

**2/10/12
PRESENTATION BY
DEPARTMENT OF
TRANSPORTATION
AND PUBLIC
FACILITIES:
STATEWIDE
TRANSPORTATION
ECONOMIC
INDICATORS**

<TARGET><BILL></BILL><SUBJECT>2-10-12 PRESENTATION BY
DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES
STATEWIDE TRANSPORTATION ECONOMIC
INDICATORS</SUBJECT><COMM>SF27</COMM></TARGET>



Alaska Department of Transportation & Public Facilities

Aviation – Economic Engine for Alaska

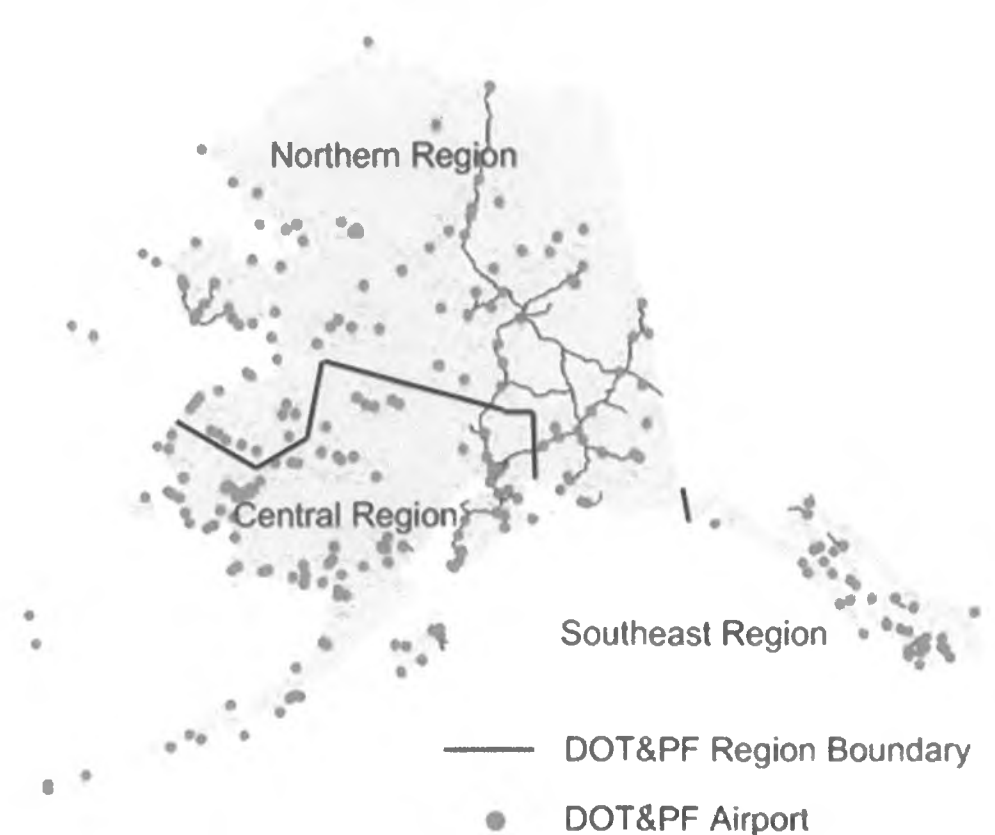
Steven Hatter
Deputy Commissioner--Aviation

February, 2012



Alaska's Airports & Aviation

- **Largest System in the US**
- **254 State-owned Airports**
- **Lifeline Transportation Mode for all citizens and regions**
- **Airports only means of year round access for 169 communities**
- **Alaska International Airport System (AIAS) is an economic engine for the state**

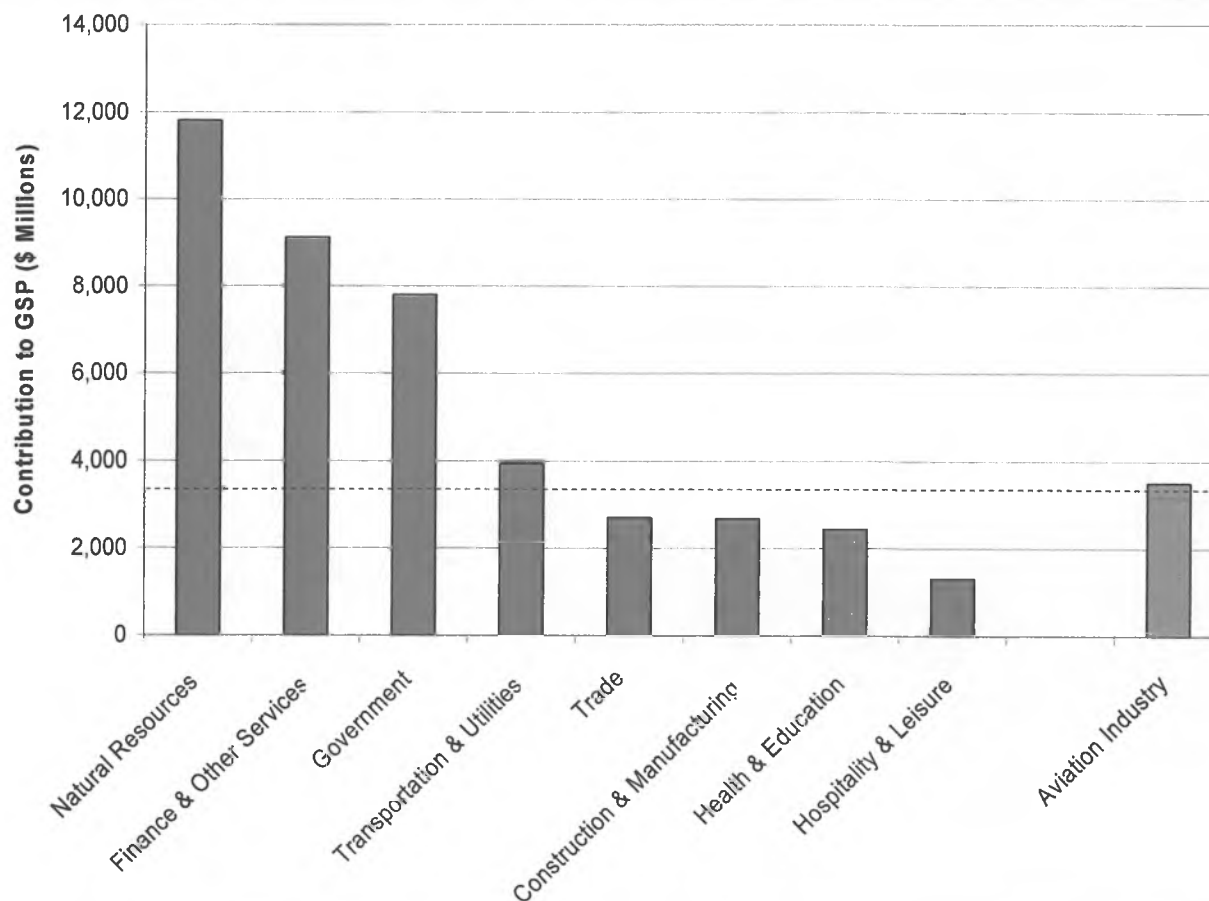


*Source: 2008 Statewide Aviation Study by Northern Economics



Aviation's Contribution to Alaska

- **47,000 aviation jobs statewide in both rural and urban areas**
- **5th largest contributor to Alaska's Gross State Product (GSP)**
- **Contributes \$3.5B to \$44B economy**





Alaska International Airport System Who We Are and How it Works



Two Airports – One System

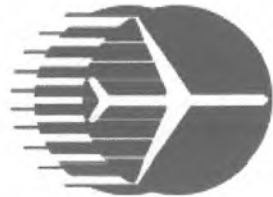


Ted Stevens Anchorage
International Airport

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**Alaska International
Airport System
(AIAS)**

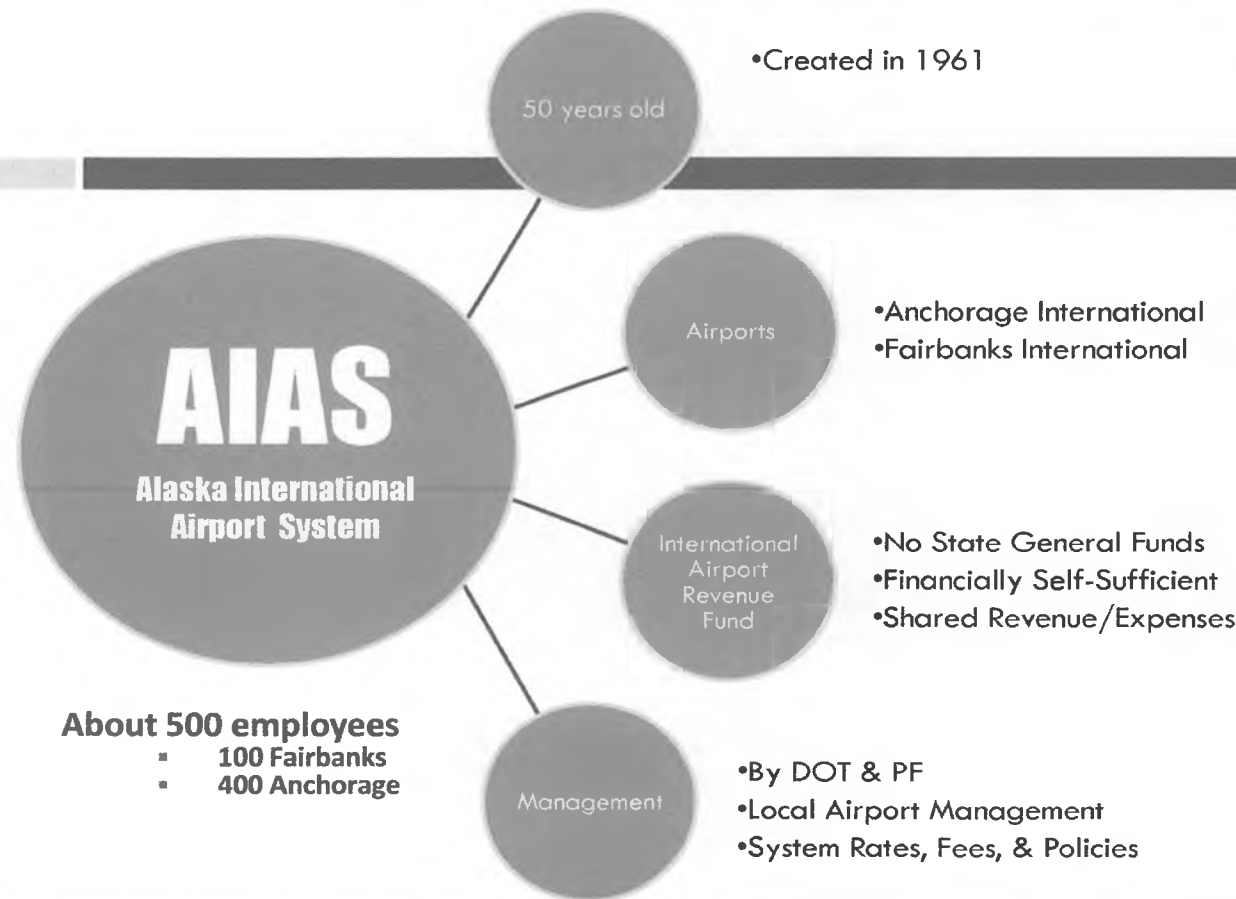


Fairbanks
International Airport

**Created Fifty Years ago by Ch88
SLA 1961 - (AS 37.15.410-550)**



Self-Sustaining



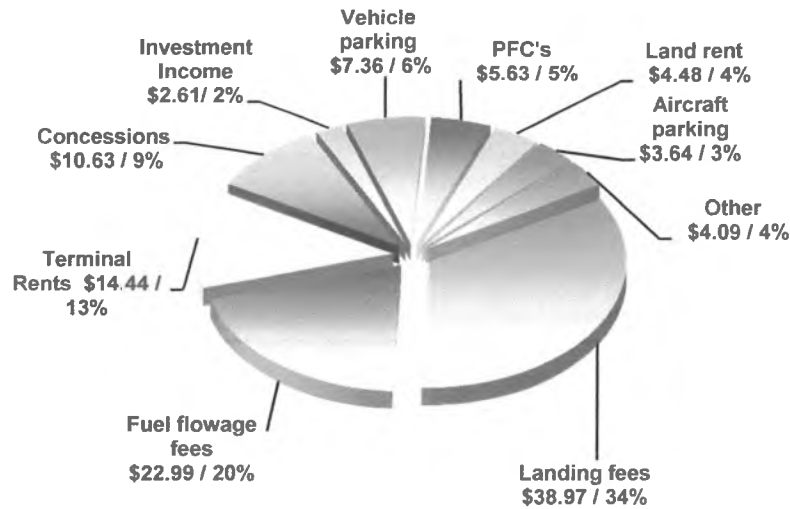
Alaska's largest
Enterprise Fund

Funded by user
fees rather than
State general
revenues



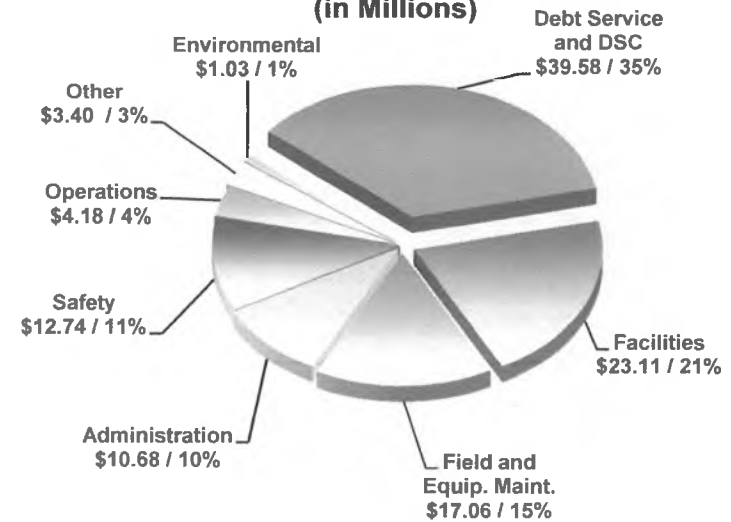
AIAS Revenues and Costs

**AIAS
FY2011 Revenue Sources
(in Millions)**



\$101M in Operating Revenues

**AIAS
FY 2011 Annual Operating Costs
(including Debt Service & Coverage)
(in Millions)**



Costs are covered by adjustments to rates and fees – self sustaining system



AIAS Assets

**Alaska International Airports System
Total Assets of Select Comparative State Funds
June 30, 2010
(in Billions)**

Alaska Permanent Fund	37.053
Pension and Other Employee Benefit Trust Funds	17.068
General Fund	16.933
Alaska Housing Finance Corp (AHFC)	4.797
<i>International Airport Fund</i>	<i>1.457</i>
University of Alaska	1.402
Alaska Industrial Development & Export Authority (AIDEA)	1.213
Alaska Railroad Corporation	0.861
Alaska Student Loan Corporation	0.818
Alaska Energy Fund	0.773
Alaska Municipal Bond Bank Authority	0.687

Source = FY10 State of Alaska Comprehensive Annual Financial Report (CAFR)



Operating Agreement with Carriers

- **Residual Cost Model**
- **Renew at “agreed to” term—last Operating Agreement term: 5 years**
- **Authority to Issue Revenue Bonds**



Economic Engine

Anchorage Int'l. Airport

- 15,577 Jobs – one in ten jobs in Anchorage
- About \$724 million in direct annual payroll
- Another \$303 million in annual payroll for jobs in the community
- #2 Airport in North America for landed cargo weight

*Source: 2011 McDowell Group Study

Fairbanks Int'l. Airport

- 1,900 Jobs - one in twenty jobs in Fairbanks attributable to the airport
- \$225 million in statewide economic output
- Ranked 85th in the nation in weight of total mail and freight (2010)

*Source: 2011 Alaska Aviation System Plan Study



Asia Centric Cargo Market

- **Over 99% of cargo through AIAS -- five Asian origins (China, Taiwan, Korea, Japan, Hong Kong)**
- **N. America - Asia cargo through AIAS expected to grow ~ 1-2%**
- **71% of all Asia-bound air cargo from U.S. goes through ANC**
- **82% of all U.S.-bound air cargo from Asia goes through ANC**
- **All Asia-North America carriers have flights through Anchorage**
- **Approximately 80% of AIAS carrier generated revenue is cargo**

*Source: 2011 McDowell Group Study



A Global Player

#2 in North America

#5 in the World

##	North American Cargo Rankings 2010	TOTAL CARGO (metric tonnes)
RANK	CITY (AIRPORT CODE)	
1	MEMPHIS TN (MEM)	3 916 811
2	ANCHORAGE AK (ANC)*	2 646 695
3	LOUISVILLE KY (SDF)	2 166 656
4	MIAMI FL (MIA)	1 835 797
5	LOS ANGELES CA (LAX)	1 747 629
6	CHICAGO IL (ORD)	1 376 552
7	NEW YORK NY (JFK)	1 344 126
8	INDIANAPOLIS IN (IND)	1 012 589
9	NEWARK NJ (EWR)	855 594
10	ATLANTA GA (ATL)	659 129

World Cargo Rankings 2010

Rank	City (Airport)	Total Cargo
1	Hong Kong, HK (HKG)	4,165,852.00
2	Memphis TN, US (MEM)	3,916,811.00
3	Shanghai, CN(PVG)	3,228,081.00
4	Incheon, KR(ICN)	2,684,499.00
5	Anchorage AK, US*(ANC)	2,646,695.00
6	Paris, FR(CDG)	2,399,067.00
7	Frankfurt, DE(FRA)	2,275,000.00
8	Dubai, AE(DXB)	2,270,498.00
9	Tokyo, JP(NRT)	2,167,853.00
10	Louisville KY, US(SDF)	2,166,656.00

Statistics provided by Airports Council International



Alaska International Airport System

The Alaska Advantage



Location and Two Airports

- 9.5 hours from 90% of Industrialized World
- Never a same day closure (except 9/11)

+/- 10 minutes diversion Trans-Pac





Payload Versus Range

Example:

SHA-ANC-OAK

Distance = 6157 NM

Payload = 110,000 KG

SHA-OAK

Distance = 6013 NM

Payload = 65,000 KG

At \$2.00/kg:

