

HB

491

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



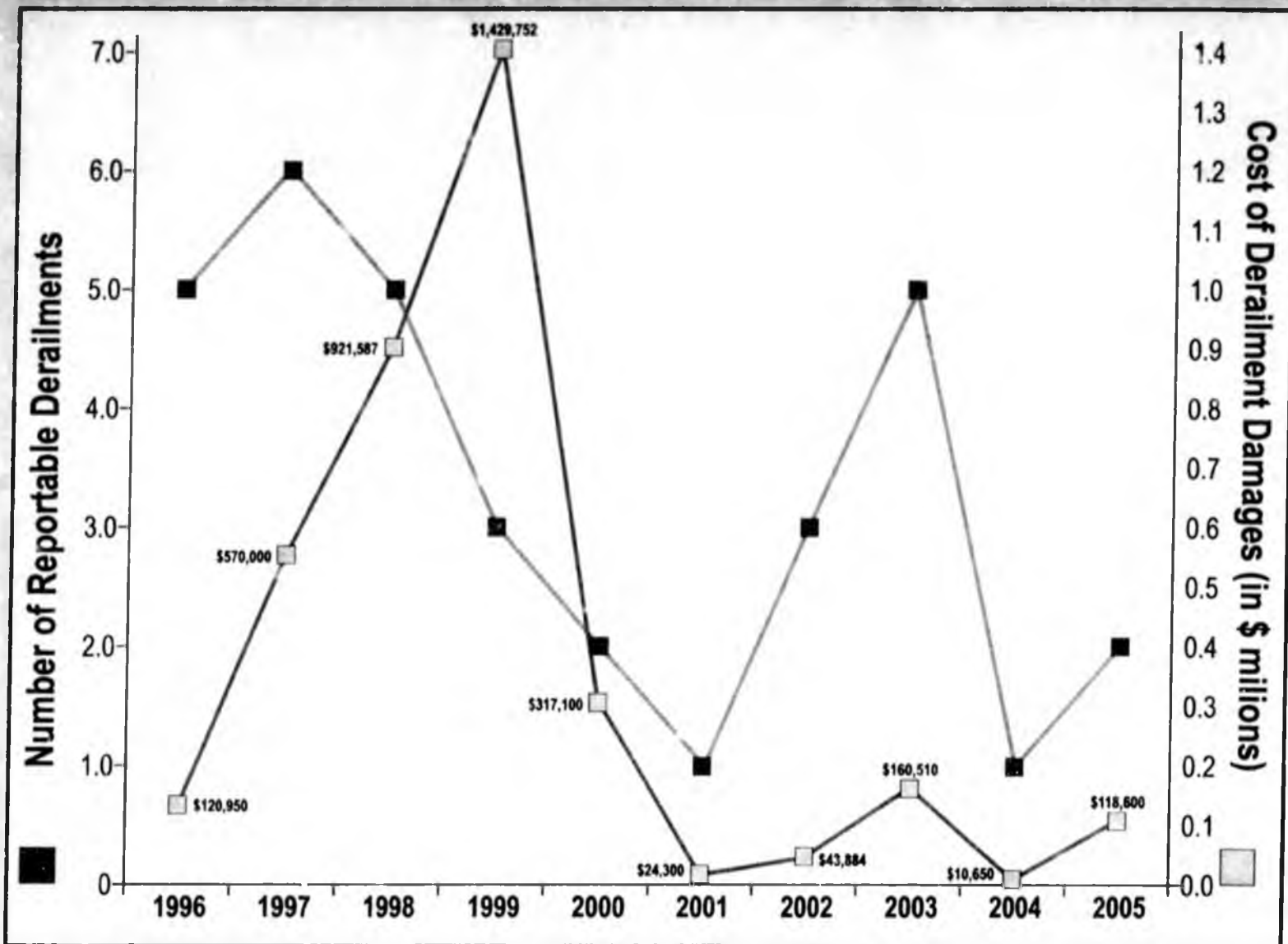
WHAT?

