's operation and management practices.
- 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.



2002 Year in Review

By Patrick Gamble, President & CEO

Even as the State economic climate flattened, as expenses increased, and as key revenue sources derailed, the Alaska Railroad Corporation (ARRC) remained steadily on track in terms of safe day-to-day operations, imbedding efficiency and productivity in our train operations, and upholding our commitment to investing for the future. In other words, we stuck to our strategy of continuous, steady improvement.

Financial Picture

Similar to the economic landscape across Alaska, many segments of ARRC's business remained flat. In addition to the unexpected cancellation of Korean export coal, fuel shipments from the North Pole Refinery were interrupted for one month. At the same time, ARRC saw a significant increase in employee retirement benefit costs. Unexpected expenses also came in the spring when severe flooding caused track damage and resulted in several days of costly service delays. Even so, ARRC went to work quickly to offset what could have been a marginal financial year with substantial reductions in corporate expenses, still preserving wage and benefit increases agreed to during labor negotiations.

Safety & Environmental

Our people made admirable strides in the area of safety. This year, ARRC reduced its injury frequency rate by 63 percent from 1997, marking our lowest corporate injury frequency rate to date. In 2002, ARRC's Mechanical and Transportation departments have injury rates that rank them among the safest in the country and ARRC's 2002 derailment record also bettered the national average.

During the year, ARRC developed and completed both our oil spill contingency plan (C-Plan) and an environmental management system that goes beyond regulatory requirements. The C-plan is filed with the Alaska Department of Environmental Conservation and it has been tested through a number of spill response drills that have actively engaged state and federal regulatory agencies, as well as the Department of Defense.

With regard to equipment upgrades, the Railroad initiated a program in 2002 to install auxiliary power units and software technology on locomotives that will reduce diesel emissions and noise. The Railroad worked with petroleum customers to repair fuel tank car wheel assemblies as part of a preemptive program to enhance safety by reducing the risk of derailment.

Customers & Revenues

Freight: 2002 saw overall freight revenue below last year's level. Helping to offset coal revenue loss, gravel came on strong in the latter part of the year, surpassing 2001 levels. Petroleum shipments from North Pole Refinery came in under the expected mark.

Passenger: Early predictions that September 11 would have a big impact on tourism activity in Alaska were wrong with regard to our passenger business. Rail passenger revenue grew more than 4% over last year. Passenger purchases reflected changing economic factors, however, as shorter, less expensive packages were most popular.

Real Estate: This important segment continues to perform well, with revenues exceeding \$11 million for the first time. During its first full year of operation, the new Seward freight dock generated promising new business.

Capital Projects

Infrastructure improvements continued at an accelerated pace throughout the year.

Construction on the Rail Depot at Ted Stevens Anchorage International Airport was completed in November, on time and on budget. Ribbon cutting occurred in December. Ground broke on both the new Fairbanks and Denali Depot projects this fall.

Several miles of new track alignment came on-line from the Anchorage yard onto the military installations this year. The environmental process to gain approval for curve-straightening efforts between Eagle River and Knik River was also complete in 2002. To date, about one-fourth of the 70 curves to be straightened through the Anchorage-to-Wasilla track realignment projects have been accomplished.

Construction of a new bridge over Campbell Creek during the winter is the final step to finishing the South Anchorage Double Track and Signalization Project, which will ease congestion along this busy 5-mile stretch.

In Whittier, the Railroad constructed new side-unloading barge dock that is allowing more efficient transfer operations for this growing segment of ARRC's freight business. The Pedestrian Underpass, traversing the rail yard underground, opened this summer to provide safe passage for residents and visitors who want to travel between the harbor and town site. The Railroad also continued work on the DeLong Dock's electrical system and installed a water line to provide fresh water to ships and fishing boats. The DeLong Dock was put into operation at Railroad expense to temporarily offset the loss of the 1,100 foot Marginal Wharf, which had reached the end of its useful life. The Railroad has plans to rebuild the Marginal Wharf.

Pedestrians near the Anchorage rail yard saw improvements this year. The plaza at the corner of North C Street and Ship Creek Avenue was completed and landscaped. Sidewalk and lighting projects around the plaza area continued through the summer, complementing construction of the new Ulu Factory, which is going up adjacent to the plaza. Assisted by the new Ship Creek Shuttle bus service, we are seeing greater visitor interest in visiting Ship Creek as it becomes more pedestrian friendly.

Community Cooperation

As a busy partner in the economic well-being of railbelt communities, ARRC coordinated future transit plans, and facilitated an improved regional transportation planning process. The Railroad became an official member of the Anchorage Metropolitan Area Transportation System (AMATS) technical committee, Fairbanks Metropolitan Area Transportation System (FMATS) technical committee, Fairbanks Rail Task Force Committee, Palmer Urban Revitalization Steering committee, and the Anchorage-Mat-Su Regional Transportation Steering Committee. Additionally, the ARRC sits on the State Chamber of Commerce Board, the Anchorage Chamber of Commerce Board, Anchorage Economic Development Corporation, Resource Development Board, and Vision Anchorage, adding to the numerous community-based groups our employees participate in each year.

ARRC continued to support local school business partnership programs and non-profit efforts through a generous corporate giving program. In addition, many parks and public use areas are located on ARRC lands – leased to communities well below market value.

Labor Relations

An important milestone was reached in 2002 when the Alaska Railroad signed labor contracts with three of five unions – the United Transportation Union, the Alaska Railroad Workers, and the Transportation Communication Workers unions. New agreements secured strategic goals for the corporation, while providing workers with very competitive wage packages and reasonable, predictable wage increases.

Specifically, these contracts discontinued the unpopular wage tier system that had resulted in pay differentials between employees performing the same work. In two of three unions, profit-sharing was eliminated and replaced by a more reliable 401K employer match program. Contract negotiations also resulted in separate benefit plans for non-represented and represented employees, providing ARRC with greater flexibility in tailoring these plans for employees.

Looking Ahead

Although ARRC has significantly improved its personnel safety record, safety improvements will still remain the top priority. The ARRC will continue to invest heavily in safety training in 2003, having set ambitious goals to achieve a 15% decrease in both lost time and derailments.

ARRC's freight business is expected to remain flat in 2003. The Railroad's focus will be on customer service, velocity, and on-time performance. On the passenger side, ARRC will introduce a new day trip service to Southcentral Alaska's Spencer Glacier and Grandview Pass, actually a continuation of the *Glacier Express* train currently serving Whittier. Beginning in May 2003, the new airport rail depot will serve cruise ship customers traveling between Anchorage and Seward.



2002 Recap: Health, Safety and Environment

Recap of major events in health, safety and environment

1. Reductions in derailment risk

- a. Overhaul of the entire Williams Petroleum Alaska tank car fleet was completed. The trucks on 110 ITLX tank cars were replaced this spring, completing a coordinated effort between ARRC and Williams. The effort began in 2001, when 274 GATX car trucks were overhauled, based on a derailment risk audit that identified a worn truck part, causing a risky condition with greater potential for derailment.
- b. ARRC and federal investment in rail, ties, and ballast continues to pay big safety dividends. In 2002, there was only one reportable (more than \$6,700 in damage) mainline track derailment. And, for the second consecutive year, of the derailment events that did occur (on sidings or in yards), less than 10 percent were caused by a failure in the track structure. This compares to a much higher historical average of 35% through 1998.

2. Reportable injuries at an all-time low

- a. Year to date, ARRC has the lowest reportable injury frequency rate in the corporation's history. The current 4.2 frequency rate represents a 63% reduction from 1997.

