

1/27/11
OVERVIEW:
ALASKA
RAILROAD
CORPORATION

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RAILROAD CORPORATION</SUBJECT><COMM>HTRA27</COMM></TARGET>



ALASKA RAILROAD CORPORATION

2011 Real Estate Action Plan to Enhance Customer Service

I. Creation of Cross Functional Quality Assurance Team

- Team will coordinate Customer Service Programs.
- Team Members include:
 - Chris Aadnesen, *President & CEO*
 - Jim Kubitz, *Vice-President of Real Estate & Facilities*
 - Bill O'Leary, *Vice-President of Finance & CFO*
 - Bill Hupprich, *Vice-President & General Counsel*
 - Susan Lindemuth, *Human Resources Director*

(To be Implemented February 2011)

II. Tenant Communication & Outreach

- "Tenant WISE": A supplement to *Tenant Ties* and a stand alone handout
 - Emphasizing customer relations
 - Introducing 2011 Customer Service Improvement Plan
- Alaska Railroad website: Real Estate pages
 - Web page enhancements and updates to increase customer awareness

(Target completion February 2011)

III. Customer Service Employee Advanced Training & Customer Satisfaction Measurement Program

- Develop survey for Real Estate Customers to create a baseline of current customer satisfaction. Follow up with subsequent survey to measure progress.
- ARRC Manager of Training & Development will design and implement Training Program to include:
 1. Customer Service skill development for Lessee relations, as well as internal ARRC customers and departments.

2. Incorporate a Customer Service Performance Measurement Program for all ARRC personnel who have direct contact with Real Estate Customers.
3. Participants will include all those who have interaction with Real Estate Customers including but not limited to:
 - All Real Estate Department Employees
 - Marketing Department
 - Projects Department
 - Accounts Receivable Manager
 - Senior Attorney for Environmental and Real Estate
 - Manager of Facilities Contracts

- Employee performances appraisals beginning in 2011 will include ratings for:
 1. Customer Service- External and Internal
 2. Time Management and Record Keeping

(Implemented January 2011)

IV. **Development of Customer Complaint Program**

- Process for Customer Complaint Program:
 - Begin internal record of complaint
 - Initial response to complaint
 - Investigation of complaint
 - Resolution proposal to customer
 - Agreement of resolution
 - Preventative steps to avoid reoccurrence

- Tracking of customer feedback to be logged electronically in RE files.

(Target Completion February 2011)

V. **Real Estate Department Action Meetings**

- Meetings are conducted every two weeks to include Customer Service updates and activities agenda:
 - Review of highlights of RE Committee meetings and tasks
 - Address Customer Complaints
 - Lease Activity-Status Report review
 - Communicate with CEO after each meeting to discuss significant customer service opportunities and issues

(Implemented January 2011)

VI. **Appraisal Communication with Tenants**

- Create a time line for James Kubitz and Senior Staff to contact lessees who are due for an appraisal beginning in 2011 to clearly explain the following by phone or in a personal meeting if necessary:
 - Appraisal Process
 - Lease caps and new floor policy
 - The supplement that will be forthcoming to change the original lease to reflect the Policy change concerning the new rent floor

(To be Implemented February 2011)

VII. **Lease Activity- Status Report**

- Develop an electronic tracking document to be used daily in prioritizing lease and other lease documents. The Excel workbook holds two spreadsheets; one for finalized documents and the other is for non-finalized documents. The spreadsheets keep track of the following:
 - Requests for Lease Application
 - Leases in Process
 - Lease Assignments
 - Lease Supplements
 - Lease Security Assignments
- The Lease- Activity Status Report is sent on a weekly basis to James Kubitz and all Senior Staff, including the Legal Department, from the leasing technician.

(Implemented January 2011)

VIII **Land Sale Policy Public Information and Adoption Effort**

- Continue to respond to inquiries and collect feedback from Real Estate customers and public concerning Board's Land Sale Policy. Record of all inquiries is kept electronically in spreadsheet and will be distributed to the Board of Directors.
- Expect Board of Directors Action and Adoption of Land Sale Policy by Early Spring 2011.

(Implemented January 2011)



Report to the State of Alaska

December 2010





ARRC President: A Look Ahead

The Alaska Railroad Corporation Act (AS 42.40.290) requires the Alaska Railroad Board of Directors to annually adopt a long-range capital improvement and program plan and to forward that plan to the governor and legislature. I am pleased to present the railroad's capital plan for 2011 through 2015.

I joined the Alaska Railroad Corporation (ARRC) as the President and CEO in September 2010 and already I appreciate the railroad's significant role in the state's history and its future. While new to the Alaska Railroad, I have spent 37 years in the national and international rail industry. Through that experience I understand the importance of communicating and working with local government leaders. This report begins my dialogue with you.

The 2010 business year sets the stage for the railroad's outlook. We will emerge from 2010 better than expected even though our largest freight commodity, petroleum, underperformed based on budget forecasts. While rail passenger numbers are down from the peak a couple of years ago, 2010 passenger service revenue surpassed revenue expectations. Gravel and trailer/container businesses were both strong, and export coal volumes set another record year. Real estate lease and permit revenue continued steady growth. Incremental revenue growth coupled with tight expense control yielded total unaudited revenues at \$174.2 million, total expense at \$160.5 million, with corporate net income forecast to be \$13.7 million. Audited results will true these numbers up by April 1, 2011.



CHRISTOPHER
AADNESEN
PRESIDENT & CEO

Railroaders marked many significant accomplishments in 2010. On the transportation side, we developed a method to move export coal trains over Grandview Pass with a single train rather than breaking the train into several sections. This approach offered measurable safety gains and more efficient operations that benefit our customers and our bottom line. We also increased the length of our export coal trains to 75 cars to better serve Usibelli Coal Mine as it increases its capacity to meet demands of the growing export market.

The railroad also continued core infrastructure investments in 2010. Crews installed 43 additional miles of continuous welded rail and replaced 50,000 cross-ties. We completed impor-

tant track realignment and retaining wall work in Healy Canyon and constructed bridge improvements along the system. Federal Stimulus funding accelerated rehabilitation work on the Anchorage Historic Depot and made passenger improvements possible at the Seward and Talkeetna depots. Stimulus funds also enabled installation of a Wheel Impact Load Detector to improve the safety of rail operations.

Improving safety was the driver behind another 2010 highlight. July 2010 marked the first time since 1983 that ARRC was allowed to use herbicides as part of an integrated vegetation management program. Without this crucial component to weed control, the Alaska Railroad was failing to live up to Federal Railroad Administration (FRA) safety standards. Thanks to a state-issued herbicide use permit and ARRC's implementation of an her-



ARRC President: A Look Ahead

bicide program on the south end of the rail corridor, the FRA has indicated it may consider suspending previously issued vegetation violations, which could save the railroad millions of dollars in fines.

Charting the course for capital spending over the next five years is a little like looking into a crystal ball. The Alaska and national economies appear to be slowly strengthening but the Alaska Railroad is not out of the woods yet. We are guardedly optimistic that improved Flint Hills Refinery forecasts will pan out. Our five-year revenue estimates hinge largely on this essential customer.

Looking forward, we will continue to improve the Alaska Railroad's safety systems, customer service, and infrastructure. This includes plans to modernize signal and train communication systems and is driven in large part by the Federal mandate to implement Positive Train Control by the end of 2015. We will pursue diversification of our revenue sources, working closely with customers and partners to identify new lines of business.



RENOVATING THE HISTORIC FREIGHT SHED TO LEADERSHIP ENERGY & ENVIRONMENTAL DESIGN (LEED) STANDARDS IS A MAJOR INTERNALLY-FUNDED PROJECT.

The information in this report provides a high-level snapshot of our long-range capital improvement plan.

Particularly as the legislative session begins, I will make myself and my team available to provide a more in-depth look at our operation and our budget

through one-on-one meetings, facility tours, or informational committee hearings in Juneau. Please contact our Vice President of Corporate and Government Affairs Wendy Lindskoog if you are interested in any or all of these avenues. You are always invited to stop by my office at our headquarters in Anchorage. I look forward to meeting Alaska's lawmakers and policy makers in the very near future and to working with you all to ensure the continued vitality of the state-owned Alaska Railroad.

Best regards,

Chris Aadnesen
President and CEO



AQUAMASTER HERBICIDE IS APPLIED TO THE SEWARD RAIL YARD IN LATE JULY 2010.



Mission, Vision and Values

Alaska Railroad Mission

- Safety... Customer Service... Profitability

Alaska Railroad Vision

"Building a great Railroad across the Greatland."

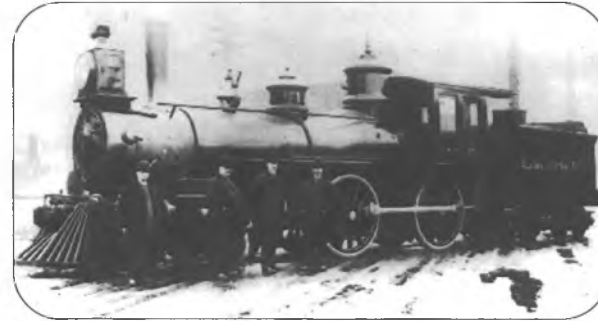
An important element in fulfilling this vision is ARRC's success since 1996 in qualifying for federal funding...an entitlement afforded the railroad's public status and its passenger service mission. As a result, ARRC has been able to greatly accelerate long overdue mainline maintenance and upgrades.

In addition, other federal grants have funded facility improvements, such as inter-modal facilities and docks; technology improvements, such as the collision avoidance system; and homeland security grants. These have come to the the Alaska Railroad via recent major federal legislation.

Alaska Railroad Values

We are a values based organization. Values are all about people, not things. We are all about taking care of our people. We believe who you are is as important as what you do. Character counts. Many of our values are embodied in our corporate Code of Conduct. Our fundamental core values consist of integrity, excellence, and service.

As a responsible partner, in order to accomplish the ambitious goals we set out for ourselves in conjunction with those of others along the railbelt, the ARRC must be a safe, secure, customer responsive, financially and environmentally sound, employee friendly corporation. We must provide a stable, reliable foundation that can be counted on to enhance the future economic growth of the state and the municipalities we support. If our corporate foundation is not sound, support for further state growth and development becomes problematic at best. Values and high standards are the building blocks of that foundation.



ALASKA CENTRAL RAILWAY OWNERS POSE IN SEWARD. CIRCA 1902 TO 1907.

HURRICANE BRIDGE UNDER CONSTRUCTION. CIRCA 1921.



BRACE WORK TO STIFFEN THE LOOP DISTRICT TRESTLE AT MILE 48.3. CIRCA 1948.



Alaska Railroad Organizational Chart

Governor • State of Alaska

Board of Directors

President & CEO Chris Aadnesen

**VP Corporate Affairs
Wendy Lindskoog**

**VP Transportation & Mechanical
Pat Shake**

**VP Finance & Chief Financial Officer
Bill O'Leary**

**VP Real Estate & Facilities
Jim Kubitz**

**VP Information, Technology &
Telecommunications Eileen Reilly**

**VP Business Development
Steve Silverstein**

**VP Legal & General Counsel
Phyllis Johnson**

**VP Engineering & Chief Engineer
Tom Brooks**



Alaska Railroad Quick Facts

Purchase Price (January 5, 1985)

Paid to federal government	\$22.3 million
Start-up costs & contributed capital	<u>\$11.9 million</u>
Total Investment-State of Alaska	\$34.2 million

Organization (following State purchase)

- Independent corporation owned by State
- Managed by a seven-member board of directors. Position qualifications are spelled out in law, members appointed by the Governor.
- Mandated to be self-sustaining, responsible for all its own financial and legal obligations

Financial Statistics

January 1-December 31, 2010* (estimated & unaudited)

Total Assets	\$ 882.0 million
Total Revenues	\$ 174.2 million
Total Expenses	\$ 160.5 million
Forecasted Net Income (as of October)	\$ 13.7 million
Budgeted Net Income	\$ 8.4 million

Operating Data

Miles of main line	467
Miles of branch line	54
Miles of yards and sidings	130
Total miles of track	651
Freight cars (owned & leased)	1,160
Passenger cars	47
Locomotives	51

Operating Statistics

January 1-December 31, 2010 (estimated & unaudited)

Passenger ridership	404,000 passengers
Freight tonnage	6.6 million tons

Employees (as of December 2010) (estimated)

Number of year-round employees	657
Average years of service	12.3
Average age	46
Male	541
Female	116

Union Membership

Most of ARRC employees are members in one of five unions:

United Transportation Union	125
Transportation Communication Union	41
International Association of Machinists	63
American Federation of Govt. Employees	254
American Train Dispatchers Department	8

Benefits

- Corporation provides a defined benefit pension plan
- Corporation provides for health and life insurance
- Corporation provides for retiree medical benefits

* ARRC audits are normally complete by March 31.

Five-Year Forecast — Operating Budget

<i>(in millions)</i>	2011 Budget	2012 Plan	2013 Plan	2014 Plan	2015 Plan	TOTAL
Net Operating Income	\$ 11.3	\$ 12.1	\$ 12.1	\$ 12.6	\$ 12.4	\$ 60.5
Net Income-Real Estate	8.3	8.1	8.5	8.4	8.3	41.6
Net Other Income (Expense)	(1.4)	(1.1)	(1.0)	(0.8)	(0.3)	(4.6)
Net Income	\$ 18.2	\$ 19.1	\$ 19.6	\$ 20.2	\$ 20.4	\$ 97.5

Five-Year Capital Project Plan — Internal Funding

<i>(in millions)</i>	2011 Budget	2012 Plan	2013 Plan	2014 Plan	2015 Plan	TOTAL
Nondiscretionary Projects	\$ 14.9	\$ 14.4	\$ 16.2	\$ 9.2	\$ 7.0	\$ 61.7
Continuing Program Projects	6.3	7.2	7.0	7.6	6.8	34.9
Strategic Business Initiatives	2.9	2.9	1.6	1.3	1.3	10.0
Ranked Projects	1.0	1.4	0.5	9.3	13.1	25.3
Total Internal Funding	\$ 25.1	\$ 25.9	\$ 25.3	\$ 27.4	\$ 28.2	\$ 131.9