SHA-ANC-OAK = \$220,000

SHA-OAK = \$130,000

ANC Stop = +\$90,000





Large and Diverse Customer Base



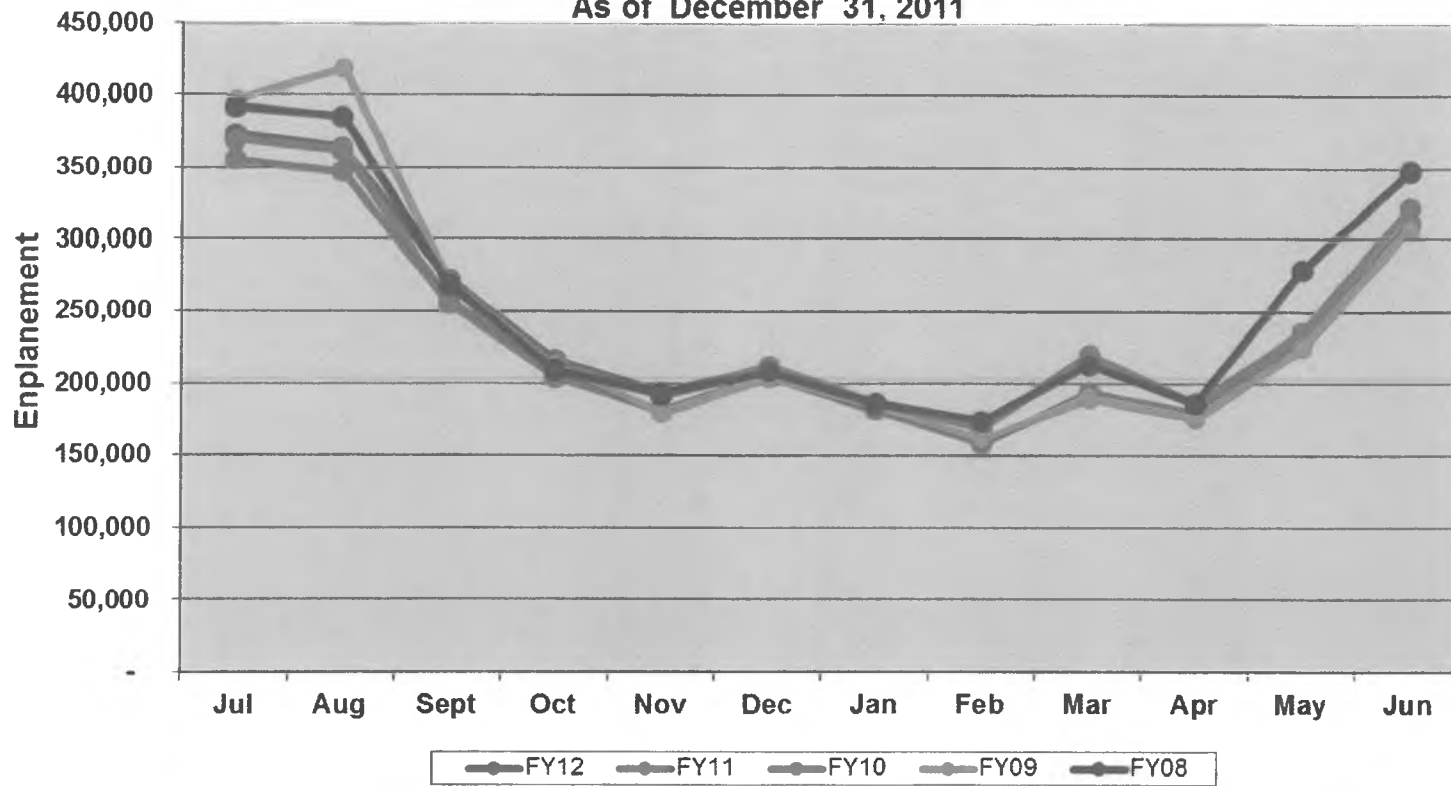


Alaska International Airport System By the Numbers



Passenger Activity: +1.3% Ytd FY12

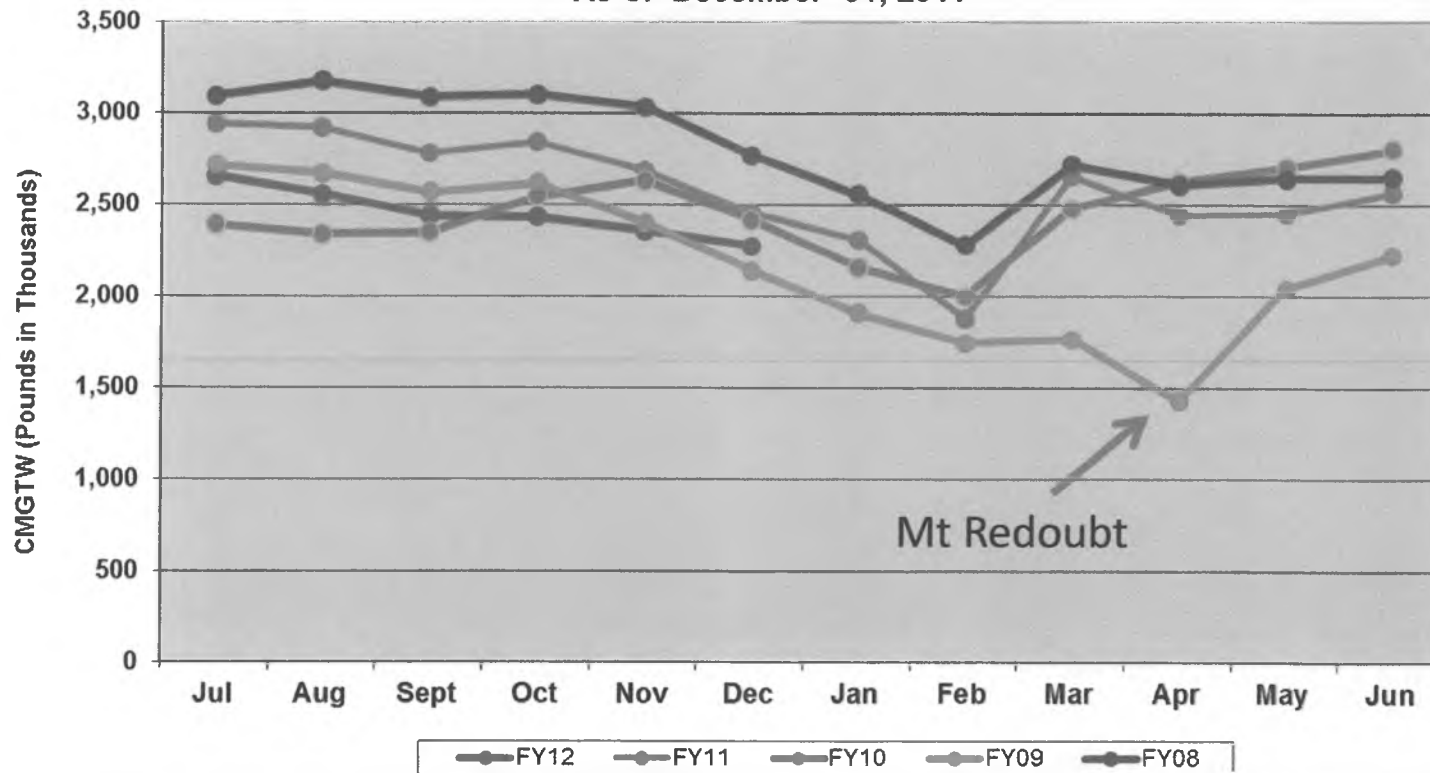
AIAS
 FY08 - FY12 YTD
 Monthly Enplanements
 As of December 31, 2011





Cargo Activity: -12% Ytd FY12

AIAS
 FY08 - FY12 YTD
 Monthly Reported Combined Cargo - Pax CMGTW
 As of December 31, 2011





What Causes Decreased Activity?

- **The global economy.....**
- **Other risk factors:**
 - **Fleet mix**
 - **Potential competitor airports**
 - **Perceptions that operating at/through AIAS doesn't "pencil"**
- **We aggressively and collaboratively manage those factors within our control, while also proactively marketing and myth busting**



Alaska International Airport System Close Watch Topics



Fuel Supply

- **Fuel market is entirely private**
- **2009 fuel shortage caused by swift and unexpected recovery in air cargo market**
- **Some carriers opted to overfly AIAS lacking confidence in fuel supply**
 - **Fuel price and supply a large part of airline routing decisions**
- **New suppliers entered the market**
- **Private industry is increasing storage**
- **Status today: low risk of a repeat of 2009**



Competitor Airports

- **Tough for competitors to overcome our location**
- **We have liberal cargo transfer options**
- **However.....Portland, Seattle, Vancouver, Prince George, other US West Coast airports have all visited Asia in efforts to recruit cargo business**
- **We are “right sizing” our response to competition—emphasize competitive advantage; retain and attract**



Alaska International Airport System Focus Areas



Preserving/Increasing Cargo Activity

- **Working cooperatively with airlines**
- **Held Alaska Cargo Summits in 2010, 2011**
- **Followed up with Asia trips**
 - **Build relational equity and market Alaska advantages**
- **Comprehensive AIAS Strategic Planning in 2011**
- **Implemented Cargo Incentive Program**



Collaborative Relationships

We're working closely with airline partners to get through recent traffic downturn. The following is AAAC's written response to AIAS's November 2011 rate increase:

"The State worked collaboratively with the AAAC Chairs...to determine the most prudent course to take."

"The State has been very collaborative in their approach...to address the needs of both the Airlines and the Airport." AAAC Co-Chairs



Passenger Activity

- **550,000 out-of-state and int'l visitors transited ANC; 85,000 through FAI in 2011**
- **Japan Airlines winter charters**
- **Jet Blue initiated ANC-Long Beach**
- **United announced new Fairbanks-Denver for 2012**
- **Working with Alaska "Coalitions of the Willing"**
- **Implemented Passenger Incentive Program**



Strategic Planning & Marketing

- **System planning/responses to previous management reviews**
 - **Strategic Plan (2011)**
 - **Business Plan (2012)**
 - **Human Resources Study (2011/12)**
 - **Marketing Plans / System Branding (Ongoing)**
- **Proactive communications**
 - **Work with CVB's and EDC's to strategize opportunities**
 - **Attend passenger and cargo conferences to promote AIAS**
 - **Pursue Asian carriers**



New Operating Agreement

- **Negotiate Operating Agreement with Signatory Airlines**
- **Existing OA expires June, 2013**
- **New Capital Improvement Program**
- **Review rates and fees model**
- **Review next OA term**



FY13 Aviation Capital Request

FAA Airport Improvement Program (AIP) Legislative Authority - Totals \$200.7 M

- AIAS = \$14.1M
- Central Region = \$75.1M
- Northern Region = \$63.1M
- Southeast Region = \$13.4M
- Statewide = \$35M

Non – Federal Funding

- AIAS Airport Revenue Funds = \$.8M
- AIAS Construction Bond Funds = \$16.8M
- GF Match for AIP Projects = \$11.7M
- GF Deferred Aviation Maintenance = \$3.5M
- GF for Umat Airport Survey & Planning = \$.25M

State – Federal Partnerships

- Statewide Digital Mapping Initiative = \$12.2M Fed / \$3.7M GF
- Alaska Aviation Safety Project / Flight Simulation Training = \$1.5M Fed / \$1M GF



Takeaways

- **Two Airports - One System**
- **Self-sustaining - no general funds**
- **Business-centric: rates and fees and self-supporting bonds**
- **Economic engine of regional, state, and global significance**
- **Critical aviation enabler in our nation's most aviation-centric state**
- **Working cooperatively with the airlines – they shoulder the financial risk - unilateral state action puts this relationship at risk**
- **Aggressive strategic planning to protect and enhance our system**
- **Great people doing great things for our state**

Keeping Alaska flying and thriving!

Integrity - Enterprising - Excellence - Respect



Thank you!

Questions?

Deputy Commissioner – Aviation
Steven D. Hatter



What is Strategic Planning and Why is it Important?

“Companies that enjoy enduring success have core values and core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world”

“Core ideology provides the glue that holds an organization together through time”

Core Ideology = Core Purpose + Core Values

Vision is built on Core Ideology

Vision = a “BHAG” + “We wills” + accountability methods

Strategic Agenda = Prioritized projects

Projects/Initiatives = The vehicles or mechanisms to go forward

Source: James C. Collins and Jerry Porras, Harvard Business Review Article, Building Your Company’s Vision

Senate Finance Committee Briefing

February 10, 2012



Briefing Contents

- Corporate Overview
- Financial Position
- Earnings/Operating Budget Outlook
- Capital Budget Outlook

Handouts

- December 2011 State Report
- Program of Projects Summary





ARRC Corporate Overview



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
- Seven-member Board of Directors appointed by Governor
- Full-service passenger and freight railroad serving ports and communities from the Gulf of Alaska to Fairbanks

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



Alaska Railroad Quick Facts

Operating Data

Miles of main line	467
Miles of branch line	54
Miles of yards and siding	135
Total miles of track	656
Freight cars (owned & leased)	1,254
Passenger cars	45
Locomotives	51

Employees (as of December 2011)

Year-round employees	685
Average years of service	12
Average age	46
Male	571
Female	114

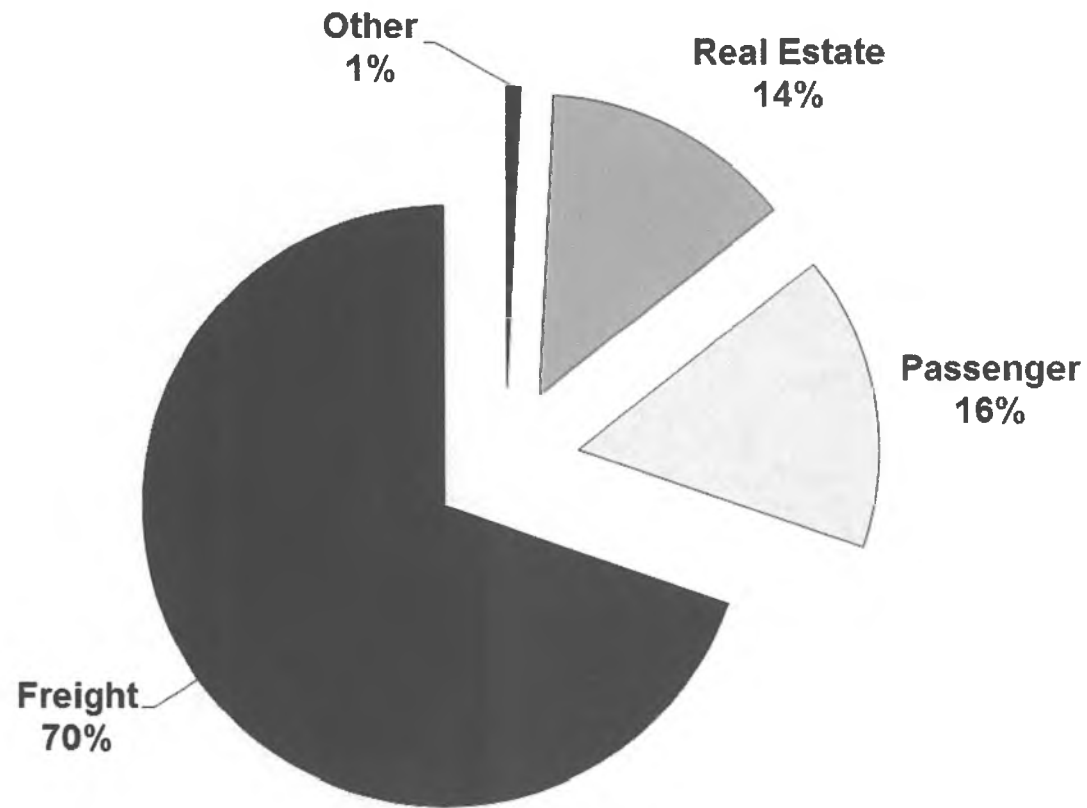
Unions

Most ARRC employees are members in 1 of 5 unions:

United Transportation Union	132
Transportation Communications Workers Union	39
International Brotherhood of Teamsters	61
American Federation of Govt. Employees	274
American Train Dispatchers Association	8



2011 Sources of Customer Revenue*



*Preliminary/unaudited



Freight Business

- Moved 6.2 million tons of freight overall in 2011, compared to 6.3 million tons in 2010 (1.6% decrease)
- 2012: Anticipate 8.5% overall freight growth over 2011
- Heavily reliant on three primary commodities



Oilfield pipe



Petroleum



Military



Coal



Logs



Gravel



Interstate Barge



Trailers

Passenger Business

- Moved 412,000 passengers in 2011, compared to 405,000 in 2010 (2% increase)
 - Includes both ARRC trains and cruise partner movements
- 2012: Anticipate 9.6% passenger growth over 2011
- Makes ARRC eligible for Federal Transit Administration formula funds



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
 - 2011: 62% of corporate net income derived from real estate (preliminary/unaudited)



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 used for projects and bond repayment
 - 9-20% ARRC Match Required
- Other Federal Agencies – (Dept. of Defense, FEMA, FHWA, FRA, 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; match derived solely from ARRC earnings



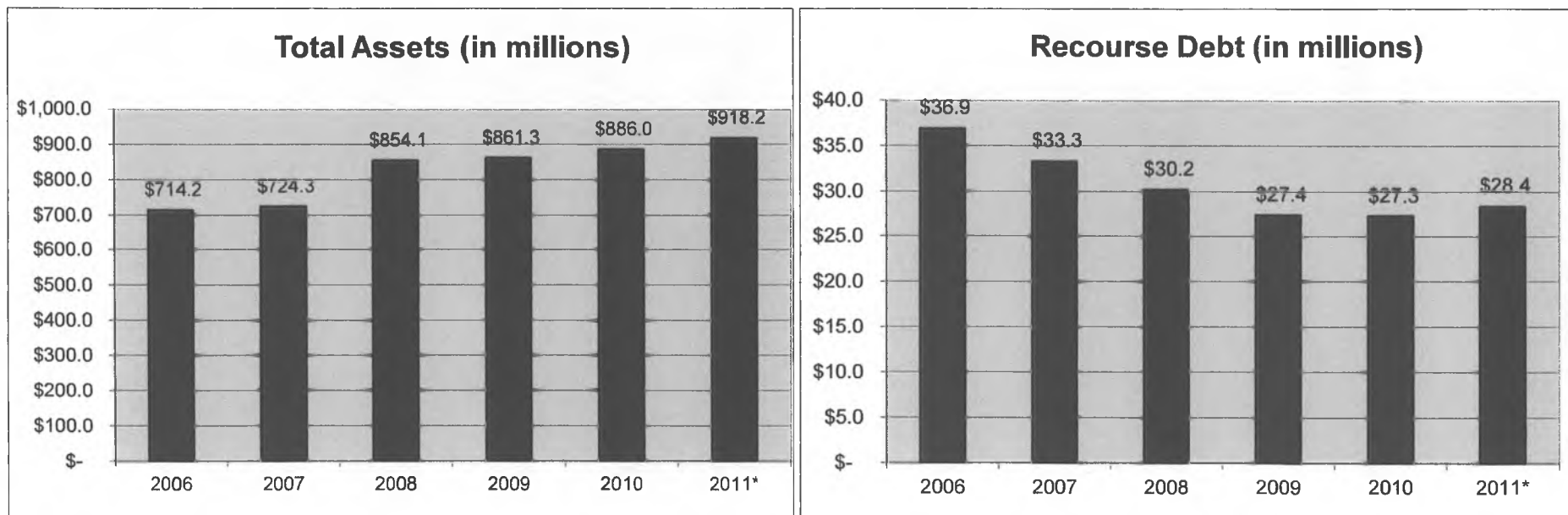


ARRC Financial Position



Balance Sheet Highlights

Assets/Debt



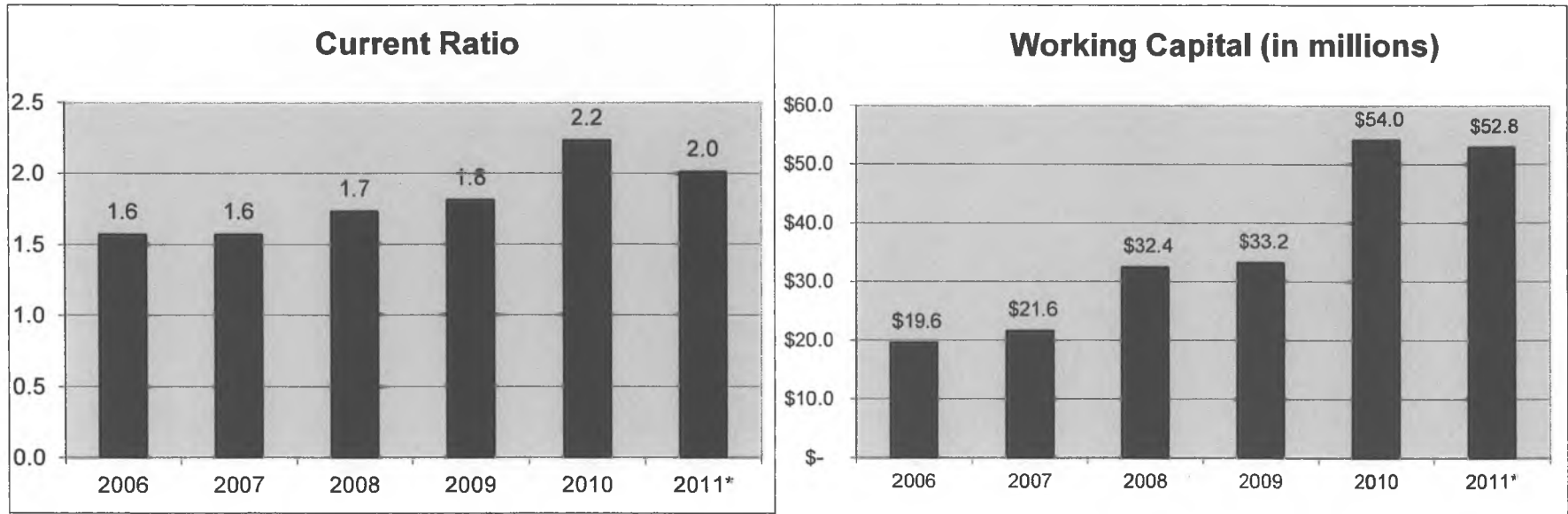
Conservative capital structure: At year-end 2011, ARRC's recourse debt is \$28.4 million, with a debt to capital ratio of 19%, reflecting relatively modest use of debt instruments.

