

**SB**

**308**

**HFIN**

**FILE**



# FISCAL NOTE

STATE OF ALASKA  
2006 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: SB 308  
(S) Publish Date: 3/17/06

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Commerce  
Title: Alaska Railroad Revenue Bonds RDU: \_\_\_\_\_  
Sponsor: Transportation Component: Alaska Railroad Corporation  
Requester: Transportation Component No: \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Debt Service (Principal and Interest)						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1155 Receipt Supported Services						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2006) cost: 0.0  
Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

The Alaska Railroad Corporation (ARRC) is a public corporation supported by revenues generated through its freight, passenger and real estate services. ARRC does not receive state subsidies for operations or capital improvements.

This legislation authorizes the Alaska Railroad Corporation to issue revenue bonds to finance rail transportation projects that qualify for federal financial participation, and provides for an effective date.

ARRC will issue up to \$165 million in tax-exempt revenue bonds supported by Federal Transit Administration (FTA) formula funds to finance FTA-eligible rail transportation projects focused on accelerating the Railroad's main line track and bridge rehabilitation program. Debt service for the bonds would come from a portion (currently estimated between 30% - 50%) of ARRC's annual FTA formula funds. All costs related to issuing the bonds will be paid from the bond proceeds and are included in the \$165 million authorization.

Prepared by: Bill O'Leary, VP Finance and Chief Financial Officer Phone: 907-265-2516  
Division: Alaska Railroad Corporation Date/Time: 3/13/06 5:52 PM  
Approved by: William C. Noll, Commissioner Date: 3/13/2006  
Agency: Commerce, Community, and Economic Development

# Alaska Railroad Corporation

## Legislative Request for Bonding Approval

Presented by

Pat Gamble, President / CEO

Bill O'Leary, VP Finance / CFO





## Request Legislative Approval

ARRC desires to issue one or more series of capital grant receipts revenue bonds or notes, in aggregate not to exceed \$165 million



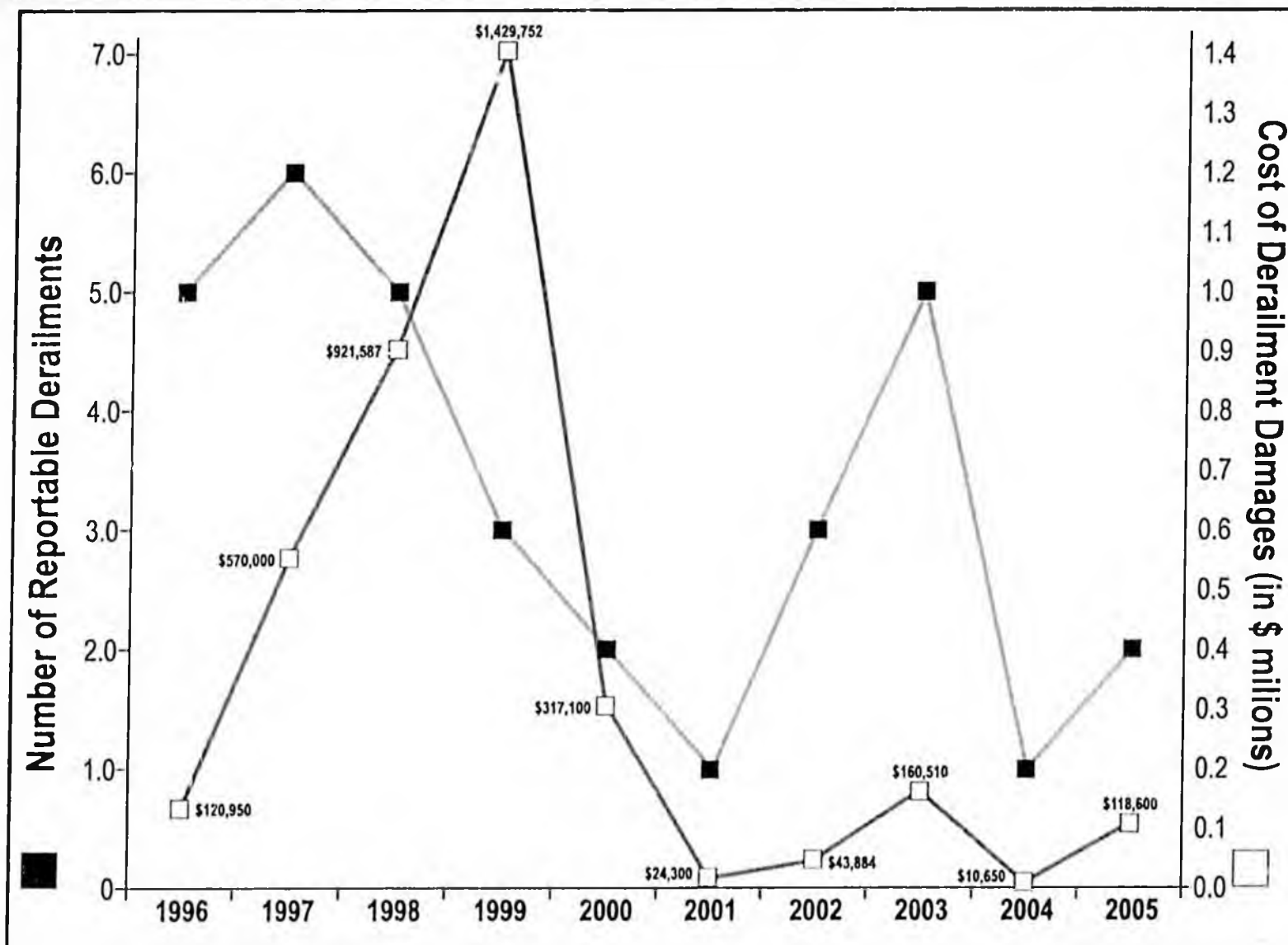
## WHAT?

### **Rehabilitate Mainline Substandard or Potentially Unsafe Track**

- Single most important purpose for the use of federal funds
- Top capital investment effort and #1 priority since 1996... \$220 million already invested

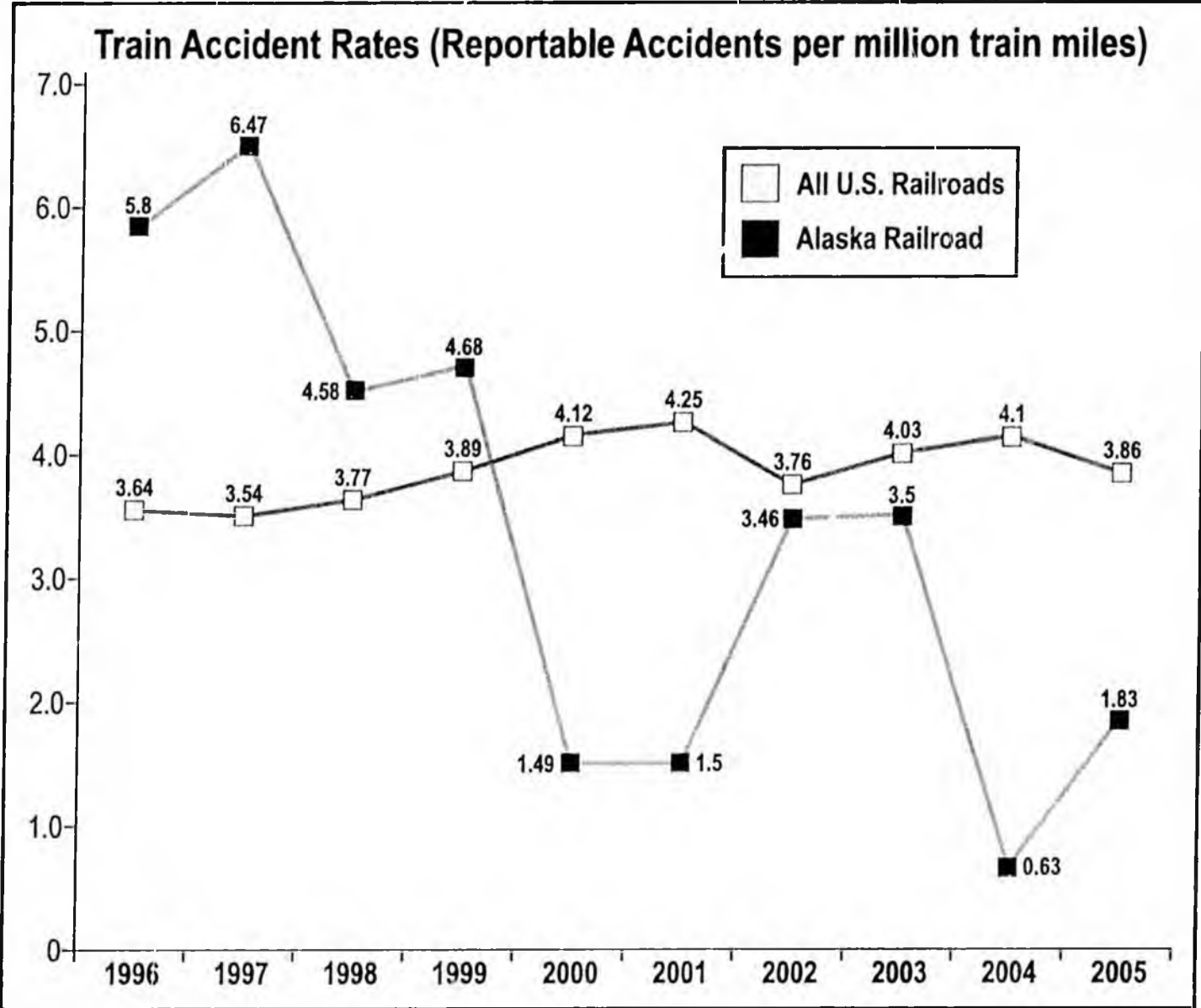


# Derailments, 1996 - 2005





# Train Accident Rate





## Project Information

- 100% CWR from Anchorage to Fairbanks (355 miles)
- 85,000 concrete ties on curves less than 6 degrees (32 miles)
- Wooden ties all upgraded to 35-year cycle
- All ballast reset
- Complimented by ARRC Bridge Program... \$30 million
- Complimented by ARRC Collision Avoidance Program... \$13 million