Five-Year Capital Project Plan — Federal and Bond Funding

	2011	2012	2013	2014	2015	5-YR TOTAL
Federal Transit Administration						
Passenger Equipment: Rehabilitation	\$ 530,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 2,530,000
Projects:						
Depot Improvements	—	—	—	—	300,000	300,000
Track Rehabilitation	8,328,206	6,666,152	8,965,478	11,797,879	14,482,177	50,239,892
Positive Train Control	3,557,000	7,335,000	6,1561,000	3,556,000	2,040,000	22,649,000
<i>Track Project Subtotal</i>	12,415,206	14,501,152	15,626,478	15,853,879	17,322,177	75,718,892
Bridge Replacements/Upgrades:						
Bridge at Mile Post 29.5 Trail Lake	579,000	—	—	1,000,000	—	1,579,000
Bridge at Mile Post 422.9 Little Goldstream	—	—	—	—	458,402	458,402
Bridge 447.7 Permafrost Bridge	—	—	—	—	300,000	300,000
<i>Bridge Program Subtotal</i>	579,000	—	—	1,000,000	758,402	2,337,402
Debt Service Subtotal:						
2006 Bond Issue Debt Service	7,520,266	7,513,216	7,519,254	7,503,586	7,486,648	37,542,970
2007 Bond Issue Debt Service	9,175,686	9,176,261	9,180,361	9,140,152	9,139,078	45,811,538
<i>Debt Service Subtotal</i>	16,695,952	16,689,477	16,699,615	16,643,738	16,625,726	83,354,508
Preventive / Safety / Security:						
Preventive Maintenance Reimbursement	9,888,331	9,987,214	10,087,086	10,187,957	10,289,836	50,440,424
Slope Stabilization - Area MP52	400,000	—	—	—	—	400,000
Transit Enhancements	208,660	214,920	221,367	228,008	234,849	1,107,804
Transit Security	208,660	214,920	221,367	228,008	234,849	1,107,804
<i>Preventive/Safety/Security Subtotal</i>	27,401,603	27,106,531	27,229,435	27,287,711	27,385,259	136,410,540
Total Federal Transit Administration	40,395,809	41,607,683	42,855,914	44,141,591	45,465,838	214,466,835
Less: Preventive Maintenance Reimbursement	(9,888,331)	(9,987,214)	(10,087,086)	(10,187,957)	(10,289,836)	(50,440,424)
Less: Debt Service Grants	(16,695,952)	(16,689,477)	(16,699,615)	(16,643,738)	(16,625,726)	(83,354,508)
Add: 2010 FTA funds for track rehab	6,628,853	—	—	—	—	6,628,853
Total FTA for Federal Capital Projects	\$ 20,440,379	\$ 14,930,992	\$ 16,069,213	\$ 17,309,896	\$ 18,550,726	\$ 87,300,756

Five-Year Capital Project Plan — Federal and Bond Funding (continued)

	2011	2012	2013	2014	2015	5-YEAR TOTAL
FTA Capital Grant Receipts 2007 Bonds						
Track Rehabilitation Program	\$ 13,580,907	\$ 12,341,552	—	—	—	\$ 25,922,459
Other Federal Funds						
US DOT TIGGER II, Locomotive Emissions Reduction Program	1,380,000	—	—	—	—	1,380,000
FEMA Grants, flood related	2,450,635	—	—	—	—	2,450,635
FEMA Security Related Projects, Anchorage and Fairbanks	478,000	—	—	—	—	478,000
Total Other Federal Funds	4,308,635	—	—	—	—	4,308,635
TOTAL FEDERAL & BOND FUNDING	\$ 38,329,921	\$ 27,272,544	\$ 16,069,213	\$ 17,309,896	\$ 18,550,726	\$117,532,300

FIVE-YEAR CAPITAL PROJECT PLAN SUMMARY - TOTALS BY FUNDING SOURCE

<i>(in millions)</i>	2011 Budget	2012 Plan	2013 Plan	2014 Plan	2015 Plan	5-YEAR TOTAL
FTA Formula Funds (net of PM/Debt Svc)	\$ 20.4	\$ 14.9	\$ 16.1	\$ 17.3	\$ 18.6	\$ 87.3
FTA Bond Proceeds - 2007 issue	13.6	12.3	—	—	—	25.9
Other Federal (FEMA, US DOT TIGGER II)	4.3	—	—	—	—	4.3
Internal Funds (ARRC Revenue)	25.1	26.0	25.3	27.4	28.1	131.9
Third Party Performance Settlement	—	2.7	—	—	—	2.7
Total Capital Program	\$ 63.4	\$ 55.9	\$ 41.4	\$ 44.7	\$ 46.7	\$ 252.1



Alaska Railroad 2011 Program of Projects

Established in 1923, the Alaska Railroad Corporation (ARRC) is the last of the full-service railroads in the United States, offering both freight and passenger services. From tidewater at Whittier and Seward to the heart of Interior Alaska, our route covers more than 500 miles. ARRC is a state-owned corporation, but it does not receive state funding to operate. ARRC relies on passenger, freight and real estate revenues to operate its trains and maintain tracks and facilities. About \$55.9 million is budgeted in new spending for capital improvements in 2011. Detailed project fact sheets are also available online at www.AlaskaRailroad.com.

Federally-funded Projects

ARRC receives federal grant funding for capital infrastructure improvements and rehabilitation. Funding has been received from the Department of Defense (DOD), Federal Railroad Administration (FRA), Federal Transit Administration (FTA), Federal Highway Administration (FHWA), Transportation Security Administration (TSA), Federal Emergency Management Agency (FEMA), U.S. Forest Service (USFS) as well as other federal funding, such as "Stimulus" money from the American Recovery & Reinvestment Act of 2009. Most FTA, FHWA and FEMA funded projects require 9% to 25% matching funds from the Alaska Railroad. Although ARRC receives no direct funding from the state for capital or operating expenses, ARRC provides support to the Matanuska-Susitna Borough, City of Seward and Fairbanks North Star Borough to execute State of Alaska funded capital projects.

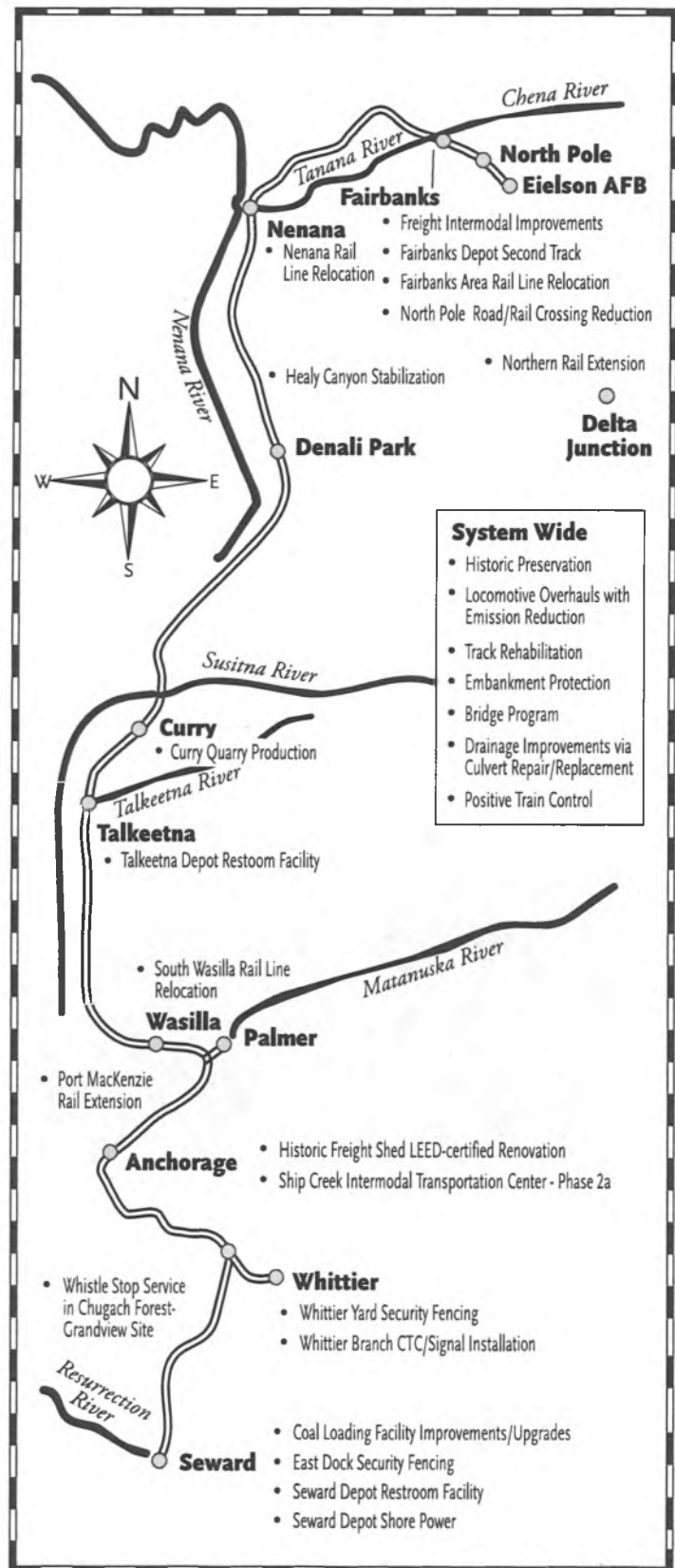
In 2011, ARRC expects to receive continuing FTA formula funding grants totaling \$13.8 million (ARRC will contribute 9% of this amount). Other federal funds for 2011 include \$2.93 million in FEMA-administered grants and a \$1.38 million Stimulus-funded grant.

Internally-funded Projects

In addition to the match for federal funds, ARRC internal funds (funds generated by corporate freight, passenger and real estate revenues) support ARRC's ongoing expense activities as well as an annual capital program. In 2011, internal funds will provide \$23.7 million toward capital improvements and capital rehabilitation activities.

Bond-funded Projects

In 2006, ARRC sold \$76.1 million in revenue bonds with another \$89 million bond sale in 2007. These funds are primarily used to accelerate track rehabilitation efforts. About \$14.1 million will be spent in 2011. Bonds are repaid with FTA formula fund appropriations.



Frequently used acronyms:

- ARRC = Alaska Railroad Corporation
- ARRA = American Recovery & Reinvestment Act
- FEMA = Federal Emergency Management Agency
- FTA = Federal Transit Administration
- FRA = Federal Railroad Administration
- FHWA = Federal Highway Administration
- DOD = Department of Defense
- EA = Environmental Assessment
- EIS = Environmental Impact Study
- STB = Surface Transportation Board

Seward Coal Loading Facility

ARRC acquired the Seward Coal Loading Facility in 2003 and made subsequent improvements in order to increase facility efficiency, driving down the cost of operation, thus making Alaska's coal resources more competitive in the global market. ARRC completed an EA of proposed improvements and upgrades in 2004. FRA provided the original \$9.54 million grant, with \$8.3 million spent on acquisition and associated studies and \$1.24 million used for inspections, repairs and improvements. ARRC is underwriting ongoing maintenance and capital improvements. In response to community concerns over coal dust problems resulting from unusual dry, windy weather in early 2007, ARRC and facility operator Aurora Energy Services (AES) modified operations and ARRC hired industry experts to analyze and recommend future capital improvements. Since 2007, ARRC and AES have spent more than \$1 million on safety, operations and environmental improvements. \$540,000 is budgeted for 2011.



A coal ship docks at the Seward Coal Loading Facility.

Seward Depot Improvements

Construction of a new restroom facility next to the Seward Depot will be complete in 2011. The 24.5-by-26-foot building houses separate men's and women's facilities. Also, a power hook-up was installed beside the track near the depot, allowing trains to plug-in to support onboard food and beverage service. This eliminates the need for locomotives to run their engines to supply power to a parked train. The \$750,000 budget is funded 100% by ARRA Stimulus money via FTA.



ARRC's West (left) and East docks in Seward.

Seward East and West Dock Investments

ARRC built a new East Dock in Seward in 2000, and a section of the 640-by-200-foot East dock was expanded to 320 feet wide in 2007. Beginning in 2001, the West Dock and terminal building have been substantially improved to support intermodal passenger activity. In 2010-2011 a 2,000-foot security fence is being installed around the East Dock, with \$162,400 funded by ARRA Stimulus money. State revenues from the Cruise Ship Tax funded dredging around the docks in 2010 to accommodate larger ships.

Chugach National Forest Whistle Stop Service

ARRC and the U.S. Forest Service (USFS) are partners in developing a whistle stop service in the Chugach National Forest. Plans call for five recreational sites between Portage and Moose Pass that will be accessible by rail and interconnected by trail. Sites include a passenger rail platform, passenger shelter, toilets and interpretive signage. Other features may include picnic, camping and wildlife viewing facilities. The project purchased a self-propelled diesel multiple unit (DMU) rail car, which arrived spring 2009. The first stop site at Spencer was completed late summer 2007. The USFS recently completed preliminary design and engineering for the Grandview stop site and construction is scheduled in 2011. \$1.8 million for Spencer funded by USFS and ARRC. The \$5.35 million DMU was funded \$4.7 million by USFS and \$648,000 by FTA and ARRC. Construction of a pedestrian bridge over Placer River at Spencer (\$1.6 million), and the Grandview site (\$1.2 million) is scheduled for 2011 and funded by ARRA grants obtained by the USFS. Estimated \$14 million is needed to complete all five site facilities.



The bi-level self-propelled "DMU" railcar is delivered in 2009.

Whittier Infrastructure & Master Planning

ARRC is pursuing a Whittier Master Plan to improve railroad infrastructure. Recent projects: 1) built a pedestrian overpass (2002); 2) built an equipment maintenance facility (2002); 3) improved Delong Dock (2002); 4) built barge slip side-loading structures (2002); 5) demolished the old transit shed (2003); 6) built a cruiseship passenger spur and platform (2004); 7) improved security with a yard office at the entrance, seasonal yard fence and video cameras (2006/07); and 8) demolished the marginal wharf (2008). Barge Slip major modification began in 2009 with a \$870,000 ramp extension and track/ground work funded by ARRC. The stern (front) unloading area was replaced in 2010 with the \$4 million cost split between ARRC and Lynden. A security fence around the Whittier Yard will be installed in 2011 with a \$311,224 Homeland Security grant and \$82,000 from ARRC. Future actions recommended by the Master Plan include: a) construction of improved intermodal passenger and public use facilities; b) rail yard reconfiguration and track improvements to separate freight and passenger activity; and c) additional security measures including lighting and detection equipment for passenger facilities.



The Whittier barge slip stern (front) is replaced. The towers were removed and replaced by hydraulic devices to lower/raise the slip.

Whittier Branch CTC / Signal Installation

ARRC is incorporating the 12-mile Whittier Branch into the Centralized Traffic Control (CTC) network. Signals will be installed at sidings near Portage and at the west end of Portage Tunnel. Remote controlled power switches will be installed at the turn-around wye in Portage. \$1.11 million project funded 91% by FTA and 9% by ARRC.

Ship Creek Intermodal Transportation Center

ARRC is pursuing an Intermodal Transportation Center (ITC) and associated improvements (pedestrian amenities, transit infrastructure, parking, track modifications, etc.) in the Ship Creek area. The ITC will facilitate connections from one transportation mode to another — rail, public transit, air, marine, bus, taxi, private vehicle, bicycle and pedestrian — and improve links to Anchorage's downtown business district to meet passenger transit needs over the next 30 years. Phase One, completed 2007-2009, included utility relocation, new track and passenger platform construction, and track reha-

bilitation. Part of Phase Two (2a) began in 2010 to include Anchorage Historic Depot exterior improvements, electrical upgrades and boiler replacement. Phase 2a wraps up in 2011. Future phases will construct a service / office building, a new departure lounge over the tracks and an elevated covered walkway connecting to downtown. Approximately \$23 million for conceptual and environmental work, preliminary design, and Phase One was funded 91% by the FTA and 9% by ARRC. Phase 2a cost of \$7.94 million is funded by ARRA Stimulus money. ARRA Stimulus money also funded \$300,000 in 2009-2010 to install an additional 1,000 feet of security fencing east of the depot. Total cost is estimated at \$78 million.