3. Enhanced emergency planning tools

- a. In 2002, ARRC implemented its improved Oil Spill Prevention and Response Plan, which meets statutory requirements. The Plan underwent a public review process, including five public hearings in railbelt communities and a public comment period this spring, under the auspices of the Alaska Department of Environmental Conservation.
- b. In 2002, the ARRC completely revised and upgraded its federal spill and stormwater plans, and implemented an Environmental Management System to track compliance.

4. Equipment improvements to reduce emissions

- a. In 2002, ARRC initiated a program to install start/stop engine control technology on our locomotives for use in cold weather. These enhancements will reduce emissions and noise pollution.



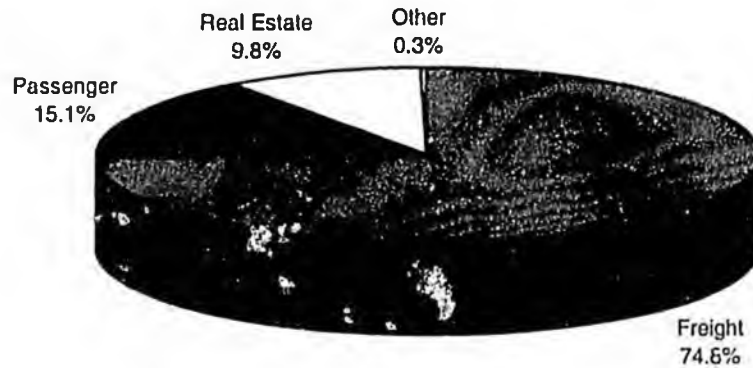
ARRC Five-Year Objectives

- Reduce employee injuries to achieve an average of no more than 2.0 injuries per 200,000 man hours
- Invest an average of 20 percent of annual revenue in infrastructure maintenance
- Grow overall revenue two to four percent per year
- Successfully complete our federally-funded capital construction program
- Redesign and build Anchorage and Fairbanks yard facilities to meet business, growth, and community requirements
- Consistently run trains between Anchorage and Fairbanks under twelve hours
- Achieve and sustain an annual real estate income of at least \$10 million per year
- Establish a formal railroad recruitment and training program
- Eliminate 25 percent of at-grade highway/railroad crossings in Alaska
- Fund and apply technology to train dispatching, signals and switching
- Achieve and sustain an operating ratio of 0.95 by 2006

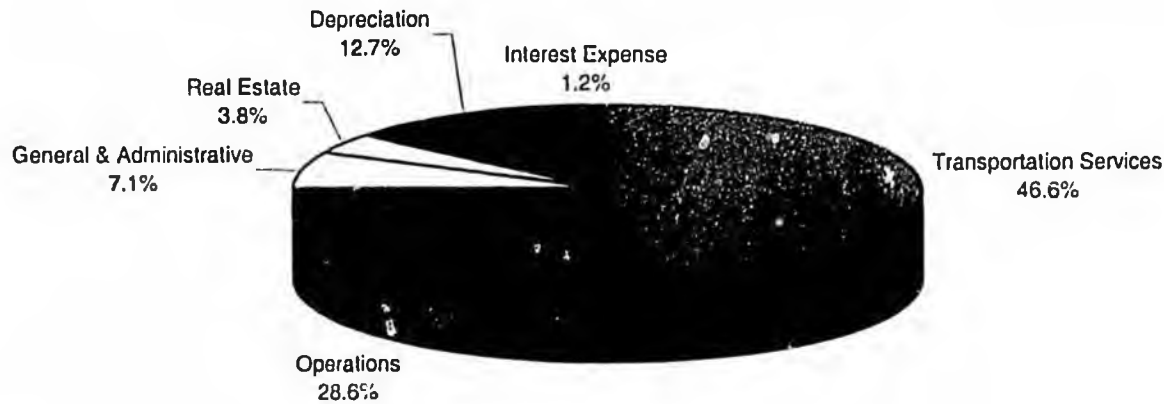




2003 Budgeted Revenues and Expenses



Budgeted Revenues
\$99.0 million



Budgeted Expenses
\$93.5 million



5-Year Forecast – Revenue

<i>(in millions)</i>	2003 Budget	2004 Forecast	2005 Forecast	2006 Forecast	2007 Forecast
Freight	\$ 74.04	\$ 76.81	\$ 77.53	\$ 77.66	\$ 80.45
Passenger	14.95	15.27	15.58	15.90	\$ 16.16
Real Estate	9.69	10.00	10.21	10.55	\$ 10.76
Other	0.32	0.45	0.30	0.31	\$ 0.30
Total	\$ 99.00	\$ 102.53	\$ 103.62	\$ 104.42	\$ 107.67



5-Year Plan – Operating Budget

<i>(in millions)</i>	2003 Budget	2004 Plan	2005 Plan	2006 Plan	2007 Plan
Operating Revenues	\$ 89.11	\$ 92.1	\$ 93.11	\$ 93.55	\$ 96.61
Operating Expenses	(81.40)	(79.19)	(76.35)	(75.78)	(78.25)
Net Income – Operations	7.71	12.89	16.76	17.77	18.36
Net Income – Real Estate	6.14	6.27	6.30	6.70	6.81
Other Income	0.20	0.21	0.23	0.25	0.27
Net Income (before depreciation and interest)	14.05	19.38	23.29	24.72	25.44
Depreciation	(11.85)	(12.50)	(13.00)	(13.50)	(14.00)
Interest Expense	(1.09)	(1.05)	(0.98)	(0.89)	(0.79)
Net Income (earned without Federal 5307 Funds)	\$ 1.11	\$ 5.83	\$ 9.31	\$ 10.33	10.65
Federal 5307 Funds	4.43	4.80	4.80	4.80	4.80
Net Income	\$ 5.54	\$ 10.63	\$ 14.11	\$ 15.13	\$ 15.45



5-Year Forecast – Capital Budget

<i>(in millions)</i>	2003 Budget	2004 Forecast	2005 Forecast	2006 Forecast	2007 Forecast	TOTAL
ARRC Internally Generated	\$ 18.3	\$ 31.0	\$ 23.8	\$ 18.6	\$ 14.0	\$ 105.7
Federal Railroad Administration	* 33.0	*28.0	*28.0	20.0	20.0	\$ 129.0
Federal Transit Administration	** 20.4	9.9	15.3	14.6	9.4	\$ 69.6
Total	\$ 71.7	\$ 68.9	\$ 67.1	\$ 53.2	\$ 43.4	\$ 304.3
*Includes \$8.0 million in funding from the Department of Defense						
**Includes \$0.4 million in funding from the U.S. Fish & Wildlife Service						