## WHY?

- Consistent with #1 priority
- Faster “take” of safety benefits and risk reduction of non-human factors
- Continued mitigation effort
  - More than 600 passenger trains per year
  - 800 million gal. refined product/hazardous materials (30,000 carloads)
  - 60% = hazardous cargo proportion
- Builds clarity and budget discipline into capital program
  - Debt service schedule drives yearly capital apportionment
- Accelerates eventual outcome by as much as 10 years



## Why Now?

- SAFETEA-LU makes it possible
- Formula Funds increased 6-fold
- No undue risk to railroad or state
- Consistent with corporate priority
- Materials costs escalating annually
- Growing passenger train demand requires nothing less
- Desire to get pre-pipeline work done ASAP
- No impact to previous capital plan



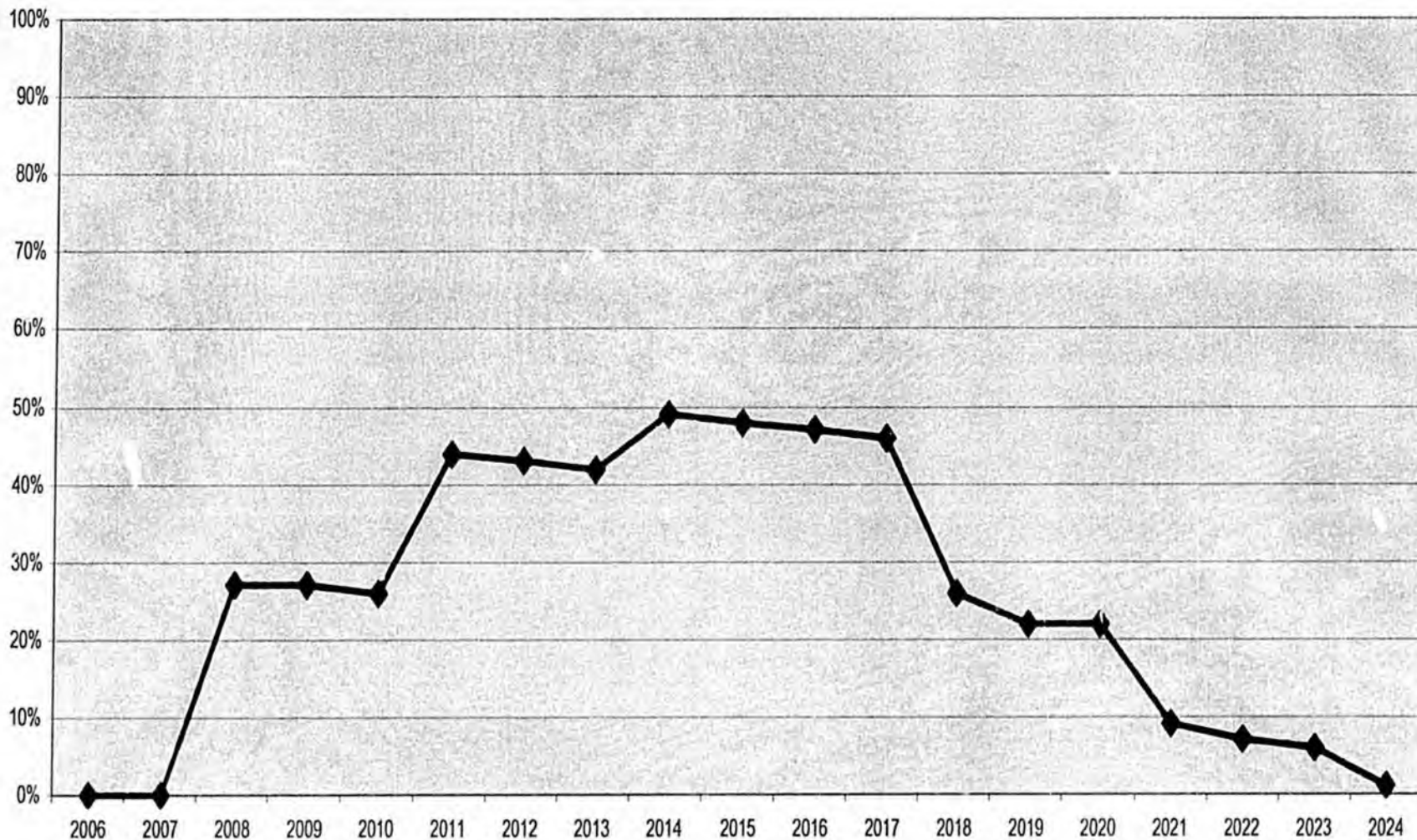
## Proposed Financing

- \$165 million authorization requested
- Currently planning three bond sales over next six years
  - Maximum annual debt service: \$19.1 million or 49% of available FTA/match for year
- ARRC Board approval required for each project and bond sale



# Debt Service as a Percent of Formula Funds/Match

Percent of FTA Formula Funds/Match Used for Debt Svc





## Appendix

- Joint Elimination
- Mainline Traffic Density History
- Joint Elimination Graph
- ARRC Tie Age Distribution Graph



## Joint Elimination Needed

- ARRC has 80,000 joints in need of replacement in the next 5 years
- Pre 1985 Joints (24" 4 hole bars) fail with accumulated tonnage
- Failures begin at about 150 Million Gross Tons (MGT)
- Almost all joints fail by 300 MGT
- Joints are eliminated by welding rail into Continuous Welded Rail (CWR)



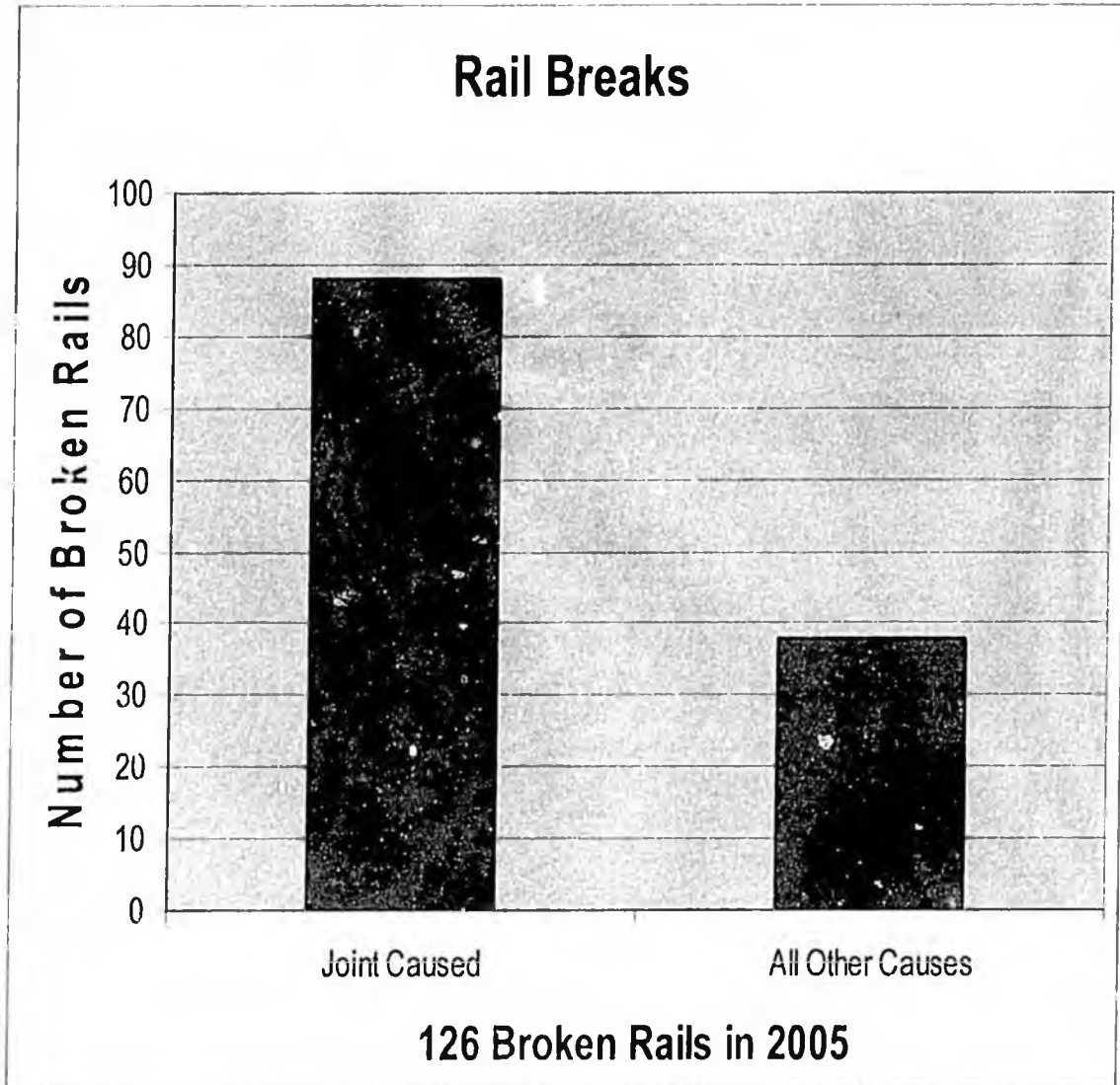
# Mainline Traffic Density History

Location	Annual MGT's (Million Gross Tons)	Accumulated MGT's 1950-2005
Portage to Anchorage	3	110
Anchorage to Matanuska	15	325
Matanuska to Healy	8.5	187
Healy to Fairbanks	8.5	210