Phase One of the Ship Creek ITC constructs two new tracks and a pedestrian platform next to the Anchorage Historic Depot.

Historic Freight Shed LEED-certified Renovation

The Alaska Railroad (ARRC) is renovating a historic freight shed in Anchorage's Ship Creek District. It is Alaska's first historic building to be reconstructed with the high environmental standards established by Leadership in Energy and Environmental Design (LEED) criteria. Originally built in 1941, the 36,000-square-foot heavy timber facility offers a "green" commercial office space in lower downtown, featuring a raised heated walkway and ample parking. The building core-and-shell was completed late 2009 and site construction wrapped up in summer 2010. ARRC signed leases with two tenants in 2010 for 93% occupancy by the end of 2011. The overall facility renovation cost \$10.1 million and tenant space renovations are estimated at \$2 million, funded by ARRC.



The Historic Freight Shed renovation nears completion.

South Wasilla Rail Line Relocation

ARRC plans to straighten curves along the main line track in South Wasilla, between ARRC MP 154 and 158. The track relocation would eliminate five at-grade crossings, reduce derailment risk, reduce operational and maintenance costs, and allow for faster train speeds. An EA of alternative relocation routes was completed in 2005. Land acquisition should be complete in 2011. \$246,000 for conceptual engineering and the EA and \$2.72 million for preliminary engineering and land acquisition, funded by 91% FTA and 9% by ARRC. \$2.5 million to continue right-of-way land acquisition funded 91% by FHWA and 9% by ARRC. Total cost for construction of Phase One (MP 154 to 156) is estimated at \$37 million.



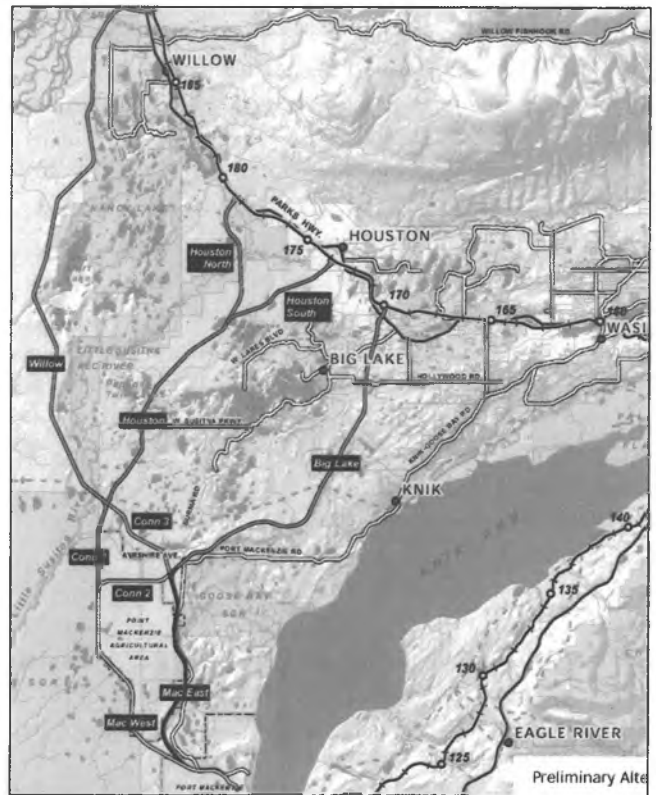
A large curve in the track slows train speeds in south Wasilla.

Port MacKenzie Rail Extension

The Mat-Su Borough and ARRC are partners in proposing a new rail line connecting Port MacKenzie to the existing main track at a point between Meadow Lakes and north of Willow. Three main routes were developed in 2007, ranging from 30 to 45 miles long, depending on a connection near Big Lake, Houston or Willow. Extensive public involvement activities were conducted in summer and fall 2007 to obtain citizen and agency input. In early 2008, ARRC submitted an application to the STB, the federal agency with authority over rail extensions in the United States. STB is conducting the environmental impact study (EIS) as required by the National Environmental Policy Act (NEPA). STB hired a third party contractor (ICF International) to begin the EIS in early 2008; completion is expected in 2011. The State of Alaska appropriated \$27.5 million (2007/2008) to support the NEPA process and \$37 million (2010) to pursue design and construction. Depending on the route selected, an additional \$170 to \$240 million is needed to complete design and construction.

Talkeetna Depot Restroom Facility

In 2011, construction will be completed on a 26-by-24.5-foot restroom facility about 20 feet from the existing Talkeetna Depot. The building houses separate men's and women's restrooms for passengers and employees. With modern plumbing and electrical systems, the new facility will eliminate the need to rent port-a-potties. The \$500,000 budget is funded by ARRA Stimulus money.



Potential Port MacKenzie Rail Extension routes.

Curry Quarry Ballast & Riprap Production

The Alaska Railroad's track rehabilitation, embankment protection and other construction activities are supported by rock material production at the Curry Quarry. The quarry was developed 2005-2007, and a three-year production contract for ballast and riprap followed in 2007-2009. The quarry was dormant in 2010. Production resumes spring 2011.

Healy Canyon Safety & Reliability Program

Healy Canyon lies between Denali Park Station and Healy. The tracks follow the Nenana River gorge on a narrow grade with two tunnels. The area has steep slopes and erosion-prone soil. ARRC proposed a series of projects to: 1) stabilize the track bed in Healy Canyon; 2) control the rock fall problems; 3) "daylight" (remove the top of) Moody Tunnel; 4) realign tracks around Garner Tunnel; and 5) realign the tracks to straighten the corridor. Total cost is estimated at approximately \$71 million. \$2.9 million in FRA funds were used to address track realignment and the slide zone around Garner Tunnel in 2005. \$5.2 million in FTA grants and FTA-backed revenue bonds were used to daylight Moody Tunnel, which was completed in 2009. About \$5.86 million was spent in 2009/2010 to stabilize several areas (MPs 352.9, 354.1, 355.2 and 357) in the canyon, with a combination of funding from FEMA, FRA, ARRC and the Alaska Division of Emergency Services. ARRC continues to seek funding to pursue future stabilization projects, including completion of MP 352.9.

Nenana Rail Line Relocation

ARRC proposes to realign the railroad main track around downtown Nenana, following a route outside of the existing right-of-way, north of the airport and southeast of town, near the Parks Highway. The track structure through Nenana would be maintained to support port activities. ARRC completed an EA of three alternative realignment routes and a "no action" alternative in 2004. Right-of-way acquisition was complete in 2009. A hydrology study completed in 2010 will be used to pursue flood plain permits in 2011. \$1 million budget for the EA funded 91% by the FTA and 9% by ARRC. \$1.04 million for land acquisition funded by 91% FHWA (administered via FTA) and 9% ARRC. \$350,000 for the hydrology study funded by ARRA Stimulus funding. Estimated \$31 million budget for construction and land acquisition. Funding for construction has not yet been identified.

Fairbanks Depot Second Track

ARRC built a new depot in Fairbanks in 2005. Original plans called for two passenger tracks adjacent to the depot. The second track will be completed in 2011. The new 3,000-foot track will provide staging for passenger trains, improving operations efficiency and reducing equipment wear-and-tear. The second track cost of \$1.2 million is funded by ARRA Stimulus money administered via an FTA grant.

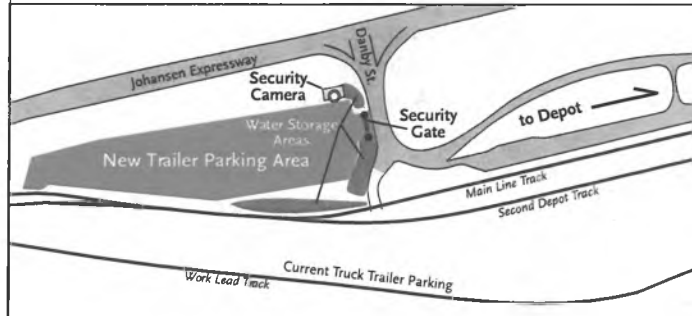


A second track is constructed parallel to the existing track by the Fairbanks Depot.

Fairbanks Freight Intermodal Improvements

ARRC and ADOT/PF are improving the freight intermodal area of the ARRC Fairbanks Rail Yard to enable faster pick-up and drop-off by truck operators, and to enhance safety and security of train/truck operations. Improvements to Danby Street intersection area include: a) moving and improving at-grade crossings; b) constructing a centralized trailer parking area near the entrance and adjacent to Danby; c) improving Danby Street access; and d) improving drainage. Construction began in 2010 and will be complete in 2011. The

\$2 million budget is funded 91% by FHWA and 9% by ARRC. In 2011, the railroad also plans to install a rolling chain-link gate with ID card reader access and a video security camera at the entrance of the new trailer parking area, with funding from a FEMA-administered grant. Future improvements call for 100-foot high mast lighting to be added incrementally and funded annually by ARRC.



Fairbanks Freight Intermodal Site Plan

Fairbanks Area Rail Line Relocation

ARRC is analyzing options to: a) realign and improve safety of the main line and branch track, including potential realignments outside the more populated areas of Fairbanks and b) realign and improve the Eielson Branch, from the new Fairbanks depot to the end of the branch near Eielson AFB. The Fairbanks Area Rail Line Relocation will likely require an EIS. As a precursor to the EIS, ARRC conducted an Alternatives Analysis (AA) in 2007-2008 that capitalizes on the findings of previous reconnaissance and engineering studies. The AA recommends a three-phased approach. ARRC also commissioned a *North End Rail Public Transportation Study and Operation Plan* to explore options for passenger rail and commuter service. Findings indicate low demand for Fairbanks-North Pole commuter service and results are inconclusive for Fairbanks-Denali service options. The AA and transportation study were funded by \$450,000 in grants from FHWA and FTA with 9% from ARRC. Funding sources are being sought for NEPA environmental work to include an EIS.

North Pole Road/Rail Crossing Reduction

ARRC, in cooperation with the FRA, is initiating an EA and preliminary engineering for a proposed project to reduce at-grade road/rail crossings by realigning an 8-mile section of the Eielson Branch that currently runs through North Pole, between Richardson Hwy milepost 9 and the Chena River floodway. This project is essentially Phase One of the three-phased Fairbanks Area Rail Line Relocation. The EA is expected to be complete by the end of 2011. Funding of \$1 million comes from FHWA funds reallocated by the Fairbanks Metropolitan Area Transportation System (FMATS) and the Alaska Department of Transportation & Public Facilities.

Northern Rail Extension

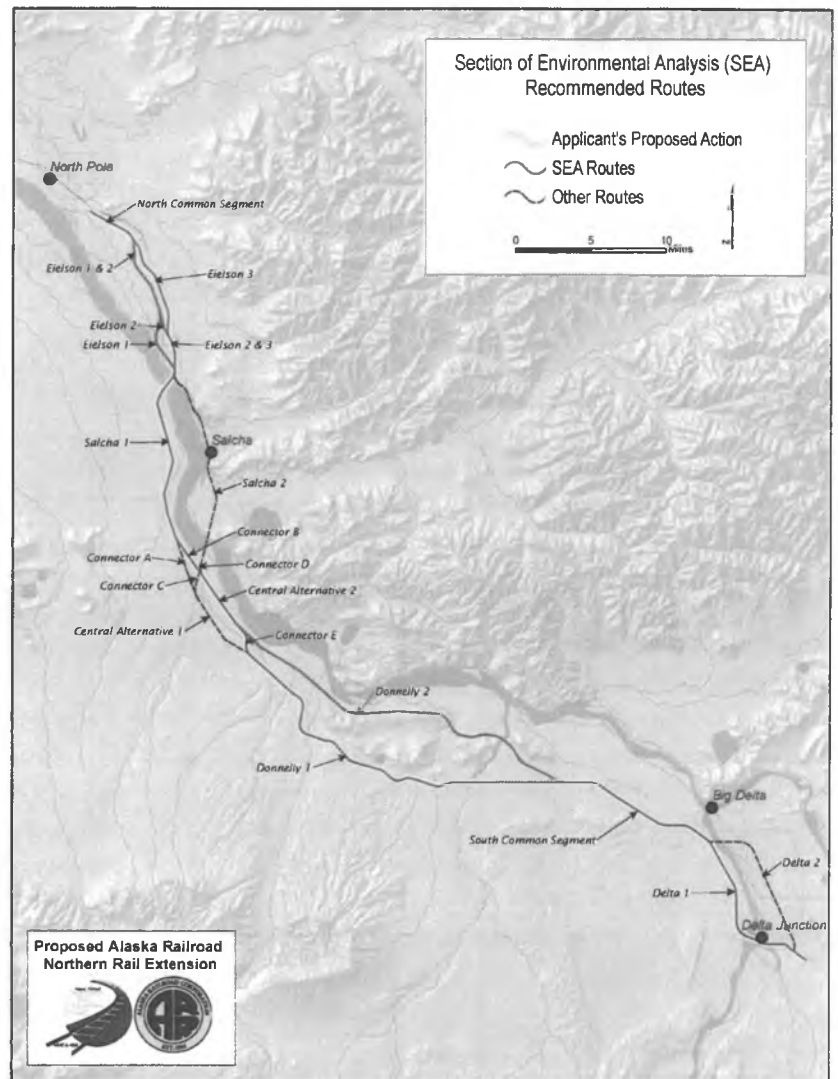
ARRC proposes to extend its main line track from North Pole / Eielson AFB, about 80 miles southeast to Delta Junction. The project would offer: a) commercial freight service supporting communities and commerce in the corridor; b) a passenger transportation alternative to the Richardson Hwy; c) support of military training; and d) support of regional tourism. ARRC initiated the conceptual development in 2004. The STB initiated an EIS in 2005. A draft EIS was released for public comment in December 2008. The final EIS was released in late 2009 and the STB approving a license to construct and operate a rail extension on January 5, 2010. Design of Phase One, Tanana River Crossing, got underway in 2010. Construction is scheduled to begin in 2011. The EIS, preliminary engineering and design was funded by \$16.5 million in DOD appropriations, administered by the FRA. DOD appropriated another \$44.2 million in 2007 and \$60 million in 2008 for planning, engineering, environmental work, design and to begin construction on the first phase of the project. The State of Alaska appropriated \$40 million toward Phase One in 2010. Entire rail line cost is estimated at \$650 to \$850 million; later phase funding is not yet identified.

Passenger Rail Cars and Locomotives

ARRC has 45 passenger-related railcars, including 30 coaches, six diners, six baggage cars, two business cars (charters) and one DMU. ARRC also has 53 locomotives: 28 SD70MACs (12 equipped with head-end-power to supply electricity to passenger cars), 15 GP40s, eight GP38s and two cab/power cars. ARRC upgrades older equipment and buys newer equipment to meet current and future passenger demands. In 2011, several passenger cars will be upgraded with new lighting, public address systems, batteries, signs, carpeting, wall-covering, seat upholstery and restroom refurbishment, thanks to a \$530,000 grant funded 91% by FTA and 9% by ARRC. Four GP40 locomotives will be overhauled to include installation of engine idle reduction systems, and installation of a Tier-0-plus kit to improve fuel efficiency and reduce emissions; funded by a \$1.4 million FTA "TIGGER" (Stimulus-funded) grant and \$328,000 by ARRC.