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



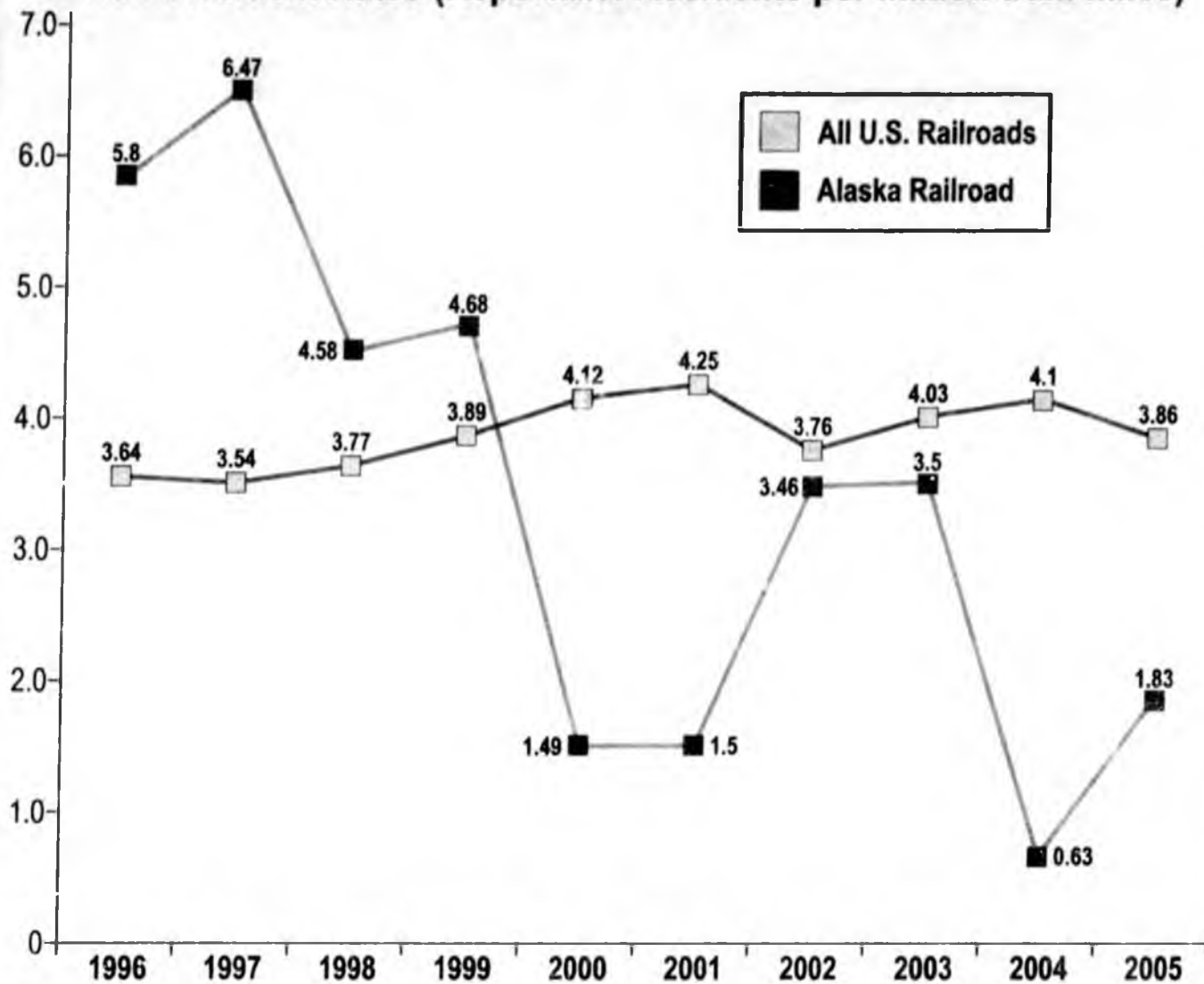
Derailments, 1996 - 2005





Train Accident Rate

Train Accident Rates (Reportable Accidents per million train miles)