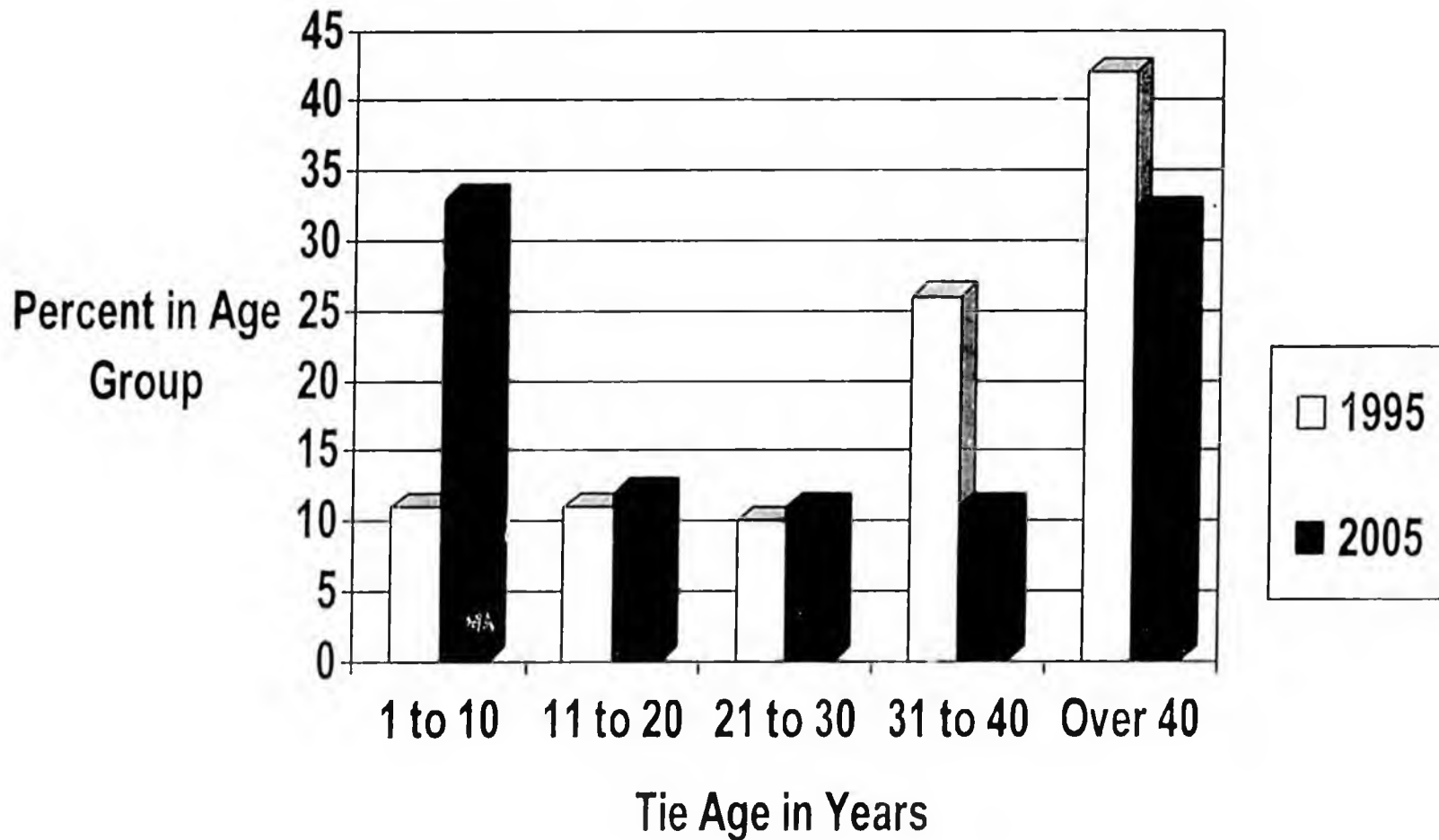
# Joint Elimination Needed

- Joint batter causes broken rail
- ARRC has excessive numbers of joint breaks





# ARRC Tie Age Distribution



# ALASKA STATE LEGISLATURE TRANSPORTATION COMMITTEE

## Committee Members

Senator Huggins, Chairman  
Senator Cowdery, Vice-Chair  
Senator Therriault  
Senator Kookesh  
Senator French



State Capitol, Room 417  
Juneau AK 99801-1182  
907-465-3878  
Fax: 907-465-3265

3/14/06

## Sponsor Statement

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**SB 308 "An Act authorizing the Alaska Railroad Corporation to issue revenue bonds to finance rail transportation projects that qualify for federal financial participation; and providing for an effective date."**

Senate Bill 308 will authorize the Alaska Railroad to issue up to \$165,000,000 in tax exempt bonds backed by Federal Transit Administration (FTA) formula funds received annually by the Railroad. Bond proceeds will be used to finance FTA-eligible rail transportation projects focused on accelerating the Railroad's mainline track and bridge rehabilitation program by as much as ten years.

The Alaska Railroad corridor between Anchorage and Fairbanks handles more than 600 passenger trains per year and over 30,000 carloads of fuel and other hazardous materials annually. Accelerating the Railroad's track and bridge rehabilitation program in this corridor is important for the following reasons:

- Greatly enhances safety. Investment in this corridor will substantially reduce derailments caused by track failure.
- Increases capacity and speed important to meet growing passenger demand.
- Enhancing passenger capacity and safety allows the railroad to better support gas pipeline construction and other freight services.
- Reduces maintenance upkeep and operating cost.
- Consistent with the Railroad's #1 corporate priority to improve safety through track and bridge rehabilitation.
- Provides for stability, clarity and capital budget discipline.

Specifically, in the Anchorage to Fairbanks corridor, the program will result in 100% continuous welded rail to reduce "joint batter" which can lead to broken rail that causes derailments. Concrete ties and new 141 pound welded rail will be placed on all curves over six degrees to increase stability. Wood tie installment will create a tie replacement cycle which would not exceed 10 years (allowing for a replacement rate of 25% to 30% per year each 10 years).

In no event will the general credit of the state or Railroad be pledged for the repayment of these bonds. AS.42.40 requires that all liabilities incurred by the Alaska Railroad

shall be satisfied "exclusively" from the assets or revenue of the Alaska Railroad and not the State.

Debt payment for the bonds will come from a portion (between 30% to 50%) of the FTA formula funds which are statutorily mandated by Federal law and received annually by the Railroad. Issuing debt backed by FTA formula funds is authorized through FTA regulation and has already been used by other rail transit authorities in the lower 48 states.

While the Alaska Railroad will have the flexibility to issue the bonds in a single issuance or in several issuances, the current plan is to issue bonds in 2006, 2009 and 2012 with each issuance having a 12-year payoff schedule. The Alaska Railroad Board of Directors is required to approve each bond issuance and associated projects.

While mainline track and bridge refurbishment is the main project identified for this program, a portion of the bond proceeds will also be used for FTA-eligible technology upgrades and passenger equipment.

Staff Contact:

Deborah Grundmann 465-4711



## Alaska State Legislature

Senate Majority Web: [www.akrepublicans.org](http://www.akrepublicans.org)

Sponsor: Transportation  
Current Version: SB 308  
Contact: Deb Grundmann, 465-3878

### Fact Sheet for: Senate Bill 308

Short Title: ALASKA RAILROAD REVENUE BONDS

#### Summary:

- Permits the Alaska Railroad to issue up to \$165,000,000 in tax exempt revenue bonds to pay for mainline track and bridge rehabilitation projects, technology upgrades and passenger equipment.
- Prevents the general credit of the state and the Alaska Railroad from being pledged for the repayment for the bonds.
- Paid for by Federal Transit Administration funds received annually by the Alaska Railroad.

#### Benefits:

- Accelerates the railroad's mainline track and bridge rehabilitation program by up to ten years.
- Increases safety by decreasing track failure that can lead to derailments.
- Increases passenger capacity and railroad speed.
- Reduces maintenance and operating expenses.
- Enhances passenger capacity and safety and the railroad's ability to handle gas pipeline construction and existing freight services.