5-Year Forecast – Capital Investment Program

ALASKA RAILROAD CORPORATION							
Five-Year Capital Plan							
2003 Project ID		2003	2004	2005	2006	2007	Total
	FRA Base Line Change						
<u>R-01</u>	Base Line Changes	8,000,000	8,000,000	8,000,000			24,000,000
	FRA Track Program: Pending 2003 Appropriation						
	<u>Siding Access Program</u>						
<u>R-50</u>	Power Switch - Sunshine		1,676,789				1,676,789
<u>R-51</u>	Power Switch - Willow		1,676,789				1,676,789
<u>R-05</u>	Goldstream - New	2,000,000					2,000,000
<u>R-52</u>	Install CTC between Palmer Jct and Pittman		1,524,709				1,524,709
<u>R-53</u>	Install CTC between Anchorage and Palmer Jct	400,000					400,000
<u>R-54</u>	Siding Extension - Manley	800,000					800,000
<u>R-56</u>	Fairbanks Passenger Track		2,900,000				2,900,000
<u>R-57</u>	Fairbanks Loop Track	2,400,000					2,400,000
<u>R-58</u>	Denali siding	800,000					800,000
	<u>Track Rehab Program</u>						
<u>R-59</u>	Anchorage Operations Center	4,500,000					4,500,000
<u>R-26</u>	Rail	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	15,000,000
<u>R-38</u>	Ballast/Surfacing	2,600,000	2,600,000	2,600,000	2,600,000	2,600,000	13,000,000
<u>R-27</u>	Ties	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	12,500,000
<u>R-29</u>	Drainage Improvements/Slope Stabilization	1,300,000	2,300,000	2,300,000	2,300,000	2,300,000	10,500,000
<u>R-60</u>	Resurrection Piver Bridge - MP 3.2	2,300,000					2,300,000
<u>R-28</u>	Bridge Program	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	7,500,000
<u>R-32</u>	Healy Canyon Stabilization/Realignments	500,000					500,000
<u>R-61</u>	2004 Engineering/NEPA/SHPO	400,000					400,000
	<u>Siding Access and Track Rehab Programs</u>		321,713	8,100,000	8,100,000	8,100,000	24,621,713
	Subtotal FRA Track Program	25,000,000	20,000,000	20,000,000	20,000,000	20,000,000	105,000,000
	Total FRA Funding	33,000,000	28,000,000	28,000,000	20,000,000	20,000,000	129,000,000
	US Fish and Wildlife Service						
<u>F-1</u>	Fish Passage Improvements	400,000					400,000

ALASKA RAILROAD CORPORATION
Five-Year Capital Plan

2003 Project ID		2003	2004	2005	2006	2007	Total
FTA 5309 Earmark Projects: Pending 2003 Appropriation							
<u>T-01</u>	Fairbanks Intermodal/Depot	2,500,000					2,500,000
<u>T-09</u>	Wasilla Intermodal Facility	900,000					900,000
<u>T-11</u>	Ship Creek Intermodal	5,000,000					5,000,000
<u>T-57</u>	Anchorage Airport Rail Station	2,500,000					2,500,000
	Subtotal FTA 5309 Earmark Projects	10,900,000	-	-	-	-	10,900,000
FTA 5309 New Start Projects							
<u>T-55</u>	Nenana Realignment	-	750,000	6,000,000	5,250,000	-	12,000,000
	Subtotal FTA 5309 New Start Projects	-	750,000	6,000,000	5,250,000	-	12,000,000
FTA 5309 Fixed Guideway Modernization Projects: Pending 2003 Appropriation							
<u>Passenger Power & Equip and Safety</u>							
	Fairbanks Intermodal Facility	1,300,000	1,220,834	1,314,459	1,410,893	1,510,220	6,756,406
<u>T-01a</u>	Fairbanks Intermodal Facility	1,029,936					1,029,936
<u>339</u>	Denali Depot Interior Remodel	200,000					200,000
<u>T-54</u>	Ship Creek Trail	-	1,000,000	500,000			1,500,000
<u>T-55</u>	Nenana Realignment	500,000	-	-			500,000
<u>T-14</u>	Rail Capacity Improvements	-	900,000	1,400,000	1,900,000	1,900,000	6,100,000
	Subtotal FTA 5309 Fixed Guideway Modernization Projects	3,029,936	3,120,834	3,214,459	3,310,893	3,410,220	16,086,342
FTA 5307 Projects: Pending 2003 Appropriation							
<u>Planning</u>							
<u>338</u>	Talkeetna Depot Planning	30,000					30,000
<u>T-17</u>	Transit Security	48,257	48,257	48,257	48,257	48,257	241,285
<u>Construction</u>							
<u>T-10</u>	Denali Depot (construction)	266,400					266,400
<u>T-23</u>	Whittier Transit Shed Demolition	150,000	-				150,000
<u>T-56</u>	Preventive Maintenance	5,537,468	5,983,868	5,983,868	5,983,868	5,983,868	29,472,940
	Subtotal FTA 5307 Projects	6,032,125	6,032,125	6,032,125	6,032,125	6,032,125	30,160,625
	Total FTA Funding	19,962,061	9,902,959	15,246,584	14,593,018	9,442,345	69,146,967
Vehicle/Equipment Program							
<u>1</u>	<u>Vehicle Program</u>		245,000	400,000	400,000	400,000	1,445,000
<u>300</u>	District 4 Inspector's Truck	65,000					65,000
<u>302</u>	Transportation Suburban	38,000					38,000
<u>303</u>	Telecommunications Truck - Replacement	75,000	75,000				150,000
<u>357</u>	Signal Mainliner Vehicle	65,000					65,000
<u>304</u>	Wasilla Section Truck	85,000					85,000
<u>53</u>	15 Passenger Hy-Rail Bus	57,000					57,000
<u>301</u>	Bunny tractor - Anchorage TOFC		80,000				80,000
	Subtotal	385,000	400,000	400,000	400,000	400,000	1,985,000

ALASKA RAILROAD CORPORATION
Five-Year Capital Plan

2003 Project ID		2003	2004	2005	2006	2007	Total
Equipment Program							
<u>23</u>	Heavy Equipment Lease Buyout		350,000	200,000			550,000
<u>374</u>	Whittier Overhead Crane - Maintenance Facility	35,000					35,000
<u>50</u>	Locomotive LC107 Crane Rebuild	250,000	400,000	400,000	400,000	400,000	1,850,000
<u>301</u>	Equipment Capital Rebuilds	300,000	300,000	300,000	300,000	300,000	1,500,000
<u>20</u>	Ballast Regulator	350,000		350,000		350,000	1,050,000
<u>311</u>	Brush Cutter	375,000					375,000
<u>310</u>	Purchase Lowboy Trailer	80,000	80,000				160,000
<u>305</u>	Fairbanks Overhead Crane - Heavy Equip Shop	80,000					80,000
<u>380</u>	Car Mover	150,000	250,000				400,000
<u>308</u>	Purchase Boom for 290 Hoesch Truck	60,363					60,363
<u>306</u>	Forklift for Box Car		43,000				43,000
<u>307</u>	Purchase 4X4 Gator utility vehicle for Fairbanks shop		7,847				7,847
<u>47</u>	Speed Swing		300,000				300,000
	Anchor Machine				100,000		100,000
<u>45</u>	D-6 Cat		300,000	300,000			600,000
	Spike Driver		200,000				200,000
	Spike Puller			150,000			150,000
	Tie Handler				100,000	100,000	200,000
	Tie Inserter			200,000		200,000	400,000
	Wheel Crane				400,000		400,000
<u>51</u>	Hi Rail Boom Truck (Tundra Type)				250,000	-	250,000
<u>46</u>	Snow blower			350,000			350,000
<u>37</u>	Tampers		400,000		400,000		800,000
	Subtotal	1,680,363	2,630,847	2,250,000	1,950,000	1,350,000	9,861,210
	Total Vehicle & Equipment Program	2,065,363	3,030,847	2,650,000	2,350,000	1,750,000	11,846,210
Maintenance							
<u>10</u>	Bridge Replacements	480,000	3,050,000	3,900,000	2,050,000	6,200,000	15,680,000
<u>12</u>	Branch Line Rehabilitation	800,000	1,205,000	200,000	200,000	200,000	2,605,000
<u>2</u>	MOW Section Improvements	200,000	200,000	200,000	200,000	200,000	1,000,000
<u>18</u>	Roofs - Anchorage Shops	500,000	500,000	250,000	250,000	250,000	1,750,000
<u>312</u>	Avalanche Control - Howitzer Purchase	40,000					40,000
<u>220</u>	Generator Replacement @ Hurricane	80,000					80,000
<u>22</u>	Yard Track Improvements	800,000	950,000	250,000	250,000	250,000	2,500,000
<u>15</u>	Rip Rap Placement	400,000	150,000	150,000	150,000	150,000	1,000,000
<u>7</u>	Electric System Rehabilitation - Anchorage & Fairbanks shops	600,000	750,000	750,000	750,000	750,000	3,600,000
<u>32</u>	Yard Paving - Anchorage/Fairbanks	100,000	100,000	100,000	100,000	100,000	500,000
<u>291</u>	Walkways & Yard Footing Conditions	200,000	150,000	150,000	150,000	150,000	800,000
<u>17</u>	Hydraulic Tools for MOW Sections	80,000	80,000	80,000	80,000	80,000	400,000
<u>43</u>	HE Repair Shop Tools/Equipment - Continued purchase of shop tools	30,000	30,000	30,000	30,000	30,000	150,000
<u>67</u>	Facilities Overhead Doors	40,000	40,000				80,000
<u>76</u>	Fencing	50,000	50,000	50,000	50,000	50,000	250,000
<u>280</u>	Phase II Warehouse 3 - asbestos removal	-	525,000				525,000
<u>21</u>	Mainline Switch Rehabilitation	-	100,000	100,000	100,000	100,000	400,000