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



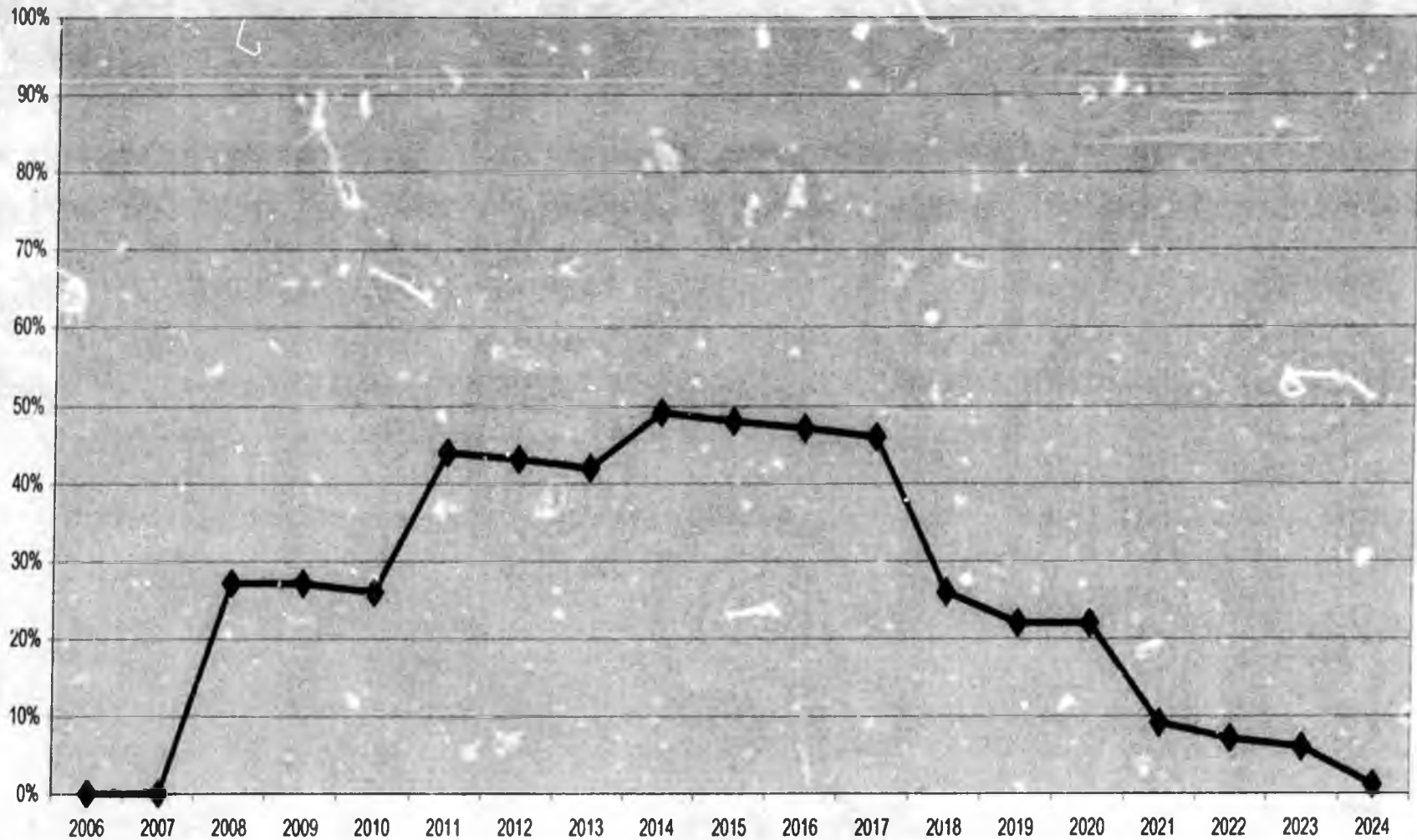
Proposed Financing

- \$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)