Left to Right: GP-38-2, GP 40-2 and SD70MAC locomotive.



Proposed and recommended routes identified in the Northern Rail Extension EIS.

Positive Train Control

ARRC is developing a multi-phased program to design, develop, and implement a communication-based train control system that uses data radio communications between train dispatchers and train crews, or dispatchers and roadway workers. The Positive Train Control (PTC) project is comprised of a Computer Aided Dispatch (CAD) system, an on-board computer system, VHF packet data radio technology, and GPS locator technology. The PTC will provide improved information for decision-making, and will also detect infrastructure failure and potential operations violations quickly, and intervene when necessary. The PTC is being accomplished in phases, each achieving incremental safety benefits. The total cost is estimated to be more than \$70 million. To date, FRA has funded \$15.74 million; \$4.48 million has come from FTA-backed revenue bonds; and FTA grants (91% FTA and 9% ARRC) account for \$29 million. An additional \$2 million was provided in 2009-2010, funded by ARRA Stimulus funding.



Matanuska River Bridge is undergoing rehabilitation work.

Bridge Program

ARRC's 500-plus miles of main line track include about 160 bridges that cross barriers ranging from streams to gulches. ARRC's 2011 Bridge Program calls for major maintenance, overhaul and replacement needed to maintain railroad integrity, safety and efficiency. In 2011, ARRC plans to complete replacement of two aging bridges (Little Goldstream Creek at MP 432.1 and Ship Creek at MP 115.1) and to design replacement of three culverts at Indian Creek (MP 88.1). A new bridge may be constructed over Skookum Creek Drainage (MP 59.4, near Portage). Upgrades and rehabilitation are also planned for five other bridges. In addition, a

"rock shed" will be installed at the tunnel about 50 miles north of Seward to protect against falling rock and ice. Funding includes \$1.69 million by FTA, \$1.25 million by ARRC and \$1.19 by FEMA.

Drainage Improvement/Embankment Protection

ARRC will repair or replace up to nine culverts along the northern half of the rail corridor. Several culverts in this area are at risk of washout, collapse or clogging. ARRC also plans to install riprap and armor rock to fortify track embankment that is susceptible to high water events, including flooding. Culvert repair/replacement budget is \$1.05 million funded by ARRC. Embankment protection work is supported by a \$2.45 million grant funded 75% by FEMA and 25% by ARRC.



A culvert becomes clogged with ballast (track bed rock) leaking in.

Track Rehabilitation

ARRC continues an aggressive track rehabilitation program in 2011 that calls for replacement of rail, ties and ballast in areas of critical need. Each year, ARRC converts several miles of track into continuously welded rail, which dramatically decreases maintenance costs and improves ride quality. ARRC also replaces a portion of its nearly two million wood-tie ties (50,000 ties in 2011), and installs concrete ties along curves and other high-use stretches (none in 2011). ARRC also plans to resurface many miles of track using 70,000 tons of ballast rock. For 2011, \$14.1 million is funded through the sale of ARRC revenue bonds backed by FTA formula funds; \$8.3 million is funded by FTA grants (91% FTA; 9% ARRC); and \$665,000 is funded by ARRC.

Historic Preservation

ARRC supports historic preservation efforts that are related to railroad assets and infrastructure. Some ARRC assets are historic properties and are listed on the National Register of Historic Places and more than 50 ARRC properties are eligible for listing on the National Register. ARRC often consults with state and federal historic preservation agencies to mitigate impacts from capital projects that may adversely impact historic assets. Mitigation often takes the form of educational materials, including brochures, interpretive signage, archived photos and documentation.

Alaska Railroad Corporation



Timber Trestle Bridges on the Alaska Railroad






In 1914, President Woodrow Wilson charged the Alaska Engineering Commission with charting a railroad route from a southern Alaskan harbor to the territory's interior. The route is open almost one mile to construction. From 1914 to 1923, 1,600 miles along with auxiliary trails 500 miles of track linking Seward and Fairbanks.

Bridges were built along the Alaska Railroad to cross gorges, rivers, streams, bluffs and other geographical barriers. Timber trestles were the easiest and least expensive way to span these barriers and a great many were constructed. The railroad had up to 800 bridges or trestles in one area. Even though timber has a relatively short useful life (25-40 years) and other materials have, for the most part, proved to be impractical for use as early bridge construction.

Timber trestles were typically constructed in spans of 18 to 18 feet in accordance with General Specifications for Piling for Trestle Bridges which was approved by the Alaska Engineering Commission on May 28, 1915 (reprinted below). Specifications called for two-dimensional square ties to be used for piling for all timber trestle bridges. Starting in the early 1960s, untreated timber was replaced with concrete treated timbers to increase the useful life of the timbers. Local timber was used to the extent possible.

Most timber trestle rail bridges in the United States were constructed between 1880 and 1950. The majority of timber trestle bridges constructed on the Alaska Railroad were built from 1914, when initial construction began, through 1970. Since then, timber trestle bridges have been gradually replaced with bridges made of steel and concrete.

Building to Standard

The following information was obtained from the Alaska Railroad Corporation's historical records and is provided for informational purposes only. It is not intended to be used as a legal document or to create any legal rights or obligations. The information is provided as is and without warranty of any kind, express or implied, including but not limited to the accuracy, completeness, or suitability for any purpose. The information is provided for informational purposes only and should not be relied upon for any legal or financial decisions. The information is provided for informational purposes only and should not be relied upon for any legal or financial decisions.

This interpretive sign will be posted in several common-use passenger railcars as part of a public education effort.

Integrated Vegetation Management Program

The Alaska Railroad pursues an integrated vegetation management program to protect the millions of dollars invested each year in its infrastructure. Uncontrolled weeds pose safety risks to

RC operations and employees, including: **a)** vegetation makes track and train inspection difficult; **b)** plants hinder automated equipment operation; **c)** overgrown weeds hide walking hazards, contributing to slips, trips and falls; **d)** roots create uneven, heaving surfaces, again posing walking hazards for track workers; and **e)** vegetation accelerates rail and tie deterioration. Public safety is also impacted by uncontrolled weeds: **a)** overgrown bushes block line-of-sight; **b)** vegetation can obscure signs and signals that warn the public; **c)** plants cause heaving and slippery conditions at road/rail crossings; and **d)** dry vegetation can fuel brush fires.

The railroad has always, and will continue to use mechanical and manual methods to clean the ballast, cut and clip brush, mow grass and weeds, saw roots and trim limbs, etc. Mechanical and manual methods achieve limited and temporary success. ARRC has also tested many alternative and experimental methods of controlling weeds (including steam, hot water, radiant heat, abrasion, flaming and burning), with no lasting success. Herbicides provide an additional tool to help maintain safe operations and regulatory compliance, and to protect infrastructure investments. The railroad seeks to control vegetation with a combination of mechanical and chemical methods, using herbicides in the most critical and difficult areas.

In 2008, ARRC commissioned herbicide research to provide scientific information about use in Alaska's environment. Results indicate that herbicides behave the same as in other climates, and the glyphosate-based herbicide AquaMaster does not linger or migrate in the soil. In 2009, ARRC applied for a Department of Environmental Conservation (ADEC) permit to use herbicides in the Seward yard and along 30 miles between Seward and Indian. The permit was approved in spring 2010 and AquaMaster was applied selectively within the permitted area with good results. ARRC is currently applying for additional permits for herbicide use in the Anchorage Yard, Healy Yard, Fairbanks Yard and along the Eielson Branch.



Ineffective mechanical/manual control in Seward yard prior to herbicide application.

current as of 1/05/2011

Alaska Railroad Corporation 2011 Program of Projects

At the beginning of each calendar year, ARRC conducts project open house events in Anchorage, Fairbanks, the Mat-Su Valley and Seward to inform the public about the proposed Program of Projects (POP) for the year. While these events provide a good forum for residents to comment on any or all projects, the public is not limited to commenting at these events. Public input is accepted year-round, and in a variety of formats as outlined at the right. Detailed project descriptions are provided within fact sheets that are created for major federally-funded and internally-funded capital improvement efforts. These fact sheets are accessible at the Alaska Railroad web site www.AlaskaRailroad.com (click on "Capital Projects").

Public Input:

Public comment on any or all of these projects may be submitted via:

- Mail to: Capital Projects
Alaska Railroad Corporation
P.O. Box 107500
Anchorage, AK 99510-7500
- E-mail to public_comment@akrr.com
- Fax to (907) 265-2365
- Call Stephenie Wheeler at (907) 265-2671
ARRC's TTY/TTD 265-2620
or voice 265-2494 or Alaska Relay TTY
800-770-8973 or voice 1-800-770-82555

Transportation Committee Briefing

January 2011



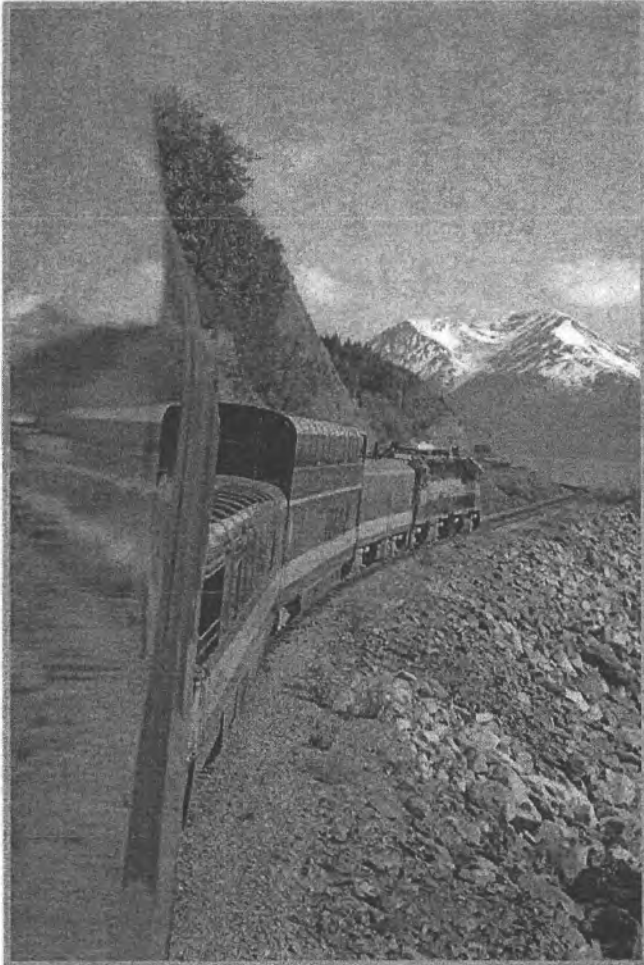
Briefing Contents

- Corporate Information
- Budget Highlights
- Project News
- ARRC Statewide Issues

Handouts

- December 2010 State Report
- Program of Projects Summary
- 2011 Real Estate Customer Service Action Plan





ARRC Corporate Information



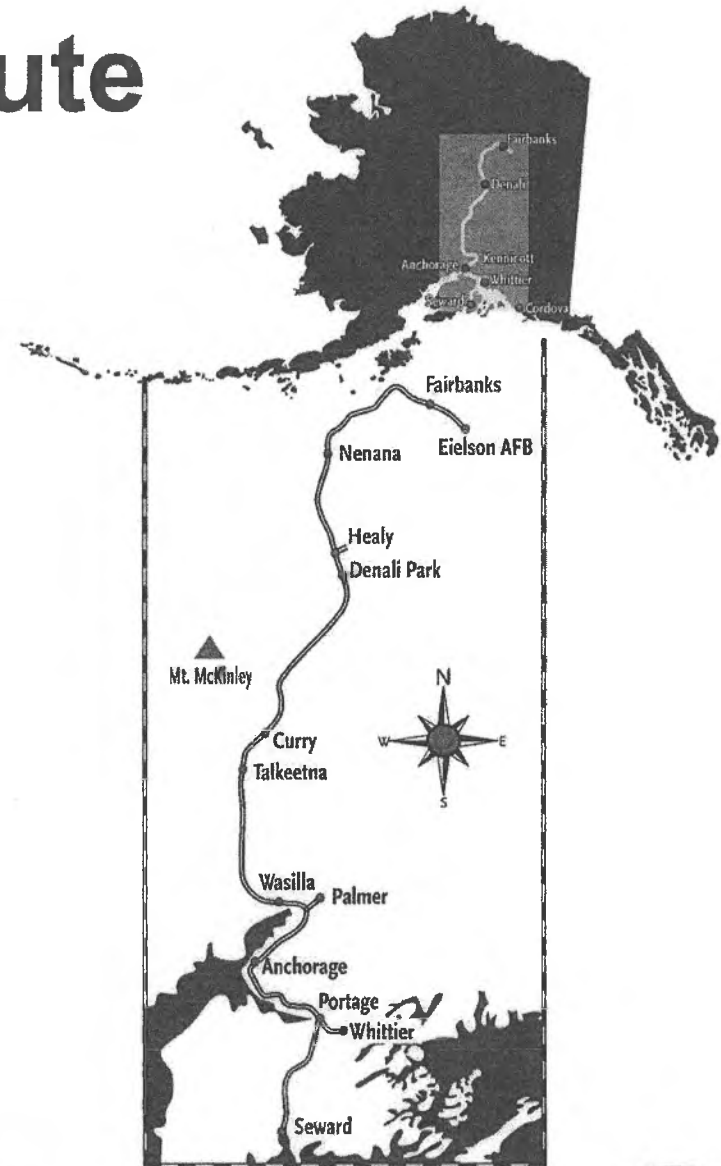
Alaska Railroad Corporation

- Railroad built by the federal government (1914 – 1923)
- Purchased by the State of Alaska for \$22 million in January 1985
- Self-supporting, State-owned corporation
- Full-service railroad serving ports and communities from the Gulf of Alaska to Interior Alaska



Our Route

- 469 miles of mainline track, Seward to Fairbanks
- Full-service passenger and freight railroad serving communities from the Gulf of Alaska to Fairbanks.



Different from Other 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 corporation reports to the board. 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 controls:

- The ARRC Board of Directors is responsible for initiating both a financial and a performance audit each year conducted by independent auditors 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.
- The Legislative Budget and Audit Committee can review ARRC's operation, management and financial practices.
- 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 sale or transfer of the Railroad's entire interest in land, or leasing land for longer than 55 years.
- 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.
- Bond authorizations must be approved by the Legislature.
- ARRC is required by law to submit an annual report with audited financial statements
- ARRC is required by law to adopt a long-range capital improvement plan each year and shall share that plan with the Governor and Legislature.
- ARRC is defined as an interstate commerce carrier by the Federal Alaska Railroad Transfer Act of 1982 (ARTA).