ALASKA RAILROAD CORPORATION

Five-Year Capital Plan

2003 Project ID		2003	2004	2005	2006	2007	Total
	Maintenance - Continued						
313	Multi-agency Avalanche Center	-	400,000				400,000
38	Purchase Ballast Cars		700,000				700,000
57	Avalanche Program - GIS		50,000	60,000	60,000		170,000
55	Heavy Equipment Shop Relocation			7,000,000	7,000,000		14,000,000
41	Switch & Crossing Grinder		2,500,000				2,500,000
33	Slide Zone Detection/Mitigation			250,000	250,000	250,000	750,000
36	MOW Work Tracks		200,000	100,000	100,000	100,000	500,000
39	Crossings		75,000	75,000	75,000	75,000	300,000
375	Locker Room/Toilet Upgrade Program		100,000	100,000	100,000	100,000	400,000
65	Facilities North						
69	Boiler Control	40,000					40,000
315	Fairbanks Car Shop Locker Room/Toilet Room	159,000					159,000
314	Interior Lighting	30,000	30,000				60,000
6	Equipment Shed		530,000				530,000
66	Fairbanks Mechanical Shops Electrical Upgrade		75,000	50,000	50,000	25,000	200,000
316	Fairbanks Roof Drains, Windows, ETC.		40,000	40,000	40,000	40,000	160,000
70	Fairbanks Scale Rehab		25,000				25,000
71	Section - Cantwell Garage		40,000				40,000
72	Facilities South						
79	Whittier - Electrical Distribution and Lighting	40,000	135,000	120,000	120,000	40,000	455,000
73	Anchorage Shop Sprinklers	75,000	75,000	75,000	75,000	75,000	375,000
82	Anchorage Shop Water systems upgrade	80,000	80,000	80,000	80,000	80,000	400,000
81	Anchorage Storm Drain System Upgrade	150,000	50,000	50,000	50,000	50,000	350,000
317	Heat System Traps & HRUs Program	75,000	75,000	75,000	75,000	75,000	375,000
74	Diesel Repair Shop - Windows	50,000	75,000	50,000	50,000	150,000	375,000
75	Car & General Repair Shops - Roof Drains	-	75,000	125,000	125,000	175,000	500,000
80	Sanitary Sewer - trunk extensions - Anchorage		50,000	50,000	50,000	50,000	200,000
	Total Maintenance	5,099,000	13,260,000	14,510,000	12,660,000	9,795,000	55,324,000
	Mechanical						
319	Overhaul Trucks for 6 locomotives	164,014	164,014	164,014	164,014	164,014	820,070
320	Progressive Overhaul 6 locomotives	868,449	674,854	674,854	674,854	674,854	3,567,865
329	General Repair luncheon/locker improvements	15,000					15,000
19	Locomotive Fueling & Servicing Facilities	1,000,000	3,000,000				4,000,000
318	Install toilets, insulation, and heat in 7 locomotives	208,024	208,024	208,024			624,072
322	Rebuild trucks on 63 - 100 ton steel hoppers (16000,16100)	365,831	365,831				731,662
321	Purchase automatic toilet washer	74,663					74,663
323	Huck Machine for Car Shop	28,974					28,974
326	Plasma Cutter for Car Shop	7,244					7,244
324	Rebuild 5 - 17000 series flat cars	64,038	64,038	51,230			179,306
325	Purchase and install 6 air dryers for locomotives per year, 32 total projects	99,371	132,495	132,495			364,361

ALASKA RAILROAD CORPORATION

Five-Year Capital Plan

2003 Project ID		2003	2004	2005	2006	2007	Total
Mechanical - Continued							
327	Convert 4 MOW friction bearing cars to roller bearing trucks per year.	45,000	144,507	200,000	45,000		434,507
328	GG Bearing conversion for 8 GP locomotives	105,000	117,564	117,564			340,128
330	Purchase 2 Air Turbine EOT Devices	-	32,828	32,828	32,828	32,828	131,312
376	Purchase/install wheel boring machine.			550,000			550,000
377	Bearing Tapered Roller (BTR) Assembly Rebuild System for SD70 MACs		500,000				500,000
	Total Mechanical	3,045,608	5,404,155	2,131,009	916,696	871,696	12,369,164
Transportation Projects							
131	Head in Williams Loop	1,032,000					1,032,000
336	Whittier barge slip dolphin	270,000					270,000
133	Automatic Low Banner Switch	30,000	20,000	20,000	20,000		90,000
A-1	North Ship Creek Bluff Phase 2		1,000,000				1,000,000
204	Anchorage Yard Track	800,000	973,000				1,773,000
290	Springer Loop Access Road	75,000	-	-	-		75,000
155	Whittier yard improvements		500,000	500,000			1,000,000
	Total Transportation	2,207,000	2,493,000	520,000	20,000	-	5,240,000
Markets, Sales & Services							
Passenger							
145	Baggage Bin Replacement	-	10,000		10,000		20,000
342	Grandview Coach Seating Remodel (551 & 552)		310,962				310,962
343	Grandview Coach Seating Remodel (553 & 554)		310,962				310,962
344	Seward Porch/Shelters		50,000				50,000
345	Seward Baggage Conveyor			200,000			200,000
346	Seward Baggage Storage		15,000				15,000
347	Anchorage Baggage Conveyor			250,000			250,000
348	Talkeetna Porch				50,000		50,000
349	Galley Remodel ARR 451			225,500			225,500
350	Galley Remodel ARR 452			225,500			225,500
351	Galley Remodel ARR 300		215,250				215,250
352	Galley Remodel ARR 301		215,250				215,250
138	Wheelchair lifts		15,000		15,000		30,000
Freight							
146	Container cars - new/used	325,000	550,000	575,000	400,000		1,850,000
148	Convert 3 per year - 1910J flats to 480 volt	84,508	140,846	140,846	56,338		422,538
147	Chain equipped flat cars - new/used 5		150,000	150,000			300,000
	Total Markets, Sales and Service	409,508	1,983,270	1,766,846	531,338	-	4,690,962