*Preliminary/unaudited



Balance Sheet Highlights

Liquidity



Current ratio is calculated by dividing current assets by current liabilities. The ratio is a measurement of an entity's liquidity and ability to meet current obligations.

Working capital is calculated by subtracting current liabilities from current assets and is a complementary measurement of an entity's liquidity.

ARRC liquidity continues to remain adequate, despite difficult earnings environment.

*Preliminary/unaudited



Benefit Trust Funds

- ARRC is plan sponsor of two benefit trust funds
 - Defined Benefit (DB) pension fund: ~\$95 million assets
 - Retiree medical fund: ~\$35 million assets

- Both plans financially sound
 - DB pension: 96% funded as of 1/1/11
 - Retiree medical: 135% funded as of 1/1/11

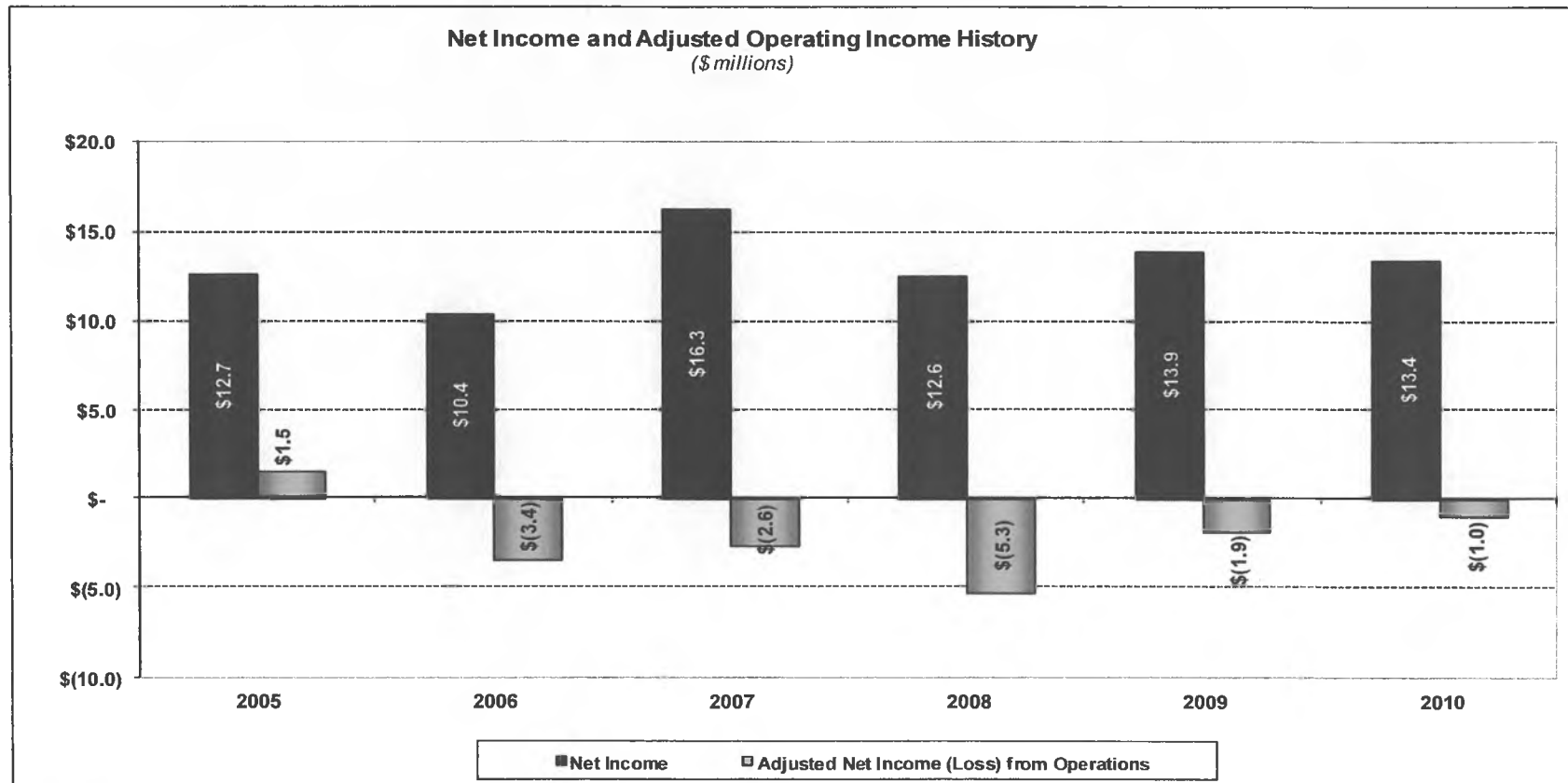




ARRC Earnings/ Operating Budget Outlook



Recent History



- Solid corporate earnings; core train operations run at loss
 - Real estate earnings key to stability and sustainability
 - Non-traditional fund sources important
 - Federal grant reimbursement of operating expenses
 - Section 45G tax credit
- 2009 – Position eliminations/layoffs, significant cost structure reduction
- 2010/2011 – Increased focus on operating efficiency



2011 Financial Snapshot

- 2011 Plan – guarded optimism about revenue recovery
- 2011 Actuals did not meet early expectations
 - Petroleum growth did not materialize, offset somewhat by coal, Trailer on Flat Car (TOFC) and Interline Barge hauls
 - Passenger revenue performed better than anticipated
 - Solid expense control partially offset rising fuel costs
 - Boost from tax credit legislation approved by Congress
- Still closing 2011's books – preliminary numbers expected mid-February
 - Corporate net earnings not anticipated to be markedly different than 2010
 - Positive earnings from train operations anticipated
 - Not seen since 2005
 - Audit to be completed March 2011



Freight & Passenger Revenues

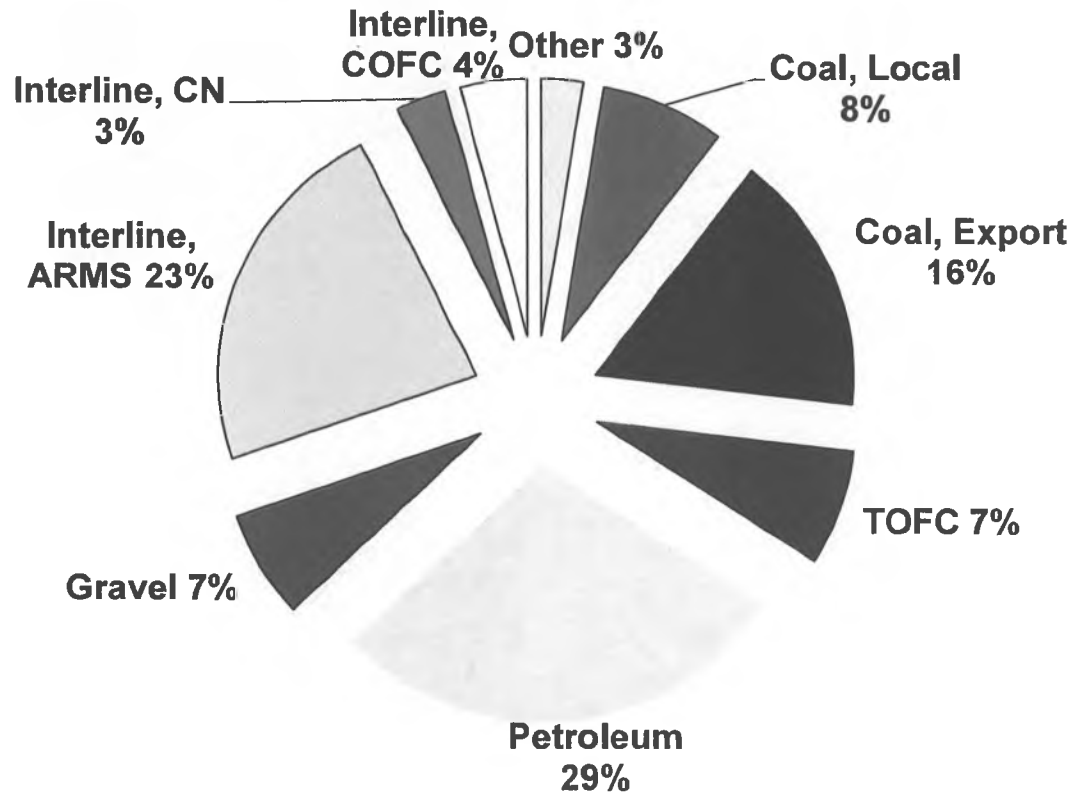
2010 – 2012 (Budget)

	2010 Actuals	2011 Actuals*	2012 Budget
Freight Revenue	\$ 87.0	\$ 98.1	\$105.5
Passenger Revenue	\$ 20.8	\$ 22.4	\$ 24.9
Total	\$107.8	\$120.5	\$130.4

*Preliminary/unaudited



2012 Sources of Freight Revenue*

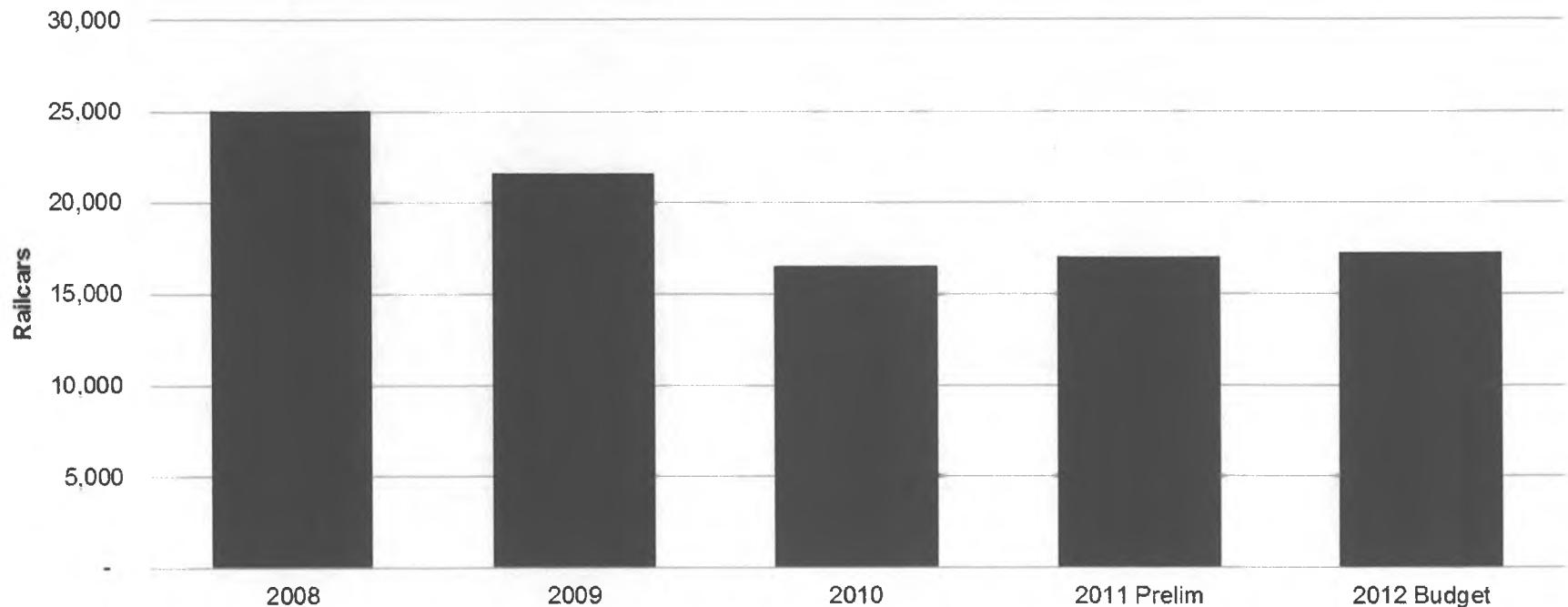


* Board Approved Budget



Freight Revenue – Petroleum

**Petroleum
2008 - 2012 Budget**

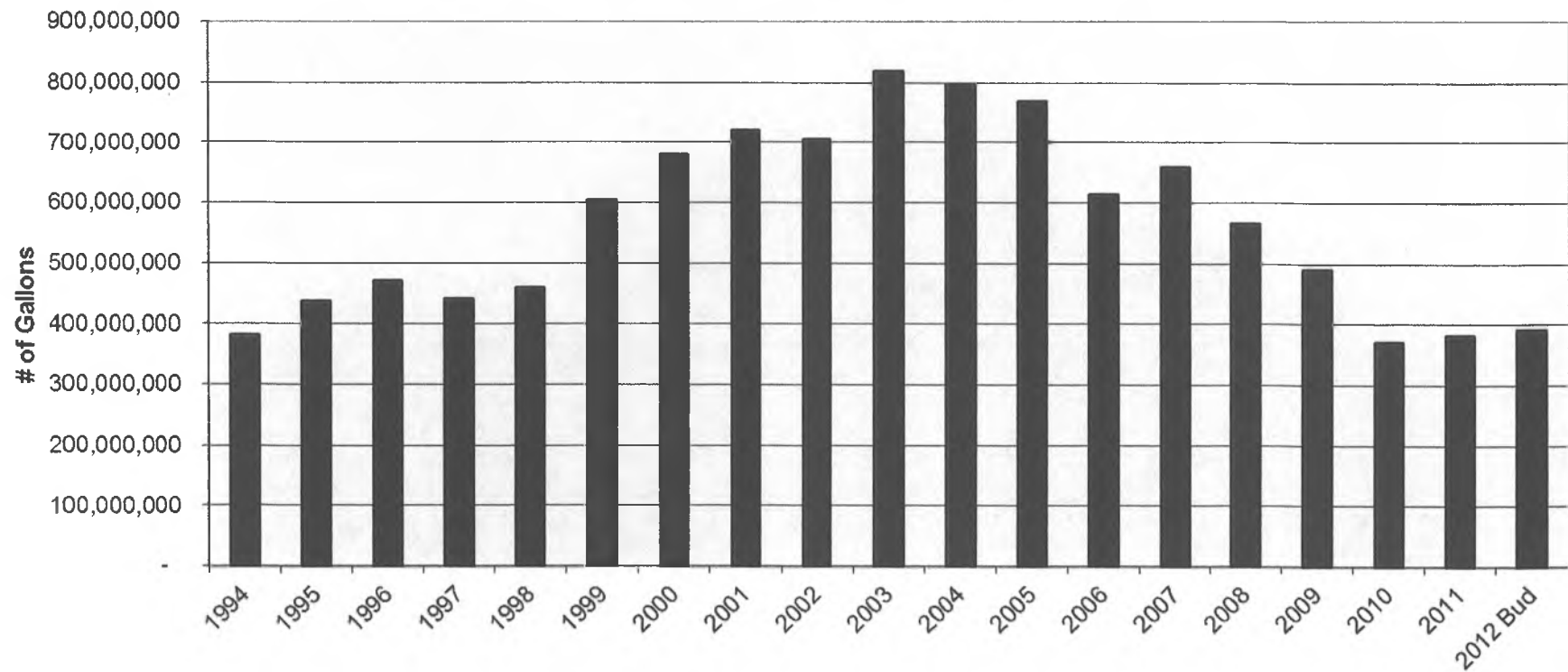


Petroleum: Flint Hills Resources petroleum products moved to and from the North Pole Refinery



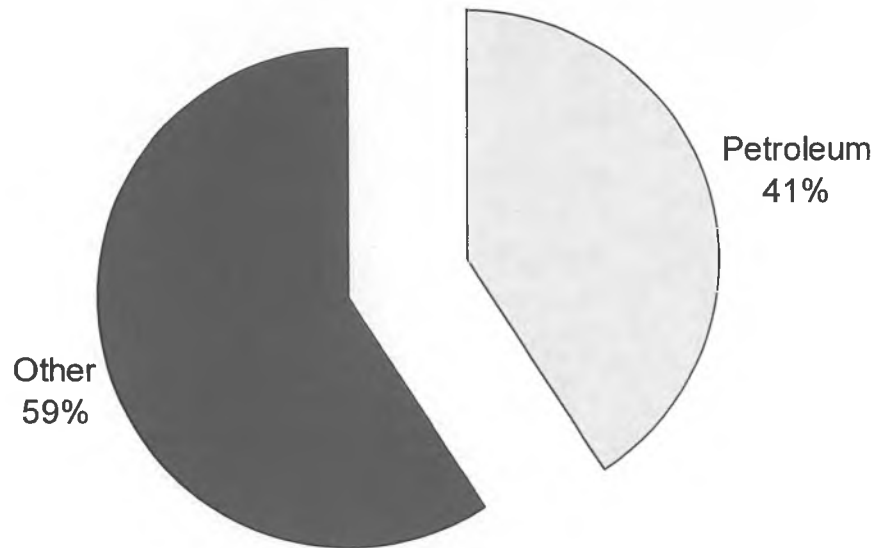
Petroleum Gallons Shipped 1994 – 2012 Budget

Gallons Shipped by
Mapco, Williams Petroleum and Flint Hills Resources
1994 - 2011 & 2012 Budget