Alaska's Railroad

- Contributes to health care, business services, and retail payrolls
- Principal transport for heavy and/or bulk commodities to tidewater
- Major mover of jet fuel to Anchorage International Airport
- Viable passenger alternative to long-distance driving
- Supports the U.S. military with the transport of equipment to and from the "DOD Strategic Port" of Anchorage
- Potential to reduce pressure on State road system ... commuting
- Potential to significantly contribute to the Alaska Natural Gas Pipeline

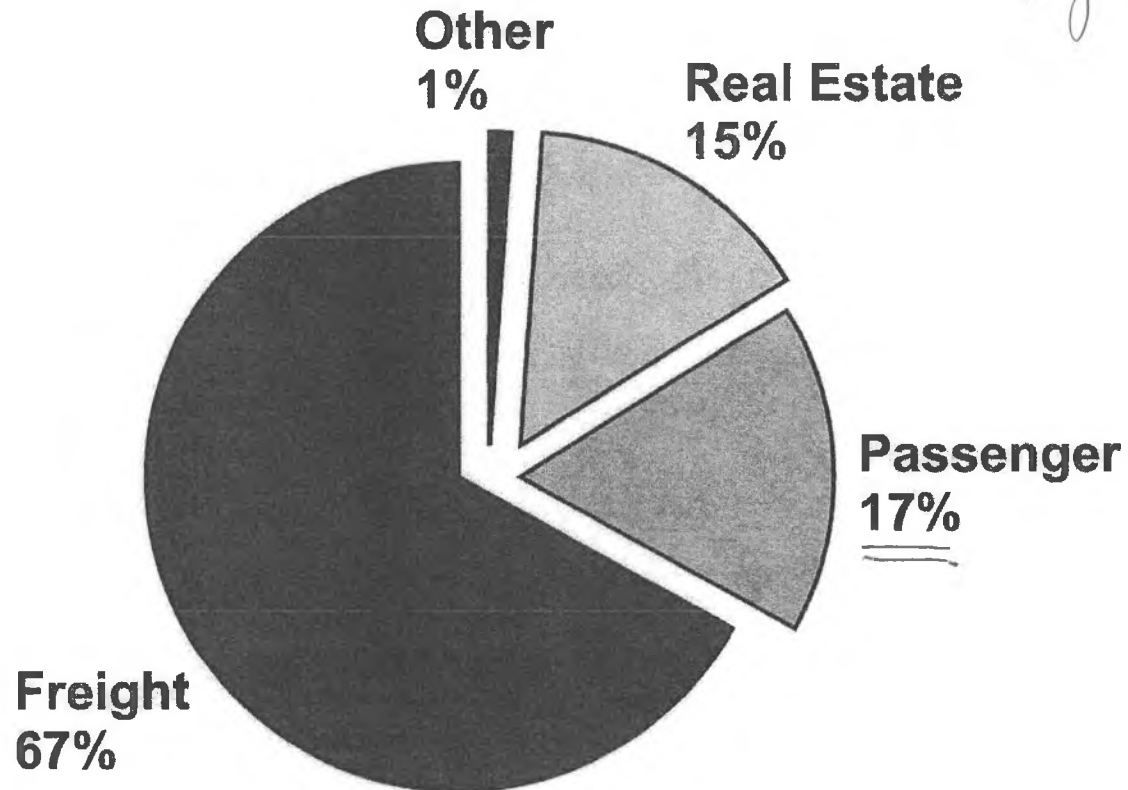
Creates 3,000 jobs and \$150 million in payroll across the State

Source: "Economic Significance of Alaska Railroad", December 2004, ISER report, University of Alaska



2010 Sources of Customer Revenue*

hybrid



*Preliminary/unaudited



Freight Business

- Moved 6.3 million tons of freight overall in 2010, compared to 6.2 tons in 2009 (2% increase)
- Anticipate 3.5% overall freight growth over 2010
- Moved just under 1 million tons of export coal in 2010; anticipate moving nearly 1.1 million tons in 2011

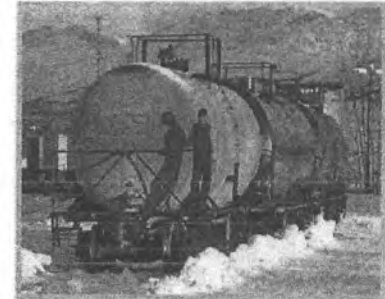
Export coal. due to shipping

3.9% growth

1.3m in 2012



Oilfield pipe



Petroleum



Military



Coal



Logs



Gravel



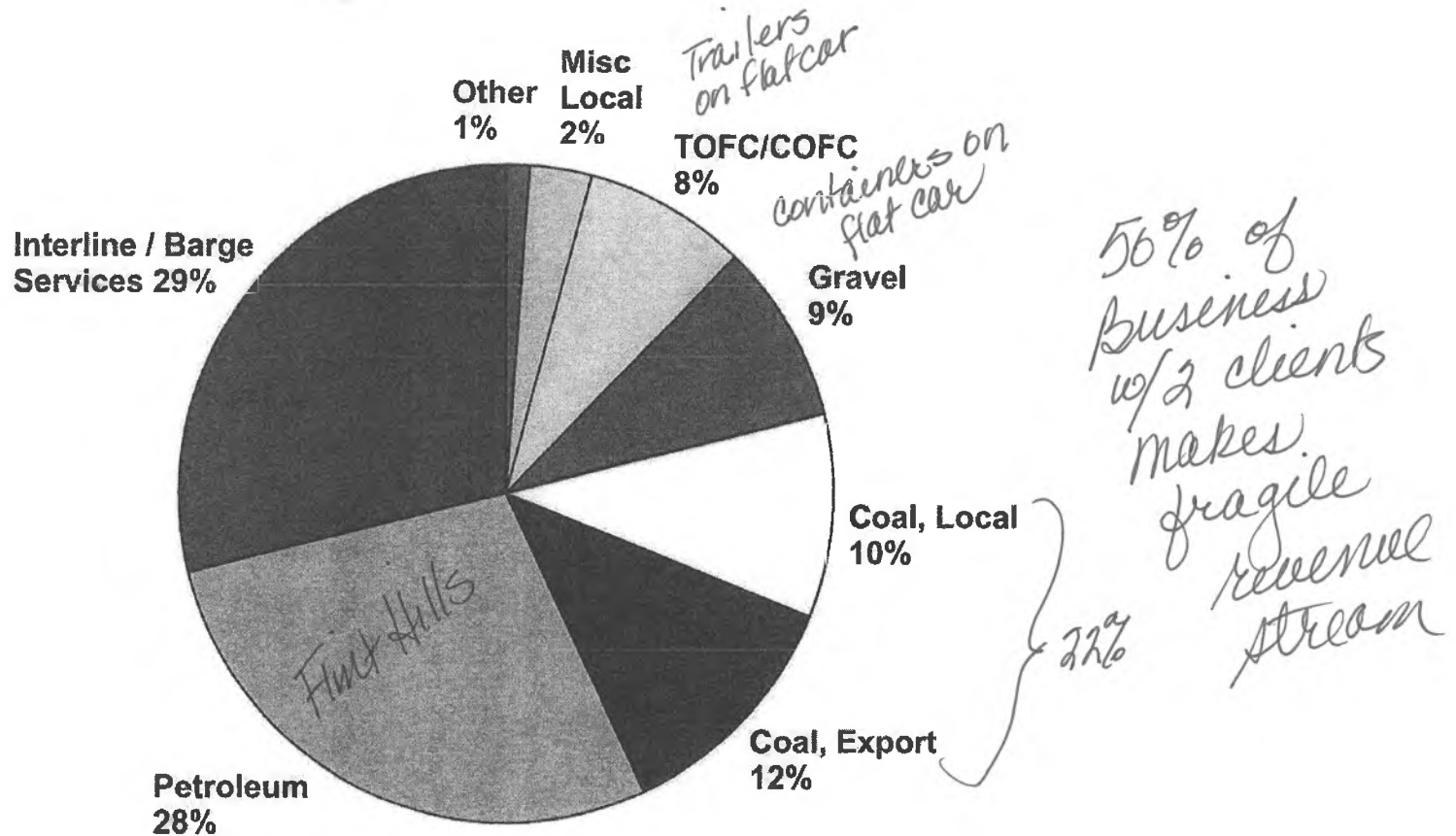
Interstate Barge



Trailers



2010 Freight Revenue Mix*



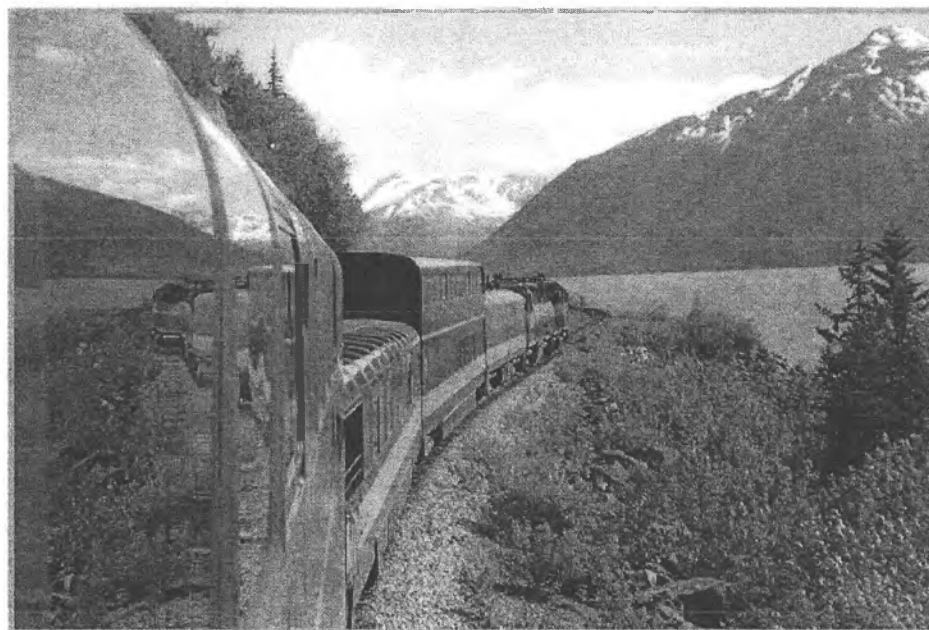
*Preliminary/unaudited

TOFC: Trailer on Flat Car
COFC: Containers on Flat Car



Passenger Business

- Moved 405,000 passengers in 2010, compared to 471,000 in 2009 (14% decrease)
- For 2011, we anticipate 3.2% passenger growth over 2010



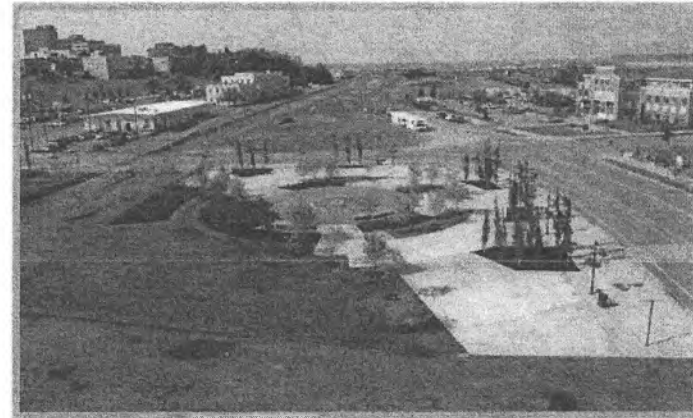
driven by downturn in economy

on board tour guides / plan to work w/ airlines & cruise ships stops



Real Estate

- Property Development
- Leases and Permits
- Dockage and Wharfage
- Facilities Maintenance and Management
- Revenue from Real Estate activities are key component to ARRC being self-sustaining
 - 2010: 69% of corporate net income derived from real estate

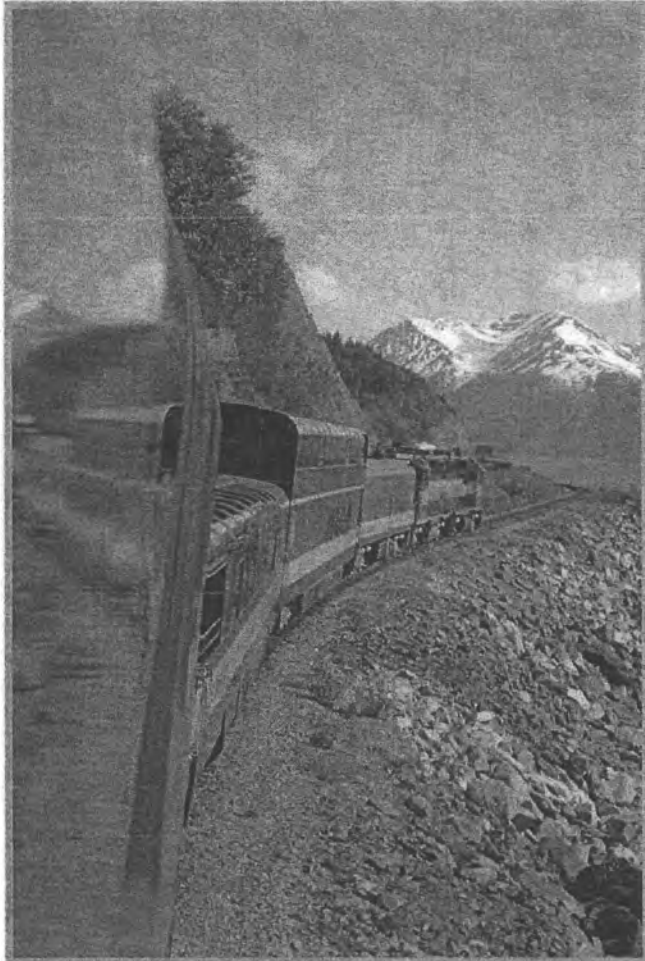


Top: Ship Creek basin includes highly valuable leasable land. Bottom: upland from the Seward freight dock is being developed

Capital Funding Sources

- ARRC Earnings
 - Provides required match for federal funds
 - Essential for freight-related improvements
- USDOT/Federal Transit Administration
 - Formula Funds, Grants
 - 9-20% ARRC Match Required
- Other Federal Agencies – (Dept of Defense, FEMA, FHWA, Homeland Security, etc)
- Federal funds allocated to ARRC do not affect federal funding for other state transportation projects
- ARRC federal match is *not* from State of Alaska general fund or gas tax...match is solely from ARRC earnings.