#### Background:

- The Alaska Railroad supports Alaska's growing tourism industry and will play a critical role in the North Slope natural gas pipeline because it will be used to transport construction materials. SB 308 permits the Alaska Railroad to improve passenger service and safety and prepare for gas pipeline construction by allowing the railroad to accelerate substantial improvements to the main line between Anchorage and Fairbanks. A continuous welded rail between the two cities will be installed to reduce the number and frequency of derailments. The bonds will be paid off with revenue earned by the Alaska Railroad.

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

TREASURY DIVISION

FRANK H. MURKOWSKI, GOVERNOR

333 WILLOUGHBY AVENUE, 11TH FLOOR  
PO BOX 110405  
JUNEAU, ALASKA 99911-0405  
PHONE (907) 465-2350  
FAX (907) 465-2394

March 14, 2006

Alaska Railroad Corporation  
Bill O'Leary  
VP Finance/Chief Financial Officer  
327 W. Ship Creek Avenue  
Anchorage, AK 99501

Dear Mr. O'Leary:

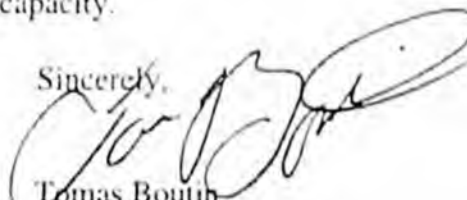
The Alaska Department of Revenue has reviewed Senate Bill 308 and House Bill 491 and concluded that this legislation's passage will have no impact on the State's credit rating or bonding capacity.

The proposed legislation authorizes the Alaska Railroad Corporation (Corporation) to issue up to \$165 million in revenue bonds of the Corporation. This proposed issuance will be secured by a specific pledge of revenues of the Corporation to investors. There are no State credit enhancements or security features contemplated for the bond issuance. In fact, the proposed legislation includes the statement that "in no event shall the general credit of the Alaska Railroad Corporation or the state be pledged for the repayment of these bonds".

The Alaska Railroad Corporation Act, AS 42.40.500, clearly states that a liability incurred by the corporation shall be satisfied exclusively from the assets or revenue of the Corporation and no creditor or other person has a right of action against the state because of a debt, obligation, or liability of the corporation. AS 42.40.690 also clearly states that the state and its political subdivisions are not liable for the debts of the corporation and that any bonds issued by the Corporation are payable solely from the revenue or assets of the corporation and do not constitute a debt, liability, or obligation of the state or a pledge of the faith and credit of the state.

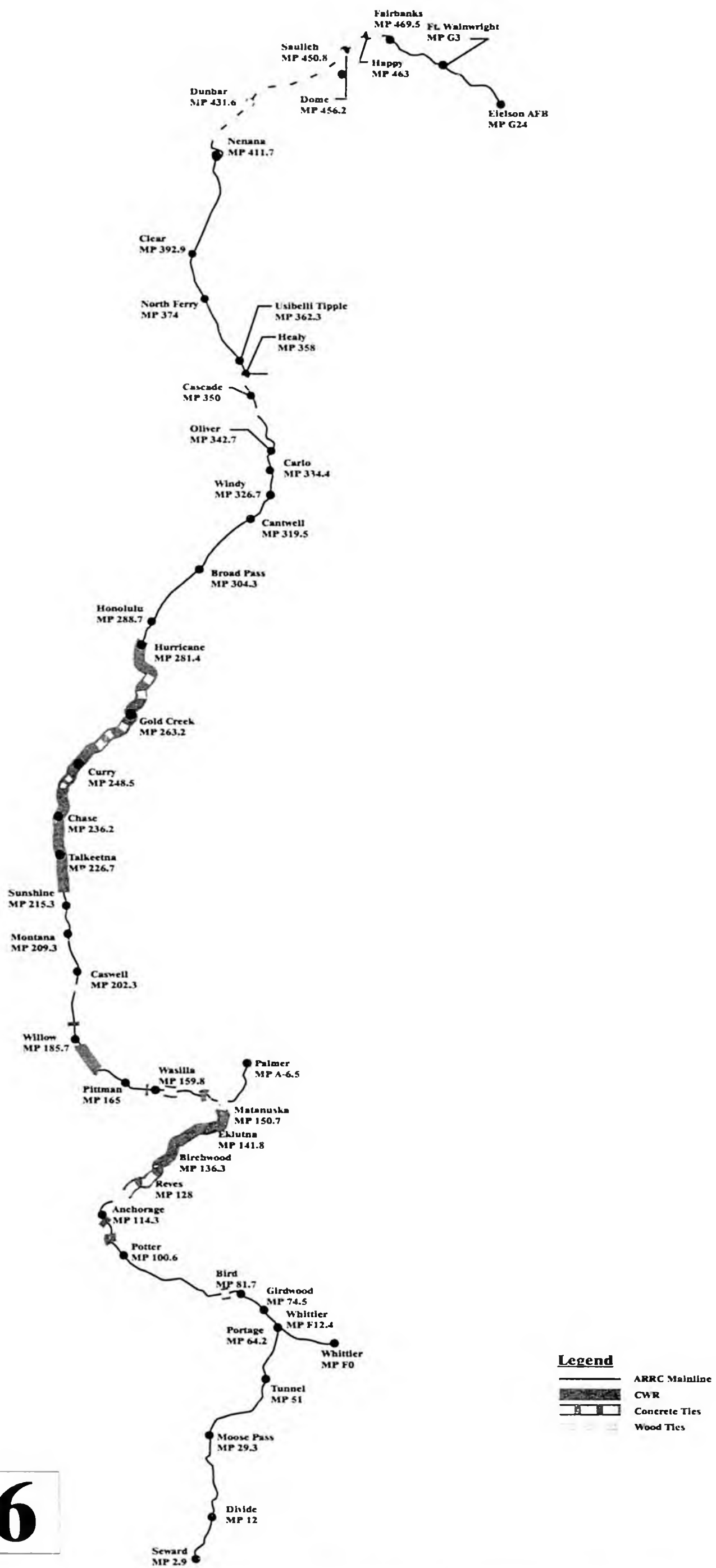
The existing statute, the proposed legislation, and the intended structure for Senate Bill 308 and House Bill 491 proposed debt, ensure that this bond issuance will not have any effect on the State of Alaska's credit rating or bonding capacity.