ALASKA RAILROAD CORPORATION

Five-Year Capital Plan

2003 Project ID		2003	2004	2005	2006	2007	Total
Information Services							
<u>Infrastructure</u>							
<u>163</u>	CMMS Preventative Maintenance (with FTA participation)		635,000	100,000	50,000	50,000	835,000
<u>157</u>	Network Services	70,000	100,000	100,000	150,000	75,000	495,000
<u>158</u>	Wide Area Network	80,000	70,000	100,000	95,000	70,000	415,000
<u>159</u>	Tape Library System	31,850	25,000	15,000	60,000	30,000	161,850
<u>161</u>	Network Printer Upgrade Program	19,500	11,508	11,508	3,508	17,508	63,532
<u>160</u>	Hot Site (Disaster Dispatch Backup)	-	50,000	100,000	100,000	75,000	325,000
171	OIS System HW Upgrade		200,000				200,000
170	Financial System HW Upgrade		20,000	200,000			220,000
<u>Corporate Development</u>							
<u>353</u>	I/T Delivery and Portal Services	-	105,000				105,000
<u>169</u>	Online Freight Quotes	20,000	20,000				40,000
<u>354</u>	Car Inspection - Handheld project	60,000	30,000	30,000	30,000	10,000	160,000
<u>355</u>	Electronic Yard Repair AAR Billing	48,290					48,290
<u>167</u>	GIS Track and Watershed DB	16,000	16,000	15,000			47,000
	Total Information Services	345,640	1,282,508	671,508	488,508	327,508	3,115,672
Telecommunications and Signals							
<u>Signals</u>							
<u>218</u>	Replace Crossing Signal battery & install monitoring	50,000	50,000	50,000	50,000	50,000	250,000
<u>173</u>	Replace Dragging Equipment Detectors	92,517	92,517	92,517	-		277,551
<u>178</u>	Replace Hot Bearing Detector systems	23,043	23,043	115,215	115,215	69,129	345,645
<u>176</u>	Replace Obsolete Defect Detector Systems	31,567	31,571	-	-		63,138
<u>358</u>	Small Tools and Test Equipment - Signal	11,000					11,000
378	New Detectors Whittier Tunnel and North Healy	40,000					40,000
379	ITS Video Feeds	25,000					25,000
179	Type "A" dragging equip detectors		34,000	34,000	34,000		102,000
214	Crossing signal electronic upgrades		20,000	20,000	20,000		60,000
<u>Telecommunications</u>							
<u>172</u>	Radio Telephone Replacements	50,000	-	-	-	-	50,000
<u>359</u>	Storage battery replacements-Microwave sites	24,500	25,000	25,000	25,000	25,000	124,500
<u>360</u>	Small Tools and Test Equipment - Telecom	-	10,000	10,000	10,000	10,000	40,000
180	Telephone Switch		200,000		200,000		400,000
361	Upgrades to ARRC owned communication sites		30,000	30,000	30,000	30,000	120,000
	Total Telecommunications and Signals	347,627	516,131	376,732	484,215	184,129	1,908,834
Corporate							
<u>182</u>	Records Retention Program		30,000	30,000			60,000
<u>362</u>	Training Center	130,000					130,000
<u>373</u>	GIS	226,000					226,000
<u>371</u>	Locomotive Simulator	-	350,000				350,000
	Total Corporate	356,000	380,000	30,000	-	-	766,000

ALASKA RAILROAD CORPORATION
Five-Year Capital Plan

2003 Project ID		2003	2004	2005	2006	2007	Total
	Real Estate						
<u>190</u>	Utility Projects - 2003	200,000	200,000	200,000	200,000	200,000	1,000,000
<u>366</u>	GOR Building Improvements	50,000	50,000	50,000	50,000	50,000	250,000
<u>367</u>	Signs - Fairbanks Chena / RR Ind Subdivision	25,000	25,000				50,000
<u>195</u>	Leasehold Improvements	-	500,000	500,000	500,000	500,000	2,000,000
<u>205</u>	Chena Pond	50,000					50,000
<u>191</u>	Freight House - Ph 1 Improvement	10,000	1,500,000				1,510,000
<u>363</u>	Delong Dock - Fenders	275,000					275,000
<u>364</u>	Delong Dock - Cathodic Protection	100,000					100,000
<u>365</u>	Delong Dock - Remove Abandoned Pipe & Install Water Svc	75,000					75,000
<u>368</u>	Odom Fee Simple Purchase	750,000					750,000
	Total Real Estate	1,535,000	2,275,000	750,000	750,000	750,000	6,060,000
	Health, Safety and Environmental						
<u>202</u>	Fairbanks Terminal Fuel Facility Compliance	50,000					50,000
<u>203</u>	Fuel Facility Compliance - Railbelt	25,000	150,000	150,000	150,000	150,000	625,000
<u>370</u>	Mobile Command Center	35,000					35,000
<u>372</u>	Yard Lighting	250,000					250,000
<u>197</u>	Safety Committee Funding	200,000	200,000	200,000	200,000	200,000	1,000,000
	Total Health, Safety and Environmental	560,000	350,000	350,000	350,000	350,000	1,960,000
	Total ARRC Internal	15,970,746	30,974,911	23,756,095	18,550,757	14,028,333	103,280,842

ALASKA RAILROAD CORPORATION

Five-Year Capital Plan

2003 Project ID		2003	2004	2005	2006	2007	Total
	Funding Summaries:						
	<u>Federal Funding</u>						
	FRA/DOD	8,000,000	8,000,000	8,000,000	-	-	24,000,000
	FRA	25,000,000	20,000,000	20,000,000	20,000,000	20,000,000	105,000,000
	US Fish and Wildlife Service	400,000	-	-	-	-	400,000
	FTA 5309 Earmark	10,900,000	-	-	-	-	10,900,000
	FTA 5309 New Start	-	750,000	6,000,000	5,250,000	-	12,000,000
	FTA 5309 Fixed Guideway Modernization	3,029,936	3,120,834	3,214,459	3,310,893	3,410,220	16,086,342
	FTY 5307	6,032,125	6,032,125	6,032,125	6,032,125	6,032,125	30,160,625
	Total Federal Funding	53,362,061	37,902,959	43,246,584	34,593,018	29,442,345	198,546,967
	<u>Internally Funded</u>						
	Vehicle / Heavy Equipment Program	2,065,363	3,030,847	2,650,000	2,350,000	1,750,000	11,846,210
	Maintenance	5,099,000	13,260,000	14,510,000	12,660,000	9,795,000	55,324,000
	Mechanical	3,045,808	5,404,155	2,131,009	916,696	871,696	12,369,164
	Transportation	2,207,000	2,493,000	520,000	20,000	-	5,240,000
	Markets, Sales & Services	409,508	1,983,270	1,766,846	531,338	-	4,690,962
	Information Services	345,640	1,282,508	671,508	488,508	327,508	3,115,672
	Telecommunications and Signals	347,627	516,131	376,732	484,215	184,129	1,908,834
	Corporate	356,000	380,000	30,000	-	-	766,000
	Real Estate	1,535,000	2,275,000	750,000	750,000	750,000	6,060,000
	Health, Safety and Environmental	560,000	350,000	350,000	350,000	350,000	1,960,000
	Subtotal Internal Projects	15,970,746	30,974,911	23,756,095	18,550,757	14,028,333	103,280,842
	2002 Carryover Projects	2,287,509					
	Total Capital Projects	71,520,316	68,877,870	67,002,679	53,143,775	43,470,678	301,827,809



Program of Capital Projects

The Alaska Railroad continues to pursue a comprehensive program of capital improvements. The Railroad is investing heavily in rail, ties, bridges and ballast to completely renovate its infrastructure. Safety and efficiency upgrades include projects to straighten the main track between Anchorage and Wasilla, build or rehabilitate sidings (railroad "passing" lanes) and add automated and heated switches. The Railroad is also capitalizing on opportunities to better serve Alaskans through new depots, passenger services, and equipment. Detailed descriptions of these projects are available on the Railroad's website: www.alaskarailroad.com.