ARRC Budget Highlights



2010 Financial Snapshot

- 2010 Plan – prepare for uncertain future
 - Petroleum haul anticipated to be half that of 2003
 - Passenger: cruise ship redeployments
 - Impact of significant 2009 ARRC personnel downsizing
 - Budgeted net earnings: \$8.4 million
 - \$4.3 million loss from train operations
- Preliminary 2010 numbers exceed expectations
 - Petroleum performed worse than expected, offset somewhat by Trailer on Flat Car (TOFC) and Gravel hauls
 - Passenger revenue did not fall as far as anticipated
 - Solid expense control offset rising fuel costs
 - Year-end boost from tax credit legislation approved by Congress
 - Preliminary, unaudited net earnings: \$13.7 million
 - \$700,000 loss from train operations

*decrease
passengers
and flatcars
cut backs*



2011 Overview – Operating Budget

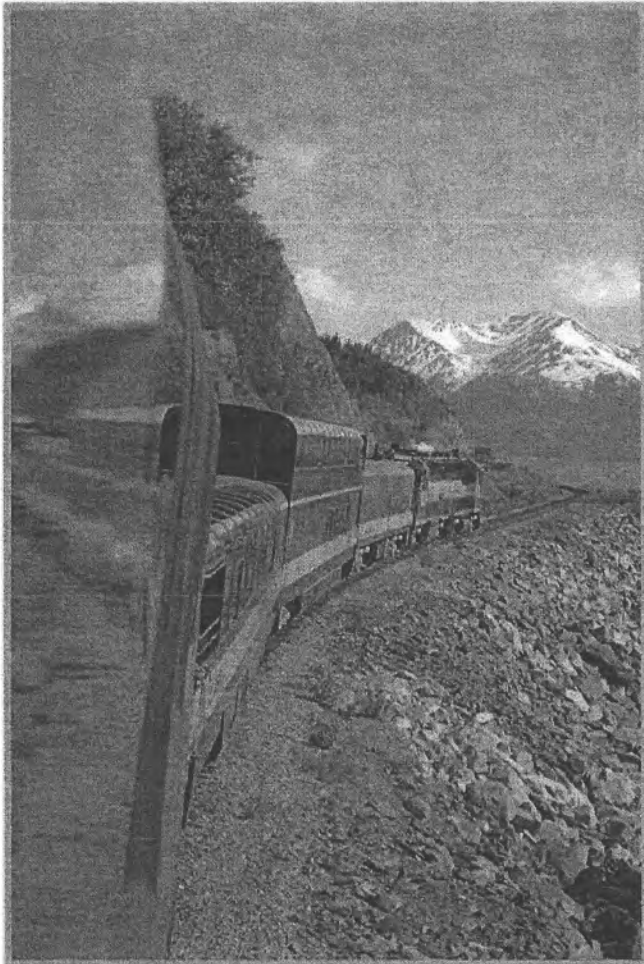
- ARRC financial situation still fragile
 - Net loss on core train operations 2006 – 2010
 - Calculated without impact of non-traditional fund sources such as tax credits and federal grant reimbursements of operating expenses
 - Corporate net earnings rely on real estate for stability and sustainability
- Market uncertainty/expense pressures persist
 - Flint Hills projecting growth, but off to rough start
 - Export Coal – strong global demand, tempered by environmental issues
 - Moderate passenger growth seen
 - Fuel, benefit cost increases dragging on bottom line
- ARRC Board approved earnings budget of \$18.2 million
 - Contingency plans in place if revenue does not materialize



2011 Overview – Capital Budget

- **\$63.4 million** in new spending for capital projects in 2011
 - \$25.1 million from Alaska Railroad generated cash flow from earnings
 - \$20.4 million from FTA formula funds (railroad match of 9% included)
 - \$13.6 million from Federal Transit Administration (FTA) bond proceeds
 - \$4.3 million from other sources – Federal Emergency Management Agency and USDOT grants *(stim funds)*
- **Highlights:**
 - Vast majority of funds allocated to non-discretionary capital maintenance to existing infrastructure
 - Sixth year of seven-year accelerated track rehabilitation program focused between Anchorage and Fairbanks *"stable, safe railroad"*
 - Unfunded federal mandate of Positive Train Control ?
 - Bridge rehabilitation and equipment, vehicle, and freight car replacements are other major components
 - Funding phased based upon revenue/earnings achievement

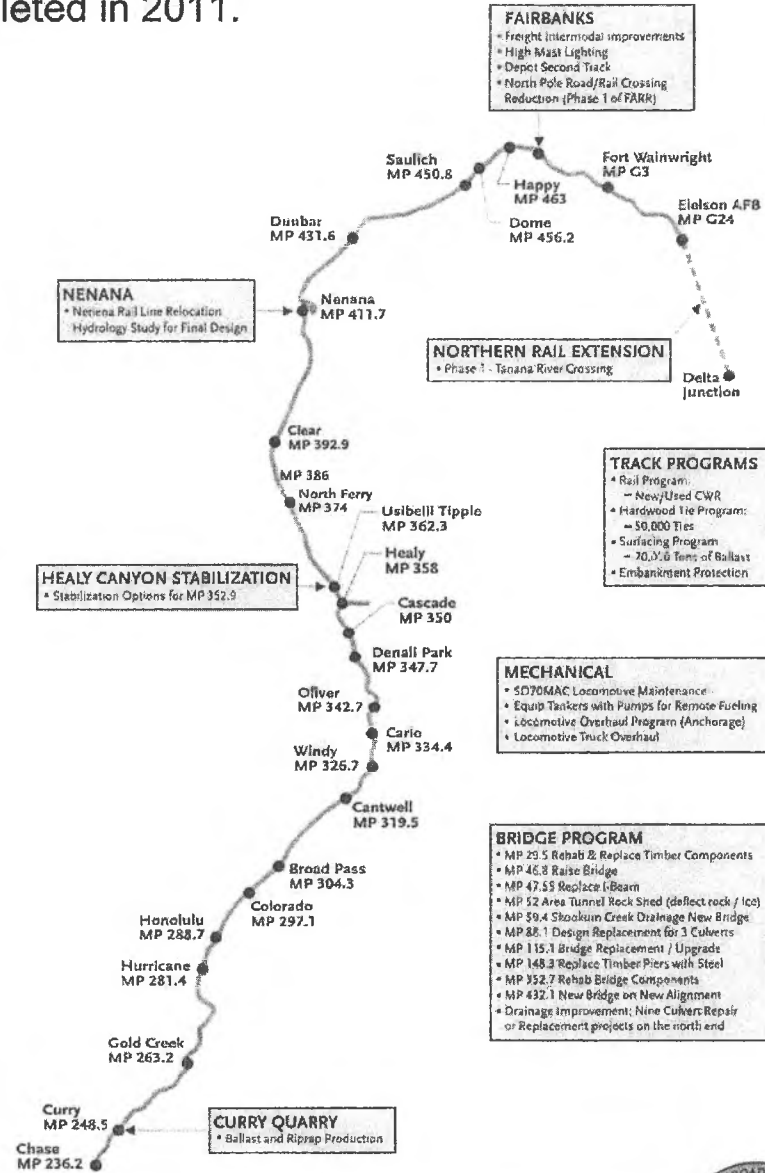
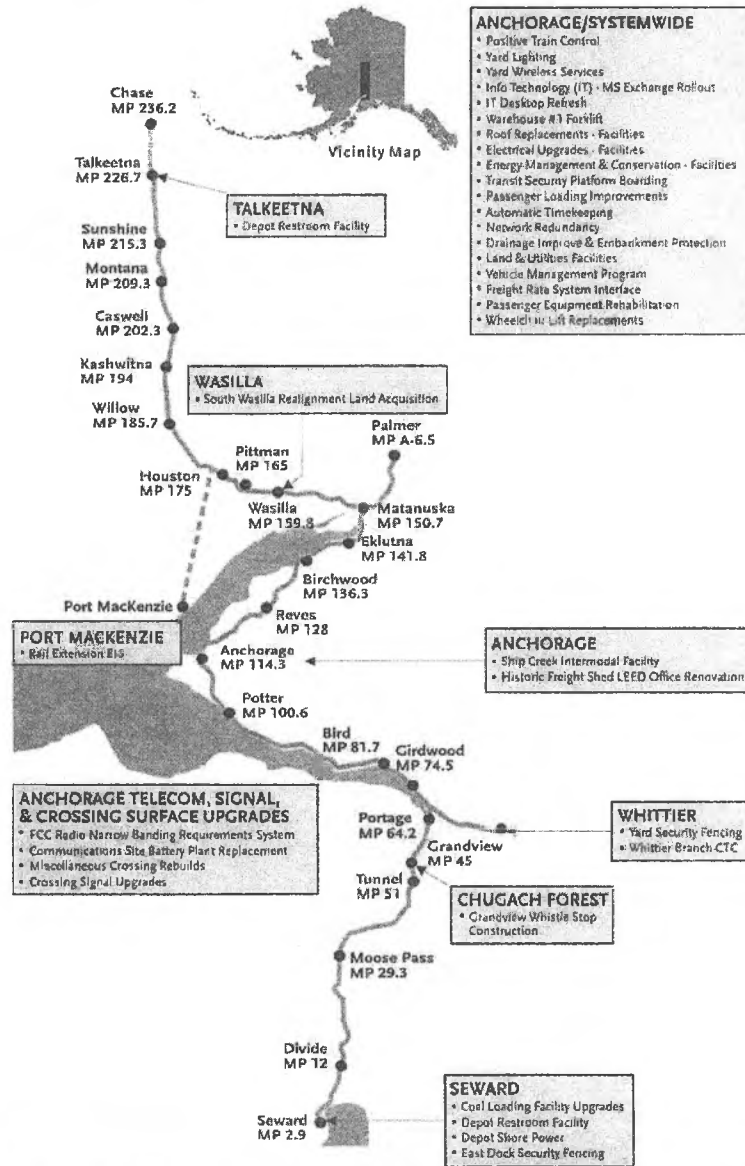




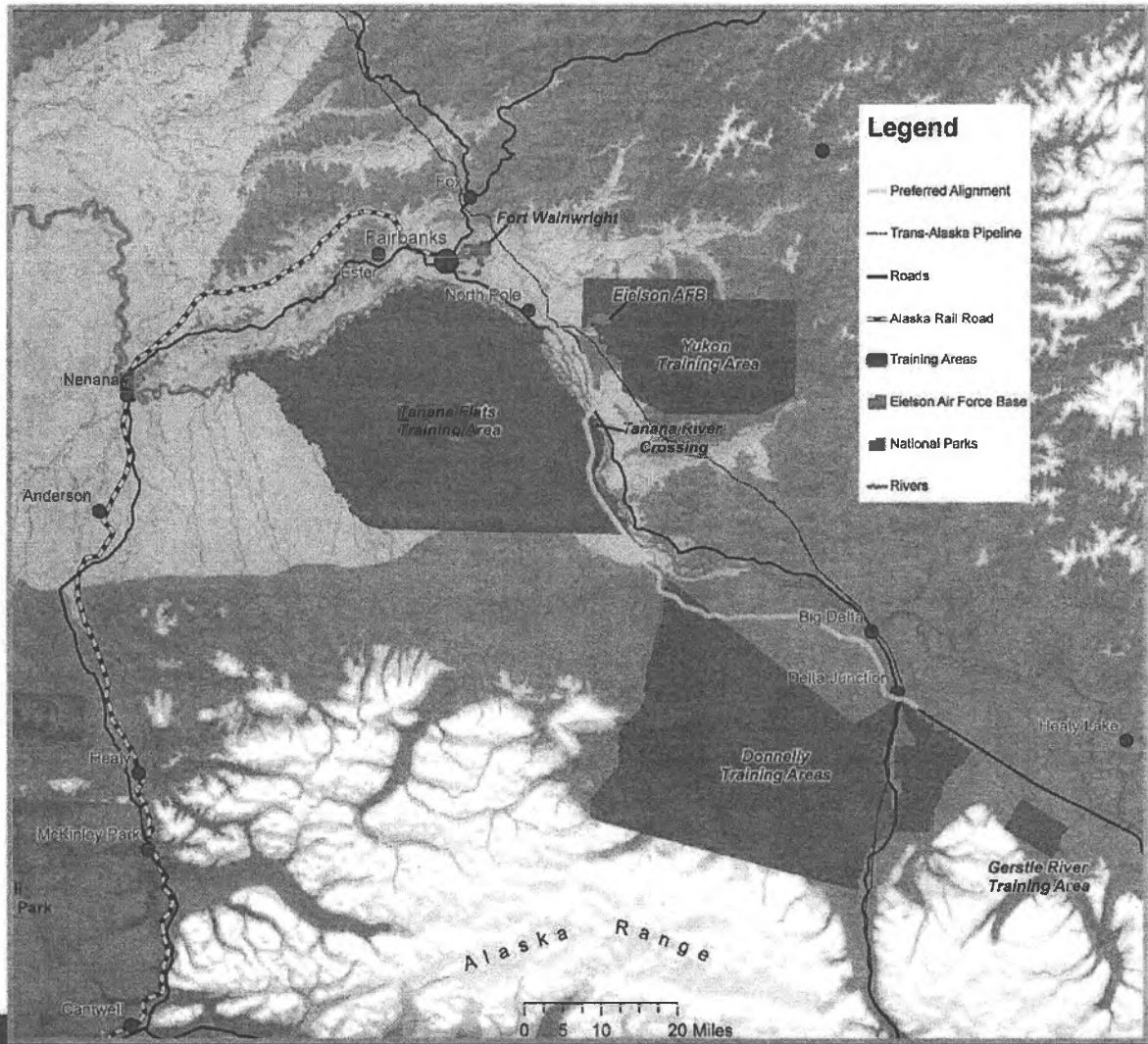
ARRC Project News



Capital projects to be started, continued or completed in 2011.