Sincerely,

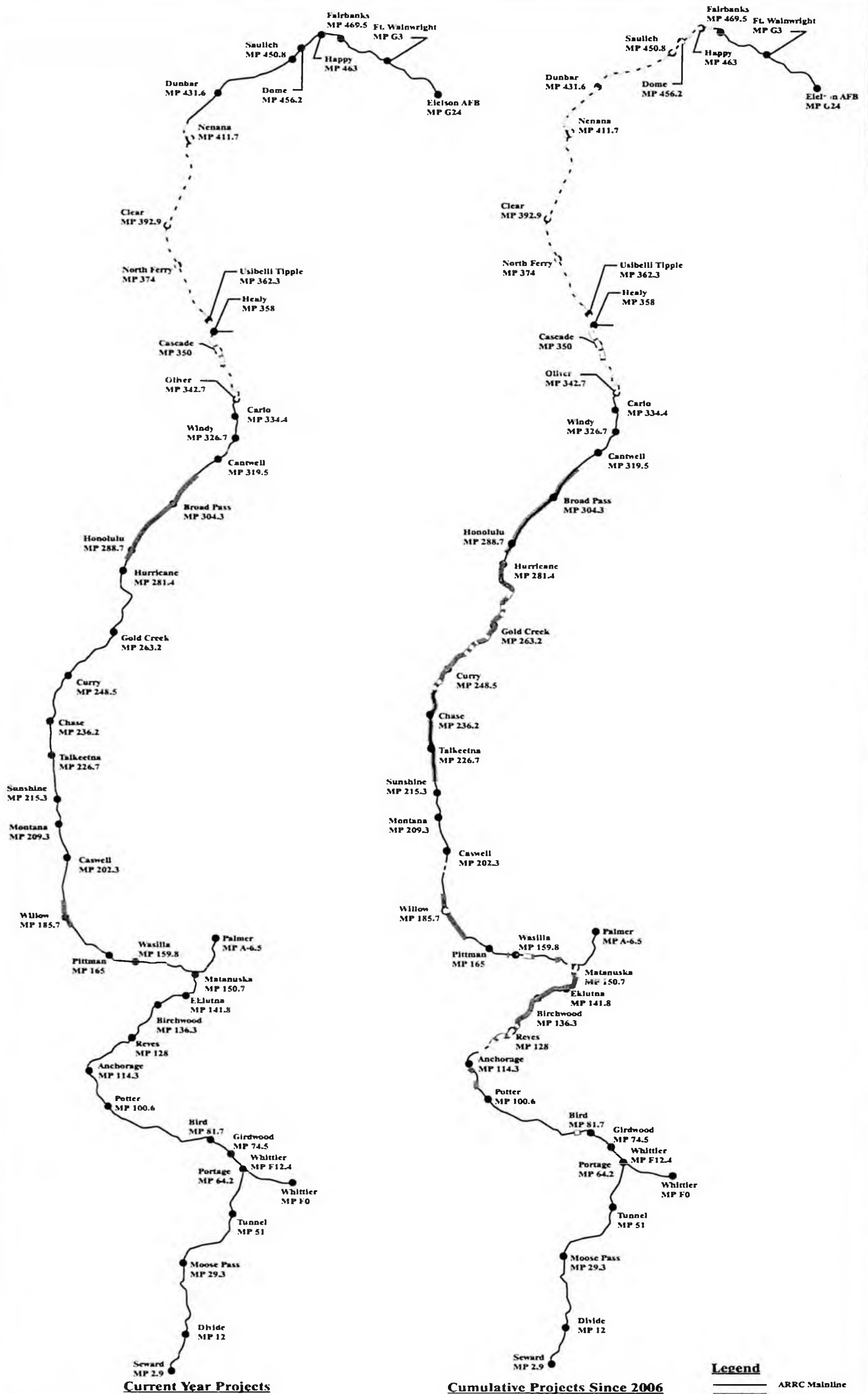


Tomas Boutin  
Deputy Commissioner

2006






**Legend**  
ARRC Mainline  
CWR  
Concrete Ties  
Wood Ties



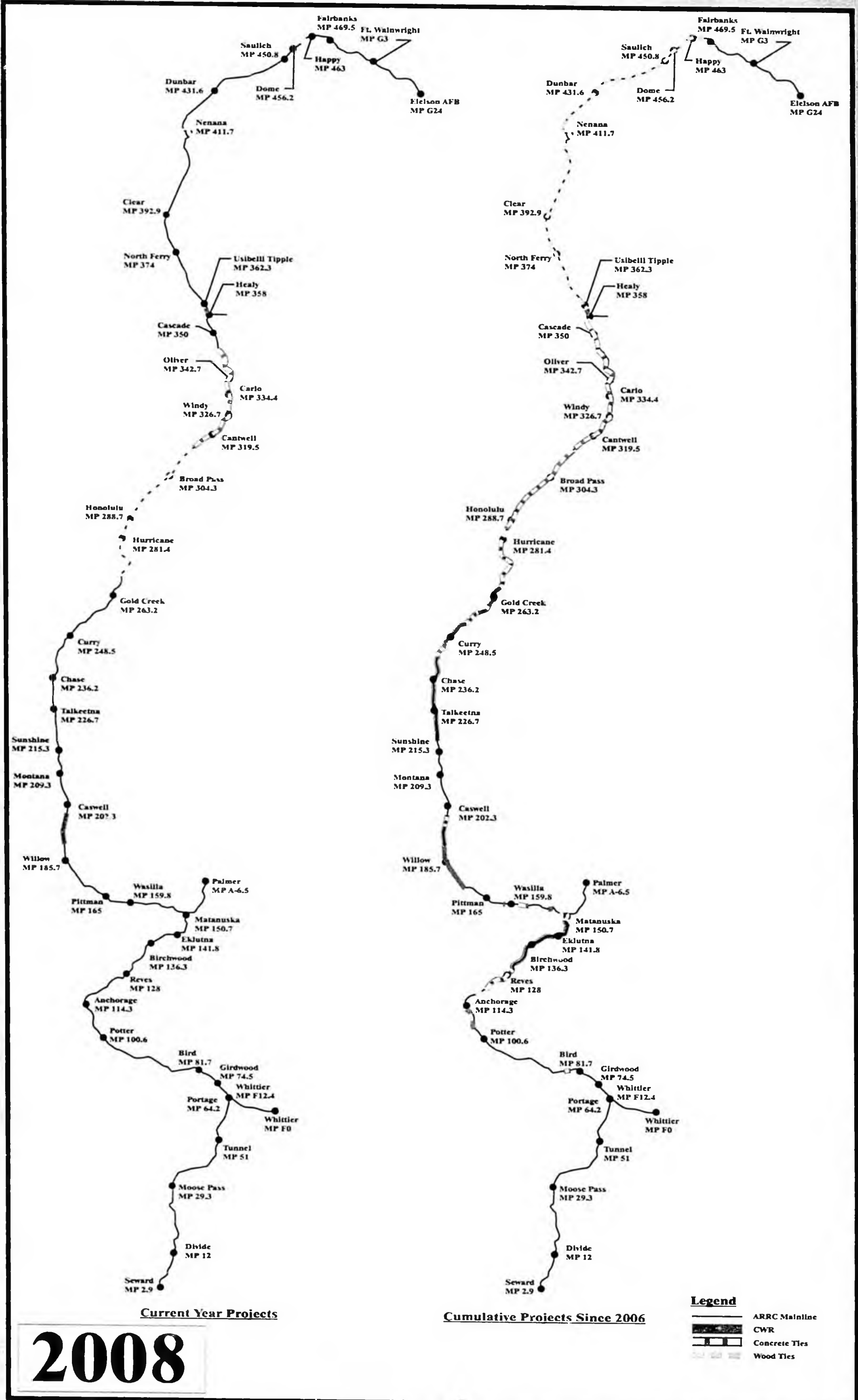
**Current Year Projects**

**Cumulative Projects Since 2006**

**Legend**

-  ARRC Mainline
-  CWR
-  Concrete Ties