Changing ARRC Dependence on Petroleum Haul

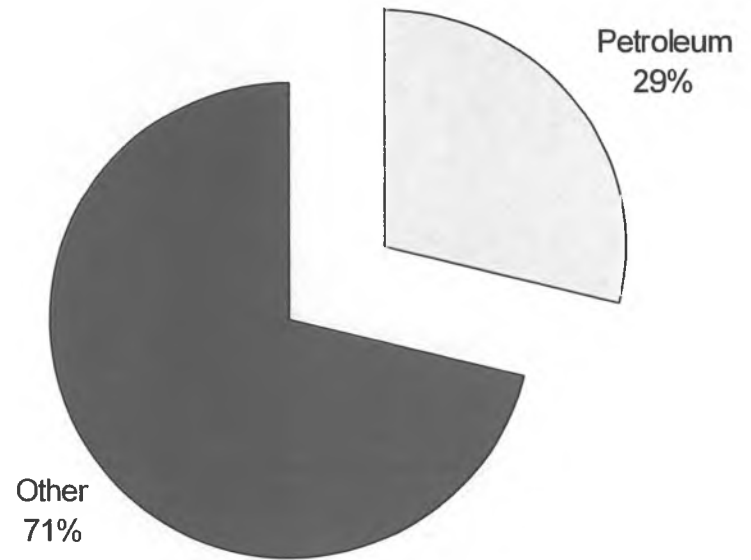
2008



\$98,900,000

Freight Revenue

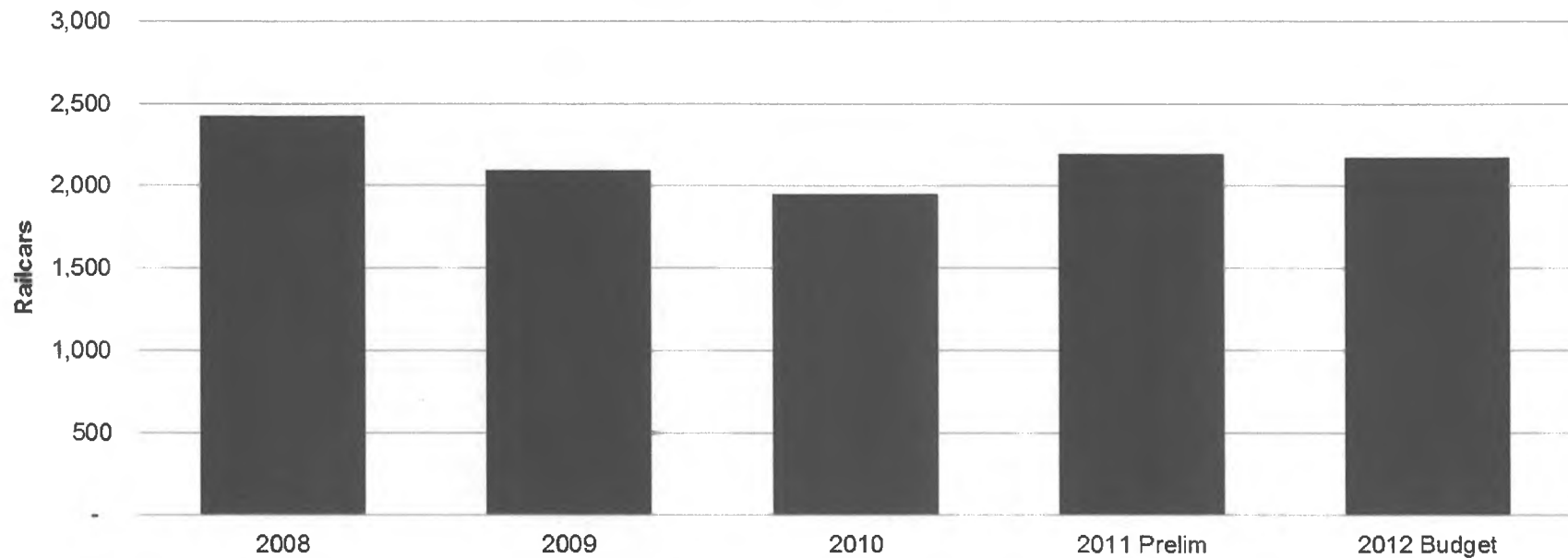
2012



\$105,500,000

Freight Revenue – ARMS Barge

ARMS Barge
2008 - 2012 Budget

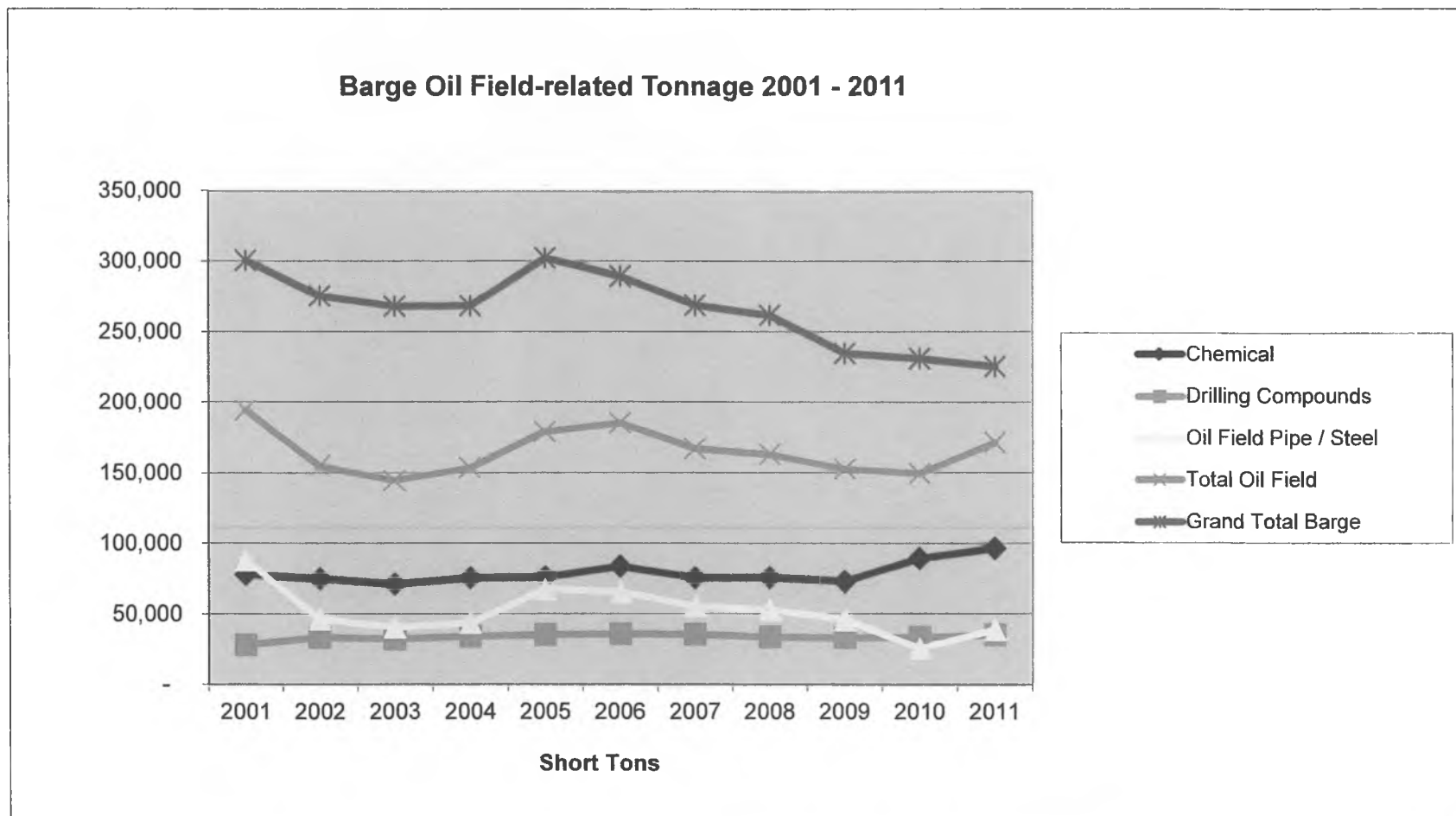


ARMS Barge: Railcar shipments to and from Alaska via the Seattle Gateway

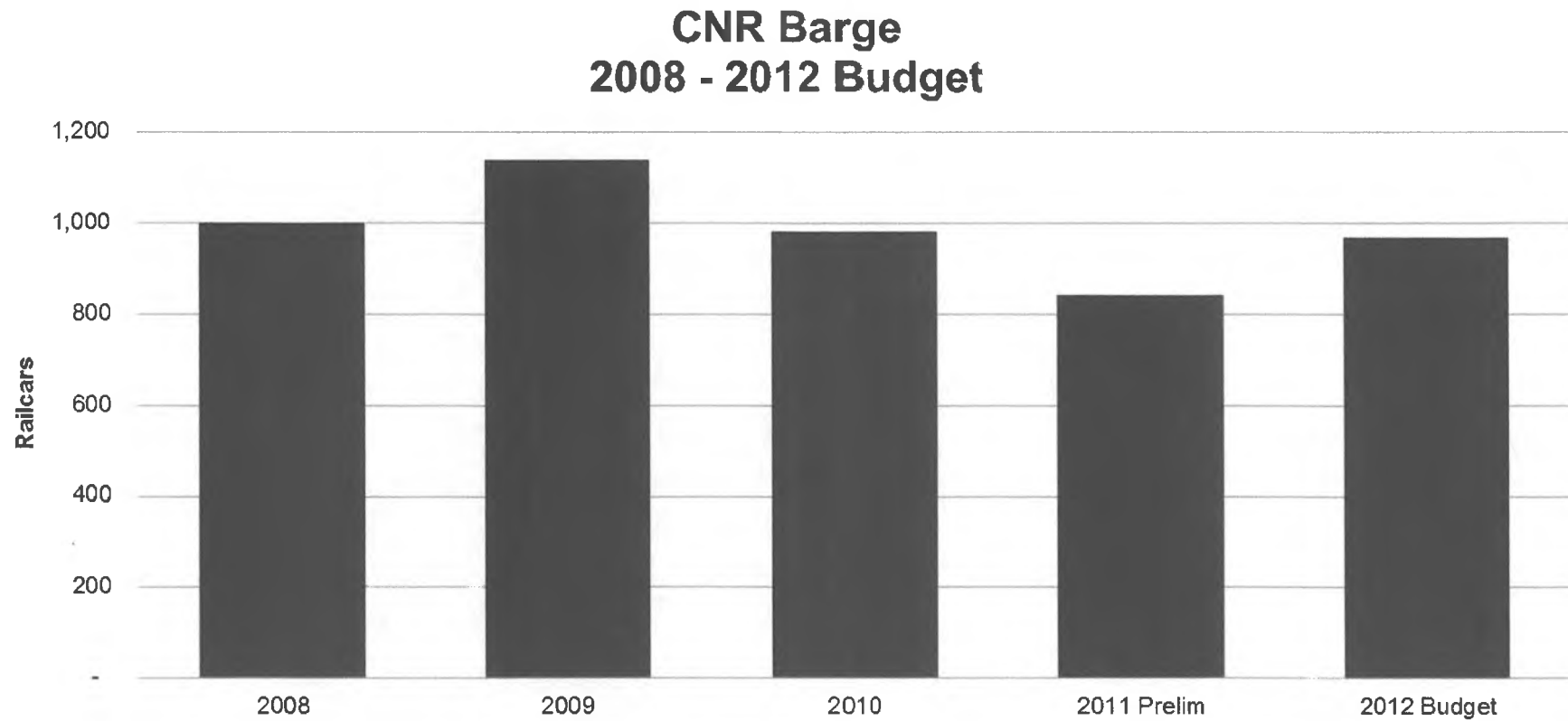
➤ *Revenue depends heavily on oil and gas activity on the North Slope*



Barge Oil Field-related Tonnage 2001 - 2011



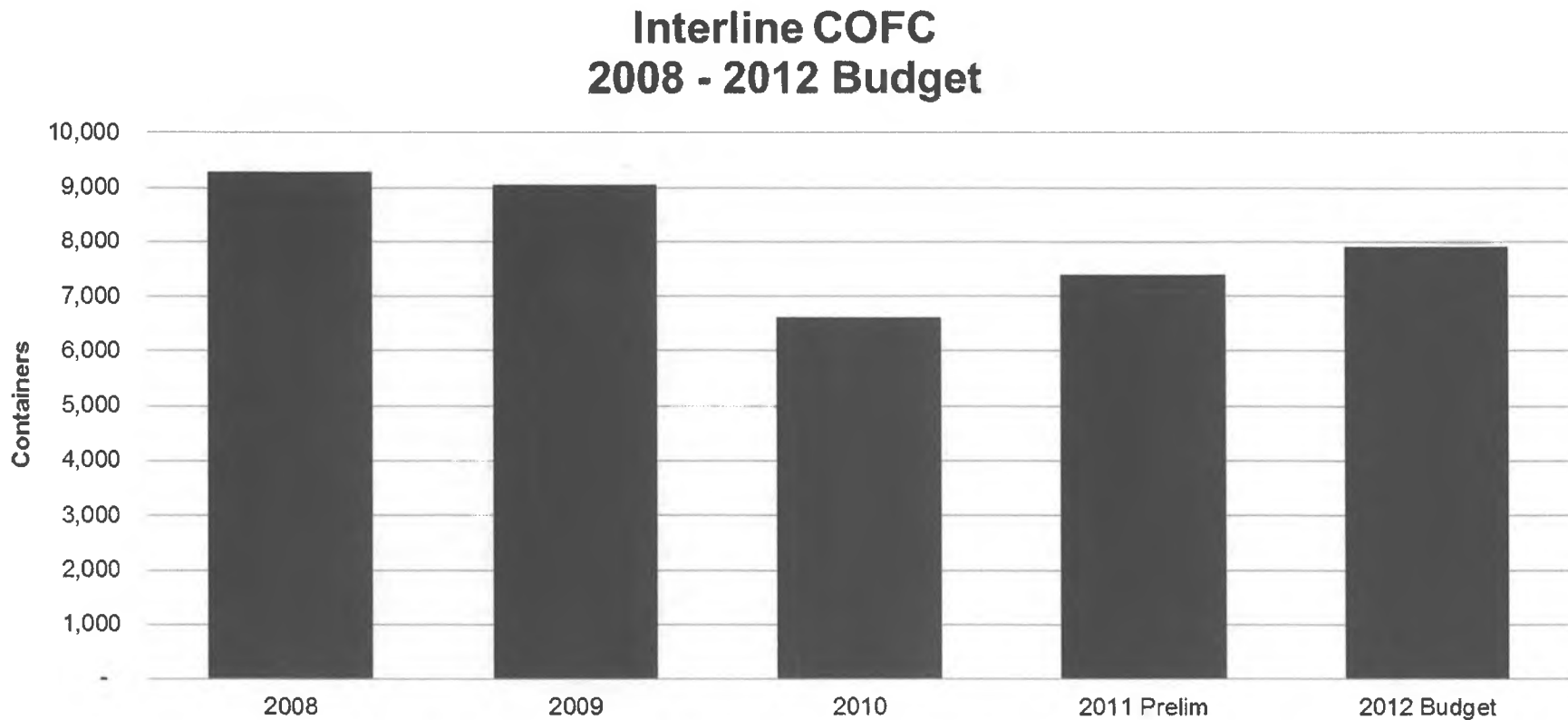
Freight Revenue – CN Barge



CN Barge: Railcar shipments to and from Alaska via CN's Prince Rupert Gateway



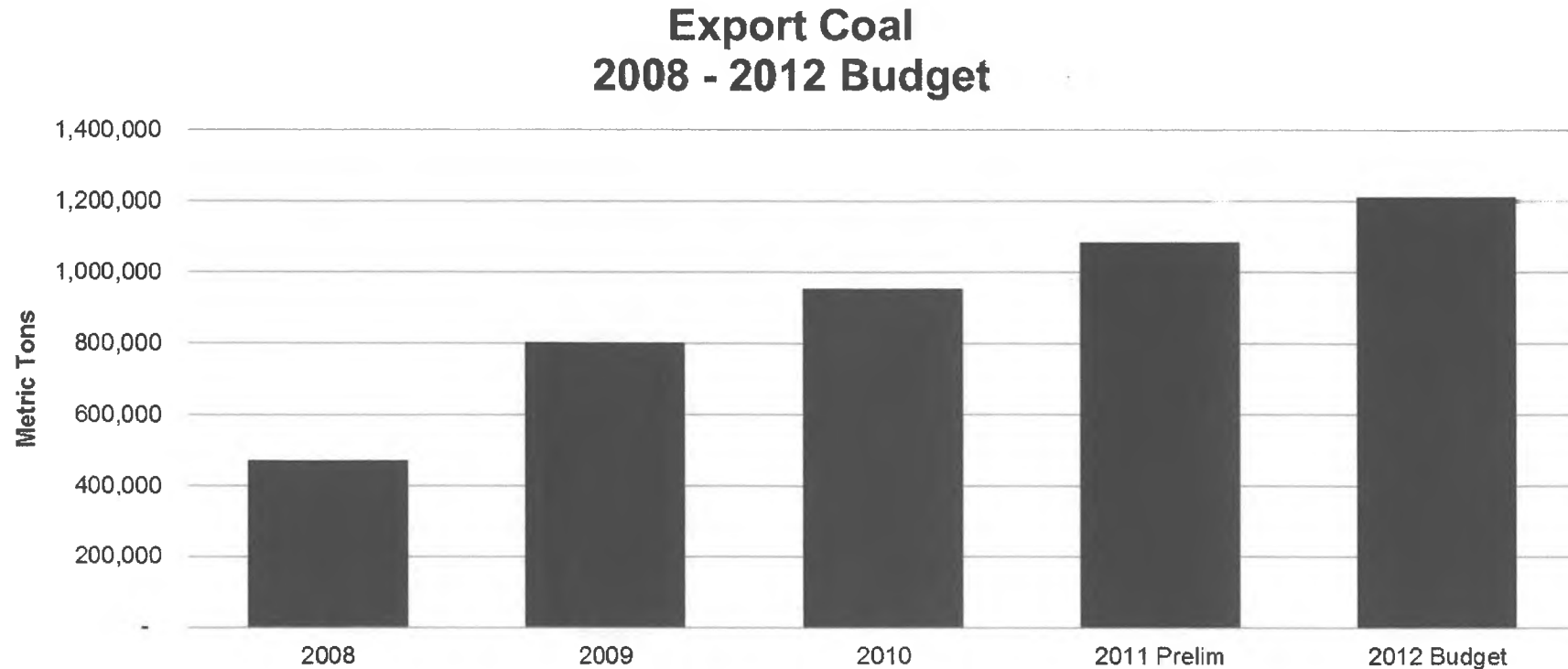
Freight Revenue– ICOFC



Interline COFC (container on flat car): Container shipments on ARMS Barge from Whittier to Anchorage and Fairbanks



Freight Revenue – Export Coal



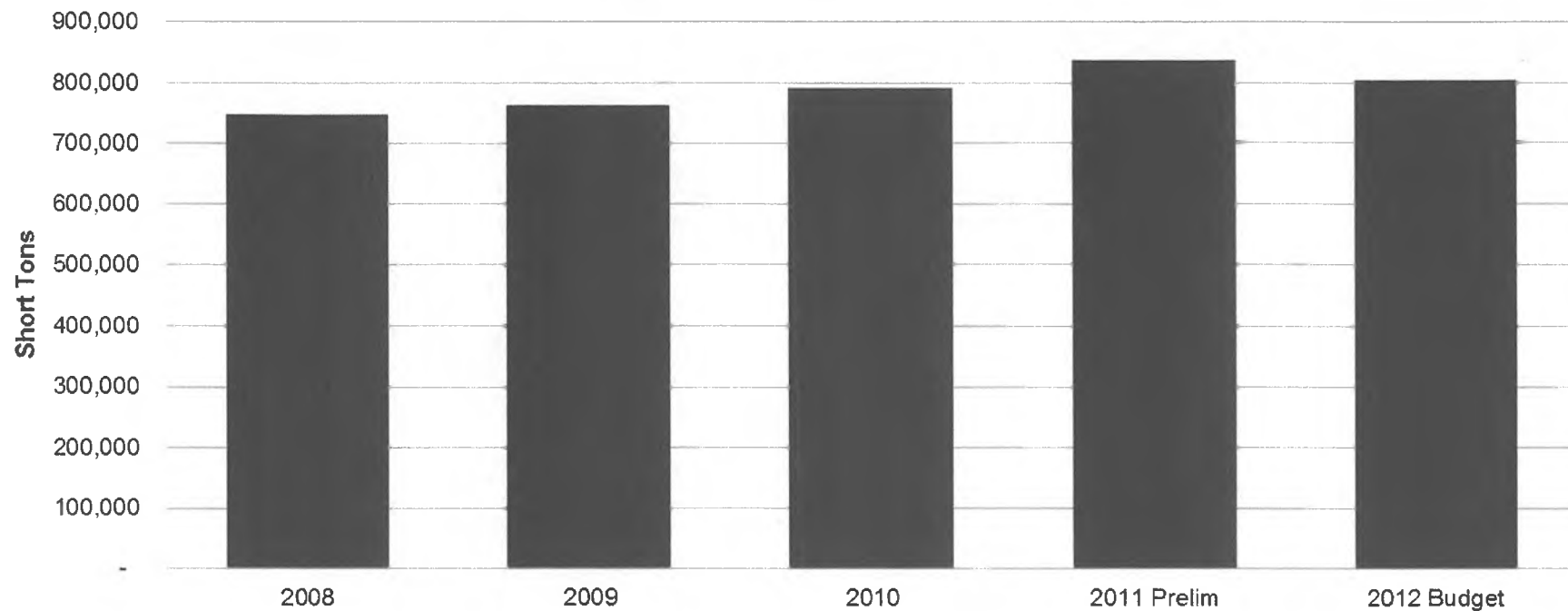
Export coal: Coal moved south from Healy to Seward for export to Chile, Japan and South Korea