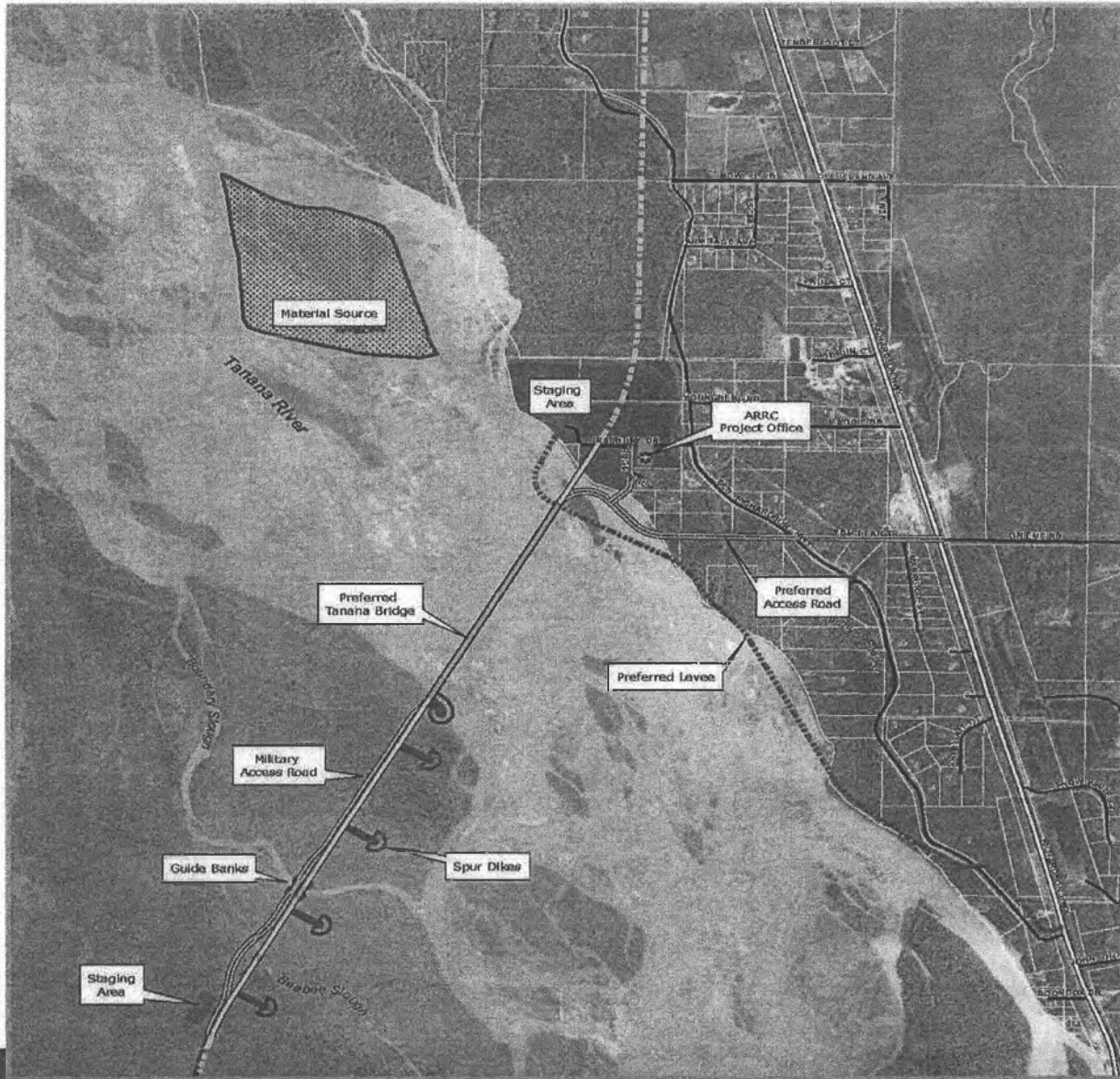


Northern Rail Extension (NRE)



- Construct an 80-mile rail line between North Pole and Delta Junction
- Surface Transportation Board (STB) completed EA in 2009 and approved license in early 2010.





- Project to be accomplished in 4 phases
- Phase One is the bridge crossing over the Tanana River near Salcha

*90% complete
Construction
management CMGC
General Contractor*



NRE Tanana Crossing Status

- Design 90% complete, CM/GC contractor on board
- Estimated Cost: +/- \$185 million
 - Costs have escalated for several reasons:
 - Final design greatly increased levee costs
 - Permitting required additional scope, such as side channel bridges, as well as additional engineering
 - River erosion changed the project construction scope

*large impact
culvert to
actual
bridges*

- Current Funding:

- 2008 DOD/FRA grant \$44.2 million, expires 2013
- 2009 DOD/FRA grant \$60.0 million, expires 2014
- \$40 million state funding FY 2011, expires in 2015
- Total \$144.2 million

*185
144
41 M funding
app*



NRE: Getting to Construction

- Find Additional Funding – shortfall estimated at \$20 - \$60 million depending upon bridge revisions
- Obtain the Permits:
 - Currently a struggle with EPA/USACE[?] *\$20-60M underfunded*
 - Timely issuance
- Federal Funding Agencies Approval:
 - Military: approve final plans
 - Federal Railroad Administration (FRA):
 - Final project plan as approved by military
 - Project financing plan
- Above steps required before ARRC Board can approve moving to construction



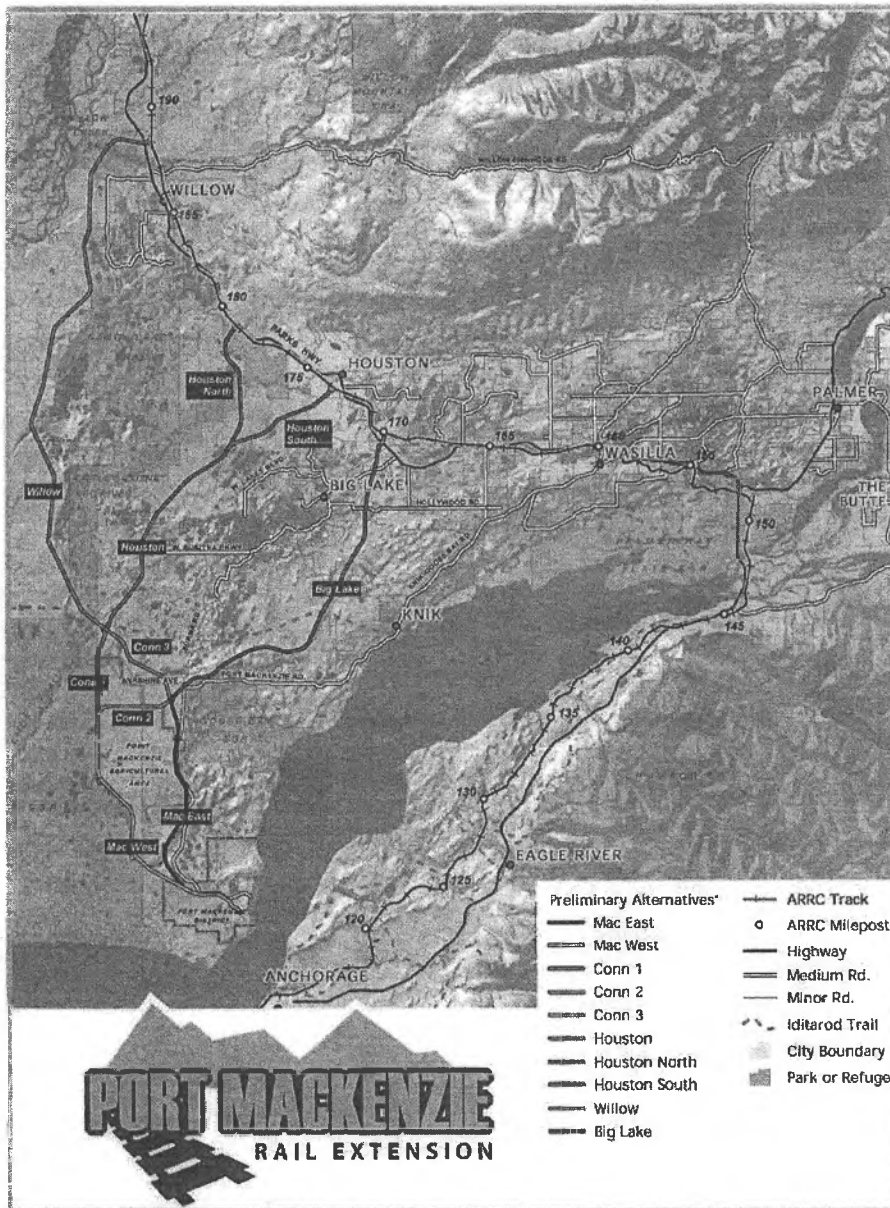
Tanana Crossing Timing

- Funding is needed by early summer 2011
 - Federal funds are expiring
 - The Tanana River is moving, increasing costs
 - General cost escalation as economy recovers
 - ARRC Board of Directors will need to make a “go/no go” decision at its May meeting



Port MacKenzie Rail Extension

- Construct a 30- to 45-mile rail line to connect the port to the main line
- As port owner, Mat-Su Borough (MSB) is project “sponsor”
- As an operating railroad, ARRC is the project “applicant”
- Surface Transportation Board (STB) is federal agency responsible for U.S. rail extensions



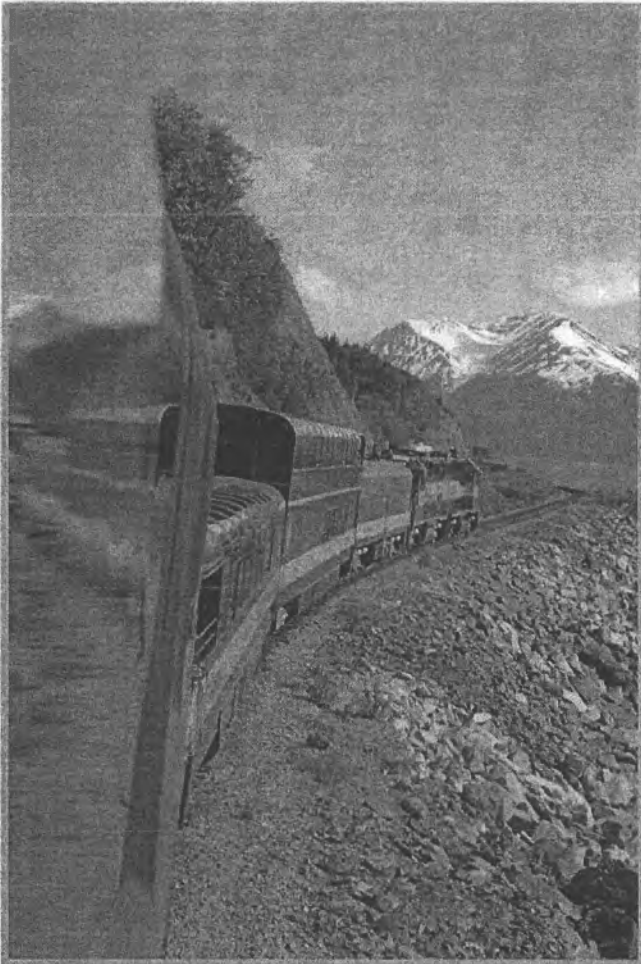
Port MacKenzie Rail Extension

Position: ARRC supports the rail extension to Port MacKenzie in its role as a tool for statewide economic development

- ARRC is a contractor to MSB providing project management and technical advice to the project
- STB is conducting the Environmental Impact Study (EIS)
- Draft EIS released for public review in spring 2010
- Final route selection will be identified in Final EIS, expected by spring 2011
- Project ready to begin ROW acquisition and construction
- State Legislature appropriated \$27.5 million (2007/2008) to fund an EIS, and \$37 million (2010) to begin design and construction

STB picks the route *\$20M for this year*





ARRC Statewide Issues



North Pole Refinery

Position: ARRC believes the continued existence of the North Pole Refinery (NPR) is a critical component to the State's energy picture and is a mainstay of ARRC's revenue stream.



- Flint Hills Resources represents the railroad's single most important customer from a revenue and profitability standpoint
- NPR business model is under serious scrutiny by ownership
- ARRC continues to urge the State to do what it can to support this important aspect of the state's economy
- The viability of the Alaska Railroad and numerous other Alaska stakeholders is tied to the refinery's success or failure

Executive Budget Act

Position: ARRC does not support legislation subjecting ARRC to the requirements of the Executive Budget Act

- ARRC loses flexibility to operate in dynamic, market driven business environment
- ARRC's obligations under current contracts and long-term agreements, including bond covenants, may be compromised
- ARRC operates on a calendar year as do most businesses; state fiscal year splits ARRC's business cycle
- State could assume all liability for ARRC operations as a result of taking over financial and legal obligations of ARRC
- Federal legislation, Alaska Railroad Transfer Act, may be violated as it requires that ARRC retain control of its funds and budget



Sale of ARRC Lands (2010 HB 357)

Status: ARRC's Board of Directors are developing a Board Rule to guide decisions regarding land sales in compliance with HB 357 (passed in 2010). The draft Board Rule is currently available for review and is on the agenda for the Feb. 16, 2011 ARRC Board meeting.

- A significant portion of Railroad lands are right-of-way, terminal areas, port properties, communication sites, material sites and other properties that are essential to current and/or anticipated rail operations and are not available for sale.
- The Railroad owns valuable "non-operating" lands that are available for long term lease to predominantly commercial and industrial tenants.
- Real Estate revenue has historically represented the majority of ARRC's net income, enabling ARRC to operate as self-sustaining entity without state operating subsidies.
- The Railroad owns certain "non-operating" lands that may not be necessary for railroad purposes and which ARRC may consider selling.
- The Legislature retains the right to approve land swaps or sale of land to another party



Seward Coal Loading Facility

Position: ARRC believes the Seward Coal Loading Facility is an important economic facility to the State and will continue to operate and invest in it to achieve economic benefits while complying with applicable environmental standards and meeting community needs

- The facility has been operating since 1984 as a public/private facility
- ARRC purchased the facility with federal funds in 2003
- ARRC has spent \$1.34 million on safety, efficiency and environmental improvements since 2003, with additional expenditures planned for 2011
- ARRC continues to work with DEC and the community to mitigate dust by installing additional dust control equipment and instituting operating procedures such as shutting down operations if certain weather conditions are experienced, primarily high winds
- ARRC entered into a mutually-agreed Compliance Order with DEC and recently completed three Supplemental Environmental Projects (SEP's) designed to further reduce dust emissions
- ARRC is vigorously defending a Clear Water Act lawsuit involving the facility brought by environmental groups



Vegetation Management

Position: ARRC must have an effective vegetation management and control program — to include the use of herbicides — in order to operate safely

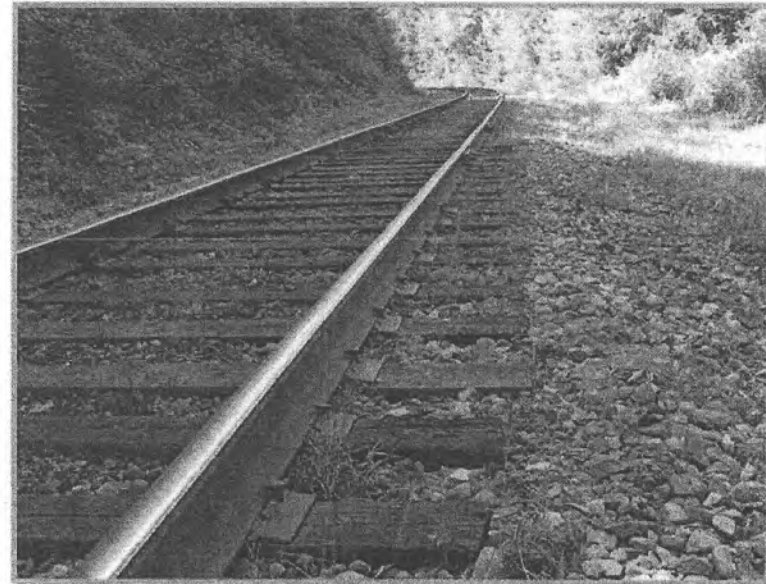
- Railroad industry regulator FRA requires adequate vegetation control
- ARRC is gaining ground, federal safety inspection violations were down in 2010
- Herbicides are a necessary part of the vegetation control program:
 - ADEC approved herbicide permit for Seward-to-Indian in 2010
 - ARRC will apply for ADEC herbicide permits in 2011 to include:
 - Anchorage rail yard
 - Fairbanks and Healy areas
- Non-herbicide methods will continue to be the primary means of control



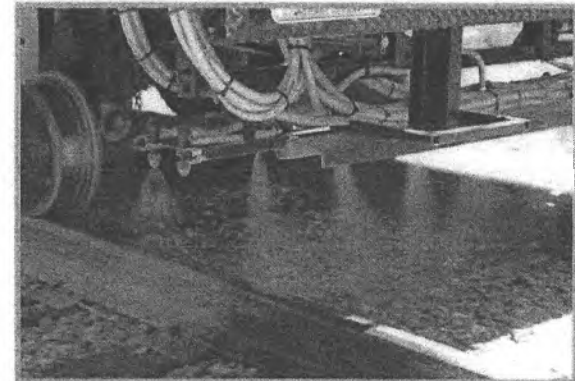
Vegetation Management



Manual vegetation control (weed trimming/mowing) In the Seward Yard is not adequate or lasting.