-  Wood Ties

**2007**

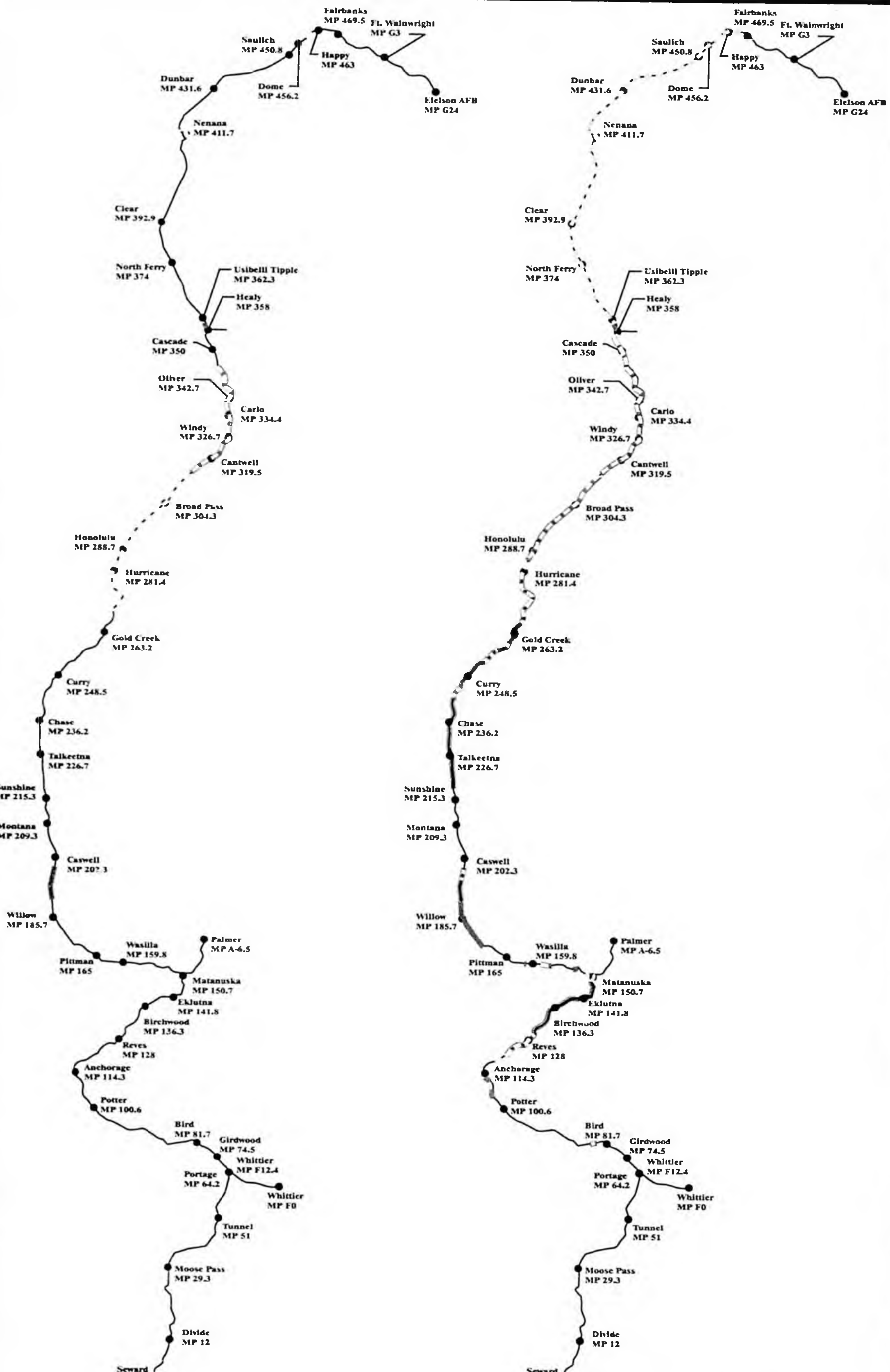


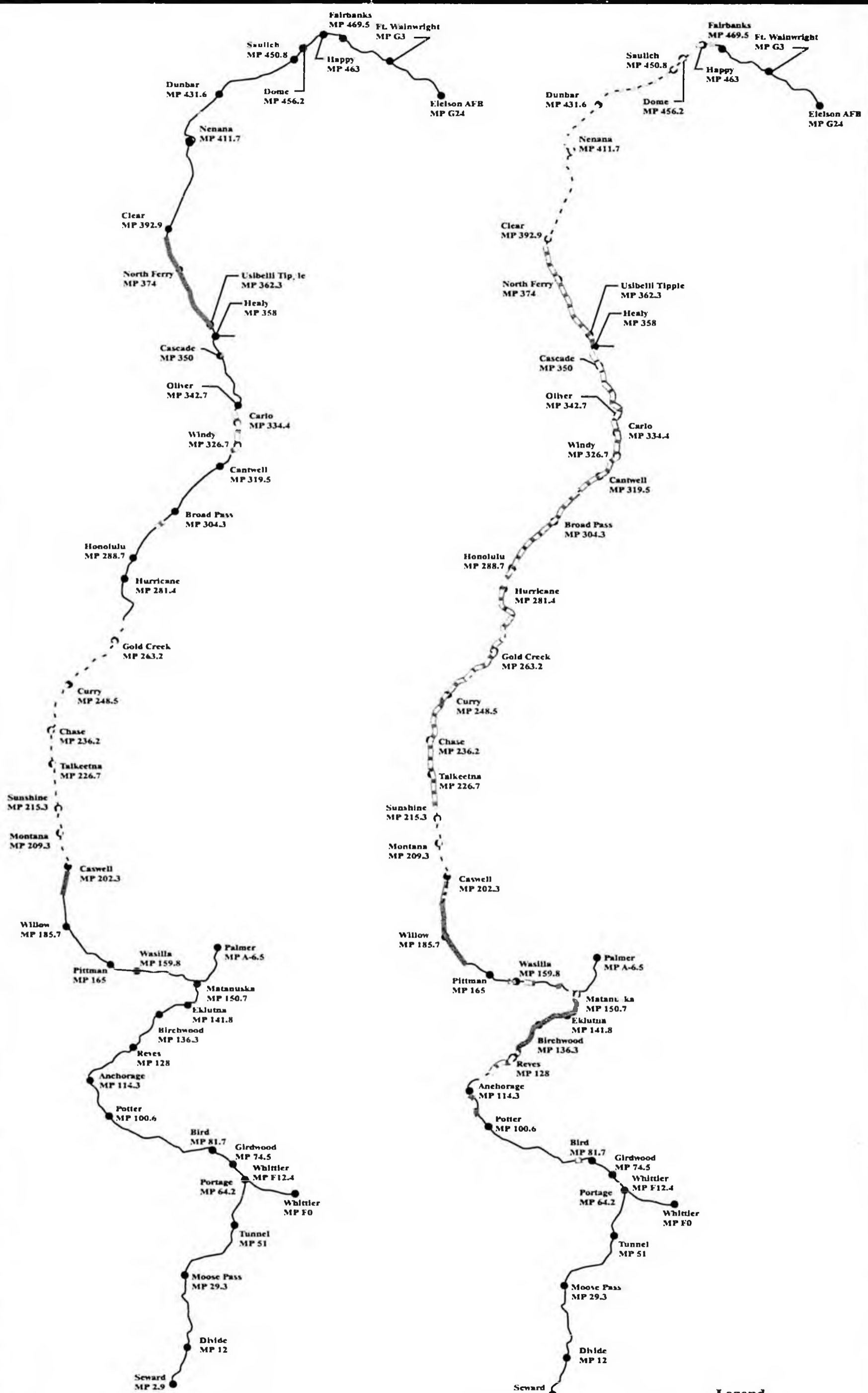
**2008**

Current Year Projects

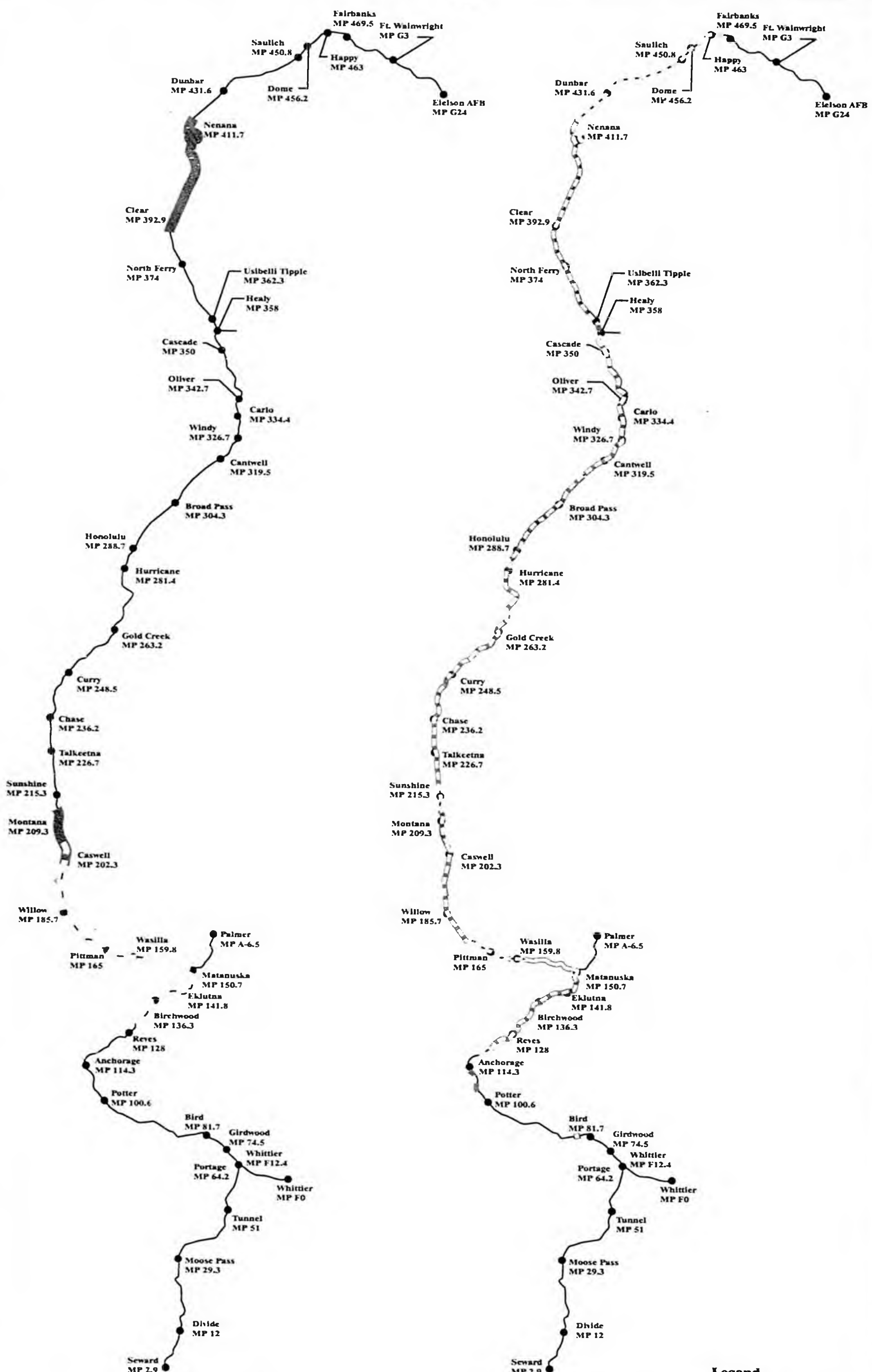
Cumulative Projects Since 2006

- Legend**
- ARRC Mainline
  - CWR
  - Concrete Ties
  - Wood Ties





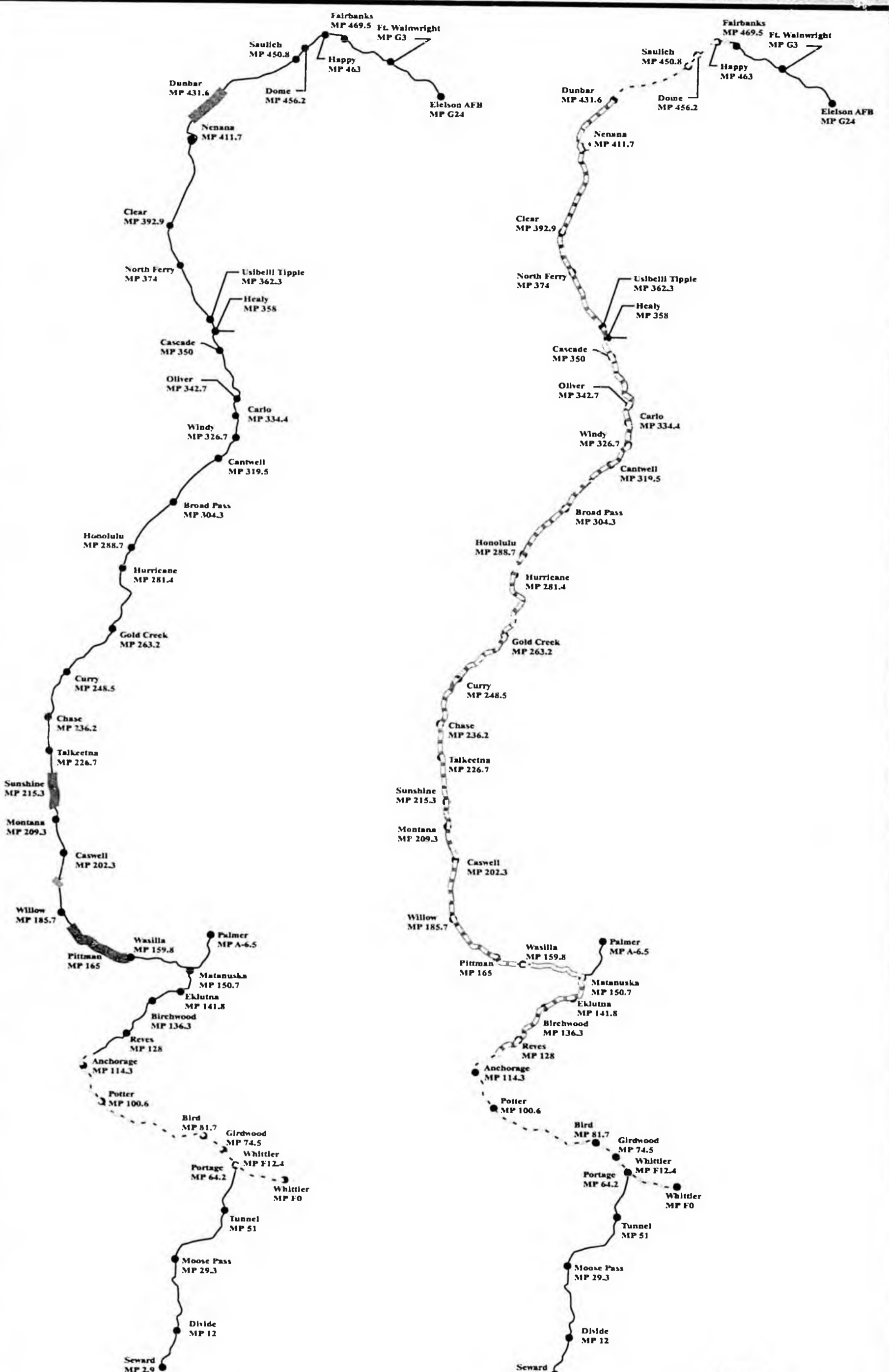