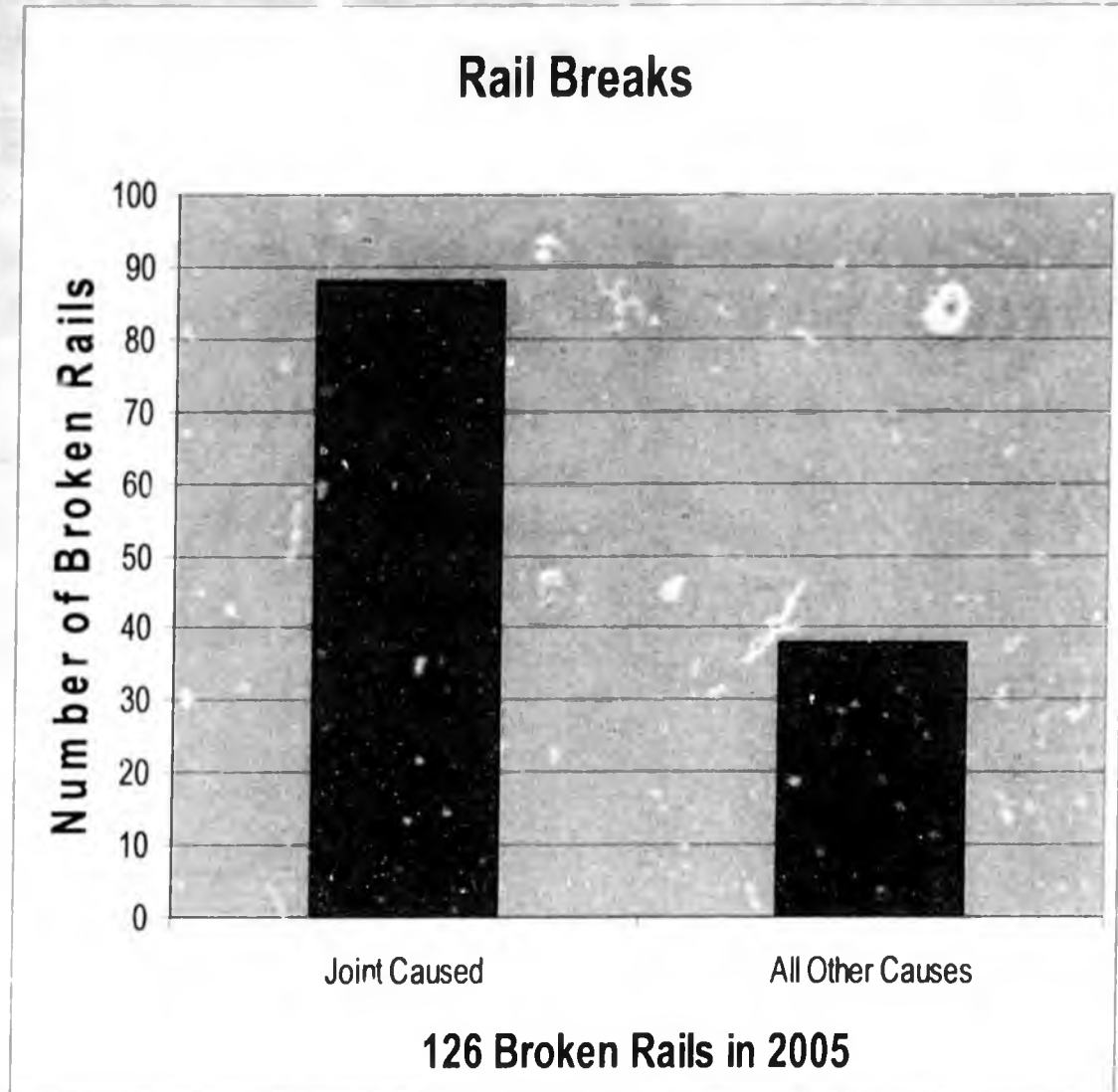
Mainline Traffic Density History

| 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 |



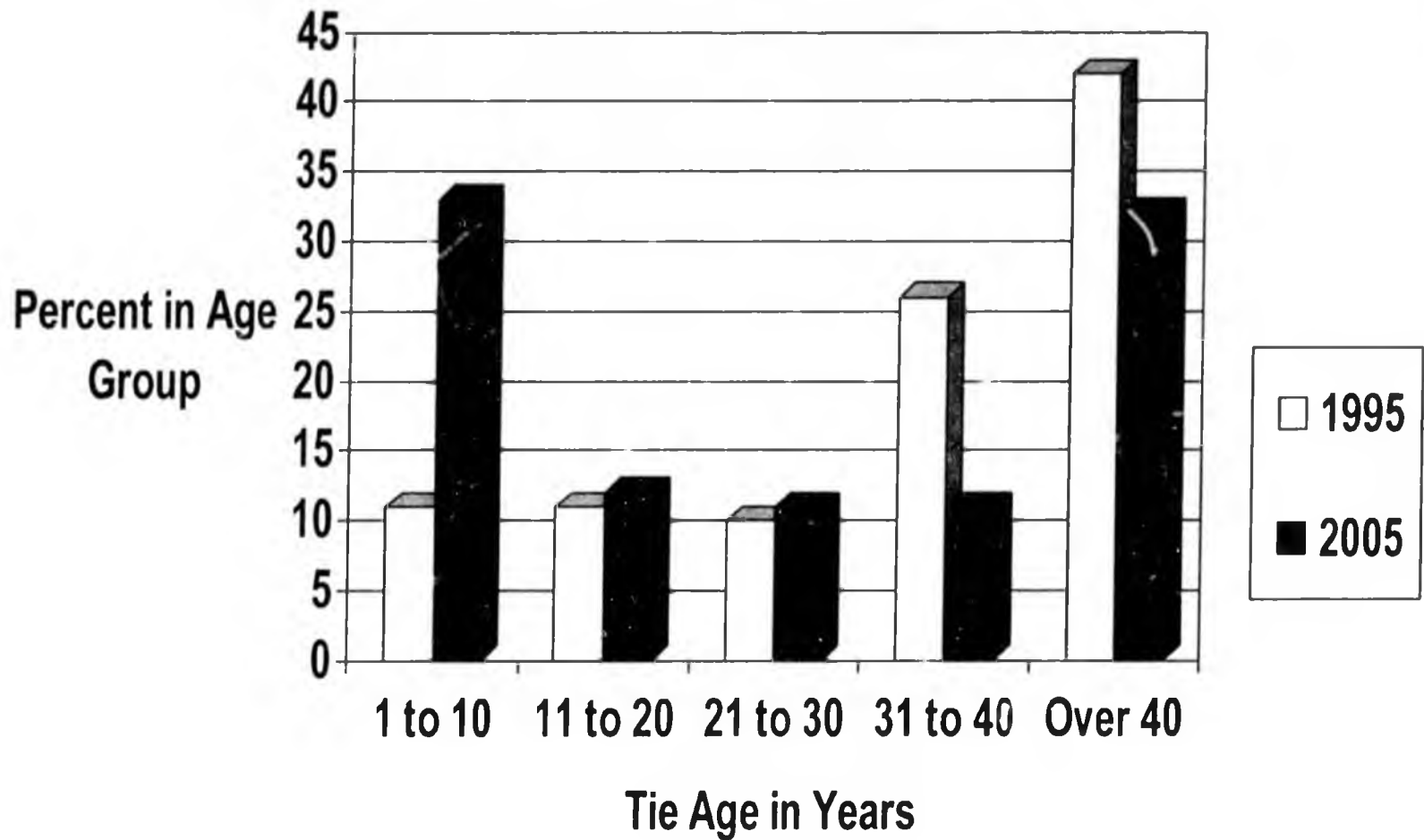
Joint Elimination Needed

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





ARRC Tie Age Distribution



STATE OF ALASKA

DEPARTMENT OF REVENUE

TREASURY DIVISION

FRANK H. MURKOWSKI, GOVERNOR

333 WILLOUGHBY AVENUE, 11TH FLOOR
P.O. BOX 110405
JUNEAU, ALASKA 99811-0405
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

ALASKA RAILROAD CORPORATION

Corporate: P.O. Box 107500, Anchorage, AK 99510- 327 Ship Creek Avenue, Anchorage, AK 99501



February 21, 2006

Executive Summary

Long Term Track Rehabilitation

Today our Financial Advisor Team finished the research and calculations that would allow ARRC to propose bonding for up to \$165 million in order to accelerate our remaining priority track rehabilitation needs. It would focus primarily on the Anchorage to Fairbanks corridor. Debt payment would be sourced entirely from FTA formula fund entitlements.

This corridor handles over 30,000 carloads of fuel and other hazardous materials annual. Acceleration of programmed investment in this corridor will substantially remove the classic cause of derailments due to track failure and materially reduce maintenance upkeep.

While the overall corridor has seen considerable investments and improvements since 1995, there is still much to be done to bring it up to ARRC standards. For example, our Railroad is being upgraded through Anchorage to Fairbanks with 100% Continuous Welded Rail (CWR). Concrete ties and new 141# welded rail will go in on all curves over 6°. Wood tie installment will create a tie cycle which would not exceed 10 years. In other words, wood ties will be replaced at a rate of 25% to 30% per each 10-year cycle. Ballast renewal and track surfacing will continue as usual in order to keep slow orders to a minimum and the main track capable of full speed. Bridge maintenance and upgrades to a few major structures will not be compromised and will also continue to be accomplished.