Controlled spray application (right) of water-approved AquaMaster herbicide provides effective and lasting control along stretch between Seward and Indian in 2010 (above right)



W-i-s-e

TENANT



Real Estate

CUSTOMER RELATIONS



a Special Supplement to *Tenant Ties* for ARRC Real Estate Customers

Customer Relations Focus 1

Starting with Communication Improvements

This special supplement to the *Tenant Ties* newsletter takes a look at Alaska Railroad (ARRC) real estate customer relations, and actions ARRC is taking to improve. These efforts are part of a new cross-departmental focus on customer service that ARRC President/CEO Chris Aadnesen is pursuing in 2011.

The Alaska Railroad began an earnest evaluation of its relations with real estate customers about five years ago. At the time, several railroad lease tenants had established the Alaska Railroad Leaseholders Association (ARRLA) and in early spring 2006, ARRLA presented ARRC with a list of goals that indicated some dissatisfaction with customer relations. Among the goals ARRLA members sought were better two-way communication, cooperation on revising lease policies and processes, and a more formal opportunity to provide input into lease changes. In response, ARRC began with several actions to improve communication:

- **Newsletter:** ARRC established a newsletter for leaseholders and long-term permit holders. The first issue of *Tenant Ties* was published in fall 2006. Six editions have been produced since then. The newsletter offers a heads up on a variety of timely real estate issues, plans and developments.
- **Working Groups and Committees:** Leaseholders are active participants on groups established to address key interest areas. A Lease Policy Working Group was established, which included Real Estate Department staff, real

estate experts, and leaseholders from north and south ends of the railroad. The group met and discussed a list of lease-related issues and action items. The Railroad Right-of-Way Committee was established to include ARRC Board members, a community development expert and a railroad leaseholder. The committee has met several times since, focusing on issues impacting residents and businesses that use or border the track ROW.

- **Tenant meetings:** ARRC established annual tenant meetings to provide an in-person forum for real estate customers to voice concerns and suggestions. The first meetings were held in Fairbanks and Anchorage in September 2010.
- **Email Communication:** Real Estate staff collected email addresses for key personnel within leaseholder companies. The group email offers an efficient way to contact customers with time-sensitive information, event notices and other communications. Emailing was first used to notify tenants of the tenant meetings in September. Since then, it has been used to invite participation in customer events and to encourage input on legislative issues.

Like ARRLA, the Alaska Railroad seeks improved customer relations as an ongoing process. We will continue efforts to expand communication and dialogue with our lease customers; to work together on issues of mutual interest; and to perfect our approach and attitude toward customer service. *Please read on!*



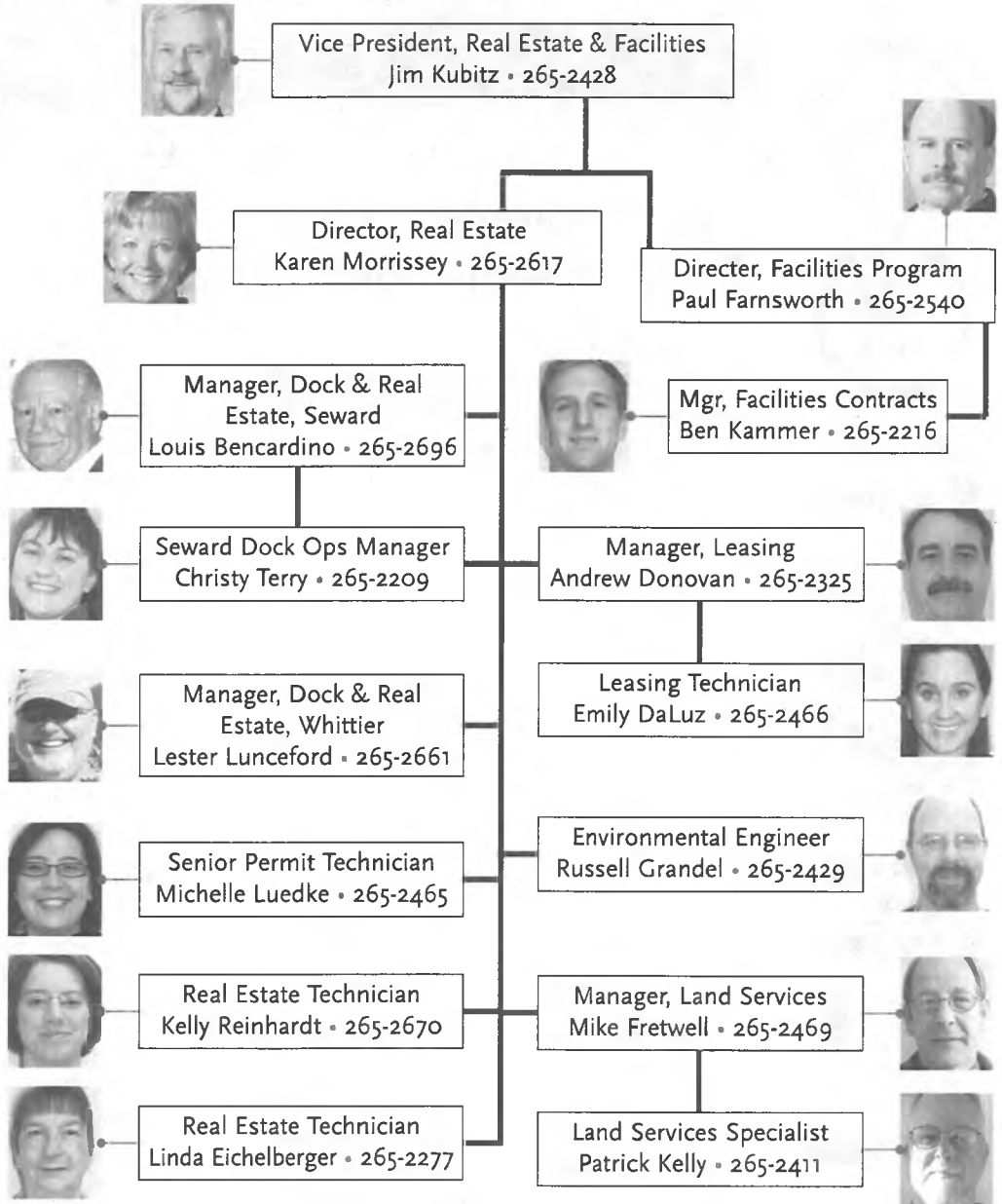
Communicating Do we have your current contact info?

Please keep the Alaska Railroad (ARRC) abreast of any changes in contact information for you, your colleagues and your company. The ARRC Real Estate & Facilities Department strives to keep the real estate customer mailing and emailing lists as accurate as possible, by making changes as needed throughout the year. If your company address has changed, or if key personnel have changed, please let us know and we'll update our records accordingly.

ARRC recently completed a real estate customer emailing list to include the addresses of key personnel for each of our leaseholder business customers. If you would like additional people in your company to receive email notices and correspondence, or if you would like to make a correction to an email address that is in error, please don't hesitate to contact us with your edits.

Our ability to effectively communicate with you is only as good as the information we have to contact you. Please call either Kelly Reinhardt at 265-2670 or Emily DaLuz at 265-2466 with any contact changes. They may also be reached via email, at ReinhardtK@akrr.com or DaluzE@akrr.com, respectively.

Who's Who in Alaska Railroad Real Estate? Organizational Chart and Phone #'s



Alaska Railroad Real Estate Department

Mailing Address: P.O. Box 107500 • Anchorage, Alaska 99510-7500

Physical Address: 327 West Ship Creek Avenue • Anchorage, Alaska 99501

(907) 265-2670 • Fax (907) 265-2450 • www.AlaskaRailroad.com



Customer Relations Focus 2

Issues of Mutual Interest: Foster Dialogue and Cooperation

ARRC and ARRLA have identified key issues for cooperative consideration. Many have been — and are — addressed by the Alaska Railroad's Board of Directors Real Estate Committee, which meets regularly to discuss leasing, permitting and other land-related items. Real Estate staff and Board Committee discussion and recommendations have fostered cooperative resolution on several issues:

Issues addressed to date

- **Mitigate tenant capital investment risks** associated with early lease termination and the condition to remove capital improvements at the end of a lease. Wholesale modification to all leases would not encourage capital investment in all cases. The ARRC Board will consider lease modifications on a case-by-case basis. Tenants may submit written proposals that support and encourage investment.
- **Mitigate 5-year appraisal gap/cost** that occur with often substantial jumps in land value over a 5-year period. In May 2010, the ARRC Board approved a modification to benefit tenants. Previously adjusted rents were only subject to a 35% maximum increase, but no allowance for land value decreases. The revision provides for a 35% maximum decrease in land value. In addition, public notice required for new or renewing leases switched to an electronic format, eliminating a \$300 fee charged to cover newspaper notice costs.
- **Involve leaseholders in choosing land appraisers.** As a state-owned

entity, ARRC must follow state procurement rules, which require three quotes for contracted services under \$100,000. Appraisers must also meet professional criteria. ARRC mails a scope of work to a list of qualified appraisers before awarding regional appraisal work. Leaseholders are welcome and encouraged to provide contact information for preferred appraisers. If these appraisers meet minimum qualifications, they will be given the opportunity to bid on railroad appraisal work.

Issues under consideration or in progress

- **Local government taxation.** In 2005, the Municipality of Anchorage (MOA) began taxing land leased from tax-exempt entities. Because this change increased the property tax burden for many railroad leaseholders, ARRC engaged in several discussions with the MOA and State Assessor on behalf of leaseholder interests, yet they would not reverse their decision.
- **Modify / Update lease forms and processes to benefit leaseholders.** The Real Estate Department is currently surveying the ground lease market to determine if ARRC lease forms are commercially unusual or unreasonable. This research is still in the works and will take several months to obtain sufficient information to determine if forms and process amendments are warranted. If so, the Real Estate staff will seek leaseholder and stakeholder input on proposed recommendations

before requesting ARRC board consideration and approval.

- **Extend lease terms by requesting legislative approval of a 95-year lease.** Railroad management and several board members have discussed a 95-year lease in select areas, where the commitment of long-term and substantial investment is likely.
- **Modify utility permit requirements to encourage public notice** and involvement for potentially disruptive utility activities. ARRC is considering a request to add language to longer-term permits that would require public notice when infrastructure improvements could disrupt neighboring properties.
- **Consider the sale of leased land.** HB 357 — Railroad Land Sale — was signed into law June 2010, and became effective in mid-September. The new law fine-tunes the process for potential land sales by requiring certain criteria. The sale of land remains subject to approval by the Alaska Railroad Board and the Alaska State Legislature. The Board of Directors recently drafted a policy that clarifies provisions of the law and establishes a process for consideration and criteria for railroad board approval. In December 2010, the draft policy was sent to all leaseholders, lawmakers and other stakeholders for input. ♦♦♦♦

The Board Real Estate Committee and ARRC Real Estate staff will continue to monitor and facilitate progress on these and other issues.



Background Documents

This status report on real estate customer relations refers to several documents that are available for customer, lawmaker and stakeholder review by contacting the Alaska Railroad Real Estate & Facilities Department at (907) 265-2670. A packet of this detailed background documentation includes:

- History of topics covered at Alaska Railroad Board of Directors Real Estate Committee, February 2005 to present
- Municipality of Anchorage (MOA) Property Assessor letter of response to the Alaska Railroad, dated October 4, 2004
- ARRC correspondence to Anchorage-based leaseholders regarding MOA revised property tax methodology for 2005, dated March 1, 2005
- ARRLA cover letter and ARRLA Goals sent to the Alaska Railroad, dated March 10, 2006
- ARRC correspondence to leaseholders regarding Board-approved amendments to the ARRC long-term lease policy, dated June 10, 2010
- History of *Tenant Ties* newsletter topics. Editions of *Tenant Ties* are available online in PDF format from AlaskaRailroad.com (On the left of the Corporate home page, click on MEDIA. Then on the right side of the Media page, click on Newsletters)
- Minutes of the Inaugural Annual Tenant Meetings, dated September 15, 2010 (Fairbanks meeting) and September 21, 2010 (Anchorage).

Customer Relations Focus 3 Customer Service Improvements

While ARRC has made some progress on improving communication and cooperative work on key issues, we realize that our overall real estate customer service needs some improvement as well. Real estate is very important to fulfilling our mandate to be self-sufficient, operating without state support or subsidy. Real estate leasing revenues provide 15% of customer-generated revenues. This is a steady, reliable source of funds with which to invest in capital projects that don't qualify for federal funding, to fund employee retirement and medical trusts, and to provide a buffer for lean years when train operations revenue does not cover expense. We value our lease and permit customers for their business, and we want to provide a high level of service that demonstrates our appreciation. This attitude underscores ARRC President/CEO Chris Aadnesen's pursuit of improved customer service among all railroad departments in the year ahead.

Recent Customer Service improvements

1. **Lease processing.** A leasing technician position was reinstated (cost-cutting measures had eliminated this and 100+ other positions in October 2009) and a new technician was hired in August 2010. The addition is improving lease processing timeliness.
2. **Lease tracking.** Complex leases often require input from several more railroad departments, including legal, accounting, environmental and engineering. In January, 2011, Real Estate staff enhanced the system for coordinating and tracking the progress of leases through the organization. This will minimize errors and improve efficiency.

Customer Service Improvement Plan

In January 2011, the Real Estate Department completed a formal plan for improving customer service. Key components include:

1. **Staff Job Performance:** Modify Real Estate Department staff annual performance appraisals to focus more on customer service. This includes reviewing employee performance with regard to customer service, time management and record-keeping factors. *(Implemented January 2011)*
2. **Staff Training:** Key Real Estate Department staff are required to complete advanced customer service training that develops skills to enhance relations with leaseholders and internal departments that provide lease services (real estate, accounts receivable, marketing, environmental, legal, capital projects and facilities). Training will incorporate a means for measuring customer service performance. *(To be completed by April 2011)*
3. **Customer Complaints:** Real Estate is developing a Customer Complaint Program that responds to complaints with an initial investigation, fosters mutually-acceptable resolution, and prevents reoccurrence of situations contributing to a complaint. *(To be developed by February 2011)*
4. **Staff Meetings:** Real Estate staff will meet every other week to improve intra-department communication and monitor customer service progress. Regular meetings will review department tasks, complaints received, complaint resolution, status of leases in progress, and customer service issues. Significant customer service opportunities and issues will be regularly reported to the President/CEO. *(Implemented January 2011)*
5. **Tenant Wise:** Use the recognized newsletter forum to inform customers of progress and plans to improve customer relations and service. *(Implemented January 2011)*