**2009**



**Legend**

- ARRC Mainline
- CWR
- Concrete Tiles
- Wood Ties

**2010**

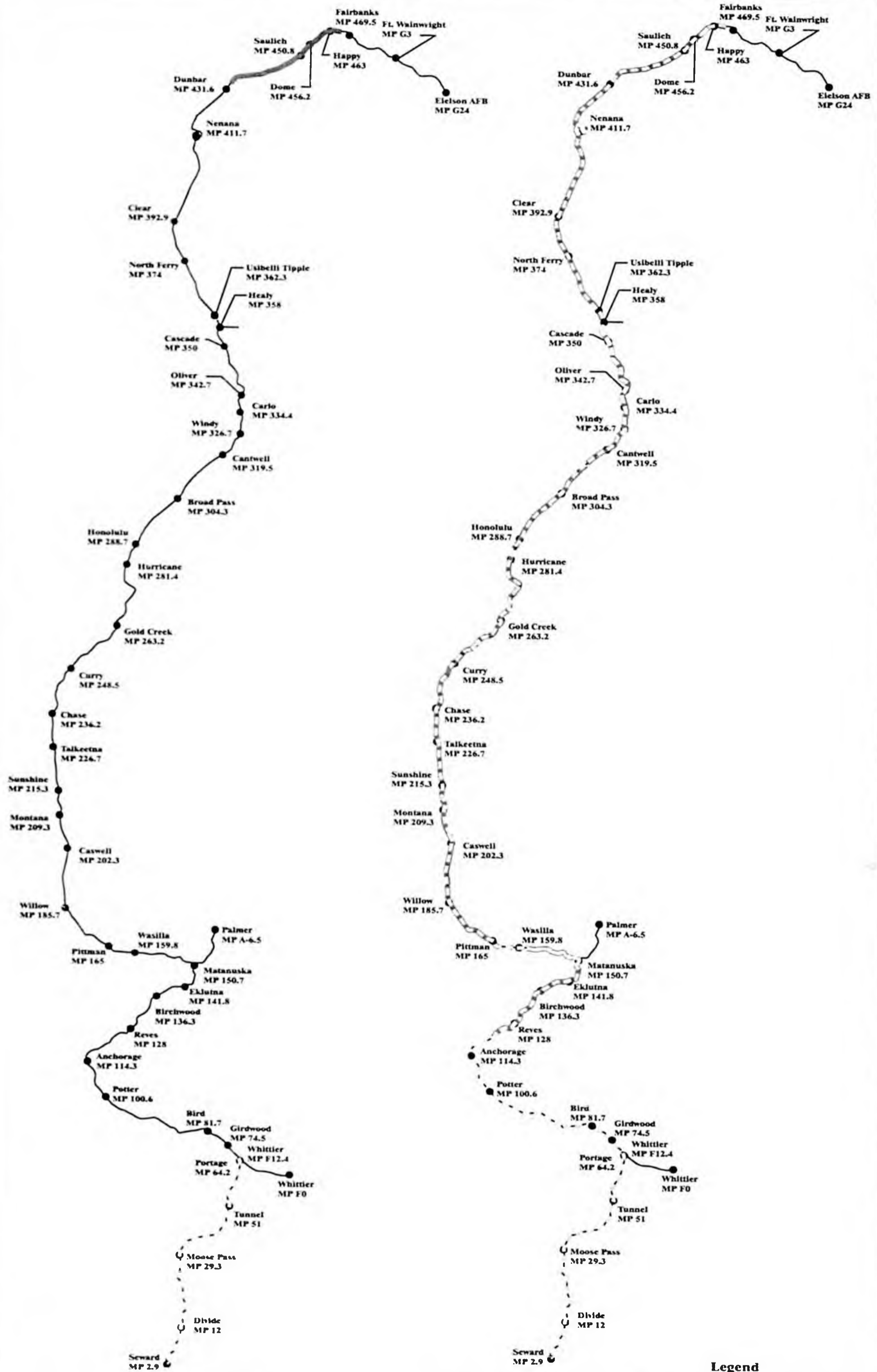


Current Year Projects

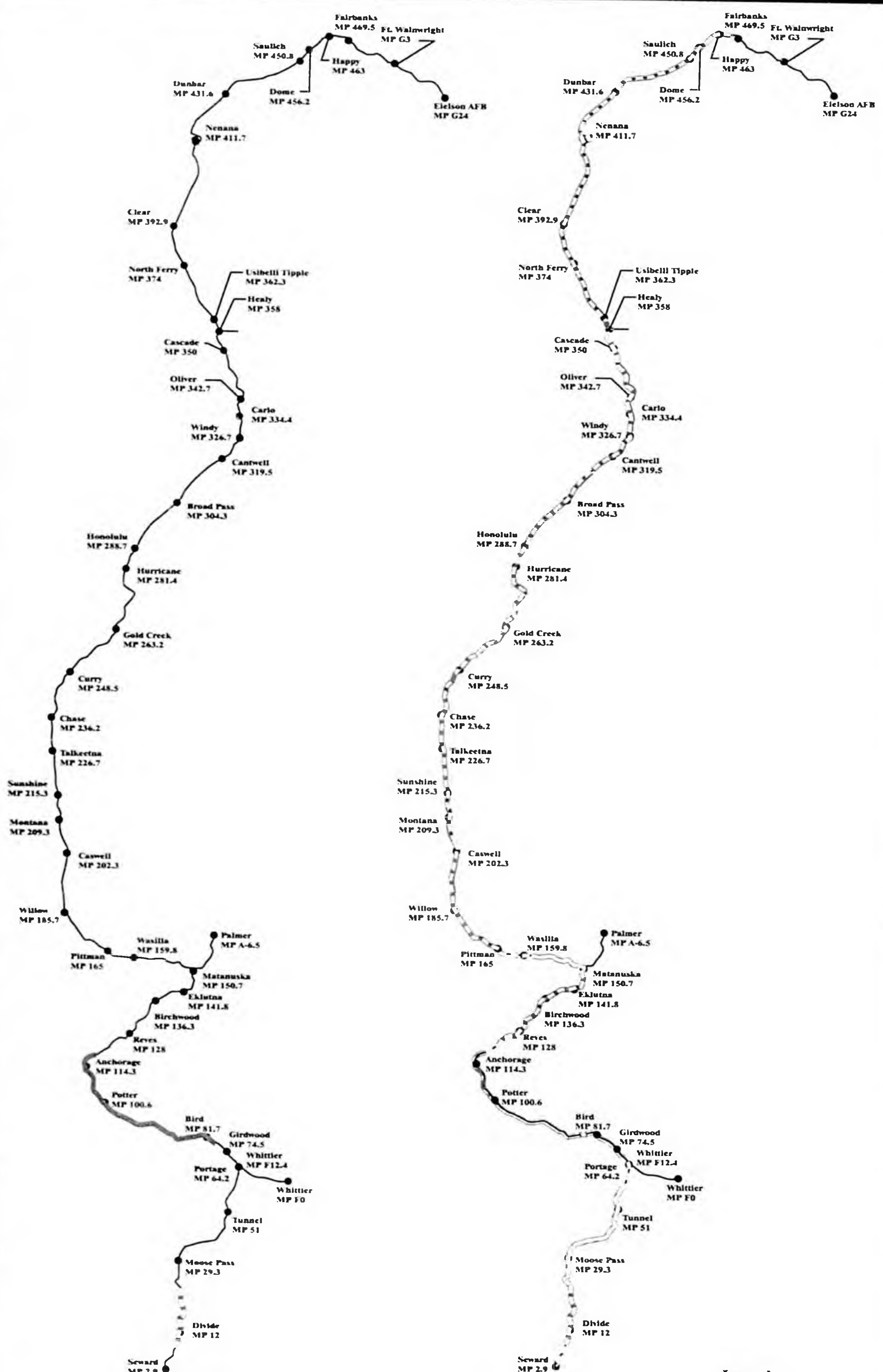
Cumulative Projects Since 2006

- Legend**
- ARRC Mainline
  - CWR
  - Concrete Ties
  - Wood Ties