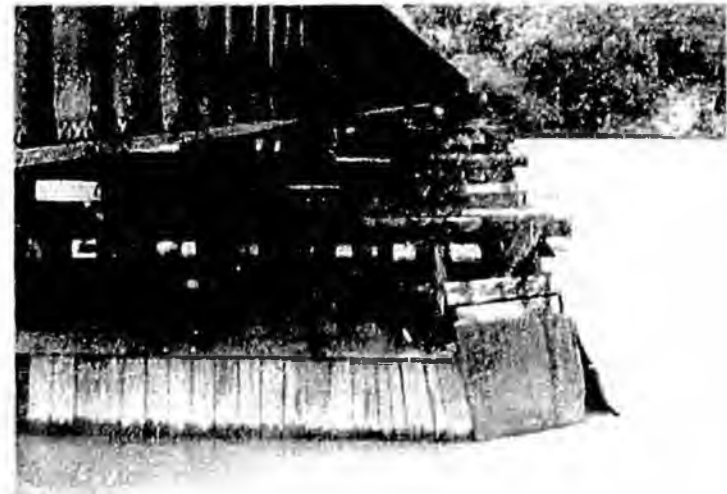
Funding for much of the capital projects program comes from more than \$233 million in federal grants received since 1996. Funds have come from the Federal Railroad Administration (FRA), Federal Transit Administration (FTA), Federal Highway Administration (FHWA) and Congressional earmarks through various agencies, such as the U.S. Forest Service. FTA-funded projects require 20% matching funds, which must be provided by the Railroad. In addition to providing the match for federal funds, ARRC is investing an additional \$18 million of internally generated funds in numerous other non-federal improvement projects for 2003.

Note: Action on appropriation bills remaining in Congress prior to the November 2002 election have been deferred into 2003. New bills will need to be introduced. There is some expectation that the new Congress will use this past year's committee-reported versions of Transportation Appropriation bills as starting points. This means that at least until mid-February, all ARRC projects that requiring FRA and FTA FY 2003 appropriations and earmarks are on hold.

Projects Under Construction/Design in 2003

R-28 Bridge Program

The Alaska Railroad's nearly 500 miles of mainline track includes 169 bridges that cross barriers ranging from streams to canyons. The Railroad's 2003 Bridge Program includes \$1.5 million tentatively funded by FRA, and \$480,000 from ARRC internal funds for major maintenance, overhaul and replacement projects that are necessary to maintain Railroad integrity, safety and efficiency. An additional \$2.3 million is allocated to lengthen Resurrection River Bridge. The replacement is tentatively funded by the FRA.



R-50 Siding Improvements

In 2000, the Railroad developed a five-year Siding Access Plan to place remote control power switches and heaters at about 40 sidings between Seward and Fairbanks, to extend 13 existing sidings and to build seven new sidings. The program has been funded by FRA earmarks. The 2003 \$6.4 million program for 2003 includes a new siding at Goldstream, extending sidings at Denali and Manley, building a loop track at the Fairbanks yard, and signalize the Palmer / Anchorage corridor.

C-1 Collision Avoidance System

Work is scheduled on a system that will provide a foundation for Positive Train Control in the future. Continuation of the project includes installation of on-board computers in our locomotive fleet and use of global positioning system (GPS) technology to provide on-track location and track movement information to guarantee train separation and/or train stop in the event of an authority violation. The \$6 million project is funded by FRA and is expected to be substantially complete in 2004.

T-11 Seward Intermodal Program

A continuation of the converted passenger dock project (2002), this project calls for passenger dock resurfacing and new lighting. Passenger terminal improvements include concrete flooring, interior wall upgrade, exterior siding replacement, restroom enlargement and office space conversions. In the "uplands" area, Port Avenue will be extended and upgraded, and a paved vehicle staging area developed north of the passenger dock. The \$3.47 million project is funded 80% by FTA and 20% ARRC. Substantial completion is expected in 2003.



T-24 Whittier Maintenance Facility

Ground broke in 2002 on a new equipment maintenance building in Whittier. Located in the southeast corner of the rail yard, the 4,793-square-foot building will store and maintain heavy equipment, such as graders and bulldozers. Funded 80% by the FTA and 20% by the Railroad, the \$2.22 million project is scheduled for completion in fall 2003.

T-15 South Anchorage Double Track

Nearly five miles of second mainline track has been added to the 5.7 miles of new signalized mainline track between 120th Avenue (near Klatt Road) and the Minnesota Drive overpass, within the Railroad's existing right of way. Construction of the second track bridge over Campbell Creek will take place in winter 2002-03. The project is expected to be completed in Summer 2003. The second track and signalization will improve efficiency and safety along this congested corridor through Anchorage. The \$11.8 million project is funded 80% by FTA and 20% by ARRC.

T-11 Ship Creek Intermodal

Planning is underway on a Ship Creek area transportation hub that provides bus and rail facilities, pedestrian improvements, new rail platforms, bus/van stops, retail development, a parking garage, airport accommodations and visitor information. In 2002, the Railroad pursued preliminary concept work, organized public and agency scoping meetings, and conduct pre-NEPA (National Environmental Policy Act) studies and documentation. Completion of the preliminary engineering and environmental documentation is expected by late spring 2003. Pending FTA approval of environmental documentation in the fall of 2003, final design and initial construction may start as soon as 2004. Funded 80% by FTA and 20% by ARRC, \$11.5 million is budgeted for preliminary design, environmental documentation, final design and initial phases of construction.

T-09 Wasilla Intermodal Planning

The Alaska Railroad, Alaska Dept. of Transportation & Public Facilities (ADOT/PF), City of Wasilla, Matanuska-Susitna Borough, and the Mat-Su Community Transit (MASCOT), joined forces in 2002 to form a regional planning organization tasked with analyzing various transit plans and associated federal funding sources. The joint organization has hired an engineering firm to study proposed projects. In 2003, the Steering Committee will determine project priorities, initiate preliminary engineering, the public involvement process and final design. The study budget is \$900,000, funded 80% by FTA and 20% by all of the participating planning organizations.

T-55 Nenana Rail Realignment

The Railroad initiated efforts to define the project scope and environmental impacts of realigning of the mainline track in the Nenana area. Preliminary engineering, environmental fieldwork and documentation are included in the current scope of work. Potential benefits of the realignment project include reduced running time by 10 minutes, eliminating six at-grade crossings, straightening 12-degree and 9-degree curves, and reducing flood hazards. The \$500,000 study is 80% funded by FTA and 20% funded by ARRC.