The end result of this program will give us 100% welded rail between Anchorage and Fairbanks (355 miles) by the end of the 2012 season. About 85,000 concrete ties will be installed by the end of 2010, strengthening all 32 miles of our 6° and sharper curves. All remaining wood ties between Anchorage and Fairbanks will receive a replacement tie cycle between 2006 and 2010. In summary, the north corridor initiative as planned will speed up the eventual end result by 7 years or more.

The line south of Anchorage to Seward carries only one-tenth as much gross tonnage as the line north of Anchorage, and very little of that is fuel. To fully upgrade the south end to standard of 100% CWR and concrete ties in curves over 6° will cost an additional \$60 million. Therefore full refurbishment of the

Executive Summary

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south end is not part of this particular effort because it is not yet warranted by evidence of tonnage wear and tear. We will refurbish the curves as necessary, however, and wood tie gangs will actually meet the Anchorage to Seward wood tie needs by the end of 2012.

This broad track refurbishment strategy, coupled with the Collision Avoidance Program scheduled for full implementation in the Fall of 2007, will enable important velocity and capacity increases that should consistently lower the Anchorage - Fairbanks transit time down to around 10 hours. By lowering the northern corridor transit time we create the potential to cycle more trains, and only use a single crew per trip because they can stay within their hours. We also create the potential for scheduled swapping of crews mid-trip so that they can return home same day within their hours. Considerable savings in labor and lodging expenses are finally coming within reach due to the efficiency created by this plan.

This refurbishment project is the single most important investment the Railroad will make since its purchase by the State of Alaska.

ALASKA RAILROAD CORPORATION



Corporate Address: P.O. Box 107500, Anchorage, Alaska 99510
327 West Ship Creek Avenue, Anchorage, Alaska 99501
www.alaskarailroad.com

Executive Office
Telephone: 907-265-2403
Facsimile: 907-265-2312

February 15, 2006

Governor Bill Sheffield
Chairman, ARRC Board of Directors
3125 Susitna View Court
Anchorage, AK 99517

Dear Governor Sheffield,

At the strategic planning session a few months ago management received the okay from the Board to consider alternative uses of debt to accomplish our mission. Using all the financial tools available to a dynamic business like ours just makes good sense, assuming risk is treated with the respect it deserves. We just this week completed an extensive study with our financial advisors on use of debt for capital improvements. There is great utility in what we came up with, but precious little time to act in order to be effective in 2006. And thus this letter.

We began with the premise that the single most fundamental purpose for the use of federal funds has been investment by the Alaska Railroad in the rehabilitation of main line substandard or unsafe track. This has been ARRC's top capital investment priority since 1996.

Since the first \$10 million in 1996, we have put roughly \$220 million into such improvements. Results have dramatically validated our objective. Safety related incidents are at an all time low. What's more, average velocity, a by-product of the recapitalization program, is at a high and growing. As an example, our average operating time between Anchorage and Fairbanks is just under 12 hours, a reduction of 2 hours since 2001. In other words, main line refurbishment has proven to be the overall single most valuable investment we have made.

While we are not yet finished, we are within striking distance of the goal we have been pursuing for nearly 10 years now ... completing the rails, ties, ballast, and bridge programs between Anchorage and Fairbanks. We want to accomplish the remainder of that goal in the shortest time and most efficient way. We want to prepare a way ahead that minimizes risk associated with extended operations on the remaining old track and maximizes the operational utility that comes with new

Governor Bill Sheffield
February 15, 2006
Page 2

track. And so we have derived an initiative to accelerate the process which would leverage our recently increased FTA formula funds through a much more robust, focused program of construction.

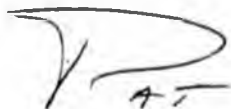
Regular yearly increased formula funding has suggested a financial way forward to us, using a "Garvee bond" approach that avoids risking railroad earnings or assets. This type of capital financing is already being used successfully by other FTA formula funded railroads. The debt service for this bonding proposal would be met through ARRC FTA formula funding and would be apportioned over a program period of 10 years. (The ARRC is guaranteed those funds each year by law. During this period we will renew our efforts to increase the formula basis from the present 60% to 100%.)

I believe the rationale we will present is compelling. I wish to gain Board approval and then get support and bonding approval in Juneau during this 2006 legislative session. Therefore, time is of the absolute essence in order to get going or we lose a year.