➤ *Strong global market – coal prices have increased for 2012*



Freight Revenue – Local Coal

Local Coal
2008 - 2012 Budget

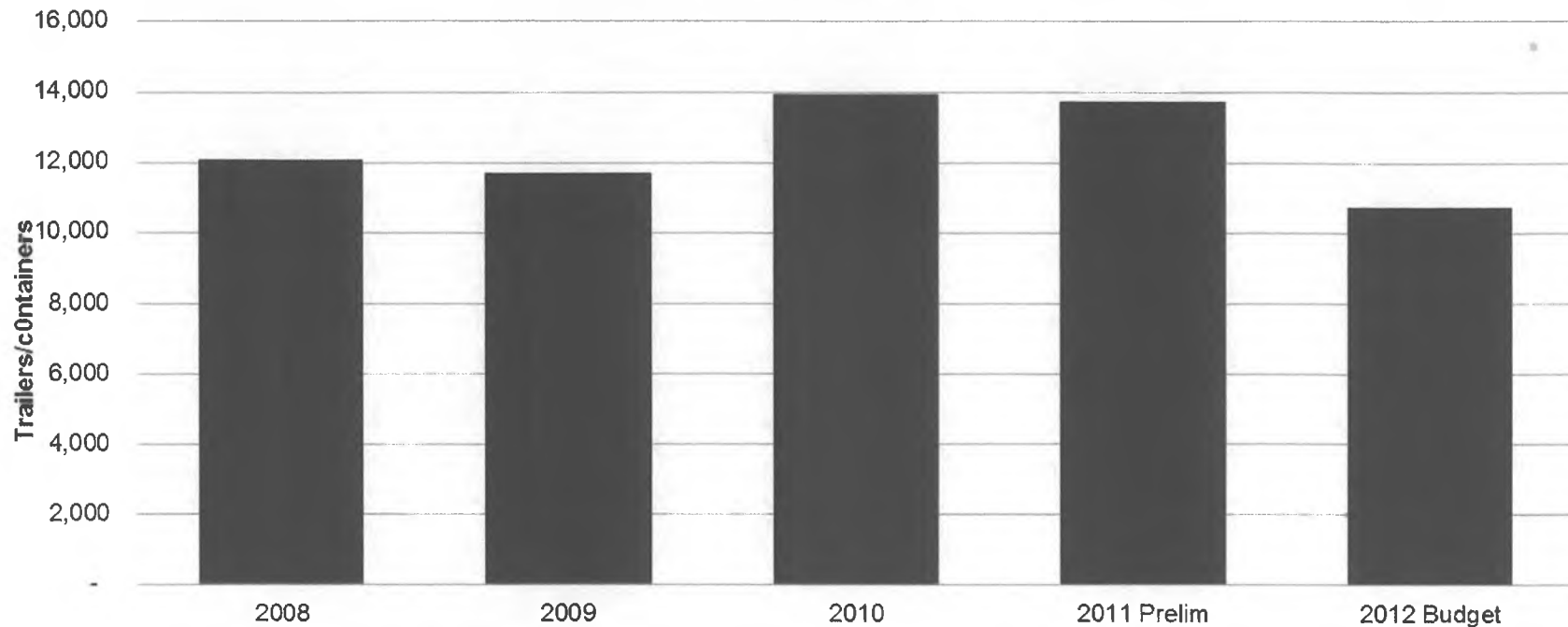


Local Coal: Coal moved north from Healy to Clear Air Site, UAF, Aurora Energy, Ft. Wainwright and Eielson AFB



Freight Revenue – TOFC/COFC

TOFC /COFC
2008 - 2012 Budget

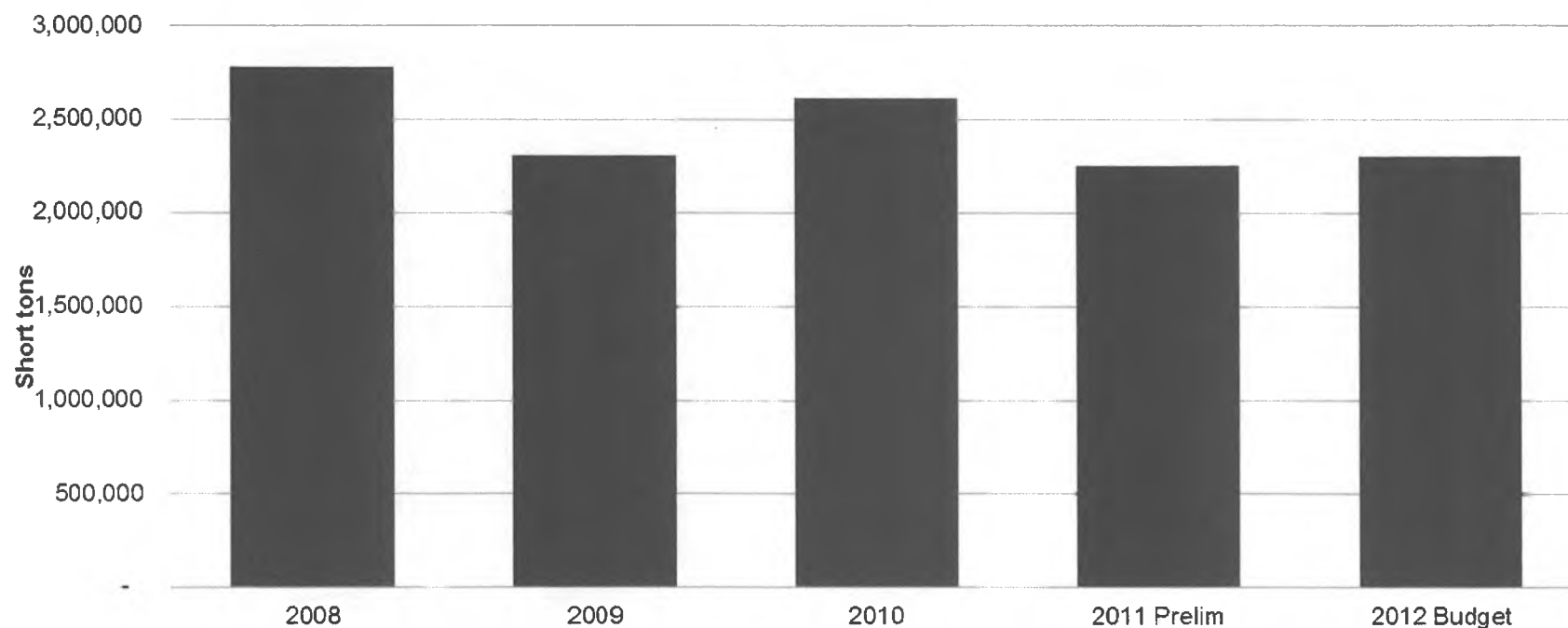


TOFC (trailer on flat car) and COFC (container on flat car): Trailers and containers moved between Seward, Anchorage and Fairbanks



Freight Revenue – Gravel

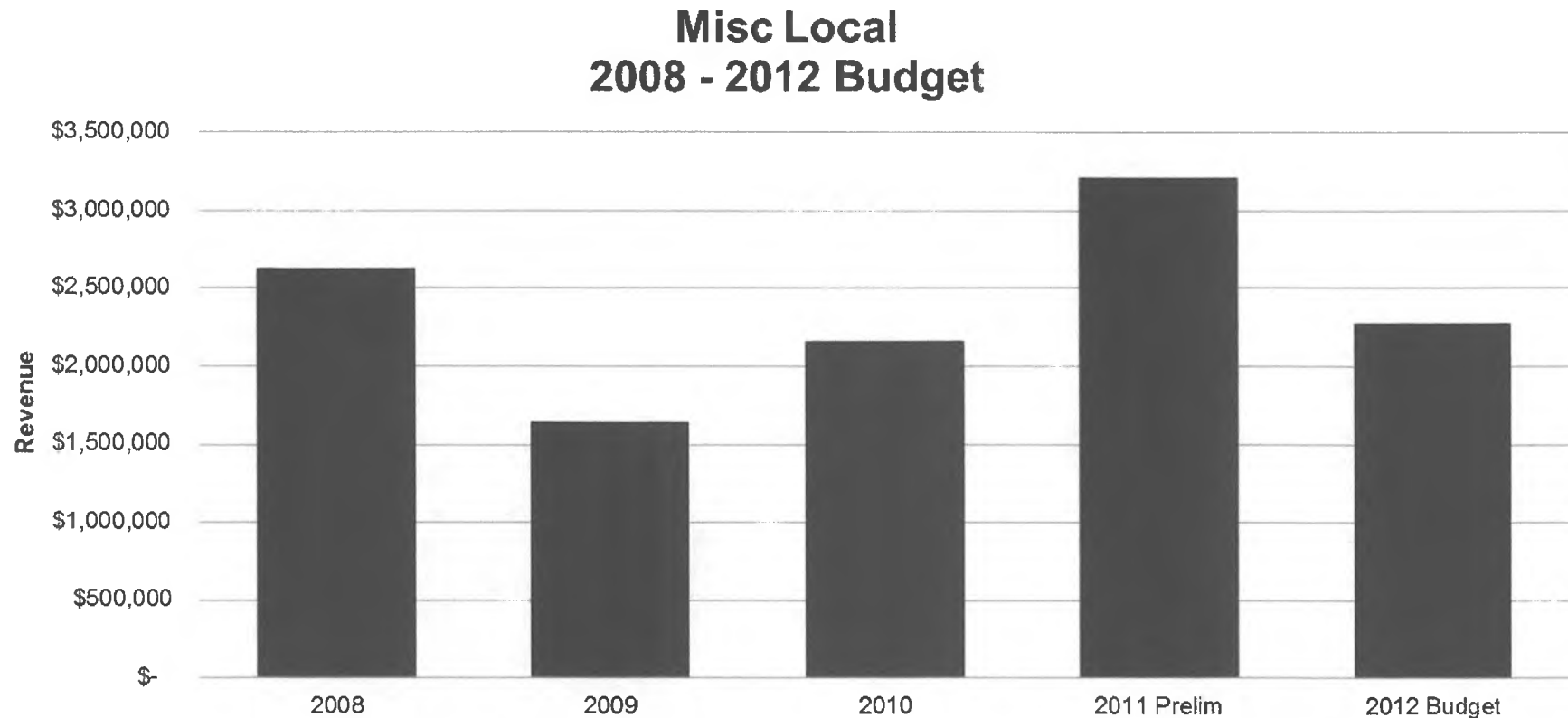
Gravel 2008 - 2012 Budget



Gravel: Aggregate products moved from Mat-Su Valley to Anchorage by Anchorage Sand & Gravel, Granite Construction, and Quality Asphalt Paving



Freight Revenue – Misc. Local

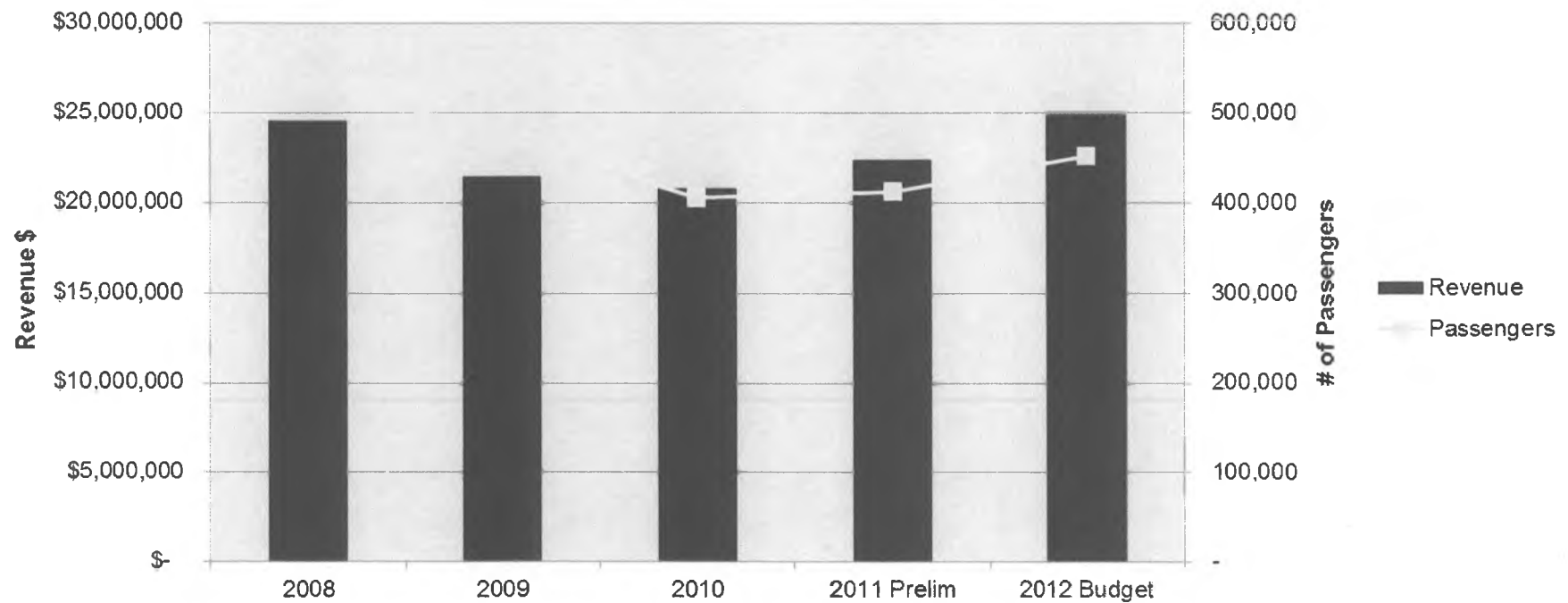


Misc Local: Generally railcar revenue and limited miscellaneous revenue that does not fit into other revenue lines

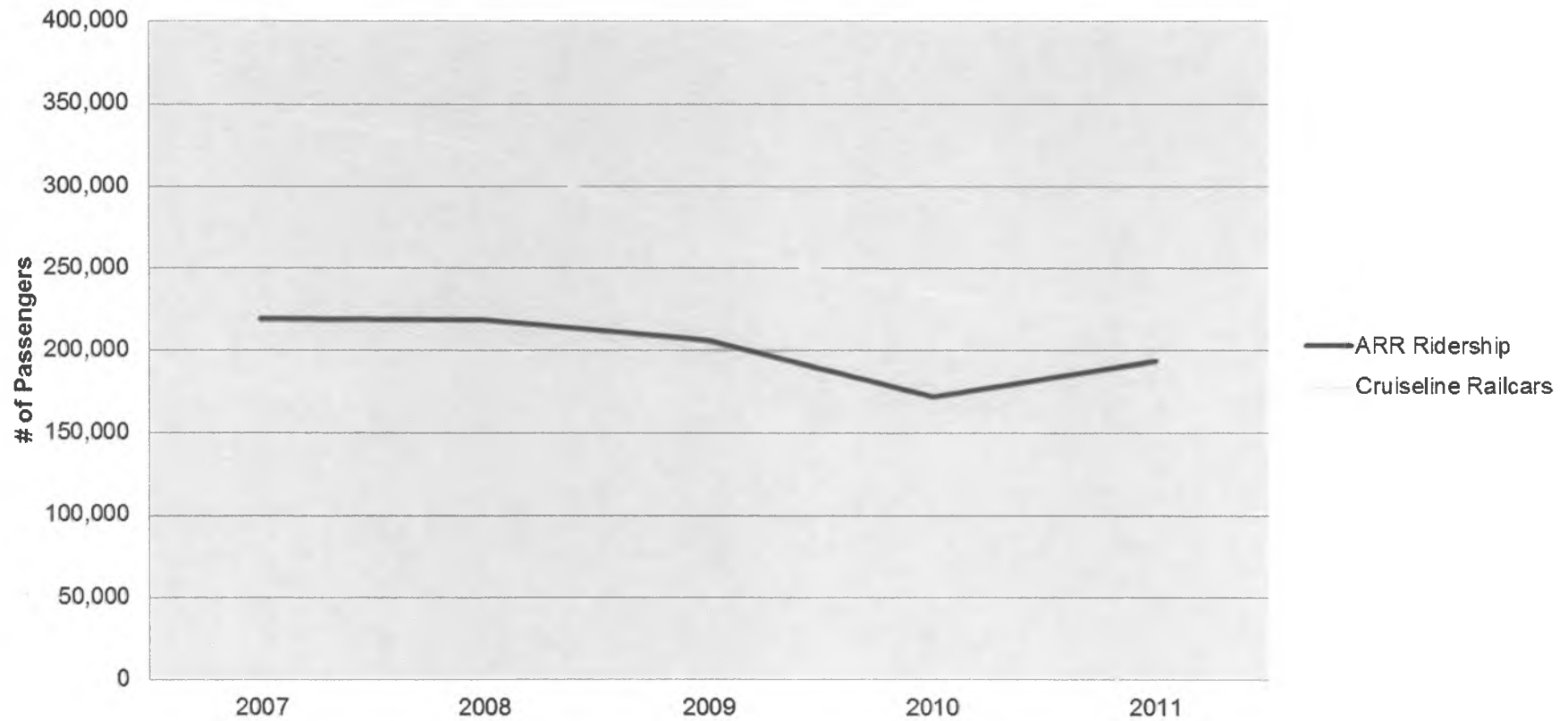


Passenger Revenue

Passenger Revenue & Ridership 2008 - 2012 Budget



Passenger Count 2007 - 2011



2012 Outlook – Operating Budget

- ARRC financial situation still fragile
- Revenue growth planned, but market uncertainty/expense pressures persist
 - Export Coal – strong global demand, tempered by environmental issues, and capacity constraints
 - Interline business growth potential
 - Flat-line petroleum haul level planned
 - Moderate passenger growth seen: independents and return of Princess ship
 - Fuel, benefit cost increases dragging on bottom line
- ARRC Board approved earnings budget of \$15.4 million
 - \$6.4 million net income from core train operations planned
 - Contingency plans in place if revenue does not materialize



2012 Outlook – Capital Budget

- Approximately \$55.4 million in total funding planned for capital projects
 - Federal Formula and Bond funds: \$26.3 million
 - Other Federal funds/litigation settlement: \$5.7 million
 - Cash flow from earnings: \$23.4 million

- Program primarily maintains/upgrades existing infrastructure
 - Concludes seven-year accelerated track rehabilitation program: \$31 million
 - Continues the development of Positive Train Control technology: \$5 million
 - Continues vehicle and equipment replacement program: \$3.3 million
 - Continues bridge rehabilitation program: \$3 million



Challenges/Risks

- **Federal Surface Transportation Reauthorization/FTA Formula Funds**
 - ~\$36 million annually at risk
 - Key fund source for ARRC's continued viability in current form
 - Sole security for \$137 million in outstanding bonds
 - Draconian changes to corporation necessary should certain proposals in Congress move forward
- **Positive Train Control**
 - Unfunded federal mandate with remarkably aggressive implementation timeline requirements
 - Over \$45 million spent to-date, with at least another \$70 million to go
 - Technology development program designed to prevent collisions, unauthorized train movements, and other human factor errors
- **Strategic initiatives developed and in various stages of implementation to address these and other identified challenges/risks**
 - Joint Board/management strategic planning process



Strategic Initiatives

- **Integrated Safety Management Initiative**
- **Maintain Eligibility for Federal Transit Administration Formula Programs**
- **Protect Existing Revenue Base and Grow our Business**
- **Customer and Community Relationships**
- **Economic Development of State**
- **Cost Containment Initiatives and Technology Initiatives**
- **Mitigate Impact of Spend-Out of Federal Transit Administration Bond Funds**





2012 Alaska Railroad Corporation Report TO THE State

Photo by David Blazerewski



Strategic

Leadership's Outlook

In accordance with state law (Alaska Statute 42.40.290), the Alaska Railroad Corporation (ARRC) annually adopts a long-range capital improvement plan and shares this with the governor and Legislature each year. We are pleased to present our outlook for capital investment and self-sustained operations, 2012 - 2016.