F-1 Fairbanks / North Pole Rail Realignment

The Railroad will continue to work on alternatives to realign the mainline track around the more urban areas of Fairbanks and North Pole. A reconnaissance study was completed in March 2002. Additional research investigated project phasing, joint funding and project strategies with the Department of Transportation and Public Facilities. FRA funded the \$350,000 budget for conceptual design and research. The Railroad has requested funding to proceed with preliminary engineering, final engineering and construction alternatives.

T-05/06 Anchorage to Wasilla Track Alignment

Efforts to straighten the track from Anchorage to Wasilla are underway, which will increase train speeds, increase efficiency and improve safety along this stretch. Funded by the Department of Defense and administered by the FRA, the \$54 million Anchorage to Eagle River phase started construction in 2001 and should be complete in 2006. Funded 80% by FTA and 20% by the Railroad, the \$23.8 million Eagle River to Wasilla project will also be complete in 2006.

A-1 North Ship Creek Yard Expansion

The Alaska Railroad Anchorage Yard is congested, inefficient and inadequate to meet current and future business demands. The North Ship Creek Expansion project is the first step to upgrade and expand the yard. This project will construct a 6,000 foot track alignment and allow for additional track to be added along the bluff. Cost for this project funded by ARR will be \$3.6 million.

T-14 Anchorage Capacity Improvements

The Alaska Railroad is investigating alternatives to increase capacity along the mainline track from the Anchorage International Airport spur (near MP 110) to the Anchorage Rail Yard (MP 114). The capacity improvement alternatives currently under consideration include additional sidings (passing lanes), installing automated signals and switches, and/or extending the double track currently under construction in South Anchorage. Funded 80% by FTA and 20% by the Railroad, \$1 million has been allocated for preliminary engineering, environmental studies and public involvement activities, which are currently ongoing.



Program of Capital Projects Project Timeline

Project ID	Legend	2002				2003				2004				2005	2006
		1 ^u	2 ^u	3 ^u	4 ^u	1 ^u	2 ^u	3 ^u	4 ^u	1 ^u	2 ^u	3 ^u	4 ^u		
R-28	Bridge Program														
Siding	Siding Improvements														
C-1	Collision Avoidance System												C		
T-32	Seward Intermodal Program													C	
T-24	Whittier Maintenance Facility									C					
T-07	South Anchorage Double Track												C		
T-57	Anchorage Airport Rail Station							C							
A-1	North Ship Creek Yard Expansion														
R-59	Anchorage Yard Operations Center											C			
19	Anchorage Yard Locomotive Fueling & Servicing Facilities												C		
T-05	Anchorage to Eagle River Realignment														C
T-05/06	Eagle River to Wasilla Realignment														C
T-10	Denali Depot												C		
T-01	Fairbanks Intermodal Facility and Depot													C	

Projects in the Planning Phase

		2002				2003				2004				2005	2006
		1 ^u	2 ^u	3 ^u	4 ^u	1 ^u	2 ^u	3 ^u	4 ^u	1 ^u	2 ^u	3 ^u	4 ^u		
T-14	Anchorage Capacity Improvements									■	■	■	■	■	■
T-11	Ship Creek Intermodal							■	■	■	■	■	■	■	■
T-09	Wasilla Intermodal Planning									■	■	■	■	■	■
T-55	Nenana Rail Realignment					■	■	■	■	■	■	■	■	■	C
F-1	Fairbanks/North Pole Realignment														



Issues: Railroad Positions on Hot Topics

Transportation Equity Act for the 21st Century (TEA-21) Reauthorization

- **Background:** When the State of Alaska purchased the Alaska Railroad in 1985, it received a railroad in disrepair. The Railroad was fully rehabilitated in the 1950s, but received very little capital funding under federal ownership after that effort. Alaska's congressional delegation has worked to ensure that the ARRC is on equal footing with other Lower 48 rail operations that provide passenger services. As a result, TEA-21 provided an authorization to ARRC for annual appropriations for capital grants for its passenger operations.
- **Position:** ARRC supports continued capital grant assistance from the federal government to rehabilitate infrastructure and to improve passenger services, including commuter rail. As TEA-21 is reauthorized in FY 2003, ARRC will work with Alaska's congressional delegation to maintain grant recipient status and to develop a coordinated federal agency approach to grant administration.

Federal Transit Administration (FTA) Match

- **Position:** Railroad matching funds for FTA grants currently stands at a 20% rate. We have an ongoing initiative before the Congress to reduce this match requirement to 9%, the same percentage as ADOT/PF is required to provide in match for Federal Highway Administration funds. The reduction in match benefits the Railroad by allowing the corporation to continue to pursue additional grant opportunities.

Executive Budget Act

- **Position:** The ARRC business model as it exists works very well. Language in the transfer legislation was written by legislators who understood the need for the Railroad to operate independently, and for business, safety and environmental decisions to be made based on the facts and merits of both business and market demands not unduly biased or encumbered by political considerations. Under Federal ownership, Railroad operations were dependent on decisions made in Washington D.C. which was the reason for its failure during that ownership period. Any dependence on the state's general fund automatically brings with it additional state legislative oversight. This oversight would introduce the slower pace of politics into the high tempo day-to-day decision-making of a very complex and dynamic transportation business. ARRC customers depend on the ability of the Railroad to respond quickly to market demands. Our management team / Board of Directors relationship is well suited to the task. The model has worked very well for nearly 18 years. As a result, the Alaska Railroad has not requested state dollars and will not in the future.

Taxing the Railroad

- **Position:** ARRC invests its entire net earnings back into the Railroad to improve its capital infrastructure and provide matching funds for federal grants. The backlog of ARRC capital needs is several hundred million dollars. Until such time as the ARRC is able to clear this backlog and generate sufficient net earnings in excess of annual sustainment requirements, we believe that taxing the corporation would be premature and unwise.

Privatization

- **Position:** In our opinion, privatization incurs considerable risk. A private owner would have to pay taxes, would receive no federal grant money, and would undoubtedly not receive the entire 36,000 acres of state land ARRC currently owns for exclusive right-of-way and lease revenue. Those key elements in concert with one another are essential factors contributing to ARRC's ability to function without having to go to the state for general fund subsidy. In our opinion, a private owner could not continue the present level of service to all our state customers and be profitable at the same time just based on operational revenues. The economics simply do not "pencil out." Failure of privatization would eventually force the state to take on the dysfunctional remnant of the former corporation, rebuild it at great cost, and make it a ward of the state subsidized from the state's general fund.

Railroad Tax-Exempt Bonding Authority

- **Position:** ARRC supports the use of its tax-exempt bonding authority to build projects that benefit the economic development of the State of Alaska – such as a gas pipeline project. This type of project falls in line with the Railroad's mission to foster and promote state economic development. Fees associated with the costs of administering such bonds are appropriate. Any proceeds generated from administrative fees over the bonds' lifetime should be invested back into railroad infrastructure to ensure the Railroad can offer robust capacity and support for future development of Alaska resources.

Public Involvement Policies

- **Position:** The Alaska Railroad is committed to coordinating our planning, projects and real estate activities with railbelt communities to reflect community-planning efforts and needs.
 - We emphasize a proactive public involvement process to allow communities to actively participate in ARRC decisions. This process includes "heads up" direct mail correspondence, open house events, up-to-date information on our web site, a dedicated public involvement e-mail address, public comment hotlines, and community meeting presentations.