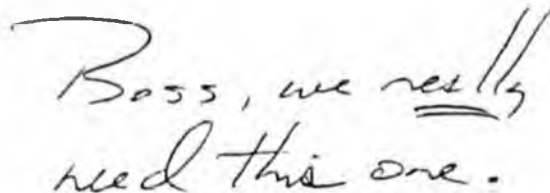
We feel this initiative is a bold but warranted move by the Alaska Railroad to fulfill the promise it made to the State, the railbelt communities, and to our senior Senator who personally has done so much to support our main line safety efforts, and to help us improve the safety of the Alaska Railroad as effectively and as quickly as possible. Shortening the completion of main line refurbishment by some 10 years, this proposal accomplishes our number 1 capital investment priority and gains the attendant safety and efficiency at the soonest possible time.

I respectfully request your support for a Special Board Meeting February 27 or February 28 to hear us out.

Sincerely,



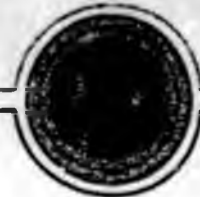
Patrick K. Gamble
President and Chief Executive Officer



cc: Vice-Chair Joe Ralston

ALASKA RAILROAD CORPORATION

Corporate Address: P.O. Box 107500, Anchorage, Alaska 99510
327 Ship Creek Avenue, Anchorage, Alaska 99501



Finance Division
Telephone (907) 265-2516
Facsimile (907) 265-2517

Date: February 21, 2006
To: ARRC Board of Directors
Through: Pat Gamble, President & CEO
From: Bill O'Leary, VP Finance & CFO
Re: Leveraging of Federal Transit Administration Funds

In essence, ARRC management is proposing to solve a timing issue related to when capital funds will be available compared to when the funds are needed. The resolution to this issue is to advance funds through the conservative use of debt – issuing bonds secured solely by cash flows to be received from Federal Transit Administration (FTA) formula funds. In conjunction with other fund sources available to ARRC, the proceeds of these bonds will be used to permit acceleration of track rehabilitation work, granting ARRC the benefits of these efforts in a considerably earlier timeframe than if bonds were not used. Such practice has been followed by numerous other railroads and is accepted by the financial markets and grantor agencies.

In advance of the public Board meeting scheduled for March 1st, I am enclosing draft materials related to the proposed financing for your review. Included within this packet are the following:

1. A high-level summary of the two scenarios we will be discussing at the meeting
2. Two spreadsheets detailing these scenarios, differing only in whether Federal Railroad Administration monies are included as a source of funds for 2007 – 2010
3. A detail listing of capital projects proposed for the 2006 – 2024 timeframe

We look forward to presenting details to you at the Board meeting. Please contact me at (907) 265-2516 if you have any questions.

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 491
 () Publish Date: _____

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) | | | | | | |
| TOTAL OPERATING | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | | |
|-----------------------------|--|--|--|--|--|--|
| CAPITAL EXPENDITURES | | | | | | |
|-----------------------------|--|--|--|--|--|--|

| | | | | | | |
|-------------------------------|------------|------------|------------|------------|------------|------------|
| CHANGE IN REVENUES () | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
|-------------------------------|------------|------------|------------|------------|------------|------------|

FUND SOURCE (Thousands of Dollars)

| | | | | | | |
|---------------------------------|------------|------------|------------|------------|------------|------------|
| 1002 Federal Receipts | | | | | | |
| 1003 GF Match | | | | | | |
| 1004 GF | | | | | | |
| 1005 GF/Program Receipts | | | | | | |
| 1037 GF/Mental Health | | | | | | |
| 1156 Receipt Supported Services | | | | | | |
| TOTAL | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

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 5:48 PM
 Approved by: William C. Noll, Commissioner Date 3/13/2006
 Agency: Commerce, Community, and Economic Development

Alaska State Legislature



House of Representatives
House Transportation Committee

SPONSOR STATEMENT

HOUSE BILL 491

"AN ACT AUTHORIZING THE ALASKA RAILROAD CORPORATION TO ISSUE REVENUE BONDS TO FINANCE RAIL TRANSPORTATION PROJECTS WHICH QUALIFY FOR FEDERAL FINANCIAL PARTICIPATION; AND PROVIDING FOR AN EFFECTIVE DATE."

House Bill 491 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).

Alaska State Legislature



House of Representatives House Transportation Committee

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.