The railroad's five-year capital project and operating budgets are influenced by a strategic plan that outlines how we execute our company mission and measure supporting goals. Defined within two governing statutes (Alaska Railroad Corporation Act and Alaska Railroad Transfer Act), ARRC's mission is to provide safe, profitable, high-quality service to our freight, passenger and real estate customers and to foster the development of Alaska's economy. The Alaska Railroad Strategic Plan is revised annually to reflect changes in the business climate, workforce, community planning and other influences. Our current five-year plan defines eight strategic initiatives that were developed by the railroad's management team in concert with the ARRC Board of Directors. Initiatives include:

- Establish integrated safety management programs
- Protect existing revenue base and seek new business opportunities
- Enhance customer communication and relationships
- Maximize impact of federal grant spending to include capital bond repayment
- Maintain eligibility for federal formula funds related to passenger services
- Contain costs and improve operating ratio
- Maximize technology resources and investments
- Ensure the value of rail transportation is recognized and used as an economic driver

As the initiatives suggest, we understand the railroad's strength relies on a successful mix of assets — capital, people and reputation. That's why our corporate values put employees and customers first. It's why we strive to provide a safe working environment, operate trains safely, run a business in a financially sound manner, partner with Alaska's communities and protect our environment.

While this report outlines capital improvement plans, we also mention other accomplishments, such as recent honors received from Alaska's business community and anticipated rail business gains. These illustrate how ARRC benefits from the skill of a seasoned workforce, cooperation from long-term relationships with communities and business partners and a commitment to customer service. With this solid foundation, we fully expect to realize our potential as an essential transportation service and reliable economic partner for Alaska.

Chris Aadnesen



President/CEO

Linda Leary



Board Chair

Plan

History

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

The Legislature appropriated \$11.9 million to the new corporation for start-up costs because the U.S. government retained control of the railroad's bank accounts at the time of transfer (Jan. 5, 1985). The legislative appropriation was sufficient to cover two payrolls and the costs of several ongoing capital projects.

Unlike other state business enterprises (such as the Alaska Housing Finance Corporation and the Alaska Industrial Development and Export Authority), ARRC's enabling statute specifically requires that all revenue earned by the railroad is retained by the railroad. The federal transfer act also contains this requirement. The intent was to ensure the railroad had the money it needed to meet basic maintenance and capital needs, improve safety and increase profitability, thereby avoiding dependence on the state general fund. The corporation's annual earnings are invested entirely back into the corporate capital program.

The state-owned corporation is governed by a seven-member board of directors appointed by the governor. The president and CEO of the corporation reports to the board.

Board of Directors

Linda Leary
Susan Bell
John Binkley
Jack Burton
Jon Cook
Marc Luiken
Bill Sheffield

Management Team

President & CEO
Chris Aadnesen

Engineering & Maintenance
VP Tom Brooks

General Counsel / Legal
VP Bill Hupprich

Real Estate & Facilities
VP Jim Kubitz

Corporate & Gov't Affairs
VP Wendy Lindskoog

CFO / Finance
VP Bill O'Leary

Technology, Info & Telecom
VP Eileen Reilly

Mechanical & Transportation
VP Patrick Shake

Business Development
VP Steve Silverstein

Board of Directors

Susan Bell



Director

John Binkley



Director

Jack Burton



Director

Jon Cook



Director

Marc Luiken



Director

Bill Sheffield



Vice Chair

FIVE-YEAR CAPITAL PLAN: FEDERAL FUNDING

Federal Transit Administration (FTA) Formula Funds

	2012	2013	2014	2015	2016	5-YR TOTAL
Total FTA Formula Funds	\$ 38,337,249	\$ 39,487,367	\$ 40,671,988	\$ 41,892,147	\$ 43,148,912	\$ 203,537,663
Less Programmed Items:						
Preventive Maintenance	9,886,539	9,985,405	10,085,259	10,186,111	10,287,973	50,431,287
2006 Bond Principal & Interest	7,513,216	7,519,254	7,503,586	7,486,648	7,480,060	37,502,764
2007 Bond Principal & Interest	9,176,261	9,180,361	9,140,152	9,139,078	9,136,906	45,772,758
Transit Security	197,096	203,009	209,099	215,372	221,833	1,046,409
Transit Enhancement	197,096	203,009	209,099	215,372	221,833	1,046,409
Total Programmed Items (PI)	26,970,208	27,091,038	27,147,195	27,242,581	27,348,606	135,799,628
FTA Formula Funds Available for Projects	\$ 11,367,041	\$ 12,396,329	\$ 13,524,793	\$ 14,649,567	\$ 15,800,306	\$ 67,738,035
Bridge 422.9 Permafrost Bridge	—	—	—	458,402	—	458,402
Bridge 25.7	—	—	—	—	1,000,000	1,000,000
Bridge 447.7 Permafrost Bridge	—	—	—	300,000	—	300,000
Total FTA Bridge Projects	—	—	—	758,402	1,000,000	1,758,402
Depot Improvements	—	—	—	300,000	—	300,000
Track Rehab Program	7,367,041	6,896,329	8,024,793	8,091,165	9,300,306	39,679,633
Passenger Equipment Rehabilitation	—	500,000	500,000	500,000	500,000	2,000,000
Positive Train Control	4,000,000	5,000,000	5,000,000	5,000,000	5,000,000	24,000,000
Total FTA Other Projects	11,367,041	12,396,329	13,524,793	13,891,165	14,800,306	65,979,633
Total FTA Projects, net of PI	11,367,041	12,396,329	13,524,793	14,649,567	15,800,306	67,738,035
Plus: Prior Year FTA Funds	6,859,395	—	—	—	—	6,859,395
Total FTA Grants for Projects, net PI	\$ 18,226,436	\$ 12,396,329	\$ 13,524,793	\$ 14,649,567	\$ 15,800,306	\$ 74,597,430

FTA-backed Bonds (Series 2007 bond proceeds repaid with FTA formula capital grant receipts)

Track Rehabilitation Program	8,044,039	—	—	—	—	8,044,039
Total FTA-backed Bond Projects	\$ 8,044,039	\$ —	\$ —	\$ —	\$ —	\$ 8,044,039

Other Federal - Federal Railroad Administration (FRA), Federal Emergency Management Agency (FEMA), Dept. of Homeland Security (DHS)

MP 142 Curve Realignment (FRA)	\$ 1,427,300	\$ —	\$ —	\$ —	\$ —	\$ 1,427,300
MP 238.6 Erosion Protection (FEMA)	508,744	—	—	—	—	508,744
MP 244.7 Erosion Protection (FEMA)	322,528	—	—	—	—	322,528
MP 243.9 Erosion Protection (FEMA)	318,965	—	—	—	—	318,965
Seward Fencing & Access Control (DHS)	295,000	—	—	—	—	295,000
MP 240 Embankment Protection (FEMA)	110,430	—	—	—	—	110,430
Total Other Federal Funds	\$ 2,982,967	\$ —	\$ —	\$ —	\$ —	\$ 2,982,967

Railtech Settlement (to repair deficient track work originally funded by federal grants)

Track Rehab Program	2,700,000	—	—	—	—	2,700,000
Total Funds from Settlement	\$ 2,700,000	\$ —	\$ —	\$ —	\$ —	\$ 2,700,000

Total Federal & Settlement	\$31,953,442	\$12,396,329	\$13,524,793	\$14,649,567	\$15,800,306	\$ 88,324,436
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Passenger rail equipment, bridge and track rehabilitation projects are funded by both federal grants and funds generated internally by the Alaska Railroad. (Photo by David Blazewski)

FIVE-YEAR CAPITAL PLAN: INTERNAL FUNDING

Non-discretionary Projects	2012	2013	2014	2015	2016	5-Yr TOTAL
Track Rehabilitation Program	\$ 6,259,026	\$ 12,887,248	\$ 5,693,482	\$ 8,037,389	\$ 7,972,865	\$ 40,850,011
Bridge Program	2,950,000	3,500,000	3,500,000	3,120,799	2,500,000	15,570,799
Equipment Program	1,925,000	2,182,894	1,485,000	2,787,000	3,190,000	11,569,894
Vehicle Program	1,350,000	1,405,018	2,050,000	1,095,000	1,635,000	7,535,018
Positive Train Control	1,000,000	—	—	—	—	1,000,000
Portage Section Facility	750,000	—	—	—	—	750,000
2012 Capital Equipment Rebuilds	620,000	550,000	550,000	200,000	—	1,920,000
Passenger Equipment Rehab	600,000	—	—	—	—	600,000
ARRC Narrow Band Radios	376,000	—	—	—	—	376,000
Mandated Wheel Registration	154,250	—	—	—	—	154,250
Fleet Management GPS Units	105,000	—	—	—	—	105,000
Whittier Barge Slip Sewer Line Replacement	20,000	—	—	—	—	20,000
Whittier Maintenance Facility Arctic Entry	15,000	—	—	—	—	15,000
Total Nondiscretionary Projects	\$ 16,124,276	\$ 20,525,160	\$ 13,278,482	\$ 15,240,188	\$ 15,297,865	\$ 80,465,972
Continuing Programs/Projects						
Capital Locomotive Heavy PM Program	\$ 1,234,000	\$ 1,829,000	\$ 2,378,000	\$ 2,323,000	\$ 2,263,000	\$ 10,027,000
Dock & Slip Maintenance & Repairs	980,890	1,500,000	1,500,000	1,500,000	1,500,000	6,980,890
Healy Canyon Stabilization	—	800,000	500,000	500,000	500,000	2,300,000
Seward Coal Loading Facility Upgrades	555,000	500,000	500,000	500,000	500,000	2,555,000
Rip Rap Program / Drainage Maintenance	500,000	500,000	1,000,000	1,000,000	1,000,000	4,000,000
Corporate-wide Network Services	409,250	400,000	400,000	400,000	400,000	2,009,250
Avalanche / Slide Zone Mitigation	363,000	525,000	415,000	435,000	450,000	2,188,000
Roof Replacements	300,000	315,000	534,000	25,000	—	1,174,000
191XX Freight Car Heavy Maintenance	256,100	256,100	128,050	—	—	640,250
Crossing Signal Event Recorders	202,700	214,700	214,700	—	—	632,100
Locomotive Truck Overhaul	180,000	180,000	180,000	180,000	180,000	900,000
Defect Detector Upgrades	179,000	301,000	240,000	—	—	720,000
Code Line Upgrade	162,000	572,704	—	—	—	734,704
Electrical Upgrades	100,000	65,000	50,000	50,000	50,000	315,000
Energy Management / Conservation	50,000	75,000	75,000	75,000	75,000	350,000
Building Maintenance	40,000	50,000	50,000	50,000	50,000	240,000
Comm Site Battery Plant Replacements	40,000	80,000	80,000	80,000	80,000	360,000
General Facility Repair	40,000	50,000	50,000	50,000	50,000	240,000
Section Improvements	40,000	50,000	50,000	50,000	50,000	240,000
Trespass Mitigation	35,000	35,000	35,000	35,000	35,000	175,000
Small Tools and Test Equipment	34,000	34,000	34,000	34,000	34,000	170,000
Purchase of End of Train Devices	30,000	30,000	30,000	30,000	30,000	150,000
Copier Fleet Replacement	29,000	29,000	29,000	50,000	—	137,000
Infrastructure Updates	—	200,000	200,000	200,000	200,000	800,000
Total Continuing Programs	\$ 5,759,940	\$ 8,591,504	\$ 8,672,750	\$ 7,567,000	\$ 7,447,000	\$ 38,038,194
Strategic Business Initiatives						
Passenger Reservations System Enhance	\$ 179,550	\$ —	\$ —	\$ —	\$ —	\$ 179,550
Premises Equipment Refresh	143,000	143,000	140,000	176,000	—	602,000
Records Management & Retention	116,000	86,201	384,040	—	5,000	601,241
Tunnel 2 Drainage Improvements	60,000	25,000	—	—	—	85,000
Land & Utilities	40,000	50,000	50,000	50,000	50,000	240,000
Tenant Improvements	40,000	50,000	50,000	50,000	50,000	240,000
Anchorage Historic Depot Restrooms	20,000	—	—	—	—	20,000
Access Plates for ASCTD (Yr 1 of 3)	16,800	21,000	22,200	—	—	60,000
Total Strategic Business Initiatives	\$ 615,350	\$ 375,201	\$ 646,240	\$ 276,000	\$ 115,000	\$ 2,027,791
Ranked Discretionary Projects						
Post Road Sewer Construction - Phase I	400,000	\$ —	\$ —	\$ —	\$ —	\$ 400,000
CITRIX Virtual Desktops - Phase 1 of 2	198,500	—	—	—	—	198,500
Peger Road Access for Chena Landings	180,000	—	—	—	—	180,000
Post Road Sewer Line Design - Phases 2 - 4	150,000	—	—	—	—	150,000
Talkeetna Depot Pavement Renovation	30,000	—	—	30,000	—	60,000
Denali Depot Upgrades	20,000	—	—	—	—	20,000
Funds Available for Ranked Projects	—	—	6,053,388	8,233,586	9,379,324	23,666,297
Total Ranked Discretionary Projects	\$ 978,500	\$ —	\$ 6,053,388	\$ 8,263,586	\$ 9,379,324	\$ 24,674,797
Debt-Financed Project						
Freight Car Replacement Program	\$ —	\$ 3,050,000	\$ —	\$ —	\$ —	\$ 3,050,000
Total Internal & Debt	\$23,478,066	\$32,541,866	\$28,650,860	\$31,346,774	\$32,239,189	\$148,256,755
Total Federal & Settlement	\$31,953,442	\$12,396,329	\$13,524,793	\$14,649,567	\$15,800,306	\$ 88,324,436
Total Capital Program	\$55,431,508	\$44,938,195	\$42,175,653	\$45,996,341	\$48,039,495	\$236,581,191

OPERATING DATA AND PLANS

Operating Statistics

• Miles of main line:	467
• Miles of branch line:	54
• Miles of yards and sidings:	135
• Total miles of track:	656
• Freight cars (owned/leased)*:	1,254
• Passenger cars:	45
• Locomotives:	51

* 961 revenue cars and 293 maintenance cars; not including 420 tanker cars owned by Flint Hills Resources

• Ridership**:	411,000 passengers
• Freight tonnage**:	6.3 million tons

** Jan. 1 - Dec. 31, 2011, Projected

Employees (November 2011)

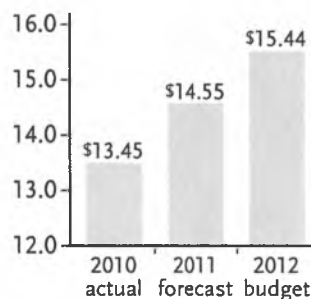
• Year-round employees:	685
• Additional seasonal employees:	~100
• Average years of service:	12.1
• Average age:	46.2
• Male:	571
• Female:	114

A majority of employees are members of five unions:

• United Transportation Union:	132
• Transportation Communication Union:	39
• International Brotherhood of Teamsters Local 959:	61
• American Federation of Gov't Employees:	274
• American Train Dispatchers Department:	8

Net Income

(in millions of dollars)



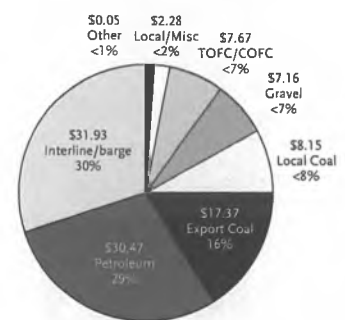
2012 Budget Revenue Sources

(in millions of dollars)



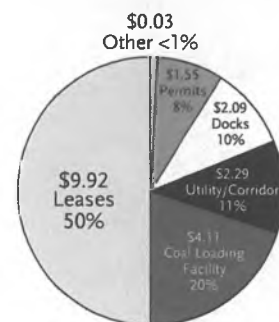
2012 Budget Freight Revenues

(in millions of dollars)



2012 Budget Real Estate Revenues

(in millions of dollars)



ARRC funded renovation of its freight shed. Alaska's first historic building to be reconstructed to Leadership in Energy and Environmental Design (LEED) standards. The 36,000 square-foot facility will be 93 percent occupied by early 2012 once the U.S. Forest Service moves in.