Regional Transportation Planning

- **Position:** ARRC fully supports local regional transportation planning and serves on a number of planning groups including AMATS, FMATS, the Regional Transportation Planning Organization (Mat-Su and MOA), and the Fairbanks-North Star Borough Rail Task Force. The Railroad believes that local officials need to have a broader perspective on state transportation – one that extends beyond just their local region. ARRC believes projects sell better when they are discussed in the context of a regional plan. Accordingly, we advocate transportation analysis focused on transportation node linkages, and the intermodal transition points between them. ARRC methodology promotes more rigorous examination of the effect and unintended consequences of state transportation projects.

Rail Extensions

- **Position:** ARRC will take its lead from state and federal policy makers regarding rail extension initiatives. ARRC supports extending or building new railroad lines and believes this falls under its mission to foster state and community economic development. ARRC does not generate the capital funding necessary to proceed with some of the proposed rail extension projects (\$3-\$8 million/mile), but stands ready to provide technical, engineering and operational expertise should funding be identified. Once constructed, the ARRC must generate sufficient revenues to pay the operating expenses.
 - Canadian Rail Extension: To reach the Alaska/Canadian border, approximately 270 miles of track would need to be constructed. ARRC has been supportive of recent legislative and congressional efforts to study such an initiative and will continue to lend its planning expertise to the process.
 - Rail Extension to Fort Greeley: We believe it is appropriate to extend the railroad to Fort Greeley to support national defense objectives. This extension conveniently aligns with proposed legislation to extend the rail to Canada.
 - Northwest Arctic Rail: Hugely expensive, this initiative nonetheless opens up previously inaccessible resources to developers. Should such an initiative take root, ARRC would be pleased to be a member of the planning group.

Rail Realignments

- **Position:** ARRC supports realigning its main track around Alaska communities that have developed closely along the rail line. The issue is one of enhancing both safety and efficiency. Fairbanks and Wasilla realignments would each eliminate numerous dangerous at-grade crossings and reduce the running time of our trains. Both realignments are significant undertakings, and the Railroad does not yet have internal or federal funding to proceed with these projects on its own. We will continue working to integrate with community planning efforts, the Alaska Department of Transportation and Public Facilities (ADOT/PF) and be ready with plans when federal funding becomes available.
 - Fairbanks Realignment: Eliminates 48 crossings
 - Wasilla Realignment: Eliminates 11 crossings
 - Nenana Realignment: Reduces potential for crossing accidents at six grade crossings when the main line becomes a spur.

Partnering with Communities

- **Position:** ARRC is seriously committed to partnering. Collaborative support for important community, borough and private sector initiatives can enhance prosperity along the railbelt and create conditions for success that enable a more prosperous Alaska. *Examples of Partnering include the following:*

Anchorage Convention Center

ARRC believes a new Anchorage Convention Center located in the Ship Creek basin would spur long-awaited development of Ship Creek. The Railroad supports this project and will participate with advocacy groups and the Municipality of Anchorage in efforts that move development forward. Ways the Railroad might participate include:

- Financial assistance utilizing railroad tax-exempt bonding authority (with board and legislative approval)
- Funding assistance through federal grants to create intermodal connections, including commuter rail services, trails, roadways, and covered access to the downtown core
- Real estate lease agreements that promote stability and enhance prospects for private financing

Palmer Right-of-Way

The City of Palmer is working on an urban revitalization plan with a focus on building a bike path and other park amenities along ARRC's right-of-way, which currently runs through the middle of the city, north to south. The Railroad supports the revitalization efforts and is coordinating with city planners to ensure a satisfactory trail location that does not preclude future rail activities along this corridor.

Corporate Giving

The Railroad and its employees support communities through its charitable giving, school business partnership programs, and participation in many civic organizations. As permitted by a statutory provision, the Railroad leases land to many communities at less than fair market value for trails, parks and other public amenities.

Reversion of Right-of-Way

- **Background:** Under the Alaska Railroad Transfer Act (45 U.S.C. 1209), if the State of Alaska makes no use of ARRC's right-of-way land for "transportation, communication, or transmission purposes" for a continuous period of 18 years, the State's interest in the land reverts to the United States. Once this happens, the Secretary of the Interior must immediately convey the land to the adjoining landowners.
- **Position:** ARRC is reaching this 18-year limit along parts of the Palmer spur. If the Railroad is not successful in maintaining this right-of-way, the future opportunity to use rail for transporting coal out of Wishbone Hill will be lost. It would also negate the cooperative efforts among the City of Palmer, Mat-Su Borough, state agencies, and ARRC to establish a trail and greenbelt development along portions of the outer edge of the right-of-way.

Planning & Zoning Jurisdiction over the Railroad

- **Background:** Several federal laws contain language that essentially preempts or eliminates state and local regulatory authority over railroads except in very limited circumstances. For years, local governments and states have tried to restrict railroad hours of transportation, speeds, loading requirements, routes, etc., and the federal government has been vigorous in thwarting those efforts. In addition to these federal laws, ARRC is an instrumentality of the State of Alaska and shares the State's sovereign immunity. The Railroad's enabling act exempts ARRC from other statutes under which the State has waived its sovereign immunity from local planning and zoning. As a result, ARRC is currently immune from local planning and zoning ordinances.
- **Position:** The enabling act drafters wisely refrained from making ARRC subject to local planning and zoning regulation. ARRC travels through 13 recognized municipal and borough governments between Seward and North Pole. If both the federal and state exemptions were removed, local communities could dictate inconsistent and onerous planning and zoning restrictions which would negatively impact the Railroad's interstate commerce designation and ability to offer efficient, economical and reliable service to its freight and passenger customers.

Knik Arm Crossing

- **Position:** ARRC supports a Knik Arm Crossing. It must not become functionally obsolete once it is built, and therefore we believe it essential that the bridge be connected on each end via a high capacity, high-speed rail and road network interchange. ARRC is a big stakeholder and needs to have a seat at the planning table.

Anchorage International Airport Rail Station Operation and Marketing Plan

- **Position:** ARRC is working with its transportation partners and the Ted Stevens Anchorage International Airport to provide service to the airport that responds specifically to our customer needs. We expect the facility to be operational in spring 2003. Beginning with the 2003 season, we plan to run two trains five days per week to serve cruise ship passengers (the trips into and out of the facility are each considered a train). This current plan does not include shuttle services from ARRC's downtown depot or potential markets. However, the Railroad will remain flexible to customer and market demand. The ARRC and ADOT/PF are jointly funding construction of pullout lanes at the railroad crossing over International Airport Road. Vehicles required to stop at crossings will use these once the current exemption is lifted in spring 2003. This will avoid traffic delays and enhance safety for normal vehicle traffic not required to stop.

Commuter Rail Service

- **Position:** ARRC supports developing Alaska's intermodal and commuter rail services as a way of adding transportation options for the traveling public. We are prepared to assist the local communities if policy makers and residents make the decision to initiate commuter rail service. The Railroad will continue to plan and build infrastructure that can provide the ability to transition to such services when we are called upon to do so.

Coastal Trail Extension

- **Position:** For the Railroad, the issue is purely a matter of safety and financial risk. Because increased risk would be imposed upon ARRC, the trail must be constructed in a way to specifically mitigate the risks involved. Furthermore, such a trail must not negatively impact railroad operations, it must be maintained and insured by an entity other than the Railroad, and said entity must agree to indemnify ARRC for all related claims.

Iditarod Trail Reconstruction

- **Position:** ARRC has signed up to support the reconstruction of this historic route, much of which follows Railroad right-of-way. As stated above, as long as safety and liability issues are adequately addressed, the Railroad can be counted on to contribute to this State effort.