# 2011



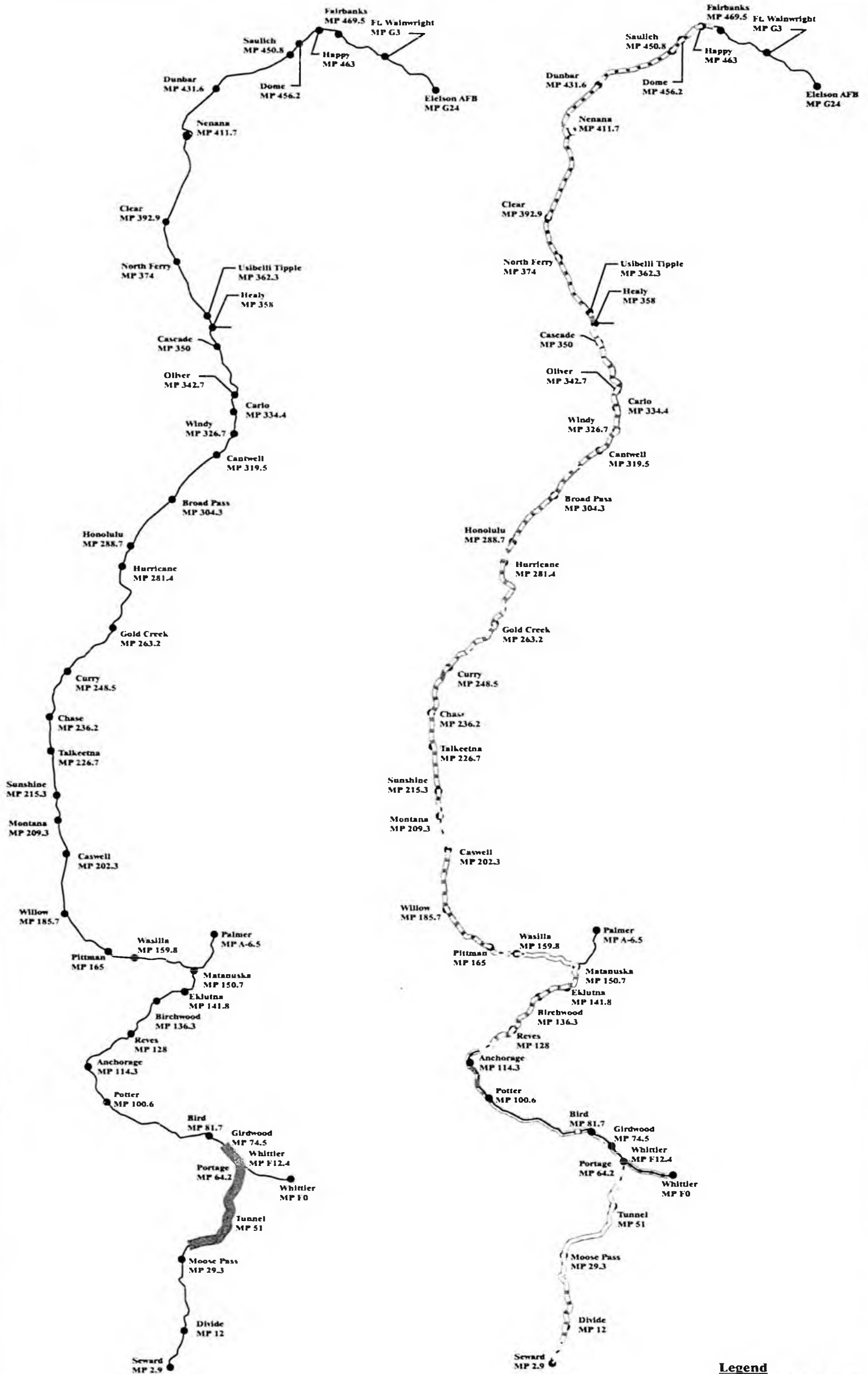
# 2012



2013

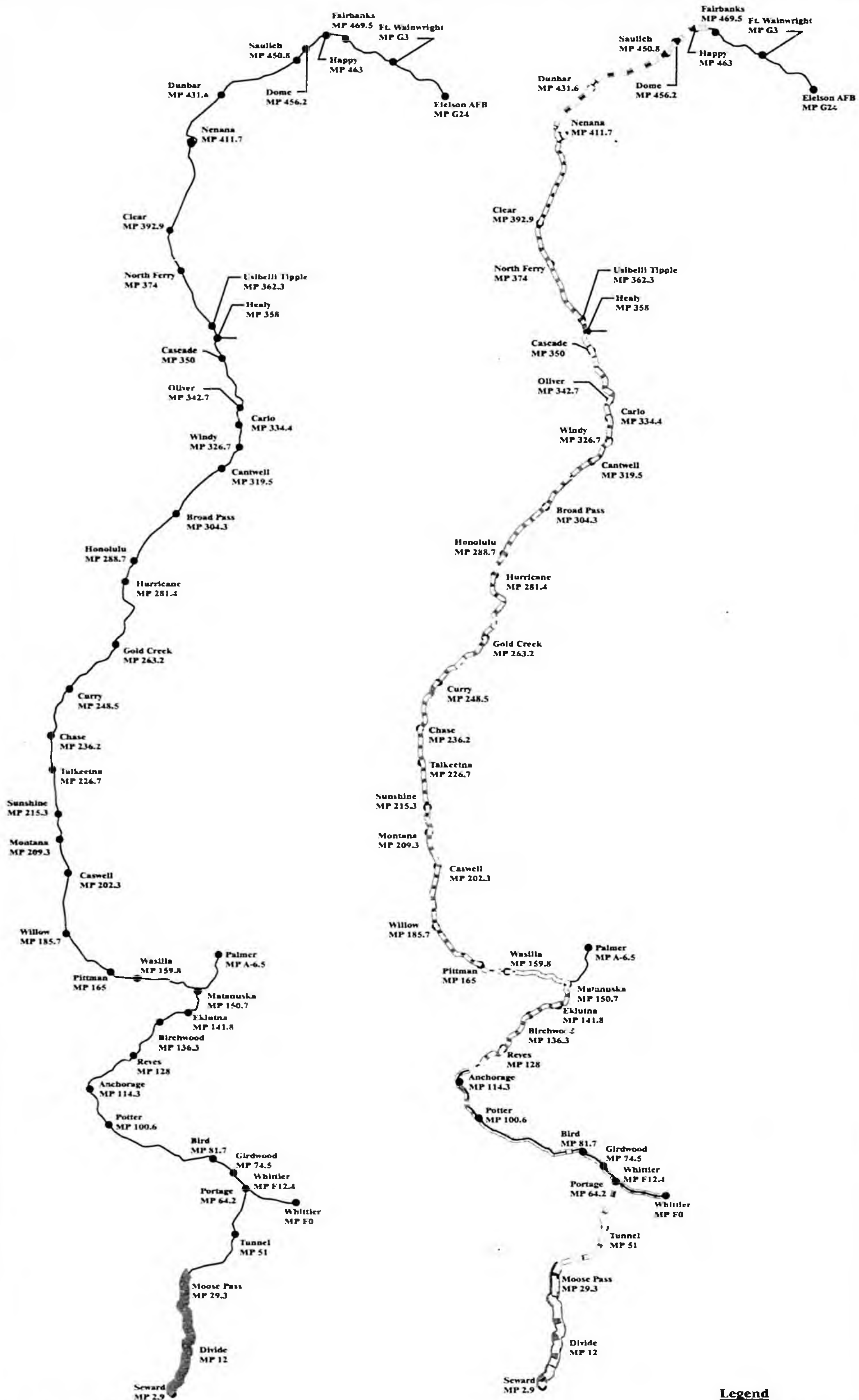
**Legend**

- ARRC Mainline
- CWR
- Concrete Tiles
- Wood Tiles



2014

**Legend**  
 ARRC Mainline  
 CWR  
 Concrete Ties  
 Wood Ties



- Legend**
- ARRC Mainline
  - - - Concrete Ties
  - · · Wood Ties

**2015**