Five-Year Operating Plan

(in millions)

	2012	2013	2014	2015	2016
Operating Revenue	\$ 131.20	\$ 139.41	\$ 148.54	\$ 153.80	\$ 156.39
Operating Expense	123.31	130.17	138.87	142.64	145.40
Net Operating Income	7.89	9.24	9.67	11.16	10.99
Net Real Estate Income	9.11	9.95	10.44	10.61	12.54
Net Other Income (Expense)	(1.56)	(1.01)	(0.81)	(0.29)	(0.09)
Net Income	\$ 15.44	\$ 18.18	\$ 19.30	\$ 21.48	\$ 23.44

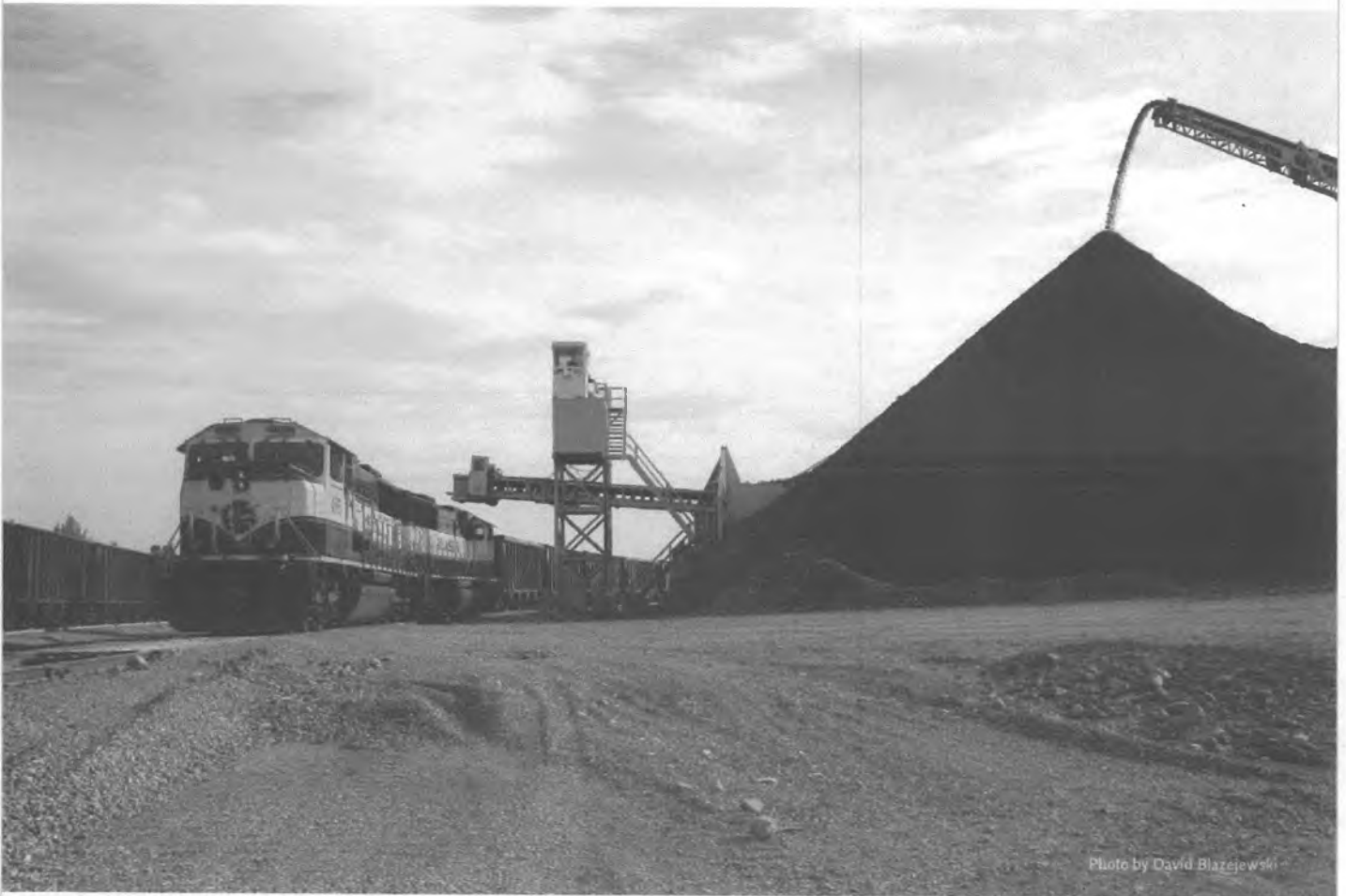


Photo by David Blaziejewski

A gravel train being loaded in Birchwood.

Ground was broken on the Northern Rail Extension Phase One, a Tanana River bridge near Salcha. Funding: \$104 million from the Department of Defense; \$84 million from the State of Alaska.



RECOGNITION ROUND-UP

Three organizations presented the Alaska Railroad with annual awards in 2011, recognizing ARRC's ongoing community service and environmental stewardship efforts:

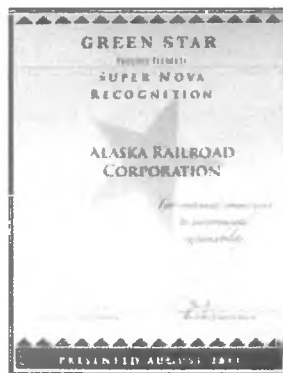
- In April, the Alaskans for Litter Prevention and Recycling (ALPAR) named the railroad its 2010 Contributor of the Year for ARRC's steady support of recycling backhaul efforts benefitting ALPAR and Alaska communities. ARRC helped affordably move 5.8 million pounds of recyclable materials in 2010.
- In September, the Anchorage Chamber of Commerce presented ARRC with its 2011 Distinguished Community Service Award (Large Business/Organization category). ARRC was honored for participation in the school-business partnership program, charitable giving, environmental stewardship, infrastructure investments and employee volunteerism.
- In October, Green Star, Inc. presented ARRC with its new Super Nova award, acknowledging a higher level of leadership and commitment to doing business in an environmentally responsible manner. Impressed with ARRC's recertification effort, Green Star plans to use the railroad's recertification submission as a "best practices" standard for other organizations seeking to recertify.

ALPAR



Recycling Support

Green Star Inc.



Best Practices

Anchorage Chamber



Community Service



ALASKARAILROAD.COM

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Alaska Railroad 2012 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 cover expenses to operate trains and maintain tracks and facilities. About \$49 million is budgeted in new spending for capital improvements in 2012. An additional \$68 million is budgeted for two special rail extension projects. Detailed project fact sheets are online at www.AlaskaRailroad.com -> **Capital Projects**.

Federally-funded Projects

Since 1996, ARRC has received federal funds for infrastructure improvements. Funding has come 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. Dept. of Homeland Security (DHS), U.S. Forest Service (USFS) and other federal sources, 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 ARRC.

In 2012, ARRC expects to receive FTA formula funding to support an estimated \$11.76 million in capital projects; ARRC will contribute 9% of this amount. Other federal funds include \$1.26 million in FEMA-administered grants, \$1.43 million from the FRA, and \$295,000 from DHS. A \$2.7 million settlement will repair deficient track work originally paid by federal grants.

Internally-funded Projects

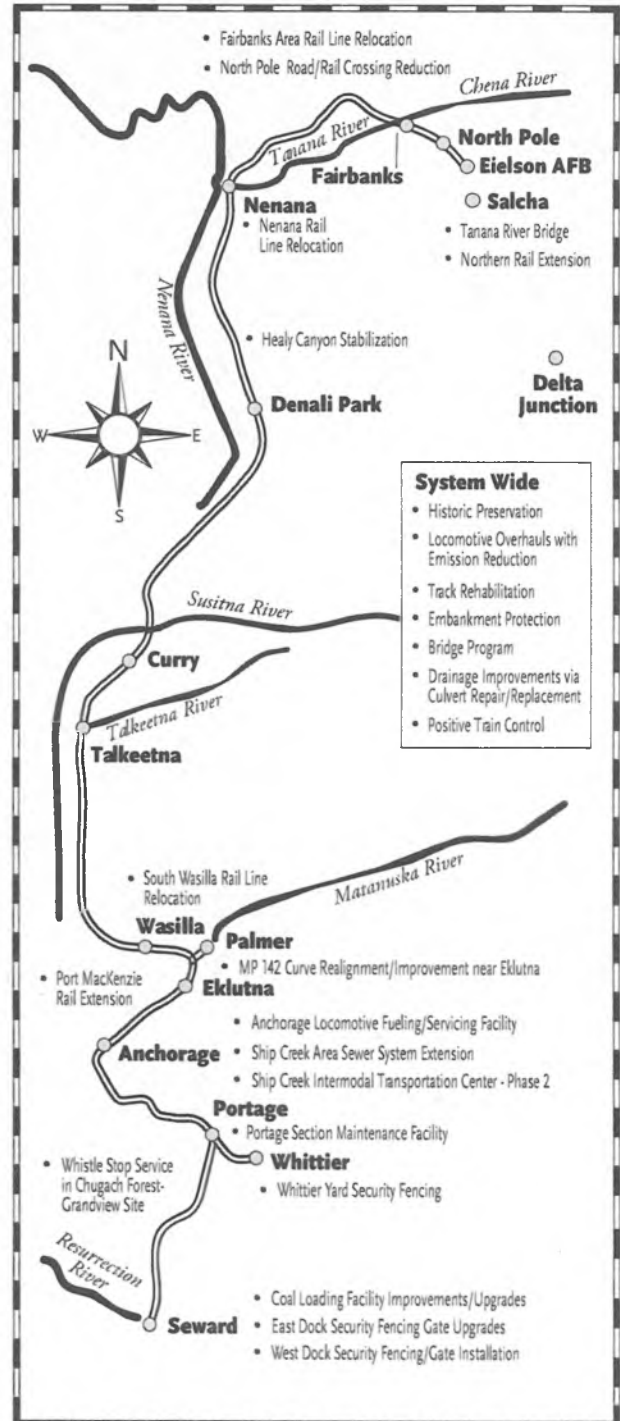
In addition to the match for federal grants, ARRC internal funds (funds generated by corporate freight, passenger and real estate business revenues) support ARRC's ongoing expense activities as well as an annual capital program. In 2012, internal funds will provide \$23.5 million toward capital projects that are not eligible or selected for federal funding support.

Bond-funded Projects

In 2006, ARRC sold \$76.1 million in revenue bonds and another \$89 million in 2007. These funds are primarily used to accelerate track rehabilitation efforts. About \$8 million will be spent in 2012. Bonds are repaid with FTA formula funds.

Special Rail Extension Projects

The State of Alaska appropriated FY2012 funds to support two major rail extensions. \$44 million was approved mid-2011 to close the funding gap for Phase One of the Northern Rail Extension. ARRC will manage \$24 of the \$30 million the State approved mid-2011 to pursue Port MacKenzie Rail Extension construction.



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 \$1.5 million on safety, operations and environmental improvements. \$720,000 is budgeted for 2012.



A coal ship docks at the Seward Coal Loading Facility.

Seward East and West Dock Investments

ARRC built a new East Dock in Seward in 2000, and a section of the 640-foot long by 200-foot wide East Dock was expanded to 320 feet wide in 2007. Since 2001, the West Dock and its terminal building have been substantially improved to support intermodal passenger activity. In 2011, a 1,600-foot security fence with three roller gates was installed around the East Dock. In 2012, two of the three gates will be upgraded with card-reader control access and surveillance cameras. A security fence and card-reader access gates (with



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

surveillance cameras) will also be installed on either side of the West Dock terminal building. 2012 fencing and gate upgrades funded by a \$295,000 Port Security Grant.

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) railcar, which arrived spring 2009. The first site was completed at Spencer in late summer 2007. Construction on the Grandview site began in 2011 and will be completed in 2012. Construction of a pedestrian bridge over Placer River at Spencer also began in 2011; it will be installed in 2012. \$1.8 million for Spencer site funded by USFS and ARRC. The \$5.35 million DMU was funded \$4.7 million by USFS and \$648,000 by FTA and ARRC. The pedestrian bridge at Spencer (\$1.6 million), and the Grandview site (\$1.2 million) funded by ARRA grants obtained by the USFS. Estimated \$14 million is needed to complete all five sites and facilities.

Whittier Infrastructure & Master Planning

ARRC is pursuing a Whittier Master Plan to improve railroad infrastructure. Recent projects: **1)** built a pedestrian underpass (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); **8)** demolished the marginal wharf (2008); and **9)** extended barge slip ramp and replaced the stern (front) unloading area to include hydraulic lifts and pass/pass features (2009-2011). A security fence around the Whittier Yard will be installed in 2012 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.

Portage Section Maintenance Facility

ARRC plans to build up to six section maintenance facilities. These steel-framed heated buildings house a shop area to store / maintain rail equipment and trucks, small office space, restroom and utility room. The prototype was constructed in Cantwell in 2006. Construction of a 47-by-65-foot facility at Portage began in 2011 (Phase 1: site prep). Phase 2 — building with shop area — will be complete in 2012. A final phase will add offices and restrooms at a later date. Phases 1 and 2 are budgeted to cost \$1.25 million, funded by ARRC.



The prototype section maintenance facility built in Cantwell.

Ship Creek Intermodal Transportation Center

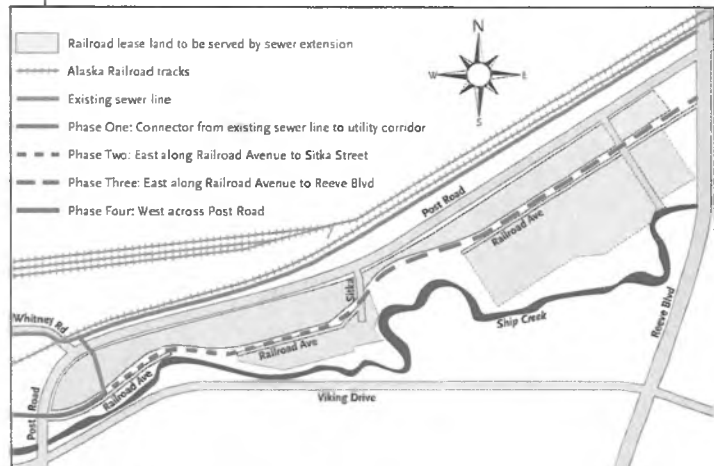
ARRC is pursuing an Intermodal Transportation Center (ITC) and associated improvements (pedestrian amenities, transit infrastructure, parking, track modifications, etc.) in the Ship Creek area. The ITC will facilitate connections from one transportation mode to another — rail, public transit, air, marine, 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 1, completed 2007-2009, included utility relocation, new track and passenger platform construction, and track rehabilitation. Part of Phase 2 (2a) began in 2010 to include Anchorage Historic Depot exterior improvements, electrical upgrades and boiler replacement. Phase 2a was completed 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 1 was funded 91% by the FTA and 9% by ARRC. Phase 2a budget of \$7.94 million funded by ARRA Stimulus money. ARRA money also funded \$300,000 in 2009-2010 to install 1,000 feet of security fencing east of the depot. Conceptual design for Phase 2b (replace annex building with smaller crew facility and improve pick-up /drop-off and other areas surrounding the depot) was complete in 2011. ARRC is seeking funding for 2b. Total cost for all phases is estimated at \$78 million.



Phase 2a included installation of a paved-system roof along with more insulation for better energy conservation.

Ship Creek Area Sewer System Extension

ARRC plans to extend the existing Anchorage Water & Wastewater Utility sewer system to provide sewer service to railroad leased land on the east side of the Anchorage Railroad Reserve, located south of Post Road and north of Viking Drive. Phase 1 of the four-phase project would construct a connector from the existing sewer line to a proposed utility corridor along an old right-of-way parallel to, and south of, Post Road. Phase 1 design complete in 2011 and construction will begin in 2012. Phase 1 cost of \$400,000 funded by ARRC. All four phases are estimated to cost nearly \$2 million; funding for later phases is not yet identified.



Proposed sewer extension project in Anchorage Railroad Reserve.

Anchorage Locomotive Fueling/Service Facility

ARRC plans to replace an existing 1970s-era locomotive fueling delivery system in the Anchorage Yard. Plans call for a new facility to provide fueling, sand loading, inspection and minor maintenance of locomotives. First considered in 2003, conceptual planning and design resumed in 2011 to include a cost/benefit analysis of a stationary fueling/serving facility versus mobile fueling by truck. Efforts to optimize the design continue. Preliminary design first budgeted at \$200,000 in 2003; followed by \$100,000 in 2010 and \$150,000 in 2011. Funded by ARRC.

Curve Realignment / Improvement near Eklutna

ARRC plans to reduce the curvature of the mainline track and parallel siding track along a curve at ARRC MP 142, near Eklutna. The project will relocate a maintenance spur track from the north end of the curve to the south, and lengthen the spur from 130 to 1,000 feet. The timber road/rail crossing across the mainline and siding will be upgraded to concrete, improving drivability access to Eklutna Inc. land. Design began in 2011, and construction will begin 2012. Funding 80% U.S. Department of Transportation and 20% ARRC.

South Wasilla Rail Line Relocation

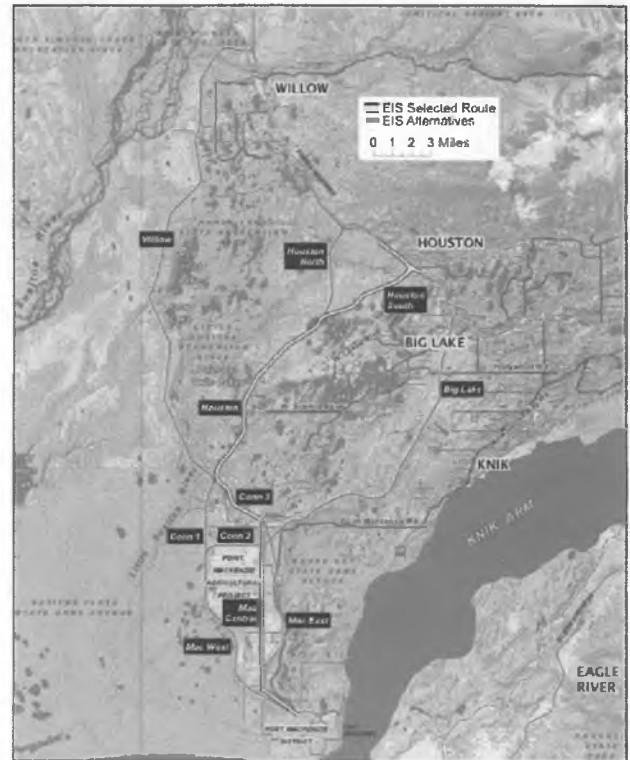
ARRC plans to straighten curves along the mainline track in South Wasilla, between ARRC MP 154 and 158. The track relocation would eliminate five at-grade crossings, reduce derailment risk, reduce operational and maintenance costs, and allow for faster train speeds. An EA of alternative relocation routes was completed in 2005. Land acquisition will be complete in 2012. \$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 to construct Phase 1 (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 Matanuska-Susitna Borough and ARRC are partners in proposing a new 32-mile rail line connecting Port MacKenzie to the existing mainline track near Houston. 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 Surface Transportation Board (STB), the federal agency with authority over rail extensions in the United States. The STB conducted an EIS which was complete in spring 2011. The STB's record of decision to approve construction came in late November 2011. The State of Alaska appropriated \$27.5 million (2007/2008) to support the EIS and supporting studies, and to construct a bulk commodities road loop. The State appropriated \$35 million in 2010 and \$30 million in 2011 to pursue design and construction of the first two phases. An estimated additional \$180 is needed to complete design and construction.



Potential Port MacKenzie Rail Extension preferred route selected.

Healy Canyon Safety & Reliability Program

Healy Canyon lies between Denali Park and Healy. The tracks follow the Nenana River gorge on a narrow grade, originally through 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 the slide zone and realign track 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 2009-2011 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. MP 352.9 will be complete in 2012. ARRC continues to seek funding to pursue future stabilization.

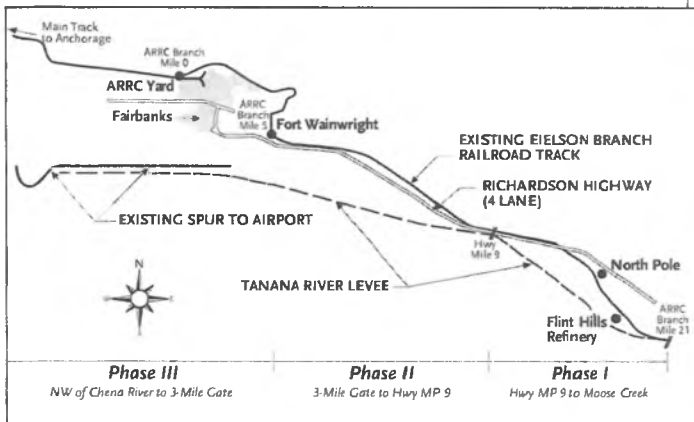
Nenana Rail Line Relocation

ARRC proposes to realign the railroad mainline around downtown Nenana, following a route outside of the existing right-of-way, north of the airport and southeast of town, over 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 is being used to obtain flood plain permits. One such permit was approved by the City of Nenana in 2011. A \$1 million budget for the EA was funded 91% by the FTA and 9% by ARRC. \$2 million for land acquisition funded by 91% FHWA (administered via FTA) and 9% ARRC. \$225,000 for the hydrology study funded by ARRA Stimulus funding. Estimated \$37.7 million to complete final design and construction. Funding for construction has not yet been identified.

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 Fairbanks Depot to the end of the branch near Eielson AFB. The Fairbanks Area Rail Line Relocation will likely require an EIS. As a pre-cursor 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. In 2007-2009, 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 public transportation study were funded by \$450,000 in grants from FHWA and FTA with 9% match from ARRC. Funding has been secured to pursue environmental work for Phase I, the North Pole area (see separate project description below). Funding sources are being sought for National Environmental Policy Act (NEPA) environmental work to include an EIS for Phases II and III.



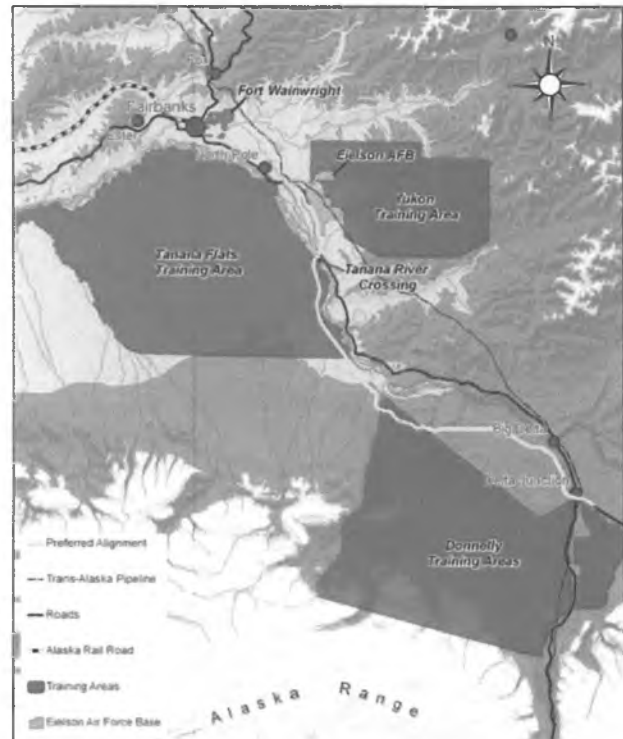
North Pole Road/Rail Crossing Reduction

In cooperation with the FRA, FHWA and Fairbanks Metropolitan Area Transportation System (FMATS), the ARRC initiated 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 runs

through North Pole, between Richardson Hwy milepost 9 and the Chena River floodway. This project is essentially Phase I of the three-phased Fairbanks Area Rail Line Relocation. The EA is expected to be complete and ready for public review in early 2012. Funding of \$1 million comes from FHWA funds re-allocated by FMATS and the Alaska Department of Transportation & Public Facilities. Cost for final design and construction will be determined through the EA process.

Northern Rail Extension

ARRC proposes to extend its mainline 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. 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. 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 (see project description below). The project is expected to be built in four phases, beginning with the river bridge, followed by rail construction from the bridge to the end of the Eielson Branch. Later phases will continue the extension

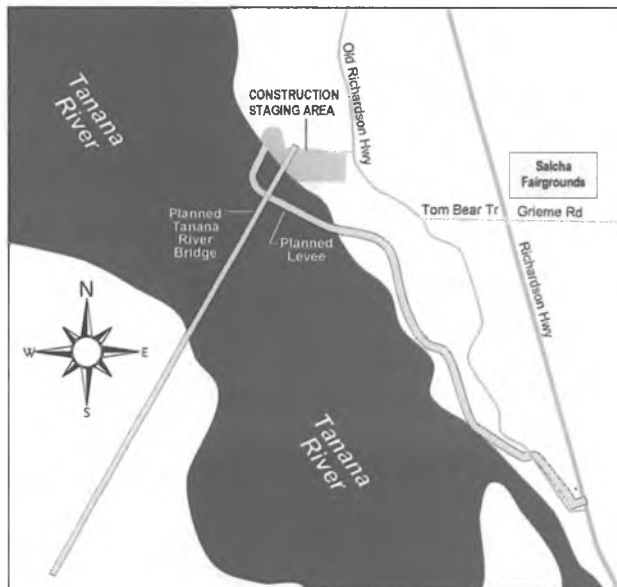


Area map showing the military training areas south and west of the Tanana River.

to Delta Junction. Cost of all phases is estimated at \$650 to \$850 million. Phase 1 is funded (*see below*). Funding for later phases is not yet identified.

NRE Phase 1: Tanana River Crossing

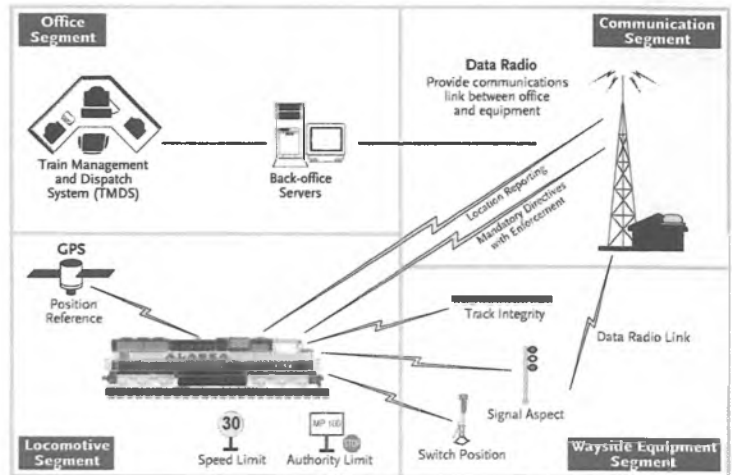
Design of the Northern Rail Extension Phase 1, Tanana River Crossing, got underway in 2010, after the STB had granted authority with a record of decision in January. Design includes a bridge over the Tanana River at Salcha as well as a levee to control river flow in the area. Kiewit was hired as Construction Management / General Contractor and construction on Phase 1 began in 2011. The bridge and levee are scheduled for completion in 2014. Budget is \$188.2 million, funded with \$104.2 million from the DOD and \$84 million from the State of Alaska.



Phase One: Tanana River Crossing - Construction area map.

Positive Train Control

ARRC is pursuing 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 replacement Computer Aided Dispatch (CAD) system, an on-board computer system, VHF packet data radio technology, and Global Positioning System (GPS) locator technology. The PTC will provide regulatory-mandated safety enhancements to prevent train-to-train collisions, to detect infrastructure failure and potential operations violations quickly, and to intervene when necessary. To date, ARRC has spent \$53 million (1999-2011) on communications and preparational work, funded by FRA, FTA, ARRA and ARRC sources. An additional \$70 million is estimated to complete the PTC system. For 2012, \$5 million is funded \$4 million by FTA grants (91% FTA; 9% ARRC) and \$1 million by ARRC.



Positive Train Control System Overview.

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 2012, several passenger cars will be upgraded with new lighting, public address systems, batteries, signs, new flooring, wall-covering, seat upholstery and galley modification. \$600,000 budget is funded by ARRC. Four SD70MAC locomotives and one or two GP40 locomotives will be overhauled to include installation of tier-plus kits to improve fuel efficiency, and installation of engine idle reduction systems (GP40s). SD70MACs funded by \$1.23 million from ARRC. GP40s 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.

Bridge Program

ARRC's 500-plus miles of mainline track include about 160 bridges that cross barriers ranging from streams to gulches. ARRC's Bridge Program calls for major maintenance, overhaul and replacement needed to maintain railroad integrity, safety and efficiency. In 2012, ARRC plans to complete design for a structure to replace three culverts at Indian Creek (MP 88.1). Drainage and embankment work will be completed for a new bridge that was built over Skookum Creek Drainage (MP 59.4, near Portage) in 2011. Upgrades and



Timber piling and caps were replaced with steel pipe and pile caps on the bridge at MP 29.5 in 2011. In 2012, timber beams and ties will be replaced to complete bridge rehabilitation.

rehabilitation are also planned for 10 other bridges. In addition, a “rock shed” will be designed for the tunnel about 50 miles north of Seward to protect against falling rock and ice. Funding includes \$2.95 million by ARRC plus \$500,000 in FTA grants (funded 91% FTA; 9% ARRC).

Track Rehabilitation

ARRC continues an aggressive track rehabilitation program in 2012 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 wooden ties (45,000 ties in 2012). ARRC also plans to resurface many miles of track using 50,000 tons of ballast rock. For 2012, \$14.2 million is funded by current and prior year FTA grants (funded 91% FTA; 9% ARRC); \$8 million is funded through the sale of ARRC revenue bonds backed by FTA formula funds; \$6.3 million is funded by ARRC, and a \$2.7 million legal settlement will repair deficient work originally paid for by federal grants.



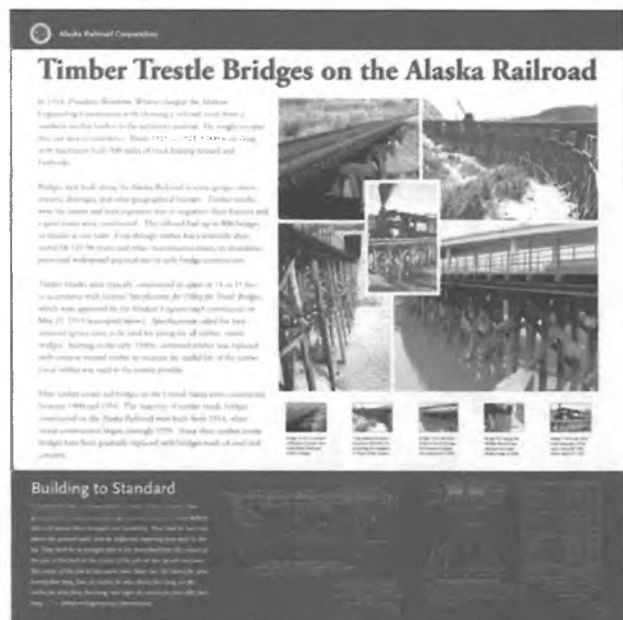
A tie crane operator positions a new tie during tie replacement operations in spring 2011.

Drainage Improvement/Embankment Protection

ARRC will repair or replace up to 15 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 \$500,000, funded by ARRC. Embankment protection work is supported by \$2.52 million in grants funded 75% by FEMA and 25% ARRC; and \$446,000 in grants funded 80% by FRA and 20% 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.



This interpretive sign is 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 ARRC 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 Aqua-

Master® was applied selectively within the permitted area with good results. ARRC applied for additional permits in 2011 for herbicide use in the Anchorage Yard, Healy Yard, Fairbanks Yard and along the Eielson Branch. These were approved by ADEC and were used in July 2011. In 2012, ARRC is applying for three new permits covering 12 miles of track in the Palmer-Wasilla area, 38 miles of track between Gold Creek (34 miles north of Talkeetna) and Broad Pass, and 60 miles of track between Clear and Fairbanks. The ADEC will accept public comment through March 12, 2012. Public hearings are scheduled for January 31 in Fairbanks, February 1 in Wasilla and February 2 in Talkeetna.



Post herbicide control near Seward. Note clear distinction at control area boundary at the end of the ties.

current as of 01/11/2012

Alaska Railroad Corporation 2012 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" and then select the geographica area of interest).

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

Alaska Railroad Corporation
Status Update February 6, 2012

NORTHERN RAIL EXTENSION

- Project is in winter shut-down until the end of February
- Coast Guard permit public notice has closed. Permit is expected in time for bridge construction.
- **Site Work Summary:**
 - Site offices are operational. Occupancy is expected by spring as project resumes from the winter dormancy.
 - Noise and Vibration study posted on website on the Phase 1 link.
 - An ice bridge permit has been received by Kiewit to provide access to the south bank allowing for continued tree clearing and grubbing. Work on the ice bridge is progressing and access to the south bank should be available later in February.
 - Weekly project meetings are held to discuss “Requests for Information” on design drawings, schedule, product submittals, Quality Control plans etc.

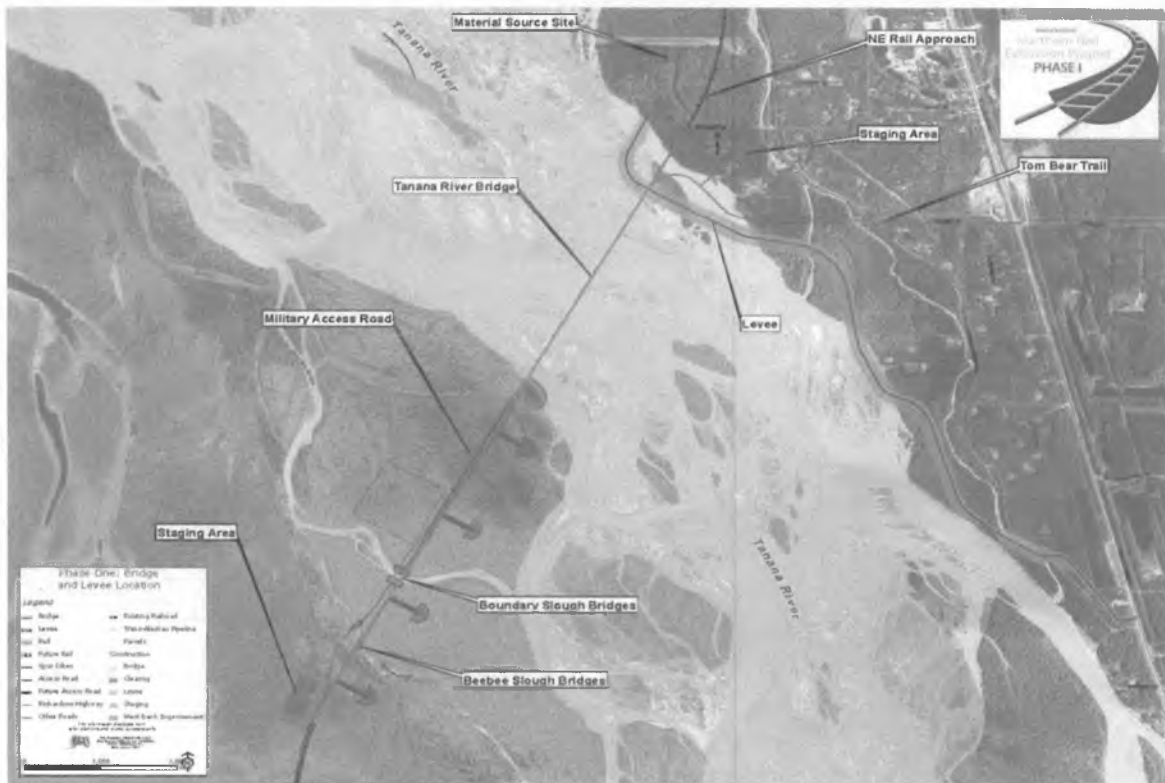
PORT MACKENZIE

- Alaska Survival/Cook Inlet Keeper/Sierra Club filed a Petition for Judicial Review of the STB decision in the 9th Circuit of Appeals on Friday, January 20th claiming that the STB violated NEPA in rendering their decision. Lacking an injunction or restraining order, project activities are continuing. Our ongoing efforts are being closely coordinated with the MSB. We are presently awaiting MSB Assembly approval to intervene (expected approval the evening of Feb 7th)
- Corps is finalizing permit decision. Meeting with COE to discuss mitigation on Feb 21st.
- STB Submittals:
 - Draft mitigation report submitted to STB for review
 - Additional resource-specific mitigation plans for STB submission in final review.
- Right-of-way acquisition on-going by MSB.
- Final Design continues.
- MSB working with local groups and assembly members regarding trails and access concerns.



Northern Rail Extension Phase 1

Tanana River Bridge Quarterly Progress Report January 15, 2012



This report covers the period:
October 1, 2011 through December 31, 2011

www.northernrailextension.com

Northern Rail Extension Phase 1

Project Summary

The Northern Rail Extension (NRE) project proposes to construct and operate an approximately 80-mile-long rail extension from Fairbanks to Delta Junction. The NRE project will begin at the existing rail line located on the Eielson Branch line at the Chena Overflow Bridge just south of the community of North Pole and be extended to the community of Delta Junction, with the ability to service Fort Greely.

The project phases are as listed:

- **Phase 1: Bridge, approach road, and levee associated with the crossing of the Tanana River near Salcha. (Current Phase)**
- Phase 2: Approximately 13 miles of rail from Fairbanks to the Tanana River crossing.
- Phase 3: Approximately 30 miles of rail from the west side of the Tanana River crossing to the Tanana Flats Training Area,
- Phase 4: Approximately 38 miles of rail between the Tanana Flats Training Area and Delta Junction.

Current Status

Fourth quarter 2011 included the completion of utility relocations, completion of site office erection and lay down storage areas. Additionally, tree clearing and ground grubbing on the north bank was completed and approximately 2500' of levee construction on the north bank were accomplished. Rip rap was produced and stock piled on site for levee construction. Future track embankment approach work also continued in the beginning of the fourth quarter.



Northern Rail Extension Phase 1

Next Quarter Outlook

First quarter of 2012 activities will include:

- Levee construction will start up again the first week of March with anticipated completion on the north bank in July.
- Production of project piling and girder fabrication is expected to begin in March.
- Construction of an ice bridge across the Tanana for access to the south side to complete tree clearing activity

Safety

0 Incidents this Quarter

92 Days injury Free

0 Total incidents to date

Alaska Work Force (this quarter)

121 Total Manpower on Site

102 Alaskan Manpower on Site

84% Alaskans employed on-site this Quarter

Alaskan Companies providing services:

Construction

- | | |
|--------------------------------------|-------------|
| • Brice Construction: Rip Rap | North Pole |
| • MAAPA: QC and Testing | Fairbanks |
| • Design Alaska: Survey | Fairbanks |
| • Rolling Stone Construction: Gravel | Salcha |
| • R & L gravel trucking: Trucking | Fairbanks |
| • Powerline Inc.: Electrical | Fairbanks |
| • Power House Inc.: Traffic control | Fairbanks |
| • Colthrup Draglines Inc.: Dragline | Fairbanks |
| • Denali Fence Works: Fencing | Fairbanks |
| • Statewide Clearing Inc, Clearing | Eagle River |

Northern Rail Extension Phase 1

- **Bloom Enterprises:** Asphalt Paving Fairbanks

Engineering

- **HDR Alaska:** , Contract Management/Engineering Anchorage
- **Hanson Alaska:**, Bridge Engineering Anchorage
- **Shannon and Wilson:**, Geotechnical Engineering Fairbanks
- **PDC Inc.:** Survey Fairbanks

Public Outreach

- Presentation to Fairbanks Chamber of Commerce Transportation Committee scheduled in February
- Next scheduled public meetings:
 - Jan 2012 ARRC Projects Open House in Fairbanks
 - March 2012 NRE Public Meeting in Salcha

Funding Details

	FRA FUNDS		STATE FUNDS		TOTAL
	Spent	Balance	Spent	Balance	FUNDING
Construction	\$ 10,769,952	\$ 75,486,156	\$ 1,041,829	\$ 66,955,359	\$ 154,253,296
Eng., Design, Permitting	\$ 13,546,135		\$ 307,121	\$ 3,646,744	\$ 17,500,000
Right-of-Way	\$ 635,384		\$ 17,150		\$ 652,534
Construction Admin.	\$ 3,670,571	\$ 91,802	\$ 1,056,358	\$ 6,445,885	\$ 11,264,616
Contingency				\$ 4,529,554	\$ 4,529,554
Totals	\$ 28,622,042	\$ 75,577,958	\$ 2,422,458	\$ 81,577,542	\$ 188,200,000

Schedule

Original Estimated Schedule completion Date:

August 2014

Current Estimated Schedule completion Date

August 2014

Northern Rail Extension Phase 1

Project Milestones

Major Project Milestones		
	Date	Status
Final Design and Permits	July-11	Complete
Construction Contract	July-11	Complete
Office Complex & Staging Area	November-11	Complete
Utility Relocation	November-11	Complete
North Bank Levee	August-12	
South Bank Spur Dikes	September-13	
Bridge Sub-Structure	March-14	
Bridge Super-Structure	March-